Between Scarcity and Abundance: The Political Economy of International Monetary Organisation

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Statement of originality

The work presented in this thesis is entirely my own except where explicitly stated in the text and acknowledgments.

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Abstract

The majority of radical literature on monetary historiography has examined the problem of the international organisation of money through a framework that largely ignores the defining class relation in capitalism – the division between capital and the working class. Couched instead in concepts such as inter-imperialist rivalry, national capital and hegemony, socialist analysis has in practice duplicated, albeit in a radicalised form, arguments almost indistinguishable from those of political realism and hegemonic stability theory. To judge from this literature alone it would seem the struggle between capital and labour ceases at the border of the nation-state.

In contrast, this thesis situates the struggle between capital and the working class at the centre of a political reading of the international organisation of money and the historically specific monetary regimes this organisation assumes. The centrepiece of the argument is an interrogation of how money subordinates the reproduction of social life to the imposition of endless work through the commodity-form. Isolating the source of this power exposes money as an antagonistic social relation, but one that is fragile and contradictory. Tracing this antagonism, from individual acts of exchange through to the state and central banking, the thesis argues that capitalist money is forced to constitute itself at the level of the world market if it is to successfully maintain this social power.

The argument is developed through a political reading of the work of Keynes and the Austrian School. These two examples of orthodox economic science offer contrasting strategies for neutralising, containing and/or manipulating labour's struggle against the social power of money and the imposition of work. Central to both strategies is the identification of a spatial organisation of money that will support the social power of money to command in the face of working class resistance.

Using the conceptual framework developed through a political reading of money and orthodox economic science, the thesis then traces the historical development of international monetary regimes from the gold standard to the post-1971 'non-system'.
Rather than a reflection of inter-imperialist competition or the rise and fall of hegemonic orders, it is argued this history was driven by cycles of class struggle against the social power of money, in turn generating capitalist counter-strategies to re-subordinate social reproduction to the rule of money and decompose these working class formations.
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Money, Hegemony and Class Struggle

"there seem to have been very few efforts to apply Marx’s concepts to international monetary phenomena... the questions asked... do not seem to demand a class-based interpretation"

John Odell

1.1 Hegemony and the International Organisation of Money

While the above observation is not unexpected from a text that follows the standard obsessions and prejudices of American International Political Economy (IPE), the difficulty in refuting the charge is more disturbing. Instead it raises an acute awareness that the first half of Odell’s claim is fundamentally correct, and thus a presumption that the second half must also be true. The left has largely avoided applying the most basic working tool for the analysis of capitalist society – the division between capital and the working class – when analysing so-called "international monetary phenomena". Rather than seeking to understand how such phenomena both reflect and reproduce the subordination of social life to the imposition of work through the commodity-form, the analysis has remained stubbornly attached to theoretical concepts common to any orthodox IPE tool kit. These include an often uncritical acceptance of the state, national interest, power politics, anarchy and inter-imperialist or inter-capitalist rivalry. But above all else, the left has accepted the notion of hegemony as the master key to unlocking the social meaning behind the organisation of money at the global level. The central goal of this thesis is to find an alternative key – one that looks to the centrality of class struggle in explaining global monetary phenomena. In refuting the second half of


Odell’s claim, I also hope to show the centrality of money to understanding the daily constitution and trajectory of capitalist social relations. In a very real sense money and the form it assumes are fundamental in defining within specific historical contexts “the limits of the possible” for class society constrained within the parameters of capitalist accumulation.  

The “international monetary phenomena” I wish to examine is the organisation of money at the level of the world level, definable on a ‘first cut’ basis as the problem of globally integrating capitalist money in a system lacking a single world state and world money. But at a deeper level it raises a series of more fundamental but closely related questions that probe at the very heart of the class foundations of capitalism. Why are the multiple forms of capitalist money that fracture the spatial and temporal unity of the social relations of production re-integrated at the global level? How is this to occur in a manner that subordinates the reproduction of capitalist social relations to the global law of value (that is, will the working class be disciplined by the logic of socially necessary abstract labour)? Can the global integration of money provide a final guarantee that money validated by this integration process truly is the most abstract and general form of social wealth (that is, will there be any solution to what I refer to as the infinite regression of the value-form)?  

Ultimately all these questions revolve around one central problem – on what basis is the social power of money constituted and how is this reproduced over time? These are never just technical problems, although they may assume such a form. Instead they are manifestations of deeper contradictions within the capitalist mode of production itself and accordingly any solutions, partial or otherwise, are never generated.

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3 See Fernand Braudel (1981), Civilization & Capitalism 15th – 18th Century Vol. 1 The Structures of Everyday Life: The Limits of the Possible, Fontana Press, London. No attempt will be made to justify the concept of ‘class’ itself. That capitalism is a social order dependent on a fundamental separation between the means of production (capital) and those that must sell their labour power in order to survive (labour) is taken as given. Those that reject the concept of class will of course be underwhelmed by the arguments of this thesis. However, the aim is to argue that a lacuna exists within Marxist accounts of international monetary phenomena because the basic categories of Marxist analysis are not systematically applied to this aspect of capitalist society.

4 See Chapter 2, but in short it refers to the problem of finding the ‘ultimate’ social validation of money as abstract and general wealth – once thought to reside in the form of commodity world money.
spontaneously. “Money” wrote Bagehot, “will not manage itself”\(^\text{5}\) Instead, the problems posed by monetary organisation have required conscious action guided by specific strategic goals. Reflecting these strategic options, monetary historiography has identified four distinct ‘regimes’ in the modern era, each representing a different approach to the problem of monetary organisation: the classical gold standard (\textit{circa} 1880-1914); the interwar gold-exchange standard (\textit{circa} 1920s-30s); Bretton Woods (1944-71); and the post-Bretton Woods era (1971 onwards) - often seen as a ‘non-system’ due to its apparent lack of basic ordering principles and institutional architecture. War, systemic economic crisis and social upheaval have acted as brief interregnums between each regime.\(^\text{6}\)

The aim of this thesis is to unlock each of these four regimes as a specific social expression of the antagonistic and contradictory relations of capitalist production. To discern their class content however requires probing beneath the surface of these monetary phenomena and unravelling \textit{the category of capitalist money itself}. Only then can we trace outwards the contradictions generated by this social relation to successively higher levels of generalisation: from the apparent simplicity of individual acts of monetary exchange, to the state and central banking, and finally global monetary circuits. The trajectory of these contradictions - from the discrete to the more generalised - will be determined on the basis of a fundamental ordering principle governing the \textit{organisation} of the money-form. In this thesis I have identified two opposing principles – \textit{scarcity} and \textit{abundance} – that I suggest have formed a spectrum for the organisation of the money-form over the past 120 years. The principle of scarcity refers to an organisation of the money-form that seeks the real subsumption of the reproduction of capitalist society to the dictates of an unfettered operation of the law of value. The principle of abundance on the other hand points to a constriction of this law through an organisation of the money-form that weakens its social power to


\(^{6}\) Each of these regimes is examined in Chapter’s 5, 6, 7 and 8 of the thesis.
command, in short a disempowerment of the value-relation. Unlike most radical accounts that simply critique international monetary regimes without any prior examination of the more general problems of the organisation of the capitalist money-form, I suggest these regimes are historically contingent spatial strategies premised on one or other of these ordering principles. Regimes seek to control, mediate, enforce or weaken the social power of the money-form through a variety of techniques, mechanisms and pathways, with the strategic goal of re-integrating the fractured totality of capitalist social relations on the basis of either scarcity or abundance. I have again isolated two spatial ‘ideal types’ that inform each international monetary regime – monetary internationalism (a spatial strategy of scarcity) and monetary nationalism (a spatial strategy of abundance).

Each dualism (scarcity/internationalism and abundance/nationalism) is in turn animated theoretically and politically by economic science, which de Angelis defines as “the elaboration of theoretical and analytical tools that, in a particular historical context, may be appropriate to inform and frame strategies of capitalist accumulation, that is, strategies for the accumulation of the class relation of work vis-à-vis working class resistance and autonomy”. This only becomes evident if we read economic science politically, an approach that “self-consciously and unilaterally structures its approach to determine the meaning and relevance of every concept to the immediate development of working-class struggle”. In so doing, economic science is exposed as an array of strategic blueprints for the control and management of working class antagonism. Two

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8 The definition of regimes is thus different to that used in orthodox IPE, which in general conceptualises them in ahistorical and idealist terms. A regime in the standard parlance of IPE refers to a set of “principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area”. Stephen D. Krasner (1982), ‘Structural Causes and Regime Consequences: Regimes as Intervening Variables’, International Organisation, Vol. 36, No. 2, p185.


10 Harry Cleaver (1979), Reading ‘Capital’ Politically, University of Texas Press, Austin, p11.
examples of economic science are examined in this thesis, both of which are
distinguished by their emphasis on the strategic goal of organising capitalist money.
The economic science of the Austrian School was premised on the organising principle
of scarcity and the spatial strategy of monetary internationalism. In contrast, Keynes's
'revolution' involved an explicit rejection of scarcity in favour of abundance and the
spatiality of monetary nationalism. By reading these two opposing strategies politically
a framework is constructed for interrogating monetary organisation and thus
international monetary regimes as problems of class control.\textsuperscript{11}

Despite the obvious connections between monetary organisation and regimes,
methodologically the former is analytically prior to the latter, more concrete analysis.
Only when we understand that the exploitative content of capitalist social relations is
dependent on subordinating social reproduction to the rule of money can we make sense
of each historically specific international monetary regime. Maintaining this
methodological distinction allows us to place the concept of class at the centre of the
analysis as we start with the fundamental proposition that money itself is a social
relation that expresses the class content of capitalist society (see section 1.3). Failure to
maintain this initial distinction paradoxically opens the risk of losing theoretical unity.
Rather than a holistic appreciation of the complex inter-connections within the totality
of capitalist social relations, the analysis becomes susceptible to accepting the social
world as a series of distinct and reified 'levels' or 'structures', often resulting in an
account animated by little more than a \textit{critical empiricism}. Worse still, it opens a
theoretical vacuum that can rapidly fill with extraneous and unrelated categories, in this
case the idealistic and ahistorical categories deployed by orthodox IPE. In short, it
creates a schism in radical analysis between those areas of social life that can be
analysed through the lens of 'class' and those where a 'different' explanatory logic must
be found.

\textsuperscript{11} Chapter 3 undertakes a political reading of the work of Keynes and the strategy of monetary nationalism, while
Chapter 4 does likewise for the Austrian School and the strategy of monetary internationalism, focusing in particular
on the work of Ludwig von Mises and his prominent pupil Friedrich Hayek.
This discontinuity has been particularly evident in the shift from ‘national’ (those social relations apparently ‘contained’ within the spatial vessel of the state) to ‘international’ spaces (inter-state relations and the world market), no more so than in structural and neo-Marxist approaches. Odell is correct when he argues that “judging from available work… [these approaches] lead back to the very factors” highlighted by orthodox accounts, such as payments imbalances, political power and ideologies and perceptions.\textsuperscript{12} A classic example from the 1970s is Block’s New Left history of post-war US international monetary policy. The goal of the study argued Block, was “examining historically the ways in which specific international monetary arrangements both reflect and influence the distribution of political-economic power among major capitalist countries”.\textsuperscript{13} It is not clear, either from this or the book as a whole, that there is anything other than a critical empiricism at work. Block, along with other neo- and structural Marxists, operates comfortably within the realm of realist power politics where states act as unitary actors, albeit as proxies for the interests of capital defined either in nationalist or factionalist terms, allowing the analysis to dress itself in the pseudo-radicalism of anti - (US)imperialism.\textsuperscript{14}

The most pernicious concept to have crept into this lacuna within socialist and radical analysis has been that of hegemony – an amorphous term with several not always consistent meanings. Indeed liberals, realists and neo/post-Marxists alike have all come to share an obsession with the periodisation of global capitalism through the rise and fall of hegemonic orders.\textsuperscript{15} Of course the term hegemony has a long pedigree within socialism, although two quite distinct meanings can be identified in its genealogy. Firstly, it has occasionally been used to convey the idea of non-imperialist domination

\begin{itemize}
  \item \textsuperscript{13} Fred L. Block (1977), \textit{The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present}, University of California Press, Berkeley, p1.
  \item \textsuperscript{14} Fractional analysis attempts to isolate particular ‘fractions’ of capital on the basis of their functional position in the accumulation process, for example productive, merchant or financial capital. It is often argued that particular fractions assume dominance over entire blocks of national capital, for example the dominance of City interests over British industry. For a telling critique of factionalist analysis, see Simon Clarke (1978), ‘Capital, Fractions of Capital and the State: ‘Neo-Marxist Analysis of the South African State’, \textit{Capital & Class}, No. 5.
\end{itemize}
(such as the accusations thrown at the Soviet Union by Mao Tse-Tung). A second more common meaning has highlighted the idea of leadership. It was first used in political debates between the Mensheviks and Bolsheviks over the appropriate role of the Russian proletariat in the long-expected bourgeois revolution. The problem of bourgeois democracy and the need for worker hegemony in a coalition of “allied social forces” never materialised after the onset of the October Revolution. However, the term resurfaced during the Third International in Comintern debates over the new Soviet State. Gramsci in turn radically re-worked the concept by inverting its class perspective to a theory of bourgeois hegemony (the ability of capital to provide ‘leadership’ to subordinate classes). Seeking to explain the social stability of western capitalism, Gramsci utilised Machiavelli’s two-fold basis of power as a combination of coercion and consent (already implicit in the notion of leadership).

Modern usage of hegemony in radical and Marxist accounts of the international organisation of money (and IPE more generally) is somewhat different again, for it has come to refer to either inter-imperialist domination or a more Gramscian inspired notion of bourgeois leadership, transnationalised to the level of the world market. The former use reflects a shift in the theory of imperialism from its classical Marxist origins as a theory of inter-imperialist rivalry to something more in common with Kautsky’s theory of ultra-imperialism and its focus on the exploitation of ‘underdeveloped’ regions. With the rise of dependency theory the analysis of the capitalist ‘core’ shifted from imperialist rivalries per se to a historical periodisation centred on the rise and fall of dominant or hegemonic capitalist powers.

The openness of socialist and radical analysis to the concept of hegemony can probably be traced to the ongoing influence of Hilferding, Bukharin and Lenin. It was their ‘modernisation’ of classical Marxism (and attack on Kautsky’s perceived apostasy) that

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provided a theoretical framework lending itself to geo-political analysis with a Marxist ‘spin’, including nation-state rivalry, power politics and the search for world domination. The underlying ontological premise of hegemonic analysis is systemic disorder and instability, the solution (at best partial and temporary) lying in the rise of a hegemon. It is thus pre-programmed to seek patterns of stability and order as evidence of the existence of such a power. The actual source of systemic instability has been attributed to various structural characteristics, notably the anarchical nature of inter-state relations (which emphasises the role of regimes) and the inherent instability of market economies (focusing on the problem of providing public goods). Classical Marxism however fused these into a single logic of instability without presupposing the possibility of hegemon-imposed order. The anarchy of inter-state relations is the highest social expression of capitalism’s ‘inner laws of motion’ that force capitalists into a ceaseless fight for survival. Through the growth of finance capital and monopoly capitalism, dominant blocs of ‘national’ capital form, subsuming the structures of the state and transforming it into a ‘capitalist trust’ for the dominant bloc. Against the rigid backdrop of the law of uneven development, ‘state trusts’ must compete through inter-imperialist rivalry for market shares and other spoils that accrue to the victor. The anarchy and war mongering of the inter-state system is a political manifestation of the anarchy and competition underlying the accumulation of capital.

Of course, this classical tradition saw the solution to systemic disorder lying in the revolutionary overthrow of capitalism – clearly imminent given global disorder was simply the final detritus of a decadent capitalism in terminal decline. Yet the refusal of capitalism to die left the analysis open-ended, stranded in a theoretical world of political anarchy, economic instability and inter-state rivalry. The problem lay in a failure to interpret the theory of imperialism as a hastily developed political response to the threat of war and sudden collapse of the Second International in 1914. To avoid tainting the

revolutionary role of the international proletariat required shifting the theoretical engine driving revolutionary analysis to a hermetic world of monopoly capital and associated client states. In Europe’s mass descent into madness, the strategic goal of extruding the dynamic of class struggle between capital and labour from the unfolding law of uneven development is understandable. Yet the preservation of this tradition (inter-imperialist conflict, ‘state trusts’ and capitalist ‘fractions’ or ‘blocs’) in aspic until its resurrection in the 1970s was unfortunate, for it effectively demarcated a theoretical and political space apparently beyond the central dynamic of class struggle. The causes of this long theoretical stasis are diverse and beyond the scope of this thesis. Undoubtedly the political collapse of Western Marxism after the failed revolutions of 1918-20 and subsequent retreat to philosophy and cultural critique, combined with the deadening hand of Stalinist orthodoxy, were fundamental in retarding theoretical development during this period.18

This emphasis on domination received a further twist with Gramsci’s Machiavellian reworking of hegemony.19 It was the first significant attempt to provide a coherent rationale for the socio-normative integration of the working classes and hence the regenerative powers of capitalism. Seeking to escape the vulgar economism of the Third International, Gramsci attributed the endurance of Western capitalism to a ‘superstructure’ deeply embedded within civil society. Focusing on the political strength resulting from the fusion of the capitalist state and these embedded institutions (Church, school, media and so on), Gramsci sought to understand how specific historic blocs (blocco storico) achieve hegemonic status by successfully imposing a dominant ideology articulated by organic intellectuals. For an ideology to become hegemonic however it must transcend it own narrow self-interests to reflect a common or general interest. In short the strength underpinning a hegemonic historic bloc was centaur-like, half man and half beast. More than tyranny or false consciousness, hegemony was a

18 See Perry Anderson (1979), Considerations on Western Marxism, Verso, London. Also see Harry Cleaver (1979), Reading ‘Capital’ Politically, University of Texas Press, Austin, Chapter 1.
blend of force and consensus, with subordinated classes co-opted through ideological inculcation, political compromise and material concessions.

The modern influence of Gramsci (at least in the English-speaking world) is strongly indebted to Althusser's and Poulantzas's structuralist reading, further transformed by the 'discursive turn' taken by post-Marxist theory from the late 1970s onwards. An offshoot of this tendency achieved some prominence in IPE from the mid-1980s onwards. Self-consciously styling itself "neo-Gramscian" — a pedigree perhaps more analogous than substantive — this school undertook a sophisticated re-working of hegemony and fractional analysis, but now transnationalised, overlaying older Marxists treatments of inter-imperialist rivalry with a more nuanced and complex understanding of the rise and fall of capitalist hegemonies. Despite its undoubted insights and historical sensitivity, the focus on hegemonic transnational historic blocs resulted in a story of international economic phenomenon that proved remarkably easy for the IPE orthodoxy to digest. Even luminaries of American IPE such as Keohane and Gilpin found merit in this school. On reflection this is hardly surprising, for despite the critical empiricism that infuses this school with its radicalism, the substantive analysis of the rise of historic blocs has more in common with political realism animated by a Weberian pluralism. These two influences allow Jessop to categorise this school as an international regime approach "with its mixture of idealist and realist arguments". Yet

20 For an excellent critique of this tendency, see Ellen Meiksins Wood (1986), The Retreat From Class: A New 'True' Socialism, Verso, London.

its analysis of international monetary regimes is highly influential – often extolled as the
most sophisticated radical analysis available, particularly on the post-war era. Putting
aside the claims of having developed a non-determinist but class sensitive transnational
historical materialism, the trajectory of capitalism appears remarkably similar to a
historically sensitive political realism.

A final influence on many radical accounts has been the recent revival of hegemonic
analysis within orthodox IPE, political science, and historical sociology, influenced by a
wide range of sources including ‘longue durée’ analysis, ‘Kondratieff Waves’, theories
of imperial overreach, world systems and so on. However, within the field of monetary
historiography it has been the rise of regime theory, and in particular hegemonic
stability theory (HST) that has been most influential. The origins of regime theory lie in
attempts to address some of the more obvious absurdities of international relations
theory in the 1970s, notably the ‘discovery’ of ‘complex interdependence’. Forming a
bridge between the liberal and realist traditions, regime theory managed to retain the
inadequacies of both, fusing state-centric power politics with all the flaws of liberal
idealism. The offspring from this unpleasant union, apparent even to such common
sense practitioners of IPE as Susan Strange, was a theory of the status quo - an
apologetics for stability, order, discipline and authority. One variation of regime
theory in particular demonstrated this tendency – HST. In its modern form HST was
popularised by Charles Kindleberger, although antecedents exist in the monetary
historiography of William Adams Brown and the theory of ‘key currencies’ closely

Hegemony and the International Order’, Capital & Class, No. 45, p77. For a more sympathetic but useful critique of
this school see André C. Drainville (1994), ‘International Political Economy in the Age of Open Marxism’, Review of
International Political Economy, Vol. 1, No. 1. For an interesting ‘inside’ history of the transition from the ‘dead
dog’ of Althusserianism to Regulation theory see Alain Lipietz (1993), ‘From Althusserianism to “Regulation
22 For example, see Andrew Leyshon and Adam Tickell (1994), ‘Money Order? The Discursive Construction of
23 For example see Stephen Gill and David Law (1989), ‘Global Hegemony and the Structural Power of Capital’,
International Studies Quarterly, No. 33, p478. On the one page we find a definition of historic blocs as social
formations comprising cross class membership and as a simple reflection of British or American hegemony.
Frameworks For International Cooperation, Pinter, London. The classic statement was provided by Robert O.
Keohane and Joseph S. Nye, Jr (1977), Power and Interdependence. World Politics in Transition, Little, Brown,
Boston, who built on the earlier work of Richard N. Cooper (1968), The Economics of Interdependence: Economic
associated with the work of John H. Williams. In Kindleberger’s influential study of the Great Depression, the instability of the inter-war period was inevitable given no single country was both willing and able to solve the dilemmas of collective action in the global economy, in particular the provision of public goods (such as global liquidity). “The main lesson of the inter-war years” suggested Kindleberger, is “that for the world economy to be stabilised, there has to be a stabiliser, one stabiliser”. 27

Strangely it seems many on the left agree in principle with Kindleberger’s proposition. “A stable international monetary system” notes one widely cited article, “has depended on one state being sufficiently financially dominant to impose its money on the rest of the world economy”. 28 While the apologetics are shorn away, the public good of international monetary stability is a hermetically sealed affair between capital and their client states. Only occasionally does a hidden subject materialise before the reader, quickly dissolving wraith-like, a shadow in the sub-text. The spectra haunting these accounts of international monetary organisation should be a familiar one to the left – the working class. Yet the expurgation of this subject and its replacement by inter-state or inter-capitalist rivalries suggest class struggle has little if any explanatory power in the international realm. The struggle lying at the heart of the Marxist worldview – the extraction of surplus value from living labour – simply fades away. For example Leyshon and Tickell initially suggest in their overview of Bretton Woods the need to locate the dynamic between capital and labour at the centre of the process of ‘regime’ transition. 29 Yet this promising beginning fades away as the unfolding story resorts to a familiar succession of hegemons, national interests and dominant ideologies. 30 Serious

as this omission is, more damaging is the challenge it poses to Marxism’s claim to provide a “concrete unity of the whole”, that is, to integrate the isolated facts of social life into a coherent totality of capitalist class relations. The spatial fracturing of capitalist social relations between internal and external ‘levels’ is itself replicated within radical analysis, creating a damaging disjunction. As the focus shifts from the ‘national’ to the ‘international’ we in turn shift from Marx to Machiavelli and Morgenthalau.

My concern is not with the veracity of one definition of hegemony over another, but rather the similar pathways taken by all those who use this conceptual framework and which seem to inevitably lead to a retreat (despite best intentions) from class analysis. For example, the exponents of neo-Gramscian IPE suggest their conceptualisation of hegemony is freed “from a tie to historically specific social classes... giv[ing] it a wider applicability to dominance and subordination [in] relations of world order”. Yet the price paid for this ‘flexibility’ is serious. Once simply a working class political strategy, hegemony is now a transhistorical and transnational theoretical category lying at the heart of the analysis but largely freed from its class moorings. This replicates the outcome of post-Marxism more generally, where the Althusserian project of mapping the “specificity of the political” transformed into a retreat from class analysis in toto.

Under the growing influence of ‘Gramscian’ hegemony, the analysis shifted to the terrain of ideology and discourse, barely removed from a form of radicalised idealism where “the dialectic of hegemony is offered in terms of ideas and mere representations of interests”. Yet the neo-Gramscians shift the analysis even further, for the terrain where hegemony is formed has moved to a transnationalised civil society whose only citizens are globalised elites. To capture the complex lines of communication, diffused

London. For a similar slide as the analysis shifts from the ‘national’ to the ‘international’ see Trevor Evans (1985), ‘Money Makes the World Go Round’, Capital & Class, No. 24, p104.


webs of power and formation of hegemonic ‘scripts’ that express the interests of these transnational elites, the analysis must ascend into a world of boardrooms and backrooms, gentleman’s clubs and interlocking directorates. Planning bodies and consultative panels, think tanks and shadowy agencies, populated by Freemasons, Oxbridge cliques, secret societies and spooks, weave an ideology for the dominant – a cybernetics of the elite. Given this transnational, structurally literate elite, it is hardly surprising that “transnational concepts of control overdetermine social relations”.

Likewise the tradition of imperialism – a political response to the disasters of the Great War – was premised on a shift from class to inter-state rivalry. As the theory of imperialism first rigidified and then shifted focus to the exploitative relations between ‘core’ and ‘periphery’, radical analysis of inter-state relations between the core national centres of accumulation became ensnared in a radicalised political realism. Given states were simply ‘trusts’, ‘national interests’ could be clearly read off as the particular interests of ‘national’ capital (however defined). However, as the revolutionary imminence of Lenin dissipated, all that remained was the rise and fall of dominant states, determined ultimately by long wave developments in the forces of production that impacted on national capitals.

In short, hegemonic analysis introduces a strong bias towards emptying theoretical categories of their social content. For example the state, rather than a contradictory and antagonistic moment in the social relations of production, appears as a unitary but ultimately hollow actor on the global stage. The state is either subsumed by hegemonic capital (the US state is capitalist, and thus represents US capital) - a retreat to "stamocap" - or it becomes an empty shell animated by a hegemonic transnational ideology. These in turn reflect the interests of a dominant fraction of capital that has


37 See for example, Ernest Mandel (1978), Late Capitalism, Verso, London.

38 A term referring to the Stalinist orthodoxy of state monopoly capitalism, a vulgarisation of the Marxist-Leninism ‘modernisation’ outlined above.
successfully fused a historic bloc. The actions of the state are thus explainable by the functional requirements of the historic bloc, reducing the state to a simple “transmission belt” between ‘national’ spaces and transnational historic blocs.\textsuperscript{39} In other words a second ‘state’ exists over and behind the nation-state. This ‘draining’ process transforms social relations into mere ‘structures’ and as Drainville notes, as such they “have little autonomy from the politics of transnational elites”.\textsuperscript{40} Extending the argument to another social relation, money is likewise reduced to a structure or object empty of class antagonism, a point I further develop in section 1.3.

In conclusion I suggest the use of ‘hegemony’ is inimical to a class-based analysis, for it is too heavily infused with the logic and perspective of capital. Whether as state capital trusts or elite ideologies and networks, hegemony has an inherent conservatism reflecting its bias towards order, stability and reproduction of the status quo. It is a theory that looks to system-maintenance, even as it remains critical of the system. The end result is a hypostatised history animated by capital’s idealised notion of social control, exaggerating the order and stability in evidence. As Cleaver argues, “capitalist hegemony is at best a tenuous, momentary control that is broken again and again by workers’ struggles”.\textsuperscript{41} Any contradictions that remain play themselves out at the global level, empty of any social content that hints at an active working class subject. This is a large price to pay with little apparent gain. To press home these points the following section highlights the heavy reliance placed on the concept of hegemony in radical monetary historiography.

1.2 A Potted Radical History of International Monetary Regimes

This section briefly overviews the historical development of international monetary regimes over the proceeding 120 years drawing on various authors in selective fashion. No attempt is made to provide an exhaustive review of the literature or provide a


substantive critique of the claims made by each author. The aim is simply to provide a
flavour of radical accounts to highlight the heavy weight placed upon the explanatory
variable of hegemony. It is also worth noting the applicability of hegemonic analysis
(particularly HST) has been seriously challenged within the specialist literature on
monetary historiography, although this seems to have made little impact as radical
analysis remains stolidly orthodox on these matters.42 Hopefully the following
overview avoids creating a ‘straw man’ or misrepresenting the position of individual
authors, although a certain amount of simplification is unavoidable. In the interests of
brevity I also avoid a technical discussion of each regime (see Chapter’s 5 through to 8
of this thesis).

Our story begins with the classical gold standard, in operation from approximately 1880
to 1914. According to Leyshon and Thrift the regulatory logic behind the gold standard
was to counter the risks of monetary debasement and subsequent damage to money’s
ability to regulate the exchange mechanism. In other words, the gold standard was a
strategy to avoid the overextension of credit (and subsequent overaccumulation of
capital) imposed by certain fractions of capital over “errant” financial and industrial
capital. Rather than a strategy to subordinate the reproduction of the working class to
the rule of money through the wage relation, we find instead it signifies the dominance
of ‘the City’ over British productive capital. Internationally the gold standard expressed
British hegemony (both economically and politically) over competing blocks of national
capital. In this interpretation the gold standard was an extension of Britain’s vastly
superior capital markets, transforming it into a sterling standard with all the attendant
privileges (and responsibilities) granted to the hegemon. Other capitalist powers
accepted the rigours of the gold standard in order to access London’s capital markets, or

42 For example see Barry Eichengreen (1990), ‘Hegemonic Stability Theories of the International Monetary System’,
University Press, Cambridge; Andrew Walter (1991), World Power and World Money: The Role of Hegemony and
International Monetary Order, St. Martin’s Press, New York; Giulio M. Gallarotti (1995), The Anatomy of an
in the hope of replicating Britain's power and prestige. British hegemony in short underpinned the gold standard, a gilded reflection of Pax Britannica.\textsuperscript{43}

Yet the capitalist world was transforming in ways that would lead to the rapid dissolution of the gold standard. Firstly the rise of the nation-state system witnessed "a conscious and deliberate attempt to draw a regulative boundary between an internal, domestic market enclosed within the boundaries of the state, and an external, international market which existed beyond these territorial boundaries".\textsuperscript{44} This spatial challenge to the internationalism of British hegemony was thrown out by rising developmentalist states such as the US and Germany ("competition states"), who were guided by regulatory models antithetical to the deflationary logic of the sterling standard. A second transformation (following from the first) was widening structural imbalances in the international economy as a result of this aggressive new economic nationalism that the mechanisms of the gold standard were unable to accommodate. These arguments seem unconvincing, for while one can argue commitment to free trade was beginning to fray, there is little evidence that this 'new' autochthonic thinking pervaded either country's belief in the gold standard as the appropriate form of global monetary organisation. Indeed the dating of this breakdown by Cox from 1875 onwards is curious, for the following four decades were undoubtedly the highpoint of monetary internationalism and the gold standard.\textsuperscript{45} Both Germany and the US were core members until its collapse with the onset of hostilities in 1914, accepting without serious reservation the spatial ascendancy of the world market as determined in the final instance by the commitment to gold convertibility.

Furthermore both countries were active participants in the 'return to gold' during the inter-war period. For Leyshon and Thrift, the resurrection of monetary internationalism


was an attempt to overcome the barriers evident in the strategy of economic nationalism, especially the problem of domestic overaccumulation. Yet the ‘return to gold’ was central to capitalist strategies from the end of the war, a point reinforced at international conferences such as Brussels (1920) and Genoa (1922). Prior to the restoration of gold in the mid-1920s, exchange rates were largely floating, notable for the cleanliness of exchange rate determination, that is the lack of central bank intervention. The rise of monetary nationalism was far more in evidence after the collapse of the inter-war standard, not prior as suggested by Leyshon and Thrift. For Cox, the resurrection of gold was an ideological leftover, a “nostalgia for the nineteenth-century hegemony... of pax britannica”, an ultimately futile exercise as the power configuration necessary to support this liberal world order had vanished. 46 This seems a weak argument given the intensity with which the return to gold was pursued. Furthermore, the return to gold was hardly a harmless nostalgia for times past but rather a conscious attempt to reimpose discipline upon the working class, reducing it once again to a passive variable of the accumulation process. In short, it was a strategy to re-subordinate social relations to the global rule of money.

Innes and the Monthly Review editors (Sweezy and Magdoff) attribute the collapse of this rather lustreless monetary standard to rivalry between British and American capital, although Block prefers Kindleberger’s argument that it was largely the result of US reluctance to fill the vacuum left by the decline of British hegemony. 47 Some three decades later Mandel, commenting on de Gaulle’s call for a ‘return to gold’ in 1965 (a suggestion fitting for a mentality steeped in the prejudices of a French peasant), argued the violent deflation required by any return to commodity money would result in revolution and the overthrow of capitalism. 48 Curiously, few radical accounts follow a similar class logic when analysing international monetary organisation during the inter-

war period despite the wealth of supporting evidence that the balance of class forces was such that any continued adherence to monetary internationalism proved impossible.

Returning to our overview, the closing of the war against fascism finally resolved the anarchy afflicting the international economy with the emergence of Pax Americana. Reflecting the glory of its new imperial status, the US pushed through a series of institutions that codified American hegemony within the international organisation of money. As with the earlier phase of British hegemony, this new stability rested on the overwhelming preeminence of US financial, productive and military capabilities. Reflecting this power the dollar assumed the role of privileged world money that was ‘as good as gold’.49 Like its British predecessor, the US state perceived its interests lying in the re-establishment of liberal internationalism (other labels include ‘US economic internationalism’, ‘liberal Atlanticism’ and ‘Atlantic ‘ultra-imperialism’).50 In short Bretton Woods re-imposed serious constraints upon states, although to a more limited degree in the case of the US. Brett for example argues that the importance of the Bretton Woods settlement lay in “the very heavy emphasis which it placed upon liberalisation, and the very limited mechanisms and resources it created for interventionism”.51 Leyshon similarly claims Bretton Woods imposed, other than for the US, disciplinary mechanisms “very similar to those which had existed under the gold standard”.52

Neo-Gramscian arguments provide a more subtle account of the rise of US hegemony, which they argue was predicated on the fractional hegemony of productive capital over Wall Street interests. Thus Bretton Woods reflected the dominant ideology of productive capital – stable flows of investment capital and a liberal trading order –

50 For example see Mike Davies (1988), ‘The Political Economy of Late-Imperial America’, in Mike Davies, Prisoners of the American Dream: Politics and Economy in the History of the US Working Class, Verso, London, p183. Davies, who also works within a framework of hegemonic rise and fall, argues the post-war regime of Atlantic ‘ultra-imperialism’ led by the US hegemon was driven first and foremost by militarism rather than Bretton Woods. However, Davies focuses on the institutional workings of Bretton Woods rather than the broader triumph of radical new strategies of monetary organisation officially codified in 1944.
allowing the New Deal/Fordist regime of accumulation to radiate outwards from its US heartland. While dominated by the US, it was a historic bloc blessed by the active consent of its junior partners (or “harmonious submission” in the words of Sweezy and Magdoff), as well as other social forces including organised labour. Yet by the late 1960s this transatlantic historic bloc was entering an organic crisis as its constituent ‘levels’ (material, ideological and institutional) lost their coherent fit. The most fundamental of these was the rupturing of the post-war relationship between productive and money capital, replaced instead by a new “hypertrophy of the international circuits of money capital managed by the international banking system”.53 The revenge of the rentier has seen finance “become decoupled from production to become an independent power, an autocrat over the real economy”.54

Evidence for this rupture can be found in the growing percentage of total profits accruing to money capital, the rising indebtedness of corporations and the key positions assumed by this class fraction in the accumulation process (financial experts, accountants and so on). Yet the most powerful tool for unravelling Pax Americana has been the discursive underlabouring provided by the organic intellectuals acting “under the auspices of international money capital”.55 This complex web is made up of “a network of private and central banks, other financial institutions, policy-orientated academics in certain think-tanks and prestigious universities, as well as members of the (financial) media”.56 While money capital dominates other class fractions, it has yet to form a hegemonic historic bloc, for its interests are too particularistic to allow it to win more widespread consent, a situation reflected in the unstable and institutionally fragmented organisation of international money. Yet these global elite’s have created a

social order that has left other social groups “in a position of relative powerlessness, either acquiescent or frustrated”. 57

In his influential study on international monetary organisation during the 1970s, Parboni attributes the crisis racking the global economy over this blighted decade to “a grand inter-imperialist conflict” between the US on the one hand and Germany and Japan on the other. 58 The story is remarkable similar to the standard HST account with the US, a hegemonic power in decline, no longer able to provide the public goods that a benevolent hegemon must in order to ensure stability in the global capitalist economy. Shoring up its fading power capabilities, the hegemon becomes increasingly guided by narrow understandings of its national interest, leading it to abuse the special privileges of seigniorage for short-term gains. The inevitable result is instability and crisis in the global economy, presumably until a new hegemon forms (Japan? Germany? The European Community?). Yet beneath the superficially radical appearance of Parboni’s analysis (“inter-imperialist” rivalries), the analysis is little more than a sophisticated political realism. States are unitary actors whose national interest is defined in part by the difficulties of uneven development of the accumulation process (for example balance of payments crises). The political strategy that emerges from this analysis is for Europe’s left to develop plans to establish the management of the global economy on more collaborative foundations. 59

Carchedi paints a similar picture, with the decline of US hegemony reflecting deeper tendencies in the ‘real’ economy – falling productivity and technological decline – inevitable given the law of uneven development. Following from this, the international monetary turmoil of the 1970s and 1980s was a result of heightened inter-imperialist rivalries over the distribution of seigniorage as the dollar declined in value as a result of falling US productivity. 60 De Brunhoff likewise isolates a decline in the power

capabilities of US capital and subsequent rise of inter-capitalist rivalry as the key to explaining the collapse of Bretton Woods. Lipietz in a slightly different take associates the end of US hegemony and the subsequent disorder of the 1970s with the closing of the productivity ‘gap’ between the US and its closest capitalist rivals.\(^6^1\) Other views, such as the Monthly Review school and Block, attribute the collapse of the international monetary system to the balance of payments crises resulting from the vast outflow of US dollars, largely the result of two decades of US militarism.\(^6^2\)

An alternative explanation of this international monetary disorder is provided by Gowan, who perceives in the closing of the gold window by the US in 15 August 1971 an aggressive counter-strategy by the US to arrest its hegemonic decline.\(^6^3\) Breaking the fetters of Bretton Woods while protecting the privileged position of its currency, the US has created a “dollar-Wall Street regime” (DWSR). According to Gowan, the US state initiated a period of systemic crisis (including an engineered oil crisis) with the explicit goals of strengthening its political power while ensuring the preeminence of Wall Street in a new era of private capital flows. In short, the DWSR was a strategy to “put American first”, an exercise in pure power politics and national interest as defined by the fading, but still hegemonic capitalist state.\(^6^4\)

I hope to have shown in this brief outline and without resorting to caricature the determining role played by hegemony in radical attempts to understand the historical trajectory of international monetary regimes. While the social actors identified varied between the state, fractions of capital or a conflation of the two, all were engaged in a competitive struggle for domination amongst themselves. This view is nicely summarised by Sweezy and Magdoff, who argue the key to understanding developments in international monetary relations lies in “analys[ing] the way the rival nations manoeuvre to strengthen their competitive positions”.\(^6^5\) In turn, the transition


\(^{62}\) For example, Fred L. Block (1977), *The Origins of International Monetary Disorder: A Study of United States International Monetary Policy from World War II to the Present*, University of California Press, Berkeley, pp162-3.


\(^{64}\) *Ibid*, p31.

from one monetary regime to another (or the failure of a new regime to appear) seems to largely hinge on the outcome of such struggles. However, the political and theoretical costs from following this line of reasoning are substantial, for the concept of hegemony can only provide us with a view from the top – the perspective of capital. It is inherently conservative, programmed to seek order and stability and see in this something necessary or even good. Points of rupture in the international organisation of money are seen as periods of hegemonic decline, rivalry or non-formation, rather than the most generalised social expression of a crisis in the social relations of production. Likewise, flaws in regimes are ascribed to the actions of malign hegemons (especially those exploiting their seigniorage rights), rather than the highest social expression of the contradictory and antagonistic relationship between capital and the working class.

Theoretically the analysis, as Odell, Walter and others have suggested, is largely indistinguishable from orthodox accounts. It is hard to isolate what is unique to these accounts and, more fundamentally, how they help us to unravel the totality of capitalist socialist relations. Why do the contradictions within money find their most general expression at the level of the world market? How does the organisation of money at the global level into historically contingent regimes mediate money as a social relation seeking to subordinate life to the commodity form?

I do not believe that currently these questions are adequately addressed from a coherent class perspective. The aim of this preliminary chapter has been to try and illustrate how radical monetary historiography has been insufficiently developed, due largely to the inclusion of extraneous concepts into the heart of the analysis. For the most part I will not return to the arguments of the proceeding pages, but they should be kept in the back of the readers mind during the following chapters. In the remainder of this thesis I

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66 The major exception to this rule is the body of work associated with the loosely aligned 'open Marxist' group. Contributors include Werner Bonefeld, Peter Burnham, Simon Clarke, Harry Cleaver, Massimo De Angelis, John Holloway, Christian Marazzi and of course the seminal work of Antonio Negri, Sergio Bologna and Mario Tronti amongst others. While many differences exist within this tendency, most of the arguments in this thesis can be found in one form or another within the seminal contributions made by these writers. This thesis obviously owes a considerable debt to this tradition, hopefully adding something by exploring and expanding on these ideas. The most important contribution in terms of the themes of this thesis is the collection of essays in (eds) Werner Bonefeld and John Holloway (1995), *Global Capital, National State and the Politics of Money*, Macmillan, Basingstoke, 1995.
hope to outline an alternative framework and analysis of the international organisation of money – one that focuses on the struggle between capital and the working class. Before turning to the argument in detail however, I wish to highlight one further, fundamental flaw in most radical accounts – the failure to adequately integrate a theory of capitalist money into the problems posed by its international organisation.

1.3 Money as a Social Form

One of the shared peculiarities of orthodox and radical accounts of international monetary regimes lies in their common neglect of money itself. It simply appears on the global stage as a pre-existing given, already fully formed within the institutional context of the state. Internationally, money becomes an object to be managed, exchanged, controlled, fought over, or wielded by states or global elites. It is rarely however, perceived as a social category worthy of examination in its own right. Instead, this ‘object’ performs one of two basic roles. One view sees money as a simple but highly rational device facilitating the development of complex forms of trade and commerce by surmounting the double coincidence of wants that plagues even simple barter exchange. This is as true for the global economy as the domestic arena, where money again facilitates the efficient movement of goods, services and capital. Money in other words, performs the functional role of means of payment for international exchange. The institutional organisation of money within global regimes maximises the efficiency gains from international exchange by providing appropriate ‘rules of the game’.  

A second view conceptualises money on the world stage as a medium of power (in particular state power) rather than a medium of exchange. In its crudest form money is simply *pecunia nervi belli* (“the sinews of war”), a necessary means for the pursuit of warfare. A more sophisticated presentation sees money itself as a weapon for attaining geo-political objectives. For example Kirshner describes international monetary

relations as an “instrument of coercive power”, while Parboni refers to the “dollar weapon” in his analysis of US international economic policy since the 1970s. Similarly the editors of Monthly Review argue international finance “veils a struggle for power and wealth”. Often this power manifests as the seigniorage benefits accruing to the dominant state, (usually institutionalised within specific international monetary regimes), although a hegemon in the neo-Gramscian sense must sever any direct connection between money and power. If seigniorage rights are abused by the dominant power they simply assume the form of a ‘tax’ on global social wealth.

If radical analysis of international monetary regimes seems to ignore the social category of money itself, Marxist monetary theory in turn largely ‘derives’ money in abstract fashion without extending the theoretical and political problem of money beyond the spatial confines of the national economy. The initial problem lies in the tendency within Marxist inspired political economy to immediately derive money formally from the functional exigencies of the accumulation process. The analysis then rapidly assumes the form of explicating a raft of necessary but highly abstract ‘functions’ performed by money - an approach long familiar to orthodox economics.

Yet as Altvater, Bonefeld and Rosdolsky all correctly point out, Marx derived the social essence of money prior to its functionality – exposing its “lurid face of the social relation of value”. The issue is not that money reduces individual labour to commensurable abstract labour through the act of exchange with the universal equivalent. Rather, the problem is to understand how it is that money becomes the

social mode of existence of abstract labour. In other words, wherein lies the social power of the money-form to integrate abstract labour into a thing? This requires us to go beyond a merely formal and functional understanding, for this integration process is not a problem of \textit{market coordination}, but rather a problem of \textit{exploitation}.\textsuperscript{71} “Capitalist exploitation of labour is not external to the money relation” argues Bonefeld, “rather, it is constitutive of the money relation itself”.\textsuperscript{72}

In short money is an antagonistic social relation that finds expression as \textit{a process of changing forms}.\textsuperscript{73} Changes in the money-form are the external expression or \textit{mode of existence} of the internal struggle between the social form and value content of money.\textsuperscript{74} This form/content dialectic is simply capital’s struggle to subordinate labour through the imposition of the commodity-form through the act of monetary exchange, that is the capitalist relation of boundless work.\textsuperscript{75} \textit{In turn this gap between form and content acts as a barometer of labour’s refusal to work.} It is the movement of this contradictory and antagonistic social relation that causes money’s form to be “stripped away and its content… transformed”.\textsuperscript{76} Class struggle in short, erodes money’s ability to ‘grip’ abstract labour, reducing the social power of money to command. This is the driving force behind the dematerialization of the money-form - a decommodification of money’s social mode of existence.

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”. Furthermore, “this means that analysis of the contradictory coexistence


between value-content and value-form has to focus on how such a contradiction can meaningfully be sustained and at what point the tensions become so great as to require resolution of the contradictions". The fundamental problem for Marxists has been the ingrained habit of measuring this ‘gap’ or independence on the basis of the distance the money-form has travelled from a content that is assumed must ultimately correspond to the commodity-form itself. Yet 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 largely 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 is devoid of content and is in fact not ‘money’ at all. Late capitalism, in short, has become an economic system independent of money – a position argued by Fleetwood.

This line of argument strikes me as unconvincing. While the social mode of existence of money is continually transformed, its value content is neither emptied nor eternal and static, for it is a social process. Thus contradictory integration of abstract labour into the value-form – the content of capitalist money – is continuously transformed but always retains an essential and irreducible moment - the ability of capital to exploit labour. This, as I argue in greater detail in the following chapter, is the only ‘value’ that can ever reside in capitalist money. It is only through its ability to ‘grip’ living labour that capitalist money proves its value-content – and this of course presupposes capitalist class relations in their entirety. Without this bullion and specie are simply gleaming sterile hoards. The value ‘embodied’ in capitalist money can never simply reside in a thing, for it must enforce the capitalist relation of work. It is thus always contingent and

haphazard – continuously interrogated over its claim to be abstract wealth. Money in short, must always prove itself as such through the act of command over labour.

The opposing tendency which argues that money is now a symbol ultimately determined by the state (a position represented by the Regulation School) resolves the problem of money simply by breaking the internal relation between form and content, thus side-stepping the contradictory and antagonistic social foundations of money. Furthermore, as Kennedy suggests this simply replicates the reification of autonomous political and economic spheres that characterises orthodox economics.\(^\text{80}\) Similarly, those who argue that money can be functionally determined at a higher level of abstraction than the historically contingent social forms assumed by money likewise break the internal dynamic of struggle that lies at the heart of the form/content dialectic.\(^\text{81}\)

The false dichotomy created by the debate between those who fetishise money into a commodity or ‘thing’ and those who see money as mere symbol, the “result of state sovereignty”,\(^\text{82}\) blinds us to the fact that the struggle between form and content expresses the real development of the value relation.\(^\text{83}\) This relation is work, and the social power of money lies in its ability to subordinate the working class to its demands. It is the ‘bond of bonds’ that drives us back day after day to the market mechanism to survive – the ceaseless micro-reproduction of capitalist social relations. Money interposes itself between individual ‘needs’ and object (social wealth) as a moment of exclusion or inclusion. Whether as specie, notes or binary code, money is “the dull compulsion of economic relations” corporealisated into an object that assumes a ‘thinglike’ form.\(^\text{84}\) In this sense Alvater is correct in referring to money as “a socially


\(^\text{81}\) For example, see Geert Reuten (1988), ‘The Money Expression of Value and the Credit System: A Value-Form Theoretic Outline’, \textit{Capital & Class}, No. 35.


constructed substanceless nothing”, for it is a relation, not an object blessed with a fetish-like ability to ‘contain’ value.\textsuperscript{85}

Yet if money is to act as “the supreme social power through which social reproduction is subordinated to the reproduction of capital”,\textsuperscript{86} money itself must be subordinated to organisational forms and regimes that bolster this social power. Money in fact negates its social power at the very moment of exchange. Only if money is experienced as a continuous moment of scarcity can it flex its full social power, for only then can it cast out those who experience money as something lacking, forcing them to re-enter the market as the seller of alienated labour – their ability to work. The fundamental point is that there is nothing in the money-form itself that can guarantee market exchanges are contained within the parameters of scarcity relations. It is simply a residue of the outcome of the struggle between the form and content of money, although the ability of the money-form to express scarcity is central in determining the intensity that money enforces the capitalist relation of boundless work (money’s content). Gold of course has historically expressed scarcity relations in their purest form - and the long struggle by the working class to smash the austerity imposed by these ‘golden fetters’ can be traced through the historical decommodification of the money-form. However, we must be careful to focus on scarcity as a social process rather than a reflection of natural properties, otherwise we again reify social forms into things blessed with preter-human ‘properties’. If we avoid this than the apparent paradox of the current imposition of austerity and the return of scarcity through a money-form that on the surface appears valueless and infinitely elastic becomes easier to comprehend. In fact, the social properties of this apparently ‘content empty’ form – its very fungability and formlessness and thus spatial fluidity - in fact allow it to express and enforce social scarcity, providing it with its value-content.\textsuperscript{87}


\textsuperscript{86} Simon Clarke (1988), Keynesianism, Monetarism and the Crisis of the State, Edward Elgar, Aldershot, pp13-14.

\textsuperscript{87} A subject examined in greater depth in Chapter 8.
This last point suggests that the social power of money cannot be enforced simply through the state, especially in its liberal-democratic form, for the state is itself a mode of existence of the "social conflict over the imposition of the value form upon social relations". Money as Bagehot noted, does not manage itself and in the search for necessary control mechanisms to resolve the struggle between form and content, the organisation of money is forced upwards to ever more generalised social levels. Indeed it is only when money is constituted at the level of the world market - a spatial level "directly given in the concept of capital itself" - that it can fully express scarcity relations and close the 'gap' between form and content. This is the strategy of monetary internationalism, which seeks to resolve the form/content dialectic by the intensification of work at the level of the national economy. In contrast, any dilution of money's internationalism potentially widens the gap between form and content: the greater the wedge between global and national monetary spaces the more distended is the law of value. Rather than scarcity, this strategy of monetary nationalism is centred on abundance; a strategy forced upon capital in the hope of containing class struggle within the parameters of profitable accumulation of capital.

This neglect of the global constitution of money is perhaps surprising, given Marx suggested it is only in the sphere of the world market where money acquires "its real mode of existence", where it "adequately corresponds to its ideal concept of human labour in the abstract". In Marx’s era the global integration of money appeared an unproblematic affair, cleanly stripping away the national language and uniform assumed by specie and returning it to its original form of bullion. Yet rather than seeking to unravel the social meaning behind Marx’s words, most Marxists have instead clung - ever more absurdly - to a golden fetishism. This fetishism has led to various lacunas in Marxist theory, including, as Carchedi points out, the quite extraordinary fact that even

such basic problems as exchange rates have been virtually ignored.\footnote{Guglielmo Carchedi (1991), 'Technological Innovation, International Production Prices and Exchange Rates', \textit{Cambridge Journal of Economics}, Vol. 15, No. 1. Also see Dick Bryan (1995), 'The Internationalisation of Capital and Marxian Value Theory', \textit{Cambridge Journal of Economics}, Vol. 19, No. 3.} Armed with the presumption that at least in the world market, gold is the unproblematic mode of existence of abstract labour embodied in the value-form, Marxists have been able to largely ignore developments in the money-form that has continuously transformed the international organisation of money. This has allowed, as I argued in the previous sections, for these developments to be examined through the lens of imperialism and hegemony. On the occasions where they have been recognised, the usual response has been to conceptualise them as signs of capitalist irrationality, accumulation crises or even the end of money. Rarely have they been seen as working class struggles against the unfettered imposition of the global law of value over the reproduction of social life.

Underlying these arguments that class struggle exists in and against the money-form is a belief that, following Trotsky's aphorism, money can bring men either happiness or trample them into the dust.\footnote{Cited in Roman Rosdolsky (1977), \textit{The Making of Marx's 'Capital'}, Pluto Press, London, p129.} Taking money seriously as a social relation constituted by the antagonistic polarity of two subjects - labour and capital – forces us to see money as something more complex than a simple moment of domination. Money simultaneously enslaves and frees the working class from the imposition of capitalist work. It disappears from our grasp at the moment of satisfying our needs. To adequately theorise this point requires a two-sided reading of money through the inversion of class perspectives. Recognising this 'Other' - the active subjectivity of the working class - exposes the so-called 'laws of motion' of capitalism as nothing but "the regularities capital is able to impose in the face of struggles of an antagonistic opponent".\footnote{Harry Cleaver (1986), 'Karl Marx: Economist or Revolutionary?' in (eds) David F. Bramhall and Suzanne W. Helburn, \textit{Marx, Schumpeter, and Keynes: A Centenary Celebration of Dissent}, M. E. Sharpe, Armonk, p132. On the inversion of class perspective, see Harry Cleaver (1992), 'The Inversion of Class Perspective in Marxian Theory: From Valorisation to Self-Valorisation', in (eds) Werner Bonefeld, Richard Gunn and Kosmas Psychopedis, \textit{Open Marxism, Vol. II Theory and Practice}, Pluto Press, London. On the need for two-sidedness in recognition of this 'Other' see Michael A. Lebowitz (1992), \textit{Beyond 'Capital': Marx's Political Economy of the Working Class}, Macmillan, Basingstoke.} A two-sided reading fills the silent categories of political economy with noise, with the sound of class struggle. The struggle between form and content generates the social
dichotomies of equality/exploitation and freedom/non-freedom that give life to the contradictory foundations of money's domination over social life. These antagonistic dichotomies are real and lived, not simply formal categories, exposing the social power of money as something fragile and antagonistic. It is the demand by labour for more, the struggle against endless work and for working class self-valorisation. This is the political premise of this thesis and over the following chapters I hope to offer an analysis that supports the claims so far made.
Money, Scarcity and the Social Bond(Age) of the Market

For you, man isn’t Man until he toils.
That’s an idea from which my soul recoils;
Thank God, I’m not of such noble clay.
The problem simply solves itself for me:
The Good Life’s founded upon L.s.d.

Ballad of the Good Life

2.1 Money, Markets and Scarcity

Probing beneath the cool exterior of the market mechanism, one begins to discern a less benign, less ordered, but rather more antagonistic and contradictory social process than its supporters would wish to admit. Superficially, it appears as an exquisite ‘organic’ device, stretching across time and space to maximise individual satisfactions through the efficient allocation of commodities as directed by the impartial signals delivered through the price mechanism. It relies on neither ties of dependence, modes of behaviour, or particular notions of communal or political adherence. Indeed, its requirements appear minimal: “the division of labour, the existence of private property, and free exchange”. Or perhaps we could suggest it is a system built upon class, law and money. Indeed, replacing a raft of archaic and subjective social bonds with the abstract and impersonal rule of money and law appears to presage a society foundered

1 Bertolt Brecht (1934/1973), Threepenny Novel, Penguin Books, Harmondsworth, p252. L.s.d refers to pounds, shillings and pence, not the hallucinogenic lysergic acid diethylamide, although the analogy is suggestive.
3 Despite the obvious centrality of money, it has proven extremely difficult to incorporate money into even the most sophisticated general equilibrium models. Walrasian models are essentially barter systems, and as Frank Hahn, one of the leading proponents of general equilibrium models has noted, “the most serious challenge that the existence of money poses to the theorist is this: the best developed model of the economy cannot find room for it”. Frank Hahn (1982), Money and Inflation, Basil Blackwell, Oxford, p1.
on the liberal ideals of freedom and equality. Frankel, in a classic restatement of this position, associates a free monetary order with impartiality, personal freedom, individuality and trust.\(^4\)

Of course a common criticism is that the freedom and equality of money is little more than an indifferent freedom for the individual to starve. In other words, they are purely formal categories defined in a negative sense, a such “one-sided... picture as to contrast in some respects grotesquely with reality”\(^5\). To further suggest these formal categories of freedom and equality are simply illusory or false is misleading however, for the cornerstones of the social power of money are in fact dependent on these very same traits. The dualisms generated by the contradictory foundations of money’s social power - equality/exploitation and freedom/non-freedom - simultaneously constitute and dissolve the social bond(age) of money. They form the basis both of money’s strength and weakness. Strength because of the impartiality and impersonality of money, for as the French proverb goes “money knows no master” - it is a subjectless object that performs the same tricks for prince or pauper. The social domination of money makes the relationship between boss and worker appear non-coercive, even consensual, in stark contrast to that of serf/lord or master/slave. It reduces all inequalities to an apparently random and capricious act of nature, mystifying the class nature of capitalism. ‘Gilding’ all social relations allows this ‘object’ to be interposed between individual subjects, providing anonymity to the class basis of the inequality and non-freedom of the market.

But it also creates something of a double bind that unwittingly weakens those mechanisms that seek to drive the operation of the market as if it were a kind of perpetual machine. Exchange is the only form of social connection recognised within a market system - the only mechanism to satisfy our material needs under a regime of private property. Furthermore, it is only the exchange of money that can mediate between these needs and social wealth (that is, use values). In other words, it is the act


of satisfying our material needs that draws us into the web of market relations and the "callous 'cash payment'".\textsuperscript{6} Yet the very success of money in satisfying our original need effaces the bond of market dependence. It is an act of negation, for "it is an inherent property of money to fulfil its purposes by simultaneously negating them".\textsuperscript{7} To make this a permanent bond, money must be able to endlessly reposition itself between needs and wealth. Market driven exchange requires a further condition to enforce its continuing domination over social relations. This, as I argued in the previous chapter, is the imposition of scarcity. Scarcity acts as the necessary sanction able to maintain the social bond(age) of the market as an endless process of creation and negation of needs.

Scarcity of course, must be mediated through the mechanism of market exchange. It must find expression within a web of monetarised social relations, transposing the imposition of scarcity to money itself. In other words money must itself be scarce to reflect scarcity within capitalist social relations – the necessary moment of coercion endlessly drawing individuals back into the act of market exchange. This lack of access to social wealth constitutes the basis of money's power to command the individual, for the individual must somehow secure this medium to enter exchange relations. This simple fact forms the cornerstone of the single defining social relationship of capitalism – work. The imposition of boundless work (and hence endless accumulation) – the raison d'etre of global capitalism – depends fundamentally on the imposition of scarcity.

Because of this, money as a social relationship is a key moment of contestation that finds its social mode of existence within the money-form. Class struggle takes place both in and against this social form, and the aim of this chapter is to explore in greater detail how this impacts on the power of money to weave together isolated individuals into the social bond(age) of the market. In short, the goal is to chart money's inherent tendency to self-negate the conditions necessary for the reproduction of capital even as

it lays the foundations for the process of accumulation. It is this simple contradiction that provides the basis for a class reading of international monetary regimes, for it drives capital to seek ever more generalised mechanisms to organise and control money in the hope of resolving the contradictions inherent within money. The first step however is to trace the development of scarcity as a strategy of class control within economic science. From its initial technical meaning - attributed by Anderson to the Enlightenment philosopher Galiani (value being a ratio between utility and scarcity)\(^8\) - scarcity took the form of an eternalised Nature that formed the backdrop for classical political economy, before assuming its modern form where scarcity expresses an eternalised understanding of human nature itself. It is this transition from a state of nature to a state of sin that I explore in the following section.

### 2.2 Scarcity: From State of Nature to State of Sin

The epoch of primitive accumulation provides the most spectacular example of the bloody subordination of social reproduction to the dictates of market-based relations, destroying in the process feudal and other non-market ties of dependence, mutual aid and self-sufficiency. As Polyani points out, the sanction of socially imposed scarcity - necessary for the imposition of market relations and money - could only take effect with “the liquidation of organic society, which refused to permit the individual to starve”.\(^9\)

The problem posed by organic society is clearly expressed in the following extract from a New England farmer’s diary: “My farm gave me and my family a good living on the produce of it... I never spent more than ten dollars a year... Nothing to eat, drink or wear was bought, as my farm produced it all”.\(^10\) Money and thus socially imposed scarcity could find little traction in such an environment. And by default, no labour market could be established, at least at a level of certainty required by the emerging factory system. In Europe, the liquidation of such archaic practices was a drawn out and violent affair, beginning in England under the reign of the Tudors. The savage

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\(^8\) Perry Anderson (1979), Considerations on Western Marxism, Verso, London, p85.

\(^9\) Karl Polyani (1944), The Great Transformation, Beacon Press, Boston, p165.

attacks on vagabondage, beggary and outlawry under Henry VIII (1509 – 1547) saw according to one chronicler, 75,000 swing as “hardened criminals”.\textsuperscript{11} Robbed of their means of existence by the enclosure of the commons, this “race of ‘sturdy beggars’” preferred vagabondage to the alien demands of wage-labour (only intermittently on offer in any case) despite continuing torture and repression under Edward VI (1547-1553) and Elizabeth I (1558-1603).\textsuperscript{12} Despite the waves of unrest and Leveller radicalism, the theft of communal lands in England continued unabated, peaking under George III (1760 – 1820) and formalised in the \textit{Enclosure Act’s} of 1801, 1836 and 1845, with 3,511,770 acres of common land stolen between 1801 and 1831 alone.\textsuperscript{13} Across Europe similarly savage legislation was passed, ensuring these newly dispossessed masses were “whipped, branded, tortured by laws grotesquely terrible, into the discipline necessary for the wage system”.\textsuperscript{14} Of course, the destruction of organic societies and the global commons continues apace. ‘New enclosures’ are still occurring, often violently in those communities resisting the encroachment of monetarised social relations. One only needs look north of Australia to the struggles in Papua New Guinea against the destruction of communal land ownership systems under the World Bank sponsored Land Mobilisation Program.\textsuperscript{15}

In one sense this process of liquidation was simply a pre-condition for monetarised social relations to take root – the first step in the freedom to starve. Yet the larger problem was to permanently poison the weed of organic society. Central to this was the formation of a new, disciplined subject resistant to the allures of pre-industrial society, one inscribed, as tellingly analysed by Foucault, with a new micro-physics of power.\textsuperscript{16}

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the rigours and discipline of troglodytic factory life, and above all else saturated by a
driving urgency to acquire money to survive (and possibly the hope for some self-
improvement from endless squalor and debasement). The aim was to create “a
working-class, which by education, tradition, habit, looks upon the conditions of [the
capitalist] mode of production as self-evident laws of Nature”.17

This at least was the theory. The continuing refusal of these early semi-industrialised
proletariat to meet the exacting demands placed upon this new working subject
provoked endless wails of compliant. Time proved central to this struggle. The
compression of time under the imperatives of capitalist accumulation were first
experienced under the ever more incessant cacophony of Werkglocken. Time was no
longer God’s sacred time, but belonged rather to usurers and proto-capitalists, the
“merchants of the future, sellers of time”.18 Considerable effort was expended in
convincing workers that time was something valuable. “Time is now currency: it is not
passed but spent”, a necessary step in the imposition of work-discipline.19 Yet
resistance remained strong. According to Thompson, the “work pattern was one of
alternate bouts of intense labour and of idleness, wherever men were in control of their
own working lives”.20 Bosses and social commentators alike complained of ‘Blue’ or
‘Saint’ Monday and even ‘Saint Tuesday’ been adhered to by workers on both sides of
the Atlantic, as well as a range of other ‘archaic’ practices all pointing to a preference
for leisure over paid work.21

18 Jacques Le Goff (1988), Your Money or Your Life: Economy and Religion in the Middle Ages, Zone Books, New
York, p93. Werkglocken or work clocks, evident from the fourteenth century onwards especially in towns associated
with the cloth trade, were set in public spaces to mark work time. They rapidly became objects of class struggle, as
“workers’ uprisings… aimed at silencing the Werkglocke”. Jacques Le Goff (1980), Time, Work, and Culture in the
Middle Ages, University of Chicago Press, Chicago, p46. See also David Landes (1988), Revolution in Time: Clocks
20 Ibid, p73.
11 and 12; Herbert G. Gutman (1977), ‘Work, Culture, and Society in Industrialising America, 1815-1919’, in
Herbert G. Gutman, Work, Culture and Society in Industrialising America: Essays in American Working-Class and
By the late nineteenth century, these last vestiges of a pre-capitalist work ethic were rapidly disappearing as money spun its web across all aspects of social reproduction, hardly surprising given that even by the beginning of the 18th century approximately 60 per cent of Britain's population were wage labourers of some form. The erosion of earlier communal ties of dependence had already unleashed the hidden sanction lying within the market mechanism - nature's penalty, hunger - a fact that met with much approval from a number of compassionate observers. The Methodist parson Reverend Joseph Townsend noted in his 1786 Dissertation on the Poor Laws. By a Well-Wisher of Mankind, that "in general it is only hunger which can spur and goad them [the poor] on to labour... hunger is peaceable, silent, unremitting pressure, but, as the most natural motive to industry and labour, it calls forth the most powerful exertions". Such was the ignominious beginning of the Malthusian theory of population. In the hands of apologists such as Townsend and Malthus, the sanction of hunger was both necessary input and pre-determined output of the process of accumulation. Scarcity (or hunger) was required to discipline a recalcitrant workforce, yet it was also the inevitable outcome from that infamous clash between arithmetic and geometric progressions. This crude naturalisation of scarcity (which Polyani largely attributes to the stagnation caused by the Speenhamland welfare system), sought to fend off all attempts at ameliorating the misery of an indigent proletariat. As that other great protector of the poor argued, "it is [not] within the competence of government... or even of the rich... to supply to the poor those necessaries which it has pleased the Divine Providence for a while to withhold from them... it is not in breaking the laws of commerce, which are

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24 According to Polyani, both Townsend and Malthus derived their theory of natural scarcity from events on the same island off the Chilean coastline that Defoe washed up Robinson Crusoe on (see footnote 50 below). Populated solely by dogs and goats 'equilibrium' between these two 'beasts' (perhaps we could insert capital and labour in their place) was reached through the mechanism of hunger and starvation. The Spanish had supposedly unleashed the dogs to destroy the goats that were being used by pirates as sustenance while they plundered the Spaniards. To complete the circuit, the Spaniards had unleashed the goats as 'supplies' while they in turn fed off the indigenous peoples of the America's. See Karl Polyani (1944), The Great Transformation, Beacon Press, Boston, p113.
the laws of nature, and subsequently the laws of God, that we are to place our hope of softening the Divine displeasure to remove any calamity under which we suffer.”25

Political Economy located this absolute and eternal scarcity at the heart of the market mechanism, hoping the fear so generated would goad the masses into ceaseless toil. In fact a more sophisticated conception of scarcity could already be found in the mercantilist thought of James Steuart. Instead of imposing absolute scarcity to enforce the relation of work, Steuart argued for a strategy of imposing *generated needs.*26

Steuart (who in fact influenced both Townsend and Malthus), agreed that “men are now [as opposed to slaves] forced to work because they are the slaves of their necessities”. Yet, as Marx points out “he does not thence conclude, like the fat holder of beneficiaries [such as Townsend], that the wage-labourer must always go fasting. He wishes, on the contrary, to increase their wants and to make the increasing number of their wants a stimulus to their labour”.27 In other words, we find a strategy of socially created scarcity, for “every real or potential need is a weakness which will tempt the fly onto the lime-twig”.28 Scarcity must be nurtured and encouraged by the proliferation of needs that can find satisfaction only through market exchange. It did however take persistence. Nassau Senior, staunch opponent of the Ten Hours Bill of 1847, noted after a trip to Ireland that “the poor seem to be unaware of the indefinite variety and extent of men’s wants”.29 Some sixty years later, the advertising hacks had picked up where

Senior left off as they performed their historic task "to keep the masses dissatisfied with their mode of life, discontented with ugly things around them". 30

Within classical political economy the ‘Economic Problem’ was framed in such a way that these two conceptions of scarcity – natural and socially generated – often existed uneasily side by side. As noted above Malthus famously propounded the theory of a naturalised scarcity that would forever pauperise the masses. Yet paradoxically he clearly identified the problem of excessive capital formation over current consumption (the problem of effective demand) in his controversy with Ricardo over Say’s Law and the possibility of secular stagnation. Unlike the more optimistic Smith, Malthus believed workers always preferred leisure to increased consumption. Following from this, “an efficient taste for luxuries and conveniences, that is, such a taste as will properly stimulate industry, instead of being ready to appear the moment it is required is a plant of slow growth” 31

Of course as Keynes lamented, Malthus’s concept of effective demand and the possibility of ‘gluts’ was vanquished by Ricardo. Yet the argument that a naturalised scarcity forever doomed the accumulation process to stagnation became more muted. While the final dénouement would be a stagnant ‘ragged and hungry’ equilibrium point, the classical position as expounded by the Ricardian tradition shifted the focus of analysis to the shorter term augmentation of social wealth through increasing physical output, achieved by increasing the supply or productivity of labour. 32 Natural scarcity receded to a longer-term horizon (theorised as the iron law of wages), as physical output was increasingly perceived as driven by purely ‘technical’ determinants. In other words the idea of scarcity as a political strategy to enforce work discipline over the working classes began to fade from view. Yet the ideological dangers of increasing physical

31 Malthus, cited in David Harvey (1985), Consciousness and the Urban Experience: Studies in the History and Theory of Capitalist Urbanisation, John Hopkins University Press, Baltimore, p45. Such reasoning led Malthus to affirm his class position by looking to the ‘unproductive consumption’ of landowners to bolster demand in a stagnant British economy following the close of the Napoleonic Wars. According to Malthus, neither capitalists nor workers were willing or able to fulfil this historic role – hence his sturdy defence of the Corn Laws to protect landowners wealth.
output combined with the Ricardian labour theory of value quickly became apparent in
the form of the challenge posed by the Ricardian Socialists. In response to these
attacks, after 1830 "the class-struggle, practically as well as theoretically, took on more
and more outspoken and threatening forms... sound[ing] the knell of scientific
bourgeois economy... in place of genuine scientific research, the bad conscience and
the evil intent of apologetic".33

It would take a further 40 years for this 'bad conscience' to bare evil fruit, but finally
the ideological tension was resolved. Economic science no longer had to make recourse
to the concept of natural scarcity, for now a naturalised social scarcity could be inserted
in its place. The Political Economy of Shopping was about to make its dramatic
entrance onto centre stage. As one of the founders of this new 'science' argued, "the
supposed conflict of labour with capital is a delusion. The real conflict is between
producers and consumers".34 As part of his campaign to combat the growing influence
of "erroneous and practically mischievous" theories of economic exploitation upon
working class movements,35 Jevons suggested in the preface to his classic text, "the
substitution for the name Political Economy... the single convenient term Economics".36

This new 'science' would resolutely focus on wants – unlimited, boundless, eternally
proliferating – yet not with the ambiguous but often optimistic notion of economic
expansion of the classical school. Rather these wants were bounded by limited means,

34 William Stanley Jevons, cited in Michael Perelman (1987), Marx's Crises Theory: Scarcity, Labour, and Finance,
Praeger, New York, p86. Of course the removal of ecological limits from economic science saw the biosphere
reduced to little more than a resource to be plundered. As I was taught the subject, key problems included how to
'price' non-renewable resources, that is, at what rate should these be exhausted, as well as other pressing problems
such as determining whether discount rates exist that could justify destroying potentially renewable resources, such as
fish stocks. For example, if there were hard to define property rights, it may be 'rational' for everyone to 'get in'
while they can. Also see Elmar Altvater (1993), The Future of the Market: An Essay on the Regulation of Money and
Nature After the Collapse of 'Actually Existing Socialism', Verso, London; James O'Connor, Capitalism, Nature,
to counter-act the growing influence of Marxism on working class movements, also refer to Simon Clarke (1982),
Groenewegen, Henry Dunning MacLeod was the first to propose the term 'economics' (in 1875), persuading Jevons
it was the correct nomenclature for the new 'science'. It was not until the publishing of the second edition of the
Theory in 1879 that the new name is referred to by Jevons. See Peter Groenewegen (1991), "'Political Economy' and'
by a static system in General Equilibrium – a methodology for “the new problem of ‘scarcity’”.

As Myint makes clear, this problematic of scarcity “assumes there is no further possibility of increasing the total quantity of resources and concentrates on the possibilities of increasing economic welfare by a more efficient allocation of given resources and by a better method of resolving the competing wants of different individuals which act as ‘obstacles’ to each other”. While natural scarcity lurked in the background, it was the new science of choice, driven by limitless individual wants, that made this scarcity both real and eternal.

It was perhaps not surprising that the return of scarcity to economic science should occur at this time. Jevons throughout his life showed “a readiness to be alarmed and excited by the idea of the exhaustion of resources”, and by the 1870s and 1880s, as the world slipped into a deflationary spiral, it appeared to many that economic progress was checked. There was a new “pervasive... state of mind of uneasiness and gloom”. While such pessimism faded in time for the business classes, for the economics profession this new focus upon scarcity became a permanent article of faith. It received its modern and most famous form in Lionel Robbins’s An Essay on the Nature and Significance of Economic Science, first published in 1932. Robbins, who was strongly influenced by the ‘hard’ subjectivism of the Austrian School, preached in his pathbreaking sermon on the dismal science that “we have been turned out of Paradise... Scarcity of means to satisfy ends of varying importance is an almost ubiquitous condition of human behaviour”. Thus Economics “is the science which studies human

39 John Maynard Keynes (1936/1951), ‘William Stanley Jevons’, in Essays in Biography, Rupert Hart-Davis, London, p266. His most famous obsession, and one that first caught the Establishment’s notice, was his gloomy prognosis on the limited quantity of coal, the near unlimited demands placed on this resource, and the ‘Malthusian’ result this would have on future growth. According to Keynes, this obsession also extended to paper, which Jevons hoarded to such an extent his family was still using his accumulated stocks some 50 years after his death.
behaviour as a relationship between ends and scarce means which have alternative uses".41

For Robbins this is a timeless state of nature, for it is an expression of innate human behaviour. Wants are effectively unlimited, which combined with limited resources produces a scarcity that manifests itself in the problem of choice. Once again the problem is naturalised, but in a purely subjective form. It has become internalised within us as endless wants – a pathological trait - rather than as an external objective barrier. Scarcity is the social manifestation of our Original Sin. The price we pay for our fall from grace is *endless work*, whether as Robinson Crusoe or a Communist command economy. However it is in an “Exchange Economy” where our sinful nature is allowed to express itself most fully, for this is the most individualistically free arena for choice to be exercised. To exist within this network of “scarcity relationships” clearly requires acts of exchange, in turn requiring a medium of exchange – money. According to Robbins, “money-making... means securing the means for the achievement of all those ends which are capable of achievement by the aid of purchasable commodities. Money as such is merely a means”.42 However, access to this “means” becomes the pivotal moment in the articulation of naturalised social scarcity.

The leap from hunger *per se* to unlimited wants was central to the development of the concept of socially imposed scarcity, for the latter allowed for a continuous and expanding proliferation of *monetary exchanges*. As general equivalent, money can face an infinite set of commodities: it confronts not just individual objects, but “Need *itself* in abstract”.43 Developing an individual’s needs is the way “I exercise compulsion over the other person and draw him into the system of exchange”.44 The market exists as a moment of social bond(age) in the satisfaction of needs regulated by money itself. Of

42 Ibid, pp30-1.
course, those with sufficient “means of exchange” never experience scarcity as a moment of coercion. Following the terminology used in Kornai’s analysis of command economies suffering systemic shortages, their actions are not constrained by **hard monetary constraints**. Instead “money has only a passive role” for soft budget constraints do not impose the discipline of the market - socially imposed scarcity.\(^45\) In other words, “money can fulfil its potential in a market economy only when it is scarce”.\(^46\) Maintaining the discipline of social scarcity over market relations depends on exerting a similar discipline over the medium of exchange, for otherwise it is no longer experienced as a lack by the individual, and thus a moment of social domination.

Yet the peculiarities of money as a moment of social domination need to be examined in greater detail. Money is not only a social relation that appears as a thing, but one that assumes thinglike properties, placing the individual in a unique position vis-à-vis social wealth. For money as a thing has no social connection to the individual, although its possession gives to the individual a general power over society through the access it provides to wealth. This social power incarnated in a thing cannot rest on any internal relation to the individual. The gossamer thread uniting subject (owner) and object (money) appears the result of chance or accident; it “may be randomly searched for, found, stolen, discovered... [or] mechanically seized, and lost in the same manner”. Its ownership “places me in exactly the same relationship towards wealth (social) as the philosophers’ stone would towards the sciences”.\(^47\) Money appears as the “radical leveller...[extinguishing] all distinctions”.\(^48\) In this externalised object the “individual carries his social power, as well as his bond with society, in his pocket”.\(^49\) Whether for prince or pauper, money performs the same tricks.

However money is a social relation, which even as it unravels all non-monetary ties of dependence posits in its stead a seemingly universal community restricted only by the


limits of the market itself. The mutual interconnectedness of individuals, the social basis of all human life (as opposed to that fantastic creation of the eighteenth century and so beloved by economics, Robinson Crusoe), is established by the power of money as an objective, external, sensuous and indifferent bond. This social bond is paradoxically formed by the alienation of the individual “from himself and from others”, for the individual is posited socially only through establishing his individuality as sovereign. Money is indifferent to all except the moment of exchange. Individuals stand in formal relation to one another through the act of exchange, as equals without trace of difference. Furthermore, this exchange of equivalents between equals, as we saw earlier, is defined as a sphere of freedom, for there is no external compulsion exerted upon the individual to enter this relationship: “it is only my own nature, this totality of needs and drives, which exerts a force upon me”. It is the formal act of exchange realised through the monetary system that forges the bonds constituting this radical, democratic community of shoppers.

This simple circuit can be represented in the standard notation C-M-C. It highlights the finite nature of this exchange process as it vanishes on completion. In particular, money completes its mediation between two singularities (commodities/use-values) and disappears. Continuing access to social wealth depends in turn on reactivating this circuit, achievable only by flinging in anew the universal equivalent - money. Individuals, seemingly gaining independence from the dissolution of personal ties of dependence now experience this relation in a generalised form - an abstraction felt as the need for money. But this form of dependence is potentially limitless, for money “takes the place of all the manifoldness of things and expresses all qualitative

50 Robbins in particular highlighted the value of “Crusoe Economics” in illuminating the problem of choice that operationalises scarcity. See Lionel Robbins (1932/1937), An Essay on the Nature and Significance of Economic Science [2nd Edition], Macmillan and Co, London, p20. This island and its inhabitants (dogs and goats and one human) have provided parables for the conceptualisation of scarcity from the naturalised hunger of Townsend and Malthus through to the subjectivised problem of unlimited wants found in Robbins. Interestingly, the actual model for Defoe’s character was a shipwrecked Scottish tar, Alexander Selkirk. The use of Selkirk as a template for the creation of homo economicus - a creature whose social existence is characterised by splendid isolation - is ironic given deep sea sailors of the 17th century were in fact highly collectivised workers. See Marcus Rediker (1993), Between the Devil and Deep Blue Sea: Merchant Seamen, Pirates, and the Anglo-American Maritime World, 1700-1750, Cambridge University Press, Cambridge, Chapter 3.


52 Ibid, p245.

53 Using Marx’s standard notation, C stands for commodity and M for money.
distinctions between them in the distinction of 'how much'. Everything can become a commodity represented by money, and this lies at the heart of the strategy of socially imposed scarcity.

The key point is that this need is experienced not as direct compulsion, but rather as indifference. This is the social power of money. As Marx noted, “rob the thing [money] of this social power and you must give it to persons to exercise over persons”. The question thus resolves itself into the issue of access to money, which can then be exchanged for equivalents. It is here that we can raise the “trivial but neglected insight that those who cannot pay must acquire money, and that the standard way to acquire money is to work for those who already have it”. Bastiat, in whom we find “the most extravagant and rhapsodical expression of the Political Economist’s religion”, makes the following observation: “You have a crown piece. What does it mean in your hands? It is, as it were, the witness and the proof, that you have at some time done some work”. As such it entitles you to receive in return an ‘equivalent’ amount of social wealth. We begin to uncover the secrets of the market process, for “the relation of exploitation is the content of the monetary equivalent”. The generalisation of exchange relations through the commodity-form can only fully occur with the development of a free labour market, where the owners of the means of production can meet the seller of labour-power. This becomes clear if “instead of taking a single capitalist and a single labourer, we take the whole capitalist class and the class of labourers as a whole”. The only use-value in possession of those separated from the means of production is the capacity to work, labour power. This as in every

exchange of commodities is mediated by money, and without doubt the wage is "the basic relationship which defines capitalism".  

Thus the conception of wealth inscribed in the circuit C-M-C is actually C-M-M-C, where C-M is the exchange L-M, that is money in the form of wages. Money is still a vanishing mediation, but the exchange mediation is now between the equivalents (L), the use-value of capacity to work and (C), commodities necessary for the continued reproduction of the worker and which are consumed in realising their use-value. This finiteness ensures "the worker emerges from the process as he entered it, namely as a mere subjective labour-power which must submit itself to the same process once more if it is to survive". Behind the movement of pure forms in the circuit C-M-C that appears "a very Eden of the innate rights of man" lies a content of unfreedom and inequality. Herein lies the social power of money as a moment of domination. It is "the power to command labour and its products". Or putting this in reverse, "the powerlessness of the individual with respect to society... is experienced as the absence of a thing, money". In other words it is the discipline of money that imposes work via the commodity-form, ensuring the market exists as a moment of social bond(age) experienced as a socially sanctioned scarcity of the means of social reproduction.

Yet this understanding of the foundations of the social power of money remains static and one-sided. It is only when we undertake a two-sided reading of money that the contradictions within capitalist money become fully evident, where we see the social category of money as an antagonistic class relation. In the following section I develop this two-sided reading by examining in closer detail the two monetary circuits, C-M-C and M-C-M'. From these circuits I establish two different conceptions of wealth that find expression in money as contradictory 'functional' roles. While C-M-C corresponds

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62 L is the notation for labour power.
to the monetary function of means of circulation, M-C-M’ relies over time on money assuming “the social form characteristic of real money, that is, the ability to socially validate private production without having to be validated itself”, that is, it must perform the functional role of store of value.67

2.3 Class Struggle and a Two-Sided Reading of Money

If we are to avoid the economism evident in approaches characterised by capital-logic it is clearly necessary to recognise that capital can only exist in relation to another, hostile subject – the working class – which exists both ‘in’ and ‘against’ capital. These two subjects exist as opposites united through the wage relation, each seeking to reproduce themselves, “to posit the self as an end in itself as dominant and primary”.68 As I argued in Chapter 1, to give life to this totality of capitalist social relations requires us to incorporate this polarity within the categories we use to understand our world. While Negri is correct in exposing money’s “lurid face... that of the boss”,69 to stop here fails to uncover money as simultaneously a point of contestation over access to social wealth, tightly bound to the historical determination of needs, socially imposed scarcity, the process of commodification or non-commodification of these needs and so on. It is nothing less than a struggle over two opposing ideas of wealth. But it is vital to stress that these do not stand as simple opposites, for these hostile circuits are in fact mutually constitutive of each other.

Money is medium of exchange in the simple circuit C-M-C, where it exists as a vanishing mediation point between use-values. Yet money exists as capital, as M-C-M’.70 These two monetary circuits stand opposed to each other. They are hostile, for one promises the satisfaction of real needs, potentially a weakening of the power of money to dominate, an expansion of non-work, while the other exists as exploitation and potentially endless work. Money is a central faultline along which the working

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70 M’ is the notation used to describe a larger amount of money that emerges from this circuit, in short profit.
class struggles for its needs against those of capital. A two-sided reading of money in no way suggests such practices are not deeply contradictory. No matter how "improve[d] the material existence of the worker, [it] does not remove the antagonism between his interests and... the interests of the capitalists". Indeed, struggles centred on money may only lead to the working class "forging for itself the golden chains by which the bourgeoisie drags it in its train". Yet this is only a contingent outcome; there is nothing determinant about it whatsoever. If we are to "rise above 'political economy'" and see the working class as an active subject rather than "pure labouring machines" we must see money as both the sphere of endless work \( (M - C - M') \) and as a means for the self-realisation of the working class \( (C-M-C) \) through the negation of the "dull compulsion of economic needs". Money as Dostoyevsky suggested, is coined liberty, albeit of a limited, perverse and contradictory form. While the capitalist constantly seeks "to inspire [the working class] with new needs by constant chatter... It is precisely this side of the relation of capital and labour which is an essential civilising moment, and on which the historical justification, but also the contemporary power of capital rests".

In the famous opening sentence of *Capital*, Marx states "the wealth of those societies in which the capitalist mode of production prevails, presents itself as 'an immense accumulation of commodities'". Even within this opening statement we find immanent two antagonistic conceptions of social wealth that correspond to our two-sided reading of money. All commodities are by definition use-values. Each of us in our day-to-day reproduction as human beings, in our development as individuals and in the attainment of our desires, require access to a portion of social wealth appropriated as use-values. Indeed asks Marx, what "is wealth other than the universality of individual needs, capacities, pleasures, productive forces etc., created through universal

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exchange”?

Yet for capital, wealth is never conceptualised as use-values but rather the limitless expansion of realised exchange-values (M-C-M'), or in other words profit. But rather than a vanishing medium, money here augments itself, for “money... as capital, has lost its rigidity, and from a tangible thing has become a process”.

We have two very different class perspectives on the constitution of social wealth: “what the capitalist wants is the growth of value; what the worker wants, on the other hand, is the growth of use-values”.

Money as capital exists “as a value endowed with the use-value of creating surplus value, of creating profit”. Yet its use-value for labour lies in the fact that it confronts living labour as medium of circulation obtained in the form of wages. The use-value of money exists in these linked but antagonistic spheres, polar ends of a single relationship between labour and capital. Money for the working class is the necessary medium in order to access social wealth, attainable only by the commodification of the capacity to work. Labour-power for the worker has use-value only insofar as it is an exchange-value. For capital, living labour is exchange-value only insofar as it is a use-value, value-creating activity. Money is a commodity but one sui generis, being both medium and result, allowing capital to confront labour directly as money, and being the form that seeks to integrate abstract labour in its most abstract and universal form. The two circuits of C-M-C and M-C-M' are thus intimately linked, each presupposing the other in its circuit and dependent on it for its own constitution. The reproduction of one through the imposition of work via the commodity-form is but the flip-side to the reproduction of capital; exploitation and reproduction are inimically entwined. As Negri suggests, “money is [the] mediating category of the social antagonism” that lies in the dynamic movement of these two monetary circuits.

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76 Ibid, p263.
As I have already suggested, the social power of this mediating category to impose work given its existence as a subjectless object is fragile and self-effacing unless constantly reinserted between needs and use-values. This power is vulnerable from several points of attack. I briefly examined in the previous section the encroachment of the commodity-form, “the colonisation of the life world” that breaks down traditional relationships and severs workers from the means of reproduction. Yet the line between market and non-market remains contested and ambiguous with many aspects of social reproduction experiencing periods of decommodification and recommodification, including health, education and housing.\(^{80}\) Removing such fundamental needs from the sphere of commodity production may weaken the strategy of socially imposed scarcity. Furthermore, the faultline between commodity/non-commodity often ruptures in various forms of criminality, such as direct appropriations – looting, shoplifting, theft at work and so on. There is also the contested sphere of non-paid work, that is wealth creating activity that does not directly produce surplus value for capital, such as household labour. Obviously the growing commodification of household labour has been one highly visible process, particularly after WWI through the development of various labour saving devices, childcare and so forth. Encapsulated within all these is the fundamental weakness of the social bonds created by money itself. Money exerts its power as need, which on overcoming is effaced unless this need can be repeatedly re-imposed. The successful mediation of money between object and need negates the initial impulse that manifests itself as need for money. Money in effect, no sooner creates the social bonds necessary in a system of private production then causes them to vanish on the completion of the transaction. Thus the power of money to command depends on its ability to constantly re-posit itself as need. Money as a subjectless object has no ability to do this. The relation between capital and labour exists in the presuppositions of capitalist society, notably private ownership of the means of production, but can manifest itself only as a need for money.

\(^{80}\) Of course, what ‘types’ of education, health care and housing the working class receive is likewise a point of conflict.
This has important implications for how we should conceptualise money and class struggle. Class struggle does not happen 'out there' but within the very categories that constitute social existence. Thus, the old left argument that struggles centred on 'more' pay are non-revolutionary is in this sense incorrect, or rather one-sided. They are the manifestation of the struggle between two conceptions of wealth. By gaining access to more money, a greater pool of desired use-values, the working class seeks to decrease the level of socially necessary abstract labour, or stating the proposition in the reverse, it is a struggle to broaden the *sphere of non-work*, "the sphere of their own needs".\(^{81}\) Quantitative struggles for more money *potentially* lessen the social power of money-as-command, carving out non-capitalist time for the worker, which as Marx argued, "is the room of human development".\(^{82}\)

I emphasise this is only a potential since capital has developed sophisticated counter-strategies that constantly seek to transform this increased access to social wealth into Steuart’s strategy of generated needs - well documented by the Frankfurt School’s critique of twentieth century state capitalism. As Marcuse argued, "the means of mass transportation and communication, the commodities of lodging, food and clothing, the irresistible output of the entertainment and information industry... bind the consumers more or less pleasantly to the producers and, through the latter, to the whole".\(^{83}\) Yet this integrationism pointing to an 'iron cage' of capitalist domination is excessively determinist, forcing one to seek the cause of crises externally as the analysis has already rejected the antagonistic subject lying within the totality of capital. Quantitative increases in money may or may not weaken the nexus between wages and work, but the central issue is to stress the contradictory and brittle base on which the social power of money-as-command is built. The honeycombed, decentred capillaries of monetary domination are both its strength and weakness. As subjectless object it’s powers of coercion are anonymous, "bourgeois democracy tak[ing] refuge in this aspect".\(^{84}\)

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Of course, the straining of the relational bonds between work and money does not signal the smashing of the commodity-form but rather a declining rate of exploitation. It signals a weakening of the law of value, which only exists in the struggle between necessary and surplus labour, in the struggle between the spheres of imposed work and non-work. As Bologna argues, "the working class refusal of work confirms the law of value in antagonistic terms and enters into contradiction with capitals attempts to conceal it, to 'forget it'". It cannot alter the defining relation between capital and labour – the wage - as that would require a revolutionary transformation in the underlying presuppositions of the capitalist mode of production. However, if the circuit C-M-C latently contains the possibility of increasing costs of exploitation, a declining power of money to command, we could expect ripple-on effects flowing into the circuit M-C-M'.

A crisis in the social relations of production that underpin surplus value extraction forces capital to attempt the circumvention of these relations, seeking instead its expanded reproduction as an 'automatic subject' M-M' – where money-capital exists "as an automaton". This movement within the money form is a "meaningless form of the actual movement of capital", meaningless (begrifflos) in the sense of 'losing its grip', its ability to command living labour. It is fictitious capital, having lost all connection to the process of value creation by autonomising itself from its constitutive but antagonistic subject living labour. Capital effectively seeks flight from the law of value, from the necessity of guaranteeing its day-to-day existence in the continuing exploitation of living labour. Thus a temporal crisis in the circuit C-M-C triggers a spatial flight in the circuit M-C-M'. But this unique ability of money-capital to flee, that is its spatial power, has the potential to establish the preconditions for a successful

88 Ibid, p349.
re-subordination of social reproduction to the exigencies of capital accumulation, an argument I further develop in section 2.5.

This two-sided reading can be viewed in different ways. For example, according to Clarke, “underlying the history of money is the contradiction between the functions of money as the means of exchange and as the substance of value”. This contradiction is simply a concrete manifestations of the hostile circuits C-M-C and M-C-M’, which can be further traced to the struggle between form and content I outlined in section 1.3. In the following two sections I examine these contradictory functions by mapping them against the *forms* assumed by money, which if we remember back to the previous chapter, is the social mode of existence of the form/content dialectic.

Money as medium of exchange appears, as Harvey suggests, superbly suited to the form of credit-money. Yet such an infinitely elastic and worthless object as credit-money, with its flimsy ‘value’ built on the rickety foundations of faith in its future worth (the term credit is derived from the Latin *credere*, to believe), ensures its “capacity to represent ‘real’ commodity values is perpetually suspect”. Even more to the point its ability to subordinate labour to the commodity-form is likewise compromised. Historically the need to regulate these “paper butterflies” increasingly fell into the hands of the state, culminating finally in the creation of fiat money. As state credit-money drove out all competitors in the issuing of legal tender, the practices of central banking developed to control the flow of privately issued credit into state sanctioned, or socially validated, value. Yet the state cannot provide any absolute validation of this money. It can only ever be a pseudo-social validation of social wealth, a subject I return to in the following section.

On the other hand, the “irrational side of money” as store of value, the most abstract and independent form of social wealth, must satisfy the requirements of world money. Only on the world market can the social power of money be finally validated: “real

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91 As I stressed in Chapter 1, we can examine these functional requirements of money only when the social essence of money has been exposed.
money is always world-market money, and credit-money always rests upon world-market money".\textsuperscript{94} Any resolution of the contradictions in favour of money as substance of value lie the subjugation of the state, credit-money and the circuit C-M-C to the rule of money constituted at a global level. While the form taken by money at the apex of the monetary pyramid has historically been commodity-money, it will be argued in the final section that commodity-money in fact never existed as true world money. In fact, this gold ‘fetishism’, always prevalent within Marxism, obscured the fact that the value of money lies solely in its ability to command living labour, in turn requiring money to be dominated by a principle of scarcity. All other attempts to establish a ‘true’ or absolute store of value flounder on the problem of the infinite regression of the value form, that is the impossibility of securing abstract wealth as a thing rather than diachronic social process. Before turning to these issues however, I examine credit-money and the fragile and contradictory role of state regulation.

2.4 Credit-Money and the State

Even as the state ruthlessly defended its monopoly privilege to mint coins bearing the sovereign’s image against those undermining this right – sweaters, clippers, counterfeiters and bullion smugglers\textsuperscript{95} – a second tier of money was developing, not as coin, but as bills of exchange. The rise of this profane ‘near money’ was central to the expansion of commercial capitalism. Limited supplies of precious metals and the dangers and costs of transportation ensured constant breakdowns in metallic money systems upon which “anything was pressed into service and paper money flowed in or was invented”.\textsuperscript{96} This in turn stimulated the development of modern banking systems with their attendant powers of money creation, either through issuing notes or bank


\textsuperscript{95} In the lead up to the Great Recoinage of 1696-98, Sir Isaac Newton, appointed Warden of the Mint through the efforts of John Locke – himself a central protagonist in the defence of minted silver as standard of value against the attacks by forces hostile to civil government and the launching of English imperialism – became the “detector, interrogator and prosecutor of the actual miscreants, helping fill Newgate and providing much employment for the hangman at Tyburn”. According to Caffentzis, “the clippers were more serious enemies of the state, in Locke’s view, than the French regiments at Namur”. Constantine George Caffentzis (1989), Clipped Coins, Abused Words, and Civil Government: John Locke’s Philosophy of Money, Autonomega, New York, pp19-43. This savagery continued with paper medium – over a 32 year period in the second half of the 18th century, 600 were hanged for forging mainly Bank of England notes.

deposits and cheque accounts. While these mechanisms were in place by the nineteenth century, they were not well understood. The Bank Charter Act of 1844 gave to the Bank of England full monopoly rights over the issue of notes in England and Wales, ending the rights of the provincial banks. Yet the attempt to implement a "cast-iron" rule based system rigidly linking bullion reserves to note issues by the Bank of England failed to account for the banking systems powers of credit creation.

Despite these difficulties, the forces pushing for the centralisation of note issuing powers (as opposed to credit creation) within the state were strong. Despite the claims of the free banking school on the efficiency of a competitive note issuing market, the general consensus was that such systems would inevitably lead to over issues. Jevons for example, argued "there is nothing less fit to be left to the action of competition than money". While the elasticity provided by the expansion of paper money appeared undeniably beneficial, experience suggested it had several drawbacks when undertaken by the unfettered workings of the market. If credit-money was simply a debt – an IOU entitling the owner to demand some equivalent for services rendered at some future time – establishing faith in these symbols as representatives of social wealth proved problematic through the market mechanism. Firstly, the sheer number made comparisons over the equal worth of tokens difficult. For example, by 1863 in the United States, over 7,000 different notes were issued by local banks on top of 5,000 varieties of trade tokens. Secondly, during this period of free banking in the US sharp pro-cyclical fluctuations in note issuing were evident, leading to cycles of speculative excess and credit crunches. During the land boom of 1835-36, the money supply grew by 61 per cent, only to violently contract by 58 per cent during the panic of 1837 and the debt-repudiation of 1840-43. The centralisation of note issuing within the state and the rise of central banking and monetary policy, famously outlined in Lombard

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Street, appeared to offer the benefits of a system in which the supporting monetary reserves “is so exceedingly small that a bystander almost trembles when he compares its minuteness with the immensity of the credit which rests upon it”. 101

The benefits from an elastic medium of exchange are considerable, for it allows the development of what Lipietz refers to as *diachronic value*, that is, value in the process of becoming. Credit-money “is precisely the quantity of means of payment handed over by the issuing system to an economic agent on the basis of anticipated realisation of ‘value-in-process’ currently held in non-monetary form”. 102 In other words, banks engage in private pre-validation through the creation *ex nihilo* of credit-money. It involves a radical inversion of the valorisation process, for diachronic value is based on a gamble, a faith that future commitments will be met through the successful exploitation of labour. Success requires however the state, through its agent the central bank, to deploy the tools of monetary policy as a mechanism to regulate the portion of private credit-money redeemable into fiat money. In doing this the central bank “shifts the frictions inherent in the private pre-validation by banks to the aggregate social sphere”. 103 Of course there is no guarantee this social validation of private labour will ultimately occur, for the central bank can itself offer no more than the pseudo-social validation of value through the medium of fiat money.

This social pre-validation of private labour clearly reduces the salto mortale of the commodity – its dangerous leap as it attempts to validate itself as social wealth in the abstract and general form of money. 104 It weakens Kornai’s hard monetary constraint that ensures market sanctions are experienced as scarcity and social bond(age). In other words, in facilitating the successful completion of the monetary circuit M-C-M’, credit money weakens the social power of money in the circuit C-M-C. Reducing the antagonism between commodity and money acts as a temporal distension of the social

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relations of production. It spreads them across time, replacing the present with the apparent potential to endlessly defer to the future through the continuous infusion of credit-money. This of course is impossible, for the law of value still holds true. However, it is modulated in a very different manner, with crises taking on new forms.

With an inelastic monetary base (for example, where there is full internal convertibility between fiat money and commodity money) an extension of credit in which its 'backing' (private use-values) fails to make the dangerous leap to realised social wealth results in a rapid and catastrophic devalorisation of capital. Initially a banking crisis as wealth holders flee to the glittering hoard of commodity-money, the resulting credit crunch and savage deflation leads to mass bankruptcies and unemployment. Money seeks its independent form as store of value, retreating from its role as simple medium of exchange as once again “the mere underling becomes the god of commodities”.

With an elastic money base however, the private losses from non-realised private use-values already pseudo-socially validated are spread out as a social loss in the form of inflation - a declining purchasing power of money for all holders of credit-money.

As Hirsch and Oppenheimer comment, with the shift to an elastic base “the shock absorbers that had earlier been provided by the real economy were shifted to some degree to the financial economy”. Crises are stretched out through time, deadening its immediate impact on the already antagonistic social relations of production. It acts, in other words, as a force ameliorating social antagonism at least for a time.

Yet this immediately raises the question of how the state can 'manage' the supply of money in a way that balances these competing functions of money? The usual answer has been that the state must be hamstrung beyond some designated point. For the most

part, this has taken the form of constitutional checks on the state’s note issuing powers. According to Leijonhufvud, a constitutional regime “is one in which the discretion of the policymaking authorities is constrained, at least in the short run.” But this simply raises the further question of what principle should such a constraint be based upon? Warburton, a proto-Friedmanite, suggested two theories have held sway in determining the state’s control of money: the convertibility theory and the responsibility theory (or what Leijonhufvud calls the quantity principle). The convertibility theory as the name suggests, ensures full convertibility between all layers of the monetary pyramid—private, state and world money—is secured. It acts as a constraint on the state because it places the control over money to the spatial level of the world market. It is, as I argue more fully in Chapter 4, a strategy of monetary internationalism. As we shall see, the twentieth century has witnessed a long retreat from the principle of full convertibility as monetary control increasingly shifted first to a mixed system, and finally a pure responsibility theory.

For conservatives, the steady corrosion of the convertibility theory has been nothing short of a full-scale retreat from a constitutional regime capable of checking the unbridled power of the state. A responsibility theory based on nothing more than a judgement by a state agency over the desirable quantity of state money offers no meaningful constraints whatsoever. As Dorn, one time editor of the arch-conservative Cato Journal noted, “the weakening of the constitutional fabric of modern democratic states has occurred alongside the abandonment of commodity money”. But why should conservatives be so fearful of this linkage between the state and money? The reference by Dorn to democracy is not accidental and provides the key to this fear. A pejorative association between political democracy—the rule of the mobile vulgus—and the rise of paper money, has a long tradition within reactionary thought. Burke

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associated the political upheavals in the American colonies to the issuing of Continentals by the rebel Congress between 1775 and 1779. Further fuel was added to this association between revolution and monetary debauchment by the paper assignats of the French Revolution, backed by the confiscated lands of the Church and émigrés. As Harris argued, "the success of the people's Revolution was impossible without it [paper money]."111 The ability of the masses to distort the established order of property relations through attacks on the monetary system clearly highlighted for conservatives the dangers of participatory politics. The state in short, was precariously situated at the confluence of two social moments, the political (democracy) and economic (money).

By the nineteenth century the liberal 'nightwatchman' state and its control of money was tightly embedded within strict constitutional constraints that appeared unquestionable in the face of a rigid adherence to financial orthodoxy. As Polyani points out, "Gladstone had made the budget the conscience of the British nation".112 Yet almost within a generation this apparently impenetrable barrier was already unravelling. Rather than eternal truths, they were simply rules contingent on a particular balance of class forces. To understand why requires a deeper examination of the contradictory foundations of the liberal-democratic state itself, looking beyond its reified appearance to uncover it as a social process "appearing in a thing-like shell".113 Exposing the state as one mode of existence of the antagonistic social relations of capitalism helps us to avoid collapsing the 'unity of everyday experience' into seemingly autonomous 'thinglike' structures or 'levels' – the economic, political and ideological. As Clarke observes, "the citizen, commodity owner, and conscious subject are not three different people, they are one and the same".114 While this fragmentation of social life is clearly not an illusion, it should not be presupposed, but instead act as a spur to understanding why they assume these reified forms. Why in other words, does

112 Karl Polyani (1944), The Great Transformation, Beacon Press, Boston, p227.
the state assume the pre- eminent expression of ‘political’ life under capitalism, compared for example to feudal society with its multiplicity of political nodal points embedded in civil society? Why is political power dissociated from the ruling classes, taking the form of public authority standing over society?  

The rise of the politicised relation between the state and its citizen subjects developed in the same movement that saw the de-politicisation of the relationship between workers and capital. This single process formed a demarcation of the political from the economic sphere, but what was driving this? Marx suggests we should examine the particular economic form in which unpaid surplus value is pumped out. In this case “the separation of the economic from the political sphere is based upon, and is implicit within, the capitalist labour contract”. This contract does not rely on coercion as in slavery, but rather voluntary acts of market exchange between free individuals mediated by money. Maintaining the separation between the exploitative and coercive moments in the wage relation is dependent on a fundamental presupposition; the protection of property rights encoded by the state in the rule of law. The formal equality of all before the rule of law is simply the flip-side of the formal freedom and equality of the rule of money. The abstract discipline of money and law ensures the pre-eminence of the ‘universal’ interests of society over ‘particular’ interests.

But what are these universal interests? While the state acts as guarantor of the rule of law and property rights, it is also the political representative of the interests of society, a relationship formed between an impartial state and its undifferentiated citizens. Thus the very act of de-politicising market relations merely relocates this class antagonism to a sphere where rights are defined by the individual as citizen rather than as property owner as in the republic of the market. By effacing the explicitly political moment within those relations mediated by the money-form – an essential prerequisite for this subjectless object to exercise its anonymous power to command labour through market

relations - and transposing it to the state, *the social power of money is effectively left behind*. The sphere of political power appears formally divorced from the social bond(age) of the market. The problem is to ensure the expression of these individual rights freed from the social power of money do not filter back to exchange relations through the state. For example, the state’s judicial apparatus may in fact undermine property rights, improve work conditions, set minimum wages and so forth. The central contradiction facing the capitalist state is how to decompose the collective strength of the working class down to the limited power of the individual citizen. For capital the problem assumes the form of how to ensure the state itself is subjugated to the same discipline that prevails in the market, that is the state must be constrained within the limits of capital accumulation by the abstract rule of law and money.

This contradiction between the state’s class content and its form that promises universal representation reached its highest point with the liberal-democratic state-form. In the liberal ‘nightwatchman’ state of the nineteenth century, this contradiction was diffused through a double movement. Firstly, as I have already suggested, the state was bound by constitutional checks enforcing the abstract rule of law and money over the state itself. Secondly, through limiting the accessibility of citizenship rights by linking them to monetary criteria. Such crude strategies of exclusion of course undermined the pretensions of the state to represent the universal interest. Yet if the state fails to establish itself as representative of these interests by the creation of an “illusory community” constituted on the basis of citizenship, then the separation between the economic and political spheres becomes problematic. The state simply collapses back into an authoritarian domination of civil society by the particularistic interests of the ruling class, an unstable form of coercion and domination which, as Marx analysed in *The Eighteenth Brumaire of Louis Bonaparte*, leads as often as not to authoritarian or militaristic rule by proxy. In other words, the bourgeoisie’s “political power must be broken in order to preserve its social power intact”.

The central fault line lies in the contested category of democracy itself. Vulgar Marxism, seeing bourgeois democracy as simply an empty sham masking the direct control of the state by capital, fail to understand that democracy - the ‘tyranny of the majority’ - was never on the agenda of the great bourgeois revolutions. Rather, “it was the subordinate classes who fought for democracy.” The ascendance of the illiterate, unpropertied masses - Burke’s “swinish multitude” - to political power through universal suffrage promised nothing but the appropriation of private property and overthrow of the existing social order. This liberty is not liberal, but democratic – “an unnatural, inverted domination”. Even a staunch liberal like John Stuart Mill argued on the need to forestall ‘class legislation’ carried by the sheer weight of proletarian numbers. Members of the ruling classes - merchants, bankers, entrepreneurs, and their middle class underlings - should have multiple votes to act as counterweights. From the Chartists onwards however, the growing weight, organisation, and militancy of the working classes led to a slow but inexorable widening of suffrage. The central concern of the liberal state was to ensure this extension of the franchise, containing the political and economic aspirations of the working class, should be constrained within the constitutional limits of the liberal state. It was essential to ensure the continuing alienation of politics to the fetishised form of the state, which confronted all individuals as free citizens mediated by the due processes of its constitutional form.

The contradictions raised by bourgeois democracy were evident to Marx even in the fall-out from the 1848 revolutions. It is worth quoting at length from Marx’s prescient commentary on the tentative experiments of 1849: “the most comprehensive contradiction... consists in the fact that it gives political power to the classes whose social slavery it is intended to perpetuate: proletariat, peasants and petty bourgeoisie. And it deprives the bourgeoisie, the class whose old social power it sanctions, of the political guarantees of this power. It imposes on the political rule of the bourgeoisie

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democratic conditions which constantly help its enemies towards victory and endanger the very basis of bourgeois society. It demands from the one that it should not proceed from political emancipation to social emancipation and from the other that it should not regress from social restoration to political restoration”. Clearly Marx is pointing to the dangers of what Bowles and Gintis refer to as the “transportation of practices across site boundaries”. Unlike structuralist and voluntarist theories of the state, which posit the separation of politics and economics as a premise of social existence with each representing some distinct, ontological reality of the subject, the approach here highlights the instability of these categories.

More to the point the reification of social existence into apparently independent ‘structures’ is dependant on the actual solidification of these boundaries. It is not so much the articulation of these sites, but rather the formation and collapse of the boundaries that is important. Rather than seeing these boundaries as marking autonomous sites of class struggle, it is the very boundaries themselves that succumb to class struggle. The possibility of fluidity opened by the porous nature of the boundaries between state and market (political and economic) finds its social mode of existence in the process of changing forms. As we saw with money, class struggle exists in and against these forms, making structure and struggle internally related through the day-to-day struggle on which the social relations of capitalism are continuously reconstituted.

Given the vulnerability of the state, it should come as no surprise it proved unable to resolve the contradictory functions of money. If money remains within the national boundaries of the state, strong social forces push towards an overemphasis on credit-money, the form of money most suited to the monetary circuit C-M-C where money performs the function of medium of exchange. Given the state’s key role in regulating

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labour-power (the working class) and money (state money), 124 credit-money rapidly developed as a key tool of economic policy (mirrored by the incorporation of credit-money into economic science). However, for money to subordinate the reproduction of society to the exigencies of capitalist accumulation, it must be organised along the principle of scarcity. It is only here that money can exist as a moment of exploitation and inequality in the monetary circuit M-C-M'. Money-in-command in turn most closely corresponds to money as substance of value, and it is no surprise that it is at the level of the world market that we find money assumes the form most closely corresponding to this abstract and independent form of social wealth.

2.5 World Markets and the Organisation of Money

It has been a commonplace assumption that the state and the 'national economy' it encapsulates form the primary building block in the spatial analysis of the world market, an assumption made on the basis that there is some necessary conflation of 'economic' and 'political' space. 125 This applies equally to orthodox and radical schools of political economy. Frieden nicely sums up this position from an orthodox position, claiming "there is, after all, no international economy in the abstract... [it] is simply the sum of many national economies". 126 On the Left, dependency theorists argued for the structural de-linking of 'periphery' national economies from the advanced 'core', while the Regulationist School "bases itself on the primacy of the national dimension and regards the world economy as a system of interacting national social formations". 127

A number of criticisms can be made against those who advocate the primacy of the national in the spatial analysis of capitalism. Historically the development of capitalism clearly evolved on a global basis rather than simply spilling out from one national boundary after another. Furthermore the 'national economy', at least as we understand it, is largely a construction resulting from a deliberate strategy of autochthonic capitalist

accumulation developed between the 1920s and 1960s. A new economic science built on the presupposition of a defined ‘national’ economic space provided the state with the means to operationalise and manipulate this strategy. In turn an array of institutional structures (such as national account figures, complex tax and welfare systems and portfolios of sovereign debt) provided the necessary framework for its development. Finally codified in a raft of international regimes (such as Bretton Woods), the rise of the ‘national economy’ as the primary economic unit of the accumulation process was a reflection of real social processes, but ones historically contingent to a particular era.

However there is also a methodological reason why the world market should be posited as the analytically pre-eminent level of spatial analysis. This is simply that the concept of totality is central to Marxist analysis, and the richest expression of the totality of social relations is the world market where “all contradictions come into play”. Von Brunmuhl is correct in arguing that one should proceed from the form of appearance most fully developed or general, rather than more particular forms. Hence, the world market “is not constituted by many national economies concentrated together, rather the world market is organised in the form of many national economies as its integral components”.

Following von Brunmuhl’s argument, we should thus expect to find money in its most abstract and generalised form in the world market, in short world money. World money exists “independent in relation both to society and to individuals”. Why is money independent at this spatial level? The answer in short is that it is only here that money can finally be validated as the true substance of value. No guarantee could be provided either in acts of exchange with ‘generic’ money or pseudo-socially validated state money. This endless search to find a solution to what I refer to as the infinite regression of the value-form forces the generalisation of the contradictions within money to ever higher levels of social existence. The tensions between money as a means of circulation

130 Karl Marx and Frederick Engels (1846/1964), The German Ideology, Progress Publishers, Moscow, p419.
and substance of value (form and content) failed to find resolution within the state in its regulatory capacity over national currency. The backing for state money thus becomes world money. Yet the obvious question is why should world money cut the Gordian Knot of the infinite regression? What special properties does this money possess that are lacking in the lower levels of the monetary pyramid?

The answer most often given, as I argued in the previous chapter, is that world money assumes the form of commodity-money, such as gold or silver. Even the thinker most associated with Chartelism, Georg Knapp, was firmly of the opinion that “the Chartel form can never be effective internationally”.131 Two distinct peculiarities of commodity-money have been pinpointed as to why it embodies world money – money in its ‘true’ form. The first of these, seemingly held by Marx (and most Marxists at least until recently), argues that gold and silver assume the form of world money because of their status as a commodity, allowing them to act as a universal equivalent making all commodities commensurable. It is because commodity money itself “is labour time materialised in a specific substance, hence itself value”.132 This value is determined by the socially necessary labour time expended in the production of the commodity that acts as universal equivalent. How a particular commodity assumes the role of world money is a historical question although for reasons rational or otherwise, precious metals have served as the preferred commodity.133

But does this really explain why commodity-money should serve as world money, or did Marx himself become blinded by the dazzling fetishism of gold? The problem in

131 Georg Friedrich Knapp (1924), The State Theory of Money, Macmillan and Co, London, p41. Chartelism is the state theory of money, that is money is anything that the state declares to be legal tender for the discharging of debts.
basing one’s claim on the status of gold as world money on the basis of its labour content lies in the fact that gold has always “stood in relation to a particular national currency not as commodity money but as the representative of all other currencies”.\textsuperscript{134}

In other words, the convertibility of national money into world money (gold) was mediated by a system of parities.\textsuperscript{135} Parities however were not so much determined by any labour content, but rather ‘negotiated’ between nation-states given the lack of a world state, being “the subject of inter-state rivalry, negotiations and agreements”.\textsuperscript{136}

The price (or parity) is thus to some degree ‘fixed’, mediated internationally by the system of nation-states rather than any direct relationship between gold and national currencies. It was in other words, a political relationship in which the outcome was contingent on political and thus social processes.

The belief that commodity money is somehow ‘real’ value has ironically turned many a Marxist into the staunchest advocate of financial orthodoxy. Both Otto Bauer and Rudolf Hilferding proved to be ‘sound money’ men in their short official tenures. Hilferding, under his brief reign as German Finance Minister proved a firm believer in the infliction of scarcity over the working class in the name of protecting the social power of money by binding it to “golden chains”.\textsuperscript{137} In the Soviet Union, the financial orthodoxy of Sokolnikov finally prevailed over the inflationary Preobrazhensky under the New Economic Policy, with gold convertibility decreed in late 1921 – ironically the first country to do so in the postwar period. With the coming of the world revolution, gold could be used “for the purpose of building public lavatories in the streets of some of the largest cities in the world”.\textsuperscript{138} But in the here and now argued Lenin, we must howl like the wolves we live amongst. More tragically, ‘gold bug’ Marxist scholars have held on even longer to this fetish, twisting themselves into ever-tighter knots in

\textsuperscript{135} Parities under a commodity money system determine the equivalence between a unit of national currency and a gold equivalent.
order to remain shackled to their golden fetters. Innes, almost in spite of his preceding analysis finally concludes, "it is only the money commodity which, as store of value, can function as real means of payment". It clearly is not and global capitalism appears largely unfazed by the final post-1971 extrusion of precious metals from the international monetary sphere. Likewise Mandel, who argued that only a return to an orthodox gold standard would eradicate inflation, has been clearly refuted by the last two decades of harsh deflationary pressure under a pure-credit regime.

A second tradition locates commodity-money as world money because of a further peculiarity – it is scarce (and useful). As Keynes points out, gold "is, and always has been, an extraordinarily scarce commodity". The rationale simply follows from the basic tools of orthodox economics, for price is determined by the scissor actions of supply and demand. If it is useful and scarce (although in this case its usefulness simply reflects its scarcity), this ensures the price is high. By maintaining some form of linkage between state money and a scarce world money, the supply and thus price of credit-money would likewise be controlled. Gold (and to a lesser extent silver) appears, given the physical limitations placed on its supply, ideally suited for such a task. It is world money because it is only here at the apex of the monetary pyramid that scarcity, and thus the price of money, can be assured. While this appears superficially closer to the position argued in this thesis, it again is a form of gold fetishism for it is not scarcity per se that determines value. Given its origins in orthodox economics, such a view remains trapped in the world of exchange and prices. As such it hides the secret of value, failing to link scarcity to exploitation through maintaining the social bond(age) of the market.

Whether one attributed the value of gold to its labour content or its physical scarcity, "the war between heaven and hell ignored the money issue, leaving capitalists and

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140 Ernest Mandel (1972), Decline of the Dollar: A Marxist View of the Monetary Crisis, Monad Press, New York, p113. 1971 is the year Bretton Woods ended in all but name. Gold from this point was simply an asset like any other. See Chapter’s 7 and 8 on this and the rise of a pure-credit regime.
socialists miraculously united”.142 Blinded by gold fetishism, both views slipped into an understanding of world money as a thing rather than a mode of existence of class struggles. In truth world money no more resolves the contradictions in this social relation than at the level of an isolated transaction or the state. We can generalise this contradiction to world money, “only to leave the antagonism unresolved in the international arena” 143. The only value money can ever have lies not in the dead labour contained within it, but in the living labour it is able to command. There is only an end to the infinite regression of the value-form when money can maintain this ‘grip’ over labour. World money sits at the apex of the monetary pyramid only to the degree it bolsters the grasp of this entire pyramid over labour. And the social power of money is strongest when the principle of scarcity is enforced at the global level, disciplining the state and society more generally to the rule of money. It is through such mechanisms that “the constitution of the world market turns into the premise of the imposition of work within national boundaries”.144

Because there is no true world money, the formation of ‘near’ world monies is, as we have already touched upon, a social process. Whether in commodity or fiduciary guise, world money has always required some form of political mediation. In the institutional void opened by the lack of a true world money or global central bank, a series of international monetary regimes have formed to provide at least provisional solutions to the problem of infinite regression. Over much of the last century, the solution usually offered has been to lock national currencies into a parity system. Yet the politicised nature of parity systems brings to the fore the difficulties raised by the lack of a true universal equivalent, that is a synchronic value-form. Within orthodox accounts the problem, if addressed at all, is usually subsumed under the \( n-I \) or consistency problem, a technical issue that takes a particularly acute form with the removal of commodity money from the world market.145 Thus international monetary regimes have

142 Karl Polanyi (1944), The Great Transformation, Beacon Press, Boston, p25.
144 Werner Bonefeld (1993), The Recomposition of the British State During the 1980s, Dartmouth, Aldershot, p46.
145 The \( n-I \) problem is simply that in a system of \( n \) countries, only \( n-I \) will have the freedom to engage in policy choices in determining their exchange rates. One, the \( n^{th} \), must passively accept its outcome as a residue from the actions of the others. Maintaining \( n-I \) bilateral rates (unless it is a system of floating rates), means one currency
only allayed the infinite regression for as long as faith in these pseudo world monies has
held. As this faith crumbles it rapidly exposes the social foundations on which the value
of world money rests upon.

The belief in gold as world money crumbled forever under the cycle of class struggle
launched at the close of the Great War. Paradoxically, the new forms of world money
that took shape on the collapse of commodity money had their origins in a mystical faith
in gold as social wealth. It was this very faith that provided room for the traditional
integrative mechanisms of the gold standard to be set aside. Instead of the specie-flow
mechanism highlighted in gold standard theory, the adjustment process was
accommodated by short-term flows of ‘profane’ money, at least in the shorter run. In
other words, the belief in the immutability of gold parities removed the need for gold in
the day to day operation of the gold standard. This, as I argue in Chapter 5, opened
the possibility of an increasingly ‘managed’ system, forcing a widening gap between
gold and money as the ease of convertibility between the two declined. Yet as Marazzi
argued in his seminal 1977 article, “if money becomes increasingly less convertible in
terms of gold, it has to become ever more convertible in terms of command of capital
over labour power”. Using a schema of ideal-type regimes, this decreasing
convertibility would run as outlined in Table 2.1. Essentially, we see the following
movement in regime convertibility: gold-specie, gold-bullion, gold exchange and finally
inconvertible paper.

As soon as this element of mediation is introduced, the simple and direct enforcement of
scarcity through the integration of the national monetary pyramid with ‘world money’
becomes problematic. The question then posed is how international monetary regimes
can in fact tighten the grip of money over labour? The answer in short is that

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must become a standard which all others can peg themselves to. See John Williamson (1983), The Open Economy
146 See Chapter 5 for a discussion of the gold standard.
Bonefeld and John Holloway, Global Capital, National State and the Politics of Money, Macmillan Press,
Basingstoke, p74.
Table 2.1 Convertibility Within International Monetary Regimes

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<tr>
<td>1.</td>
<td>Automatic gold standard</td>
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<tr>
<td>2.</td>
<td>System one, plus discount rate.</td>
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<td>3.</td>
<td>System two, plus abolition of central bank gold reserve requirements for notes and deposits.</td>
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<td>4.</td>
<td>System three, plus open-market operations, designed:</td>
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<td></td>
<td>(a) to prevent, at will, gold inflow or outflow from affecting member bank reserves and deposits, and</td>
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<td>(b) to exert, at will, internal monetary control.</td>
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<td>5.</td>
<td>System four, plus a ‘borrowing authority’ whereby either the central bank or the Treasury could sell (or buy) bills obtained from the Treasury de novo, either in exchange for gold or by outright gift, as a means of offsetting gold inflow or outflow.</td>
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<td>6.</td>
<td>System five, supplemented by direct control of specific items of the balance of payments, such as capital movements.</td>
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<td>7.</td>
<td>System five (or six) plus an option of exchange variation by making the gold sterilisation fund also an exchange stabilisation fund. This arrangement would require the absence in one or more monetary systems of a fixed buying-selling price of gold, and intervention by one or more countries, through their stabilisation funds, in the exchange market, exchange balances being convertible into gold at prices agreed upon.</td>
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<td>8.</td>
<td>Exchange stabilisation wholly detached from gold, plus internal money management.</td>
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<td>9.</td>
<td>Internal money management, without intervention in the exchange market.</td>
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<td>10.</td>
<td>Automatic paper standard.</td>
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International monetary regimes articulate strategies to control and manipulate the spatiality of money. It is the power of money to move - shifting across global markets - which can enforce the principle of scarcity on domestic monies. Holders of wealth in the form of national money will, if in doubt over its soundness, seek to off-load it, hoping to receive validation of its worth in the global circuits of money. As General Peron once noted, nothing in the world is more cowardly than money.\(^{148}\) Flows of short-term money create crises for any state whose domestic management of money appears suspect, forcing it to re-impose austerity and thus the social power of money to command.

These crises can take various forms depending on the particular exchange rate regime in operation (fixed, adjustable, floating and so forth), the type of flow and the motivation behind the movement. Under fixed exchange rates, crisis manifest as a rapid deterioration in the balance of payments under the pressure of capital outflows. The commitment to fixed parity requires deflationary policies (increased interest rates) or a

reversal of the situation triggering the flight. Under floating rates, it is the relational value of the national currency itself that suffers from abrupt fluctuations, no less a matter for cause, as I argue in Chapter 8. But money also moves under the impulses of speculation or arbitrage. Under a system of fixed rates, this build-up of short-term speculative capital becomes a riskless bet that the system of parities is not in fact fixed, but rather mutable when enough pressure is applied.\(^{149}\) Flows of money signal a breakdown of confidence in particular currencies, for example a growing tension between the two monetary circuits C-M-C and M-C-M'. It might be capital flight triggered by a real or perceived political threat. This is money at its most cowardly. Whatever the immediate cause of flight and the form the crisis assumes, the underlying reason lies in the growing suspicion over the social power of money. As Bologna argues, the historical significance of those periods of speculation associated with a rapid expansion in the circuits of global money capital “resides precisely in the fact that it avoids a direct relationship with the working class”\(^{150}\). In other words, it is a flight from the factory floor, from the insubordination of labour and the failing powers of money to command it.

Yet even as capital flees this insubordination by the retreat to pseudo-world money, it lays the foundations for the re-imposition of the relations of domination and subordination that bind labour and capital together as an antagonistic polarity.\(^{151}\) This point is central, especially as we remember Marazzi’s argument. The changing mode of existence of the money-form reflects real changes in the value relation. As the convertibility between national money and gold declined, then the only strategy able to reconstitute money on the foundations of scarcity was to increasingly unleash the spatiality of money on the world market – a force capable of reimposing the rule of money as a hard monetary constraint over the reproduction of capitalist society. Indeed,

\(^{149}\) On capital flights and hot money, see Brendan Brown (1987), The Flight of International Capital: A Contemporary History, Croom Helm, London. This bet is riskless because if the adjustment to the parity is not made, the investor loses nothing – it is a one-way bet unless the central bank moves in the opposite direction to that expected, but it is unlikely speculators would be unable to ascertain the direction adjustment needs to be made.


the last thirty years has witnessed the return of scarcity exactly through this strategy – an essential precondition in order for money to enforce the social bond(age) of the market.\textsuperscript{152}

Of course the mobility of money has never existed in a void, for the spatial power of money is modulated by international monetary regimes. It is in the intersection of the movement of money and exchange rate arrangements that decides to what degree the principle of scarcity integrates national and private money to world money. For a system of global fiat money, unleashing the sanction of scarcity requires an unfettered spatiality of money: it must in short be organised to facilitate and encourage the hyper-mobility of money at the level of the world market. This is simply an application of Lefebvre’s evocative concept of the trial by space: “nothing and no one can avoid trial by space... It is in space, on a worldwide scale, that each idea of ‘value’ acquires or loses its distinctiveness through confrontation with the other values and ideas that it encounters there... values which do not succeed in making their mark on space... will lose all pith and become mere signs”.\textsuperscript{153} Constraining money’s ability to move - the erection of barricades limiting its freedom to shift across space - would be associated with a weakening of the social power of money. In short, the matrix formed by the spatial and temporal axes of money –determined at a concrete level through the integration of the global monetary pyramid – defines the limits to money-as-command.

We can utilise a schema first developed by the ‘Bellagio Group’ during the mid-1960s under the leadership of luminaries such as Fritz Machlup and Robert Triffin to further understand how the contradictions of money are played out when generalised at the level of the world market and institutionalised in an international monetary regime. According to the Bellagio Group, any regime must satisfactorily resolve a triad of problems: adjustment, liquidity and confidence. Reading these politically, we see that adjustment is the form taken by the uneven development of the law of value (that is the

\textsuperscript{152} See Chapter 8 for an analysis of this return of scarcity.
\textsuperscript{153} Henri Lefebvre (1991), \textit{The Production of Space}, Blackwell, Oxford, pp416-7. Lefebvre is of course not talking of money, but its application appears immediately apparent when we remember that money, if it loses its grip on living labour, can rapidly collapse into an empty sign of value.
struggle over socially necessary abstract labour), a problem manifesting in the socially constructed disequilibria of a balance of payments considered unsustainable. This in turn points to a similar disequilibrium in the foreign exchange markets, which manifests in various ways, such as pressure on a central bank's foreign reserves as it attempts to defend parity. While these imbalances are real, the analytical construction of the balance of payments acts to socialise the need for adjustment into a collective national problem. As Bryan argues, this process "sees responsibility for rectifying international payments imbalances transferred to labour... [for] it is labour, through its consumption and its productivity, which is the ultimate object of national balance of payments policy".154

However, the decision over when and at what speed adjustment should occur is a matter of contestation. For access to global liquidity can allow for the distension of the adjustment process, providing access to pseudo-world money in order to lessen the sharp devalorisation of state credit-money. Access is of course a political issue central to the working of an international monetary regime as a strategy of class control, for it determines the role of private capital markets and defines the ambit of public authorities in deciding what is sustainable. Finally, the problem of confidence reflects the contradictions between the exigencies of adjustment and the possibility of its postponement by accessing liquidity. Crises in confidence are the generalisation to the highest social level of the contradictions within money – the final failure to resolve the infinite regression of the value form. In other words, it is the playing out of the antagonism between the rational and irrational moments of money as examined throughout this chapter.

2.6 Conclusion

Beginning with the antagonistic and contradictory moment within capitalist money – the social mode of existence of the internal struggle between form and content - I have

attempted to highlight how this is pushed to ever higher levels of generalisation in an effort to ensure money is governed by the principle of scarcity. Scarcity is simply a measure of money’s social power to grip living labour. Without this money collapses into the circuit C-M-C. Yet at each higher level the antagonism and contradictions of money have more social ‘room’ to move. The liberal-democratic state form, essential for the longer-term durability of capitalist domination, proved particularly problematic in enforcing scarcity. Indeed, it is only in the world market that the capitalist monetary pyramid can have any hope of cementing itself to a principle of scarcity. As world money has become decommodified, the principle of scarcity has increasingly being enforced by the spatial properties of money - its ability to move. It is here that all social relations become subjugated to the rule of money, where “money terrorism” holds full sway.155

Yet there is nothing pre-determined about this. They are social processes reflecting concrete struggles in particular historical contexts and international monetary regimes express these tensions and compromises. Indeed using the spatial-temporal monetary grid outlined in this chapter we can ‘map’ the outcome of these struggles in the institutional arrangements encoded within particular international monetary regimes. However, before turning to a historical examination of these regimes in Chapter’s 5 through to 8, I wish to examine in Chapter’s 3 and 4 two alternative strategies of class management centred on very different understandings of money that lead to alternative international monetary regimes. Chapter 3 examines Keynes and his focus on money as a medium of exchange, leading to the organisation of money on the principles of economic abundance, monetary nationalism and the restriction of the spatial power of money. In Chapter 4, I examine the Austrian School, who focused on money as the substance of value, leading them to an alternative strategy of scarcity, internationalism and an enhanced spatial power of money.

Monetary Nationalism and the Economics of Abundance

"Everyone could so easily get enough to eat, if it weren’t for that blessed nuisance, money. There you have a brilliant invention which was designed to make food more readily available. Actually it’s the only thing that makes it unobtainable."

Thomas More

3.1 The Challenge of Monetary Nationalism

In 1937 Hayek published a small monograph, “hastily and badly written”, entitled *Monetary Nationalism and International Stability.* Based on a series of lectures delivered the same year in Geneva at the *Institut Universitaire de Hautes Etudes Internationales*, this largely forgotten book was provoked by the rise of a dangerous new doctrine Hayek labelled Monetary Nationalism, which recommended “policies and practices which not long ago would have been frowned upon by all responsible financial experts”. It was nationalist not because it played to political chauvinism or irredentism, but rather because it signified the rise of a new spatial ontology that was to revolutionise the theoretical foundations of orthodox economics. This new spatiality is clearly visible when we focus on the central idea lying at the heart of this doctrine: “a country’s share in the world’s supply of money should not be left to be determined by the same principles and the same mechanism as those which determine the relative amounts of money in its different regions or localities”.

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longer be constituted at the spatial level of the world market. Hayek was not alone in highlighting the rise of this new doctrine. In the same year, Alvin Hanson argued that “monetary nationalists... believe that the international gold standard is dead, that there must be instituted in its place... nationally managed paper currencies and freely flexible exchange rates”.

Both Hayek and Hansen were participating in one of the more controversial debates on economic policy conducted during the inter-war period. At one level the debate focused on the minutia of alternative international monetary arrangements, but by the 1930s it was increasingly framed as an explicit recognition of a growing dichotomy in the spatial organisation of global capitalism – as a conflict between internal and external stability. The source of this new tension according to many commentators, lay in the institutional characteristics of modern capitalism that “so increased the rigidity of the national economy that nations cannot any longer bear the painful consequences of internal price adjustments in response to external pressures operating through the gold standard mechanism”.

By the close of “this great debate”, the new orthodoxy of monetary nationalism had taken firm shape and even found institutional expression in the international monetary regime codified by Keynes and others at the luxury resort of Bretton Woods in New Hampshire in 1944. Few would have argued in 1945 with Nurske’s claim that “changes in exchange rates are accepted as a legitimate method of adjustment”. Put simply, the

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6 Keynes is most closely associated with reviving this tension in the modern context, particularly with the release of A Tract on Monetary Reform in 1923. Jacob Viner in his classic study traces the origins of this conflict back to the early nineteenth century. See Jacob Viner (1937), Studies in the Theory of International Trade, Harper, New York, pp209-17.


9 Ragnar Nurske (1945), Conditions of International Monetary Equilibrium, Essays in International Finance, No. 4, Princeton University, p 1.
new doctrine called for the domestic management of national money as the appropriate response to this new contradiction between internal and external stability. More fundamentally, it signalled an attack on the orthodox understanding of the world market as a seamless space across which market forces could freely play. The concept of managed money ruptured this orthodox vision by carving out a new, differentiated, spatial entity from the world market – the national economy. And on the basis of the assumption of the “insular economy” grew the new science of macroeconomics, which devoted itself to theorising and developing methods for the state and its agencies to plan, manipulate and stabilise this discrete social space.

While the theoretical underpinnings of monetary nationalism have their origins in the 1930s, with refinements and standardisation into a Keynesian open economy framework occurring in the 1940s and 1950s, much of the institutional framework required by this new doctrine evolved along earlier and independent lines. This was in large part due to the rapid development of central banking practices during the inter-war period (with antecedents running back even further), which “destroyed the former close relationship between gold reserves and credit”. The point remains however that these were practices not supported by orthodox economic theory – they were largely pragmatic solutions to concrete problems of monetary organisation. Contemporaries were well aware of the rise of ‘managed currency’ during the inter-war period. Sir Charles Morgan-Webb entitled his book on monetary policy between 1922 and 1932 Ten Years of Currency Revolution. As early as 1923, with the publishing of A Tract on Monetary Reform, Keynes raised the question of the “stability of Prices versus Stability of Exchange”. Keynes suggested answer was to opt for the former – an adjustable

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10 This is not to suggest of course that there was no such thing as national economies prior to this new economic science, but rather that it signalled a unique new way to conceptualise and manage its integration into the world market.
11 On the concept of the insular economy, see Ronald I. McKinnon (1981), “The Exchange Rate and Macroeconomic Policy: Changing Postwar Perceptions”, Journal of Economic Literature, Vol. XIX, (June). Of course, macroeconomics existed prior to Keynes (largely in the form of a number of fairly discrete economic ‘problems’), but it was so complex, disjointed and fragmented as to be virtually non-operational as a form of economic science.
14 John Maynard Keynes, (1923/1929) A Tract on Monetary Reform, Macmillan and Co, London, p154. It should be stressed that Keynes’s analysis at this time was still firmly within the Marshallian tradition. Keynes was drawing on
exchange rate to mitigate inflationary and deflationary pressures from abroad, in short a ‘managed money’.

Furthermore, as commentators quickly noted, the painful return to a metallic standard in the 1920s did not see a concomitant return to ‘the rules of the game’, for central bankers almost immediately subverted traditional adjustment mechanisms. For example, the Federal Reserve’s policy of sterilisation through open market operations, counter-acting the expansionary effects of massive gold inflows from the spring of 1922 onwards, effectively placed the exigencies of external adjustment behind the objective of internal price stability. As Keynes pointed out, such practices signalled the gold standard was theoretically “as dead as mutton”, for “gold itself has become a ‘managed’ currency”. The actions of the Federal Reserve ensured “gold was demonetised by almost the last country which still continued to do it lip-service, and a dollar standard was set up on the pedestal of the Golden Calf”. Instead of vindicating mechanisms of automatic adjustment, the gold-exchange standard proved “a triumph... for the view that currency management is feasible, in conditions which are virtually independent of the movements of gold”. Yet the theoretical justifications for central bank neutralisation were not immediately apparent, merely the political imperatives making the use of ‘golden fetters’ increasingly dangerous. Indeed such intervention “was nearly always frowned upon; it was widely regarded as wicked and disreputable behaviour”. The challenge lay in developing an economic science that could underpin and control these inchoate and makeshift policies.

This interregnum in orthodox theories of monetary organisation finally ended with the mature theoretical work of Keynes, particularly the publishing of *The General Theory of...*
Employment Interest and Money (the General Theory) in 1936. On these foundations a rigorous economic science of monetary nationalism could grow. As Moggridge notes, "only with the dominance of one scheme of thought – Keynes’s 1936 version – came standardisation".\(^{19}\) While the General Theory was essentially a closed system, it proved a straightforward task for Keynes’s followers to extend the analysis to an open economy using the framework of the General Theory.\(^{20}\) In 1937 Joan Robinson published her classic paper utilising elasticity theory (first developed by Marshall and later Abba Lerner) to analysis the effects of changes in the exchange rate on the balance of payments and through this national income levels and effective demand.\(^{21}\) This in turn was refined by the work of Fritz Machlup, Gottfried von Harberler, Allen Metzler, James Meade, Trevor Swan and others, who systemised the internal-external spatial dichotomy and established a set of tools to manage and control these tensions.\(^{22}\) Finally, in 1960 capital movements were formally incorporated into the framework of the IS-LM model with the work of IMF economists Robert Mundell and J. Marcus Fleming, completing the tools of analysis for this new spatial dichotomy.

The General Theory provided solid foundations for the new economic science that lay inchoate within the doctrine of monetary nationalism. Of course Keynesian demand management in turn required a new form of international monetary organisation, one that could allow the necessary differentiation to develop between national currencies, that is “the separate regulation of the quantity of money in a national area which [still]

\(^{19}\) Donald E. Moggridge (1993), Keynes [3rd Edition], University of Toronto Press, Toronto, p75.


remains a part of a wider economic system [the world economic system]." This monetary differentiation in turn created a spatial and temporal framework for a more autochthonic national economy by inserting a ‘wedge’ between the domestic and global economy. Mediating the adjustment process between different spatial layers allowed domestic economic management to proceed somewhat ‘independently’ of the uneven development of capitalist accumulation. In other words, while monetary nationalism and Keynesian demand management are not identical, they are best seen as mutually dependent strategies approaching the same problem but from different spatial levels.

The aim of this chapter is to undertake a political reading of the economic science behind Keynes’s ‘revolution’ and the rise of monetary nationalism, but before doing so it may be useful to return briefly to Hayek’s taxonomy of monetary nationalism, for it highlights the most salient features of the new doctrine. Hayek identified two key characteristics crucial to the establishment of a new international monetary regime of ‘independent’ currencies. Firstly, a requirement for flexibility in the setting of exchange rates, that is, “moveable parities” – either as “flexible parities or a widening of the ‘gold points’”. This would ensure domestic supplies of money determined the price and value (relative to other commodities) of money – that is, domestic interest and inflation rates. Secondly, to bolster the monetary authority’s ability to control the supply of money, “advocates of Monetary Nationalism should demand that monetary policy proper should be supplemented by a strict control of the export of capital”.

If these were the key characteristics of monetary nationalism, what according to Hayek were the policy goals of this new strategy? Hayek isolated two that are suggestive of the social forces fomenting this new thinking in economic science. Firstly, adjustable parities seemed to offer an avenue to “overcome many of the chief difficulties created by the rigidity of wages”. If the price of labour is rigid, adjustment could be

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24 Indeed, Hayek identified Keynes as the most prominent exponent of monetary nationalism.
27 Ibid, p46.
facilitated by engineering changes in the price structure of the country as a whole *vis-à-vis* the rest of the world by altering the exchange rate. Rather than deflating the economy to reach a fixed parity, the domestic price structure could be *inflated* by depreciating the currency, that is a reduction in domestic purchasing power. Money illusion could ensure inflation facilitates a reduction in real wages, avoiding the 'difficulties' of cutting money wages. Secondly, an independent currency avoided the necessity of raising domestic interest rates in the event of capital outflows. Without the constraints of meeting parity, outflows considered inappropriate could be prevented by economic policy, for example the imposition of capital controls, or simply offset by stimulating additional bank credit thereby leaving the interest rate free to meet 'internal' objectives. While 'internal' objectives could include the maintenance of internal price stability, the reference to capital outflows suggests otherwise. For monetary nationalists, exchange flexibility points to the possibility of preventing foreign 'dear money' (that is, high overseas interest rates), from impacting on domestic conditions through outflows. Or putting this in reverse, it allows room for the monetary authorities to pursue 'independent' credit policies, in short 'cheap money' policies. The rational for cheap money would appear twofold. As already mentioned, it provides a mechanism for cutting real wages in the face of money-wage rigidity through inflation. Secondly it offers the state a mechanism to regulate the level of investment within the domestic economy, thus moderating (if not completely vanquishing) the business cycle. In short, creating independent currencies provided a space – the national economy – in which money could be used as a *tool* of state economic management. A final point that could be mentioned is that capital controls also provided space for fiscal expansions that might otherwise be expected to lead to external crisis through the outflows of 'hot' capital by domestic wealth owners.

Hayek, following the Austrian school's traditional adherence to methodological individualism and dislike of theoretical aggregation, argued attempts to manage the accumulation process on the basis of a new spatial economy constructed on the

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principle of independent currencies led to serious fallacies. For the Austrians, adjustment occurred through chains of discrete individuals and industries strung across the global market, not through artificially created ‘closed systems’ (domestic economies), fallaciously unified through the use of synthetic indexes measuring average changes in ‘national’ price and income levels, terms of trade, multipliers and so forth. Yet this objection to the “pseudo-quantitative economics of averages” was more than a disagreement over method. It was instead a fear of the political gambles that monetary nationalism entailed, and in particular the assumption of class compromise that this spatial strategy was built upon. Indeed the entire premise of this doctrine was the need to develop an economic science - the “Economics of Abundance” - capable of incorporating a new and antagonistic subject into the engine of capitalist accumulation. In short, these synthetic averages - the foundations of a new spatiality - were creating the theoretical framework for the political economy of the mass worker.

The rise of the mass worker signalled a new and formidable working class composition. Organised in the labour process by Taylorism, incorporated into the wage relation through Fordism, the mass worker was collective in its subjectivity. This collectivism found political expression in the growing enfranchisement of the working classes, the rise of labour parties and the growth of trade unionism. It was however, also militant and unpredictable, and by the inter-war period managing class relations was reaching a critical point. It was becoming clear to many concerned with shoring up capitalist methods of accumulation that orthodox forms of economic management were becoming politically infeasible. The mass worker could no longer be treated as a passive, endogenous variable in the accumulation process. Recognition had to be given to this new, active and antagonistic subject and to the difficulties in ‘controlling’ this variable, and it required economic techniques that could accommodate and manipulate

29 Ibid, p45.
this new subject within the accumulation process, requiring a radical reformulation of both orthodox theory and practice. The key would lie in harnessing the power of the organised working class – the mass worker – to the accumulation of capital through the monetarisation of the class struggle. In short, the struggle of this new antagonistic subject would be contained within strictly economic parameters that could be met through a strategy of high growth. Indeed these monetarised struggles – a sophisticated reworking of Steurt’s generated needs - would simply add fuel to the accumulation process – a high-octane capitalism linking endless work to vast outputs, the payoff being a constantly higher standard of living. But it required a new economic science, one that “granted a universalistic status to the interests of workers”\(^{32}\) – an Economics of Abundance. Traditional methods of adjustment would have to be replaced as alternative policy targets were refined reflecting this new subject – low unemployment, growing real and nominal wage rates linked to productivity levels (‘productivity deals’), high aggregate demand and so forth. Accumulation and thus the rate of new investment was to be maintained at a sufficiently high level - and without precipitous swings - in order to meet these new targets. Adjustment in turn was to be moderated by its distension through time – a trade-off of gentle but continuous inflation over the sharp devalorisation of capital and labour. In other words, the same policy goals that Hayek identified as belonging to monetary nationalism - the manipulation of the price and value of national money, that is interest rates and inflation. The re-organisation of money required by this new economic science depended fundamentally on fracturing the global constitution of money. It was, as the Austrians realised, a frontal attack on capitalist internationalism.

Of course, there was one further aspect of monetary nationalism that Hayek and the Austrian School feared; the etatism embedded within the concept of ‘managed money’. Etatism as von Mises rather crudely expressed it, “is the doctrine of the omnipotence of the state”.\(^{33}\) While it is unlikely any monetary nationalist would characterise the state in


such a way, there was undoubtedly a project to refashion the role of the state on the basis of economic theory, for the state alone appeared to offer the means to manage and underwrite this new prosperity. Monetary nationalists such as Keynes were closely wedded to legalistic conceptions of money – notably George Knapp’s Chartelist, or state theory of money. Accepting the Chartelist argument that “money is a creation of law... in the larger sense that it is a creation of the legislative activity of the State, a creation of legislative policy”, 34 money becomes by default a tool of State policy. In exercising this power to declare what ‘thing’ shall correspond to ‘money’, that is “a good legal discharge of money contracts”, 35 the state is able to “vary its declaration from time to time – when, that is to say, it claims the right to re-edit the dictionary”. 36 This in effect is the right of seigniorage, and its power is of course magnified if state money has assumed the form of fiat money. For monetary nationalists, unlike political nationalists, the state’s powers of seigniorage were not to be used for external aggrandisement, but rather in the service of internal class management, that is, the monetarisation of the class struggle. As Cleaver argues, “the Keynesian state control over money flows sought to permeate and direct virtually every sphere of society through the relative sizes of the flows [of money] and the conditions and constraints laid down on them”. 37 An international monetary regime built on the tenants of monetary nationalism could gave substance to this state-centric capitalist strategy, for it sought to create a new spatial economy that could be readily transposed over the political map of the nation-state system. It achieved this by transforming the relationship between national and world monies, driving a wedge between them which created a space – the national economy - which in turn allowed a temporal amelioration of the uneven development of the law of value within each of these political-economic entities.

In the remainder of this chapter I explore the theoretical and political underpinnings of monetary nationalism and the Economics of Abundance. In the following section I

trace Keynes’s critique of scarcity that underpinned this new capitalist strategy of class control. In section 3.3 I examine how Keynes theorised this Economics of Abundance, focusing on the particular methods to manipulate and control money that would unleash the abundance lying untapped within capitalism. In section 3.4 I return to examine in greater detail the spatial organisation of money required by this abundance, before offering in the final section a critique of Keynes and the strategy of monetary nationalism.

3.2 Keynes and the Economics of Abundance

The notion of abundance is critical to the thought of Keynes. Indeed, it is central to his entire Utopian project over both the short and longer term. Long-term - “within a 100 years”\(^{38}\) - material abundance would all but solve the economic problem, leaving humanity (or at least those not too damaged by the money-loving instinct) with the much harder challenge of transforming the world into an earthly paradise that appears faintly Edwardian, reminiscent of a Bloomsbury soiree. Of greater interest is the short-term role abundance could play as a means of politically preserving capitalism – the most efficient economic system for reaching this departure point for Utopia. From The Economic Consequences of the Peace onwards, Keynes lambasted laissez-faire’s musty Victorian ideology of denial, austerity and cultivation of the hoarding instinct. It was Keynes wrote one highly critical writer, “who made the revolt against the predominant nineteenth century view of money respectable”.\(^{39}\) While it took a further 17 years to fully theorise this position, it was already clear to Keynes by 1919 that politically laissez-faire was no longer feasible as a strategy of capitalist accumulation. The “double bluff” had been unmasked, for “the war had disclosed the possibility of consumption to all and the vanity of abstinence to many”. The “labouring classes may be no longer willing to forgo so largely, and the capitalist classes may be no longer confident of the future, may seek to enjoy more fully their liberties of consumption so


long as they last, and thus precipitate the hour of their confiscation".\textsuperscript{40} Such risks took on a more immediate threat when faced with the rise of a new and viable challenger to “individualistic capitalism” - Communism. If “irreligious Capitalism is ultimately to defeat all the forms and variants of religious Communism which are likely to spring up in the coming years, it is not enough that it should be economically more efficient – it must be many times as efficient”\textsuperscript{41} Together, this new environment made the application of laissez-faire principles extremely dangerous as Keynes warned the Chancellor in 1925, for “nine times out of ten, nothing really serious does happen – merely a little distress to individuals or to group. But we run the risk of the tenth time”\textsuperscript{42}

The underlying political requirements for material abundance led Keynes to consistently critique the notion of scarcity that underpinned orthodox economic science. Indeed, this motif appears constantly in Keynes’s work – a long-running campaign against the presuppositions of this pivotal concept within capitalist ideology and theory. Such negative critique was essential to create room for the notion, indeed necessity, of material abundance. As I argued in the previous chapter, Lionel Robbins’s \textit{An Essay on the Nature and Significance of Economic Science} provided the most succinct and influential modern presentation of scarcity within orthodox economics. Keynes praised the conservative LSE Professor in the \textit{General Theory} as stancing almost alone amongst economists in consistently applying his theoretical models to determine practical recommendations.\textsuperscript{43} Yet Robbins stood opposed to Keynes on virtually all theoretical points, including the role of scarcity in economics. In correspondence with Roy Harrod in 1938 Keynes wrote, “as against Robbins, economics is essentially a moral science and not a natural science”.\textsuperscript{44} Keynes was making a point of method here, but one can discern a deeper critique of Robbins at both an ontological and epistemological level.


\textsuperscript{44} Cited in Donald E. Moggridge (1993), \textit{Keynes [3rd Edition]}, University of Toronto Press, Toronto, p14.
The bifurcation of knowledge into moral and natural sciences – a split with a long pedigree particularly at Cambridge – creates the categories of mind/conduct and matter/life.\(^\text{45}\) As O’Donnell notes, “the former is... concerned with humans as thinkers and actors, the latter with inanimate matter and non-conscious life”.\(^\text{46}\) Keynes’s ontological critique of “pseudo-natural science” focused on the bias this introduced towards naturalising economic categories – creating an eternalised and ahistorical economic science. Epistemologically, Keynes railed against the sterile empiricist rationality underpinning Robbins aversion to value-judgements (such as interpersonal comparisons of utility) that led to his famous dictum that ends, as opposed to means, lie outside the scope of economic science – a position still to be found in today’s textbooks. For Keynes, not only must economists make value-judgements, but the very subject matter of economics is about value-judgements for it “deals with motives, expectations, psychological uncertainties”.\(^\text{47}\)

From this it follows that economics as a moral science located in the realm of human action must base itself firmly on the categories of change and subjectivity, a view that reflects Keynes’s Whiggish philosophy of history – the steady advance of humanity achieved by the victory of reason over reaction. Keynes’s position closely follows the Cambridge tradition. For example, Marshall argued “the main concern of economics is... with human beings who are impelled, for good and evil, to change and progress”.\(^\text{48}\)

Thus Robbins’s formulation of the economic problem was wrong on two fronts. Firstly it incorrectly suggested the problem of economics was static, naturalised and timeless. Secondly, because economics was in fact dynamic, social and historical, it involved both ethical and in recognition of “the dark forces of time and ignorance which envelop our future”, subjective choices.\(^\text{49}\) In other words, economics was built largely upon psychological foundations. Keynes would bring all these factors – historical (time),

\(^{45}\) It was only in 1903 that Alfred Marshall succeeded in establishing a separate Tripos at Cambridge in Economics and Politics. Prior to this, economics had been joined with philosophy and academic psychology to form the Moral Sciences Tripos.


ethical and psychological - into play in his search for an Economics of Abundance and the critique of scarcity.

In a more direct attack, Keynes also sought to undermine Robbins’s naturalised conception of scarcity by dismantling the twin presuppositions that underpinned its existence as the bedrock of economic life - limitless wants and limited means. Framing the problem as one of ‘unlimited wants’ clearly introduces a conservative bias, for it acts to eternalise the ‘economic problem’ – becoming a simple statement concerning humanity’s corporeality (and perhaps our sinful human nature, forever ensnared by crass materialism and greed). Endless needs ensure eternal scarcity, forestalling any questioning of the need for the ceaseless accumulation of capital. However, for Keynes the economic problem was historical – it was not “the permanent problem of the human race”.  

It could and would be solved, for legitimate wants were in fact not insatiable. In arguing this point, Keynes identified two categories of human needs: absolute (that is legitimate needs) and relative. Only the latter are insatiable, for they are based on a psychological need to feel a superiority over fellow human beings, that is they are pathological, the solution to which lies outside the ‘economic problem’. Keynes thus established clear parameters around the concept of scarcity, an essential first step in its socialisation. Of course, legitimate wants while limited need not be miserly – the Economic Problem might only be solved when “the last Hottentot owns a Rolls-Royce”!

The limited scope of legitimate human wants ultimately found theoretical expression as one of the fundamental “psychological laws” of the General Theory. Indeed this law of limited wants is “absolutely fundamental to the theory of effective demand” and it is where “the key to our practical problem is to be found”. Keynes argued that the propensity to consume (the proportion of total income spent on consumption), given

“the psychological characteristic of the community”, will always be less than any rise in income, that is a gap will exist between income and consumption. As we shall see, this gap creates the possibility (or rather likelihood) of insufficient effective demand to ensure full employment equilibrium. Furthermore, this tendency worsens as the wealth of a community increases for wants are increasingly satiated and thus a lower proportion of income is spent on consumption. For Keynes, a diminishing marginal return on consumption was an indubitable psychological law of human nature, both a flaw breaking the self-equilibrating cybernetics of Say’s Law and a blessing that promised an escape from endless accumulation and profit seeking.

The second step involved critiquing the presupposition of constraints on the attainment of this now historicised and social economic problem – the existence of limited means (resources). Firstly, Keynes keenly observed the rapid technological advances being made that were magnifying capitalism’s productive capabilities exponentially. Secondly, in the context of the Depression it was clear that not all resources were in fact being utilised. Indeed, even the most causal observer could see that vast quantities of productive ‘inputs’ were lying idle, depreciating rapidly in the form of rusting factories and dole queues.

Thus the problem was not one of scarcity, but rather “the paradox of poverty in the midst of plenty”. The riddle for Keynes was how to unleash the Economics of Abundance that lay either dormant within the capitalist economic system, or appeared only fitfully before flickering out. The problem was becoming acute and bourgeois society appeared to hover on the brink. Furthermore, the old modes of thought threw up solutions that posed equal threats to liberal capitalist society, for the methods of the ‘old order’ were too “dangerous [an] enterprise in a society which is both capitalist and democratic”. To avoid “Class War” yet find a way through the inter-war impasse.

meant “the next move is with the head, and fists must wait”.\footnote{55} Ten years later, Keynes had finally found the key to abundance and the preservation of capitalism: “the euthanasia of the rentier, and consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital”.\footnote{56} Decoding this, we find that the rentier and scarcity-value are synonymous with the power of uncontrolled and globalised money to destroy productive activity. Uncovering the peculiar characteristics of money laid bare the seeds of crisis that bloomed noxiously within capitalism, and Keynes in a daring move, constructed a framework “to use money itself as a means of escape from the alleged evils of a monetary economy”.\footnote{57} Money is both Philosopher’s Stone and Pandora’s Box, but it would never be neutral, and it is Keynes’s reorganisation of money that I turn to next.

3.3 Investment, Uncertainty and Money: The Return to Political Economy

As I argued in the previous chapter, the marginalist revolution of the 1870s constructed a new economic science of scarcity on the basis of a static system with given resources occupied by utility maximising individuals – an obvious precursor to Robbins’s formulation. Some 65 years later Keynes launched a counter-revolution against Jevons and the marginalists, ensuring “Economics once more became Political Economy”.\footnote{58} This counter-revolution effected a shift from a broad problematic of resource allocation within a generalised system of scarcity to one of determining necessary levels of economic activity based on political considerations. This politicisation of the ‘economic problem’ manifested itself in the determination of acceptable unemployment levels as the key policy target. Joseph Chamberlain had earlier spoken of the ransom necessary to preserve the privileges of property in a democratic era, and by the 1930s, “the ransom required, many argued, was a solution to unemployment”.\footnote{59} Of course as

\footnote{57}{S. Herbert Frankel (1977), Money: Two Philosophies, The Conflict of Trust and Authority, Basil Blackwell, Oxford, p76.}
\footnote{58}{Joan Robinson (1962), Economic Philosophy, Penguin Books, Harmondsworth, p73.}
Negri points out, unemployment within Keynes schema was simply “the problem of the working class [as it] gradually assumed a scientific formulation”. Yet the move back to Political Economy would entail a major overhaul of orthodox thought on the business cycle – a shift from price variation to output variation - as it effectively transformed the problem into the political form of a crisis in the reproduction of the working class. The rapid and total victory of the Keynesian Revolution rested on its ability to provide a coherent set of theoretical and practical tools to resolve this crisis in class management, while avoiding more dirigiste forms of economic organisation.

In short the level of investment itself became politicised - a variable that under the epistemological uncertainty incorporated by Keynes became both the theoretical justification and policy entry point for the state as economic manager. This involved a complete inversion in the role of expectations. As Kalecki argues, traditionally business used its so-called ‘state of confidence’ as a force for imposing fiscal discipline on the state through the doctrine of ‘sound finance’. This served the “the social function” of making “the level of employment dependent on the ‘state of confidence’” Under Keynesianism business confidence instead became a rationale for the active intervention of the state-as-manager to rectify what are now seen as irreducible psychological failings of capitalism.

The fundamental point was that the rise of the mass worker meant that economic science could no longer demand or assume that the living standards of the working class

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61 As is well known, Keynes largely invented an orthodox straw man to knock down in the General Theory. Most economists on both sides of the Atlantic favoured deficit spending and public works, while many were sceptical of the worth of cutting real wages in a deflationary environment. The famous ‘Treasury View’ on deficit spending was simply that – the view of the UK Treasury during the 1930s – and had little standing with British academic economists. As Blaug points out, there was an orthodoxy “but it was a creed of bankers, businessmen, civil servants and politicians, not the fixed views of academic economists”. The point remains however, that there existed a huge lacuna in orthodox theory. Mark Blaug (1997), Economic Theory in Retrospect [5th Edition], Cambridge University Press, Cambridge, p645.

passively ebb and flow as required to clear the labour market. It had to be recognised
that a core price - that of living labour - was no longer an endogenous economic
variable, but rather a politically determined variable situated exogenously of the
economic 'sphere'. As Modigliani argued in his classic 1944 contribution to the 'neo-
classical' synthesis of Keynes, "the wage rate is not really a variable of [Keynes's]
system but a datum, a result of 'history' or of 'economic policy' or of both".63 As early
as 1925 Keynes argued capital must realise "Trade Unions are strong enough to
interfere with the free play of the forces of supply and demand".64 There was a need to
rethink the problem "in the light of the deplorably inelastic conditions of our industrial
organism to-day".65 By the time of the General Theory money wages were 'rigid',
"determined by the bargains reached between employers and employed", one of three
"ultimate independent variables".66 Of course, Keynes developed arguments in the
General Theory refuting the 'orthodox' theory that cuts in money wages would clear the
labour market regardless of the balance of class forces. Redistributing wealth from
workers to capital would most likely affect aggregate demand disproportionately
compared to any fall in money wages on account of the higher propensity of workers to
consume their income. Ultimately effective demand would be depressed and
unemployment would rise. Keynes added a further argument that even if the working
class could cut money wages as a whole (rather than descend into internecine class
warfare), this would simply lead to a fall in other prices (labour being a key input),
leaving real wages largely untouched. While Keynes views on money wages are
complex and at times contradictory (his views depending somewhat on the stage of the
business cycle), it is probably suffice to say that given the situation Keynes found

63 Franco Modigliani (1944), 'Liquidity Preference and the Theory of Interest and Money', Econometrica, Vol. 12,
No. 1, p47.
65 Keynes [1925], cited in Fausto Vicarelli (1984), Keynes: The Instability of Capitalism, University of Pennsylvania
Press, Philadelphia, p52.
66 The other two being "fundamental psychological factors" and "the quantity of money as determined by the action
of the central bank". John Maynard Keynes (1936/1942), The General Theory of Employment Interest and Money,
Macmillan and Co, London, p246-7. As already noted, many economists, conservative or liberal, would have agreed
with Keynes on this point. Many would have also emphasized the rise of monopolies and oligopolies as likewise
adding pricing rigidity to modern capitalism. Even conservatives such as Lionel Robbins concluded that wage and
price rigidity made wage-cutting inexpedient.
himself in, the issue of money wages did not appear of immediate concern other than as a pedagogic vehicle for his own ‘general’ theory.

Given these independent variables, Keynes had to demonstrate that scarcity was a ‘flaw’ amenable to correction through astute policy, not a defining and irreducible trait of capitalism. Accordingly there was a need to illustrate that ‘individualistic capitalism’ would tend towards sub-optimal equilibrium points of aggregate output – that is a situation with unsatisfied wants and idle resources – for reasons other than labour market rigidity. The first step was to invert Say’s Law – that “Supply creates its own Demand”. Instead Demand creates its own Supply. Beginning with this inversion allowed Keynes to open a point of rupture that unravelled the supposedly optimising and self-correcting tendencies at play within capitalism’s equilibrating mechanisms. It also squarely focused attention on income, consumption (whether private or public) and aggregate demand – a set of variables that could clearly be manipulated to incorporate the working class as the key dynamic engine of capitalist accumulation.67 Furthermore, these variables would provide powerful theoretical support for the continuation and expansion of the welfare state.

Tracing a lineage back to Malthus, Keynes suggested that demand might in fact be insufficient to adequately utilise society’s resources. This of course is the ‘rediscovery’ of effective demand, “that is, the demand for output as a whole”, a concept “entirely neglected for more than a hundred years”.68 According to Keynes, “the mere existence of an insufficiency of effective demand may, and often will, bring the increase of employment to a standstill before a level of full employment has been reached”.69 Effective demand shattered the orthodox edifice, for it introduced the possibility of crisis within the heart of the market process. It allowed Keynes to refute the orthodox

67 For example, workers and the poor more generally have a higher propensity to consume than do the wealthy, a characteristic that Keynesianism transformed from an undesirable trait of the masses to contribute nothing (i.e. a class unable to save) to a positive moment in the accumulation process given that the entire problem of sub-optimality within the accumulation process can be traced to the income-consumption gap.
claim that “there is a nexus which unites decisions to abstain from present consumption with decisions to provide for future consumption”. In other words, saving and investment are undertaken by different people for different motives. This cut investment free from the self-regulating mechanisms of Say’s Law, as decisions to invest by entrepreneurs become a largely autonomous, or independent variable rooted in time. In this disjuncture Keynes, like Malthus, found a space to theorise about “the monetary economy in which we tend to live” rather than “the abstraction of a neutral money economy” used by Ricardo and the entire neo-classical tradition. And it was in theorising about a monetary economy that Keynes discovered the source of both scarcity and abundance in capitalism – money itself. As Keynes noted, if “money is the drink which stimulates the system to activity, we must remind ourselves that there may be several slips between the cup and lip”. What precisely is the nature of these monetary spills?

The argument in its simplest form runs as follows. Effective demand, the point on the aggregate demand and supply curves where entrepreneurs’ expectations of profit are maximised, determines total employment. Effective demand is itself the summation of two essentially separate activities: the propensity to consume and the rate of new investment. As we have already seen, the fundamental psychological laws impose a limiting and even stagnating tendency on consumption patterns. Thus, by default as it were, “the level of output and employment as a whole depends on the amount of investment”. Investment becomes the essential variable in the system, for it alone can provide the autonomous expenditure that can close the income-consumption gap. Of course other factors impacted upon employment and income, but Keynes argued “it is usual in a complex system to regard as the causa causans that factor which is most prone to sudden and wide fluctuations”.

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70 Ibid, p21.
74 Ibid, p121.
The question is then posed why investment should be subject to such violent fluctuations? An indication of why this might be the case can be found in the following extract from the *General Theory*: “new capital-investment can only take place in excess of current capital-disinvestment if future expenditure on consumption is expected to increase”.75 Located in this sentence, either explicitly or implicitly, are most of Keynes’s fundamental analytical and political insights into the problems and requirements of an accumulation process geared towards the Economics of Abundance. Clearly, the role of expectations is crucial to investment decisions. However, these decisions are based on the capitalist’s expectation of future prospective yields that are uncertain in the sense that it is impossible to attach a probabilistic risk to these outcomes as demanded by “Benthamite calculus”. Rather they are based upon “utter doubt, precariousness, hope and fear”.76 As we shall see, when placed in the context of a monetary economy such powerful psychological drives assume particularly disruptive roles in the accumulation process. Finally, consumption (essentially the demand for wage goods) must increase over time to ensure these expectations are met, despite the unlikelihood of this occurring in advanced capitalist economies given the propensity to consume.

Thus a necessary precondition to be met before attaining the levels of investment dictated by political necessity is the eradication or minimisation of this fear of the future. Ensuring the “animal spirits” of the capitalist are not dimmed requires a belief in the continuation of the present into the future, as this forms the basis of a standard convention in the face of radical uncertainty - the assumption “that the existing state of affairs will continue indefinitely, except in so far as we have specific reasons to expect a change”.77 This required Keynes to identify the links that bind us from the here and now to the future. He identified two parallel and essentially antagonistic links, and it is the dynamic and competitive interplay between these that Keynes sought to control.

One linkage is the schedule of the marginal efficiency of capital (mec). Indeed, "it is mainly through this factor (much more than through the rate of interest) that the expectation of the future influences the present". The mec is a rate of discount determined by comparing the expected returns over the life of the capital investment (an unknown) and the cost of the investment (a known). Aggregating the mec for all types of capital assets provides us with the mec schedule. The rate of new investment can be found by locating that point on the mec schedule where there "is no longer any class of capital-asset of which the marginal efficiency exceeds the current rate of interest". The mec provides the signal, or inducement, to invest and is thus highly dependent on capitalist profit expectations. Furthermore, "it is chiefly this dependence which renders the marginal efficiency of capital subject to the somewhat violent fluctuations which are the explanation of the Trade Cycle".

To reach an Economics of Abundance depended on strengthening this productive, but unstable and tenuous link to the future.

A second but antagonistic link to the future is alluded to above in the reference to the rate of interest, which unlike orthodox theories, in itself has only secondary importance to the rate of investment. Keynes developed a monetary theory of interest, and it is what the rate of interest measures wherein lies a dangerous point of rupture for the reproduction of capital. Interest "is the premium which has to be offered to induce people to hold their wealth in some form other than hoarded money". This is the famous liquidity preference, and it lies at the heart of Keynes's conception of a money economy. Because money is the store of value par excellence, it "is a barometer of the degree of our distrust of our own calculations concerning the future". Money is the medium that gives this uncertainty over the future a corporeal existence, a physical presence that ruptures the seamless fabric of Say's Law. This is why the central importance of money "essentially flows from its being a link between the present and

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78 Ibid, p145.
80 Ibid, pp143-4.
81 In other words it does not perform the role of automatically bringing into equilibrium the rate of saving and investment.
Money provides an alternative to the productive link outlined above, but one that is sterile. "By offering a retreat from the hazards of investment in specialised, concrete equipment" argues Shackle, "[money] enabled wealth to be divorced from enterprise and so from the giving of employment". Money provides an escape from the dangers and uncertainty of the factory floor, yet for Keynes this antagonistic and sterile exit for capital had to be blocked in order to create an Economics of Abundance. With the concept of liquidity preference, Keynes finally provided the firm theoretical basis from which all else flowed: his intense dislike of "money-love" and the Victorian preoccupation with denial and frugality; the paradox of thrift; the calls for the "euthanasia of the rentier, of the functionless investor"; the need to drive the rate of interest – which "rewards no genuine sacrifice" – down to as close to zero as possible; his disdain for speculation and promotion of 'Industry' over 'Finance'; his attraction to the strange schemes of neglected "prophets" such as Silvio Gesell's proposal of 'stamped money'; and of course, the doctrine of monetary nationalism itself.

Thus money (in the form of liquidity preference) and the mec stand as alternative, hostile links to the future, their competitive relationship determined by the rate of interest. The rate of interest itself, Keynes argued, was based on little more than society's conventions about what this rate should be – making it both stable over time (compared to the "fickle and highly unstable" mec), and amenable to downward pressure by persistent and consistent actions by the monetary authorities. The need for lowering the rate of interest is clear, for "the creation of new wealth wholly depends on the prospective yield of the new wealth reaching the standard set by the current rate of interest". Productive capital returns a yield not because it is productive, but rather because it is scarce, and it is scarce because it is kept so "because of the competition of

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86 Savings is subservient to investment in the General Theory and plays little more than a spoiling role. Following in the tradition of Mandeville's Fable of the Bees (which he greatly admired) Keynes wrote, "the more virtuous we are, the more determinedly thrifty, the more obstinately orthodox in our national and personal finance, the more our incomes will have to fall when interest rises relatively to the marginal efficiency of capital. Obstinacy can bring only a penalty and no reward". In other words, an increase in interest rates will paradoxically lead to a fall in savings. John Maynard Keynes (1936/1942), The General Theory of Employment Interest and Money, Macmillan and Co, London, p111.
the rate of interest on money".  

Abundance will occur as the mec approaches zero, that is when "the growth of capital equipment ... approach[es] saturation-point". This however, required the vanishing of its great foe, the money rate of interest – "the reward for not-hoarding".

All commodities, according to Keynes (following Sraffa's famous 1932 critique of Hayek) have an 'own-rate' of interest. What is it about money that makes its own-rate "rule the roost"? The uniqueness of money over other assets is that while its yield is nil, its carrying costs are negligible while its liquidity-premium is high. However this simply determines that there will be a demand-schedule for money that exists as a standard of value. Given this demand "we cannot get rid of money... [for] so long as there exists any durable asset, it is capable of possessing monetary attributes and, therefore, of giving rise to the characteristic problems of a monetary economy". The crux of the problem lies not so much in the existence of 'money' – which will always be demanded in the face of uncertainty – but rather the special characteristics of the kind of money that we have that ensures a downward rigidity in its own rate of interest. The peculiarity of money lies in the rigidity of its supply schedule: the "money-rate of interest, by setting the pace for all other commodity-rates of interest, holds back investment in the production of these commodities without being capable of stimulating investment for the production of money". In other words, the supply, or elasticity of production, is close to zero, while its elasticity of substitution is likewise zero or close

87 Ibid, pp212-3.
88 Ibid, pp174-220. Obviously, an alternative method is to raise the mec to a level above that of the rate of interest. Apart from the peculiarities of money that make this difficult, Keynes believed the law of diminishing returns operated upon capital goods, with mature rich economies, due to the abundant supply of the means of production, having a lower mec. This tendency towards secular stagnation in Keynes resonated strongly with a number of American economists such as Alvin Hansen. More fundamentally, such a policy was against the utopian streak within Keynes's philosophy, which rebelled against the artificial creation of higher profits and all that entailed. The ultimate solution to the 'economic problem' lay in lowering the rate of profit to levels close to zero (merely repaying the entrepreneur for risk and skill). As Vicarelli argues, "for Keynes, the decline in the rate of profit was not a menace. When it happened, it would mean that capitalism had achieved a 'paradise on earth'". Fausto Vicarelli (1984), Keynes: The Instability of Capitalism, University of Pennsylvania Press, Philadelphia, p85.
89 Total returns expected form the ownership of an asset is equal to q - c + l, where q is the yield or output, c the carrying cost of holding the asset, and l is equal to the liquidity premium willing to be paid on an asset. Liquidity and carrying-costs are both a matter of degree and it is only in having the former high relatively to the latter that the peculiarity of 'money' consists. A central aspect contributing to the high liquidity-premium of money consists in the fact that debts and wages are both dominated in money and are relatively stable. See Chapter 17 of the General Theory.
to it. The rules of supply and demand do not work: “if money could be grown like a crop or manufactured like a motor-car, depressions would be avoided or mitigated because, if the price of other assets was tending to fall in terms of money, more labour would be diverted into the production of money”. 91

The simple policy prescription from all this is appears to be that the supply of money must increase if full employment is to be attained. Money must be managed because “people want the moon” (no matter how wrongheaded or objectionable), but this desire cannot be met by endogenous production and its demand cannot be choked off. For Keynes “there is no remedy but to persuade the public that green cheese is practically the same thing and to have a green cheese factory (i.e. a central bank) under public control”. 92

While the central message of the General Theory appears to be a call for cheap money, somewhat paradoxically Keynes belief in the efficacy of credit policy in counter-acting crisis tendencies seemed to be fading. In the Treatise [1930], Keynes clearly believed monetary policy on its own could effectively mitigate the business cycle. By the General Theory, despite its theoretical focus on money and interest, Keynes suggested “I am somewhat sceptical of the success of a merely monetary policy directed towards influencing the rate of interest”. 93 Interest rates would need to be driven to a level “so unacceptable to wealth-owners that it cannot be readily established merely by manipulating the quantity of money”. 94 Thus a number of famous throwaway lines litter the General Theory over the need for the increased socialisation of investment. The rate of interest could never be driven low enough, Keynes seemed to suggest, to ensure a socially desirable level of investment, that is, the interest-elasticity of investment is too low. Many, especially in America, rapidly picked this up. It suggested that private investment would always be insufficient in an advanced capitalist economy. The state in other words, would need to stabilise investment by increasing its spending as a

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91 Ibid, pp230-31. Formally, the reduction of wage-units would increase the supply of money, but as I have argued the composition of the working class largely precluded this as a feasible option.
92 Ibid, p235.
93 Ibid, p164.
94 Ibid, p309.
proportion of national income. To what level depended on how ‘Red’ the particular writer in question was. How coherently these suggestions actually fit into the schema of the General Theory is not entirely clear. What is clear is that the General Theory suggested more than one pathway to the Economics of Abundance. As we will see in Chapter 6, maintaining an independent rate of interest remained a key plank in Bretton Woods and Keynes regained his faith in monetary policy as a central component of class management. However, as an operational economic science, Keynesianism developed more complex mechanisms to manipulate national money than just the rate of interest. We will keep our discussion brief, for many of these issues will be picked up in the following chapters.

As mentioned, early readings of the General Theory quickly picked up on the possibilities of fiscal as opposed to monetary policies. But rather than pushing radical sounding proposals that smacked of socialism and the failure of an entrepreneurial society, fiscal policy could in fact support the psychological foundations of the mec by targeting consumption. The state could reduce the fear of the future by propping up the consumption function. Using the familiar Keynesian expression for national income in a closed economy \( Y = C + I + G \), fiscal policy \((G)\) could, through counter-cyclical policies, including welfare payments (a gentle redistribution of wealth), support consumption \((C)\), which through the income multiplier would stimulate real income to a level necessary to ensure full employment. Money could be manipulated not just through its price (the interest rate), but also by regulating its flows to various sectors of the economy. Further, the state could act as consumer of last resort, for instance, through the military-industrial complex, or deficit spending on capital works, financed through borrowings, or the operation of the printing presses. Finally, one could manipulate the value of money through time, that is, use inflation as a policy tool. There is indeed more than one way to skin a cat! What all these techniques required however, is flexibility within the money supply. Thus we return to the ‘green cheese’ factory of Keynes, but here the supply of money is mediated directly through the state itself, rather than the money markets (through the rate of interest). The underlying point
remains unchanged: the supply of money needed to be determined by the exigencies of a national strategy of monetarized class struggle.

Controlling money either as a flow or a stock through the manipulation of its price or value requires an elastic money supply. Only a credit-money regime, which was developing rapidly anyhow within private banking systems, could meet the needs of the new monetarized dynamics of class struggle. But to control and manipulate these internal credit structures requires the maintenance of relatively independent national currencies. That is the linkages between domestic and global accumulation have to be mediated and controlled, filtered through protective layers giving life to the semi-autonomous space of the national economy. And the key linkage is of course between world and national money. Exchange rates create a spatial grid locking in relative price structures through the movement and arbitraging of money. Thus the strategy of internal management of money was itself dependent on controlling international monetary linkages, and it is to this that I turn to next.

3.4 The New Spatial Dichotomy and International Monetary Regimes

According to Radice, the privileging of the national economy within Keynesian economics reflects the theoretical convenience provided by features inherent to the geopolitical spaces of the nation state system, such as shared institutions, the existence of a common currency, uniform laws and so forth. These pointed to a ‘common sense’ case for the assumption of a homogenous economic space – the national economy. Yet the proceeding analysis of Keynes and monetary nationalism more generally suggests this construction was based not so much on the idea of a common national currency, but rather an independent national currency – a view confirmed by Nurske, who argued the new economic thinking was “concerned with relations between independent national currencies”. Rupturing the global constitution of money appeared to many in the inter-war period as the most viable and immediate mechanism to alleviate the class

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96 Ragnar Nurske (1945), Conditions of International Monetary Equilibrium, Essays in International Finance, No. 4, Princeton University, p1.
antagonisms ripping apart bourgeois society. However, the mechanisms being
developed were haphazard and inchoate, and “the world was [still] groping... for the
[right] kind of system”.\footnote{Ibid, p14.} As John Williams noted in 1934, “internal [monetary] management is a field still largely unexplored and that we come to it with... but a short record of experience”.\footnote{John H. Williams (1934), ’The World’s Monetary Dilemma – Internal Versus External Monetary Stability’, \textit{Proceedings of the Academy of Political Science}, Vol. XVI, No. 1, p67.}

Yet within little more than a decade a set of coherent and operational macroeconomic relationships and techniques had been constructed on the premise of independent national currencies, built not on the grid of utility maximising individuals but rather national accounts and synthetic aggregates. This collectivisation of economic categories was simply a reaction to a collectivised working class. To manage this new subject required taking on its organisation mantle – that of the collective mass worker. Keynesian categories fused with the pioneering work on national accounts undertaken in the UK and US by amongst others, Bowley and Stamp, Colin Clarke and Simon Kuznet from the late 1920s onwards, and further developed by Keynes and his followers James Meade and Richard Stone during the Second World War. By 1945, virtually all industrialised countries were producing simple national income and expenditure accounts. These techniques provided a unique quantitative ‘snapshot’ of the new national economy, essential “once the decision has been undertaken to bring about a balance by acts of conscious policy”.\footnote{Richard Stone (1951), ’The Use and Development of National Income and Expenditure Estimates’, in (ed) D. N. Chester, \textit{Lessons of the British War Economy}, Cambridge University Press, Cambridge, p96.} This analytical framework of connecting economic aggregates and synthetic averages created a detailed grid over which the Economics of Abundance could be mapped, allowing money to be manipulated as needed, whether in terms of flows or stocks, prices or values. The power of these “social accounts” (modelled on the techniques of double entry bookkeeping) for demand management lay in their ability to relate national income “to other economic
flows, such as consumers’ expenditure, government revenue and expenditure, asset formation, saving and the balance of payments”.

This last point reminds us that neither Keynesian demand management nor monetary nationalism sought an autarkic solution to the clash between internal and external stability. Economic nationalism per se had no role to play. Rather than closed economies, trade would play a stimulating role through the foreign trade multiplier with ‘commercial’ policy (tariffs, quotas etc) excluded as far as possible. This immediately opens the possibility of external disequilibrium, (that is a balance of payments deficit or surplus on the current account) and the subsequent need for internal adjustment. Secondly, it opens channels for the transmission of international shocks into the domestic economy. Renewing linkages between the national and global economy, and thus the need for potentially incompatible internal and external equilibrium points, raises the issue of an appropriate international monetary regime to an acute form. Experiences over the proceeding twenty-five years did not augur well following the transmission of massive deflationary shocks through the gold standard and the beggar-thy-neighbour tactics of competitive currency depreciations during the 1930s. Against this historical background, the international economy was seen as a potential source of instability, and it was treated “much like variations in the private propensity to invest”. Trevor Swan provided the classic diagrammatical representation in 1955 (see Figure 3.1), utilising the “two curves of internal balance [the line II] and external balance [the line EE] to divide existence into four zones of economic unhappiness”.

However, the new economics of the national economy entailed not just the rise of a new equilibrium point – full employment – but the privileging of internal over external

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100 Ibid, p83.
stability. As Nurske forcefully stated, "a country in pursuit... of 'full employment'... should never be deterred by difficulties, actual or anticipated, in its balance of

Figure 3.1 The Clash Between Internal and External Equilibrium

- Zone I: Over-full employment and balance of payments surplus
- Zone II: Under-full employment and balance of payments surplus
- Zone III: Under-full employment and balance of payments deficit
- Zone IV: Over-full employment and balance of payments deficit

Furthermore, given the domestic rate of interest was now allocated to internal targets, there appeared no obvious adjustment mechanism to regain external equilibrium – there was now no stable linkage between reserves (gold and foreign exchange reserves) and domestic money supplies. Credit policy instead sought the promotion of employment and wage stability. If this happened to lead to "different wage policies and, therefore, different price policies" between countries, this should be "a matter of internal policy and politics". Clearly the need for adjustment over time is raised by "the problem of members [countries] getting out of step in their domestic

wage and credit policies". Yet "external disequilibrium affects the money supply only if this coincides with the internal balance policy of the monetary authorities". The new spatial dichotomy appeared to lack any automatic adjustment mechanisms, making it, in Mundell’s words, an “international disequilibrium system”.

Clearly a new international monetary regime would be required, one that could cater to the demands of this new spatial dichotomy. The obvious solution to adjustment, as suggested by the monetary nationalists, was to allow the exchange rate to move rather than the internal price structure (through the impact of credit policy on incomes and employment). Keynes in fact suggested “open systems” could secure external equilibrium through “fluctuating exchanges” in one of the few references to international monetary management in the General Theory. However, the majority of economists were weary of excessive flexibility following the experiences of the 1930s. Exchange rates should rather be adjusted in the event of a ‘fundamental disequilibrium’.

Exactly what criteria one should use to ascertain whether an economy was in ‘disequilibrium’ and in what timeframe this would become ‘fundamental’ was less clear. The consensus generally fell on maintaining equilibrium within the balance of payments over some time frame (say three to five years), without of course using internal deflation as a means of suppressing balance of payments deficits. Similarly, generating trade surpluses through devaluations to offset domestic depression would not be countenanced - essentially a strategy of exporting economic depression to other economies. Rather domestic demand should be controlled by domestic policies. Considerable debate was also generated on the effectiveness of devaluations in bringing about external adjustment, framed by the opposing camps of elasticity pessimists and optimists.

The proponents of monetary nationalism realised that creating at least partially independent currencies within the framework of stable geo-political relations required more than exchange rate flexibility. This further intrusion of Chartelism on the global

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monetary pyramid drew into sharp focus the contradictions that arose from the lack of a true world money. The uneven development of global accumulation when mapped over the geo-political system of nation-states has always acted to pull at the loose threads hanging off the arguments of ‘automaticity’ within the international organisation of money. For the monetary nationalists, the experience of economic warfare through exchange-rate devaluations was too recent to be ignored, exposing the limits of exchange rate flexibility, particularly as a method of short-term adjustment. While monetary nationalism recognised, in its own way, the problems posed by the infinite regression of the value-form, it sought a resolution in a system of limited but mutually reinforcing technical barriers or ‘wedges’ between national and world money. However, while a series of checks and balances would be included in the new international monetary regime to control inter-state rivalry, the greater risk, and one either side-stepped or simply ignored by the new doctrines, lay ‘within’ the state itself as a mode of existence of the social conflict over the subordination of social reproduction to the capitalist relation of work, a gap that I examine in greater detail in the following section.

Recognising these geo-political considerations that limited exchange flexibility ran up hard against the requirements for internal stability. Thus two additional reinforcing ‘wedges’ were required to ensure the creation of a spatial entity capable of pursuing a localised “temporising policy” in the face of adjustments required by the uneven development of the law of value. The first of these is the transformation of central bank reserves (either as commodity money or foreign exchange) from ‘transmitter’ mechanisms of the adjustment process to ‘buffers’ allowing for the deferment or distension of adjustment. These buffers create time for the deployment of alternative monetary strategies to that of deflationary adjustment, creating a mediating layer between world and national money. For example, the state could use “offsetting”

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107 The reference to a temporal strategy is taken from John H. Williams (1937), ‘The Adequacy of Existing Currency Mechanisms Under Varying Circumstances’, The American Economic Review, Vol. XXVII, No. 1 Supplement, (March), p159. The uneven development of the law of value is simply a manifestation of the unevenness of global circuits of struggle against the imposition of socially abstract necessary labour – that is the struggle against capitalist work.
policies such as boosting internal demand to counter-act a fall in export demand due to depression abroad. Or inflation could be used to reduce real wages in an effort to boost exports or limit absorption of foreign goods. Only if these strategies failed to effect necessary adjustment should one then resort to changes in exchange rate parity.

As I discuss further in Chapter’s 5 and 6, there is evidence that this practice was already being used in a limited fashion prior to the development of monetary nationalism. Apart from being frowned upon, it had limited application and was used if at all on an *ad hoc* basis. At least under the pre-war standard, precedence would in the final instance always be accorded to the exigencies of external adjustment. Under the new international monetary regime of monetary nationalism however, the use of international liquidity as buffers would be a legitimate ‘temorising’ policy. “It is time” wrote Nurske in 1945, “to accept it as a normal and respectable procedure”.

Yet monetary nationalism required one further wedge to make it a feasible and sustainable strategy of class management. Insularity within the national monetary system required not just exchange flexibility and the use of reserves as buffers. It required, as Hayek argued in 1937, the limitation or even suppression of private capital flows. The necessity of limiting private capital flows (usually through exchange controls) was overdetermined by the ideological, economic and political needs of monetary nationalism. There was a deep distrust of capital movements after the destabilisation of the 1930s and it was common to divide capital flows into two opposing categories: either they were disequilibrating, anti-economic, speculative and illegitimate, or they were equilibrating, economic, productive and thus legitimate.

The former characteristics were closely identified with short-term flows of ‘hot money’, while the latter characterised long-term capital flows. By the 1940s it could be claimed

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108 Ragnar Nurske (1945), *Conditions of International Monetary Equilibrium*, Essays in International Finance, No. 4, Princeton University, p13. Of course, this raises a series of important questions. What would be accepted as international liquidity? Could it be augmented by other forms of liquidity (for instance, some form of fiat world money)? If so, by how much, and to whom (and in what proportions) should it be apportioned? I will examine these questions in greater detail in the discussion on Bretton Woods in Chapter 6.

“there is now almost universal agreement that capital movements of the unbalancing kind – speculative transfers and capital flights – had better be subjected to control”.

The reasons for this ideological consensus rested on a number of economic and political arguments. Arbitrage obviously threatened the viability of maintaining independent domestic rates of interest, while speculative movements made in anticipation of alterations in exchange rates would, even if the impacts of these flows could be negated through internal tools of monetary management, impose severe strains on the entire system. As Keynes argued in a letter to Harrod in 1942, “the whole management of the domestic economy depends upon being free to have an appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this”. Finally, there were concerns over the political reaction of the “wealthier classes” to the monetarisation of the class struggle. Flights of ‘hot money’ in evidence during the 1930s were driven by “a distrust of currency”, that is a fear of the declining quality of money as a store of value, driven in large part by inflation caused by the monetarisation of government deficits. It was not unreasonable to expect a similar reaction to the new economic science of abundance. Of course, closing off private flows, especially those of an accommodating nature, made the provision of ‘public’ liquidity (in whatever form) by the international regime crucial in order to shore up short-term balance of payment disequilibria.

The strategy of independent national currencies on which the entire strategy of abundance hinged thus required an international monetary regime capable of deploying a series of inter-connected layers (limited currency flexibility, international reserves and capital controls) creating a wedge sufficiently thick to spatially demarcate the national economy from the global market. The political economy of the mass worker, built on the foundations of a plastic money money-form, was dependent in turn on fragmenting

the global constitution of money. This required an international monetary regime capable of constructing this fractured spatiality, breaking the seamless web of the world market. Having examined these strategies in some detail, the following section probes some of the contradictions that become evident as we question some of the underlying assumptions made by Keynes and the monetary nationalists on the state, class struggle and money itself.

### 3.5 The One-Sided Reading of Keynes and the Monetary Nationalists

For Keynes, uncontrolled money fed a "Benthamite worm" gnawing away at bourgeois society.\(^{113}\) His solution to the problem was to orchestrate a "revolution in economics which... made money the handmaid of industry".\(^{114}\) Yet his obsession with taming the irrationality of capitalist money ultimately led him to a one-sided understanding of this antagonistic and contradictory social relationship. Money as I argued in Chapter 2 is a polarity comprising two inter-related circuits – C-M-C and M-C-M'. C-M-C is the circuit of commodity exchange, where money is characterised by its rational form as medium of exchange. And it is this circuit that Keynes sought to encourage, for growing elasticity in the money-form lubricates the 'dangerous leap' of the commodity. Credit-money weakens the bond between money and commodities, lessening the antagonistic polarity between the two value forms. However this comes at a cost, for crisis tendencies are not abolished, but simply deferred by extending the present into the future through increasing injections of credit-money. It is a flight from the present into the future - riding on a falling value of money. As de Brunhoff argues, "it makes it possible to transfer the risk of the non-realisation of commodities and the devalorisation of credits to everyone using money, so the risk is transformed into a devaluation of the national currency".\(^{115}\) In other words, crisis now unfolds as a secular and rising spiral of inflation.

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More to the point however, the privileging of this rational moment of money as medium of exchange acts as a solvent on the rigid bonds of the market that are felt as a monetary constraint by participants. While such a weakening of market bonds through credit-money socially pseudo-validated by the central bank paves the way for a modulation of crises - diffusing the effects across time and space - it begins to unravel the foundations on which the social power of money is constituted. If money is to maintain itself as a relation infused with the content of work - expressed in the circuit M-C-M' – it must do so through the continuing exploitation of living labour. But the social power of money to command labour depends on it existing as a moment of coercion within the market. It must be experienced as a social bond(age) that brings together need and means through monetary exchange, forcing the vast majority of subjects into the capitalist relation of work in order to receive money wages. Yet as I argued in Chapter 2, money itself must be scarce in order to ensure the market enforces scarcity relations.

The flaw in the Keynesian strategy lay in its failure to understand the class antagonism at the heart of money as a moment of command. This antagonism - the struggle over money’s ability to integrate abstract labour through its command over living labour - finds its social mode of existence in the money-form. Cheap elastic credit-money seeks to overcome the barriers of the market, but in so doing acts as a dissolving agent on the counterpoising but interlocked circuit M-C-M', the capitalist relation of work and exploitation. Frankel, in his libertarian attack on the Keynesian manipulation of credit-money was at least partially correct in calling attention to the subversion of trust in the monetary order that this entailed.116 But Frankel ignores the class content of nominalist money, for this trust is nothing more than a belief in continuing exploitation, a hope that is undermined at the same instance by untrammelled credit expansion.

Keynes was not unaware of the dangers. By ascribing a spurious quote to Lenin he showed his awareness of the dangers of a debauched store of value, agreeing with

Bolshevik leader that indeed it is “the best way to destroy the capitalist system”. Given his claim then, that “to-day all civilised money is, beyond the possibility of dispute, chartalist”, he appears to have placed enormous faith in the ability of the public authorities to control fiduciary money. For Keynes, only the state was able to “prolong the suspension of doubt” required by the political economy of the mass worker. Yet considering the massive weight placed by Keynes on this state-centric view of money, it was embedded in a sparse and rudimentary theory of the state, crudely instrumentalist and cast in a neo-Platonic hue. The state is simply a vessel to be captured by the forces of reason and common sense; by men steeped in “the premise of Harvey Road” – disinterested, skilled, rational, liberal, drawn from the cultural and educational elites of society. Armed with such a bureaucracy, “dangerous acts can be done safely... which would be the way to hell if they were executed by those who think and feel wrongly”.

Such Philosopher Kings “could be trusted to carry out a policy of monetary reform faithfully, and would not indulge in an orgy of reckless note issue”. On the basis of expertise alone “the principles of central banking will be utterly removed from popular controversy and will be regarded as a kind of beneficent technique of scientific control such as electricity or other branches of science are”. A ‘rational’ state using ‘rational’ money could “guide the aspirations of the masses for social justice along channels which will not be inconsistent with social efficiency”.

Yet capitalism is not rational; it is antagonistic, contradictory and crisis ridden, and these are the forces that animate it as a structured set of social relations. Keynes's dynamic analysis in fact proved to be rather static, not because of his particular methodology (static or partial over general equilibrium analysis), but rather because key categories were emptied of their social content in the exposition of his scientific system. While the introduction of time and thus uncertainty and the possibility of crisis was a recognition of the fragile basis of capitalist reproduction,124 it was quickly recast as "the human being's endless journey into the void of time"125 rather than a social category expressing the dangerous journey of the antagonistic unity incorporating the polarity labour/capital. Time, while recognised, is naturalised rather than understood as a social and antagonistic struggle between freedom and endless work. Restricting himself to discrete problem solving, Keynes ceased his analysis before coming to grips with the contradictory nature of capitalism, the playing out of what Hegal referred to as the "sheer unrest of life".126 This gave much of his work, despite its obvious brilliance, a surprising naivety. Keynes in other words, was not a dialectician.

As noted in Chapter 1, a dialectical method seeks to investigate not things, "but rather social processes appearing in a thing-like shell".127 Dissolving the state in this fashion allows us to question these reified moments. Following the arguments of Chapter 2, this reification of the political within the form of the state comes at a cost, for the state is representative of a universal interest, defined by the body of undifferentiated citizens who stand equal before an impartial state. Yet the very act of depoliticising the class struggle merely repositioned it to a sphere where rights are defined not by money and property relations, but rather by the individual rights of the citizen, which formally guarantee political participation. The problem was to ensure the expression of

individual rights, freed from the social power of money, would not shift back to civil society via the state.

Let us examine this in the context of Keynes’s claim that “the task of keeping efficiency wages reasonably stable... is a political rather than an economic problem”.128 Keynes appears here to have accepted the possibility, if not likelihood, of just such a transportation of practices across site boundaries. Yet Keynes posits this separation as a premise of social existence, each representing some distinct ontological reality of the subject without realising the potential consequences arising from instability in the boundaries meant to separate these moments of social existence – the political and economic, citizen and worker. The very boundaries themselves, and the reified forms they give rise to, become not just objects of class struggle but its actual mode of existence.

Keeping this in mind, what form could such a political solution to controlling money wages take? Keynes pointed to one potential solution – the manipulation of the quantity of money, “already within the power of most governments by open-market policy or analogous measures”.129 In other words the state could use money illusion to erode the wages of the working class as a whole. “Having regard to human nature and our institutions” wrote Keynes, “it can only be a foolish person who would prefer a flexible wage policy to a flexible money policy”.130 Thus the money supply becomes in turn politicised through a manipulation of the price level, illustrating how easily Keynes’s simplistic conception of the state’s ability to control credit-money can be subverted using Keynes’s one-sided reading. Yet if we accept the contradictory mode of existence of the liberal-democratic state, Keynes’s assumptions of technical monetary agencies screened behind a state conceived in instrumental and voluntarist terms wears thin. The Economics of Abundance was premised on hypostatising the apparent autonomy of the state from civil society through the collapsing of key apparatus into autonomous

130 Ibid, p268.
institutions screened from the pressures of the ‘Party of Catastrophe’. Economic science, the economic became explicitly channelled through the political sphere, dangerously exposing the dichotomy of the subject as citizen and worker, between individual and general interests, as the collective interests of the working class now manifested themselves as the generalised interests of society within the sphere of political rights. The Economics of Abundance appeared to have inverted society for “suddenly workers and the poor turned out to be the representatives of the universal interest... The ‘people’ became the hegemonic force in society”.

Economic struggle entered the realm of citizenship. The state, rather than Keynes’s empty vessel, was transformed into a vehicle for “the political economy of the working class”. Eschewing the arid functionalism pervasive within Marxist state theory, Marx himself foresaw the possibility of the working classes, “transforming that [state] power, now used against them, into their own agency”. Keynes, ignoring the form of the state, sought to redefine the boundaries between the political and economic, but in so doing opened the possibility of boundary collapse.

To this highly combustible mix of credit-money and liberal-democratic state-form we can add the accelerant class struggle. This is the third category that Keynes conceptualised in a one-sided fashion. While keenly aware of the class basis of capitalism, Keynes appeared to see the balance of class forces as existing in a kind of static equilibrium. The ‘Keynesian social contract’ would be posited as a single trade-off that can be extended indefinitely by the hypostatised autonomy of the capitalist-state. Instead the Economics of Abundance laid the material foundations for a dynamic political recomposition of the working class that would continuously seek to overthrow this balance. Keynes’s strategy - “requir[ing] working class autonomy to be forever

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constrained within a given existing power structure”¹³⁵ - simply ignored the antagonistic foundations of capitalism. No solution was found to the problem of “how to establish a balance of effective demand, in a context where the various balances of power making up effective demand are conceived as unchanging”.¹³⁶ In seeking to ameliorate class struggle, Keynes falsely came to the conclusion he had vanquished it. This one-sided reading of money, the state and class struggle created a fatal flaw in the Economics of Abundance, one that would ultimately resonate with many of the arguments of Keynes’s conservative critics such as Viner, who argued the new doctrine would simply collapse into “a constant race between the printing press and the business agents of the trade unions, with the problem of unemployment largely solved if the printing press could maintain a constant lead”.¹³⁷

The final flaw lay with the monetary permissiveness introduced by monetary nationalism itself, for it raised the problem of the infinite regression of the value-form to an acute level. Prior to monetary nationalism chartelism, while still expanding internally, remained embedded in a global monetary pyramid that could enforce the necessary discipline by devalorising national money whenever faith in its ability to command appeared to be waning. Once removed from the discipline of the world market and the convertibility of money as international means of payment, what would guarantee the value content of state-money? This question appeared largely unanswered by monetary nationalists, other than a reliance on an ultra-rational theory of the state.

Weber, who largely agreed with the chartelist position, recognised this as the central weakness of fiat money. Metallic money argued Weber, introduced the necessary rigidity in the supply of money in contradistinction to paper money, which had a potentially limitless ability to be produced. This of course was the key to the

Economics of Abundance for Keynes. However, for Weber the erosion of mechanical barriers to monetary production raised a genuine danger of the money supply being captured by ‘special interests’. “The significance of metallic standards to-day” argued Weber, “lies precisely in the elimination of these interests from influence on the monetary situation, or more precisely... a check on such interests. In spite of the mechanical character of its operation, a metallic standard nevertheless makes possible a higher degree of formal rationality in a market economy because it permits action to be orientated wholly to market advantages”.138 For Weber and other conservatives, there was one special interest in particular that was inimical to market rationality – the working class. The result as Hick’s pointed out, was the replacement of the gold standard by a “labour standard”, for in “the transition from a metallic to a credit standard, the adoption of a monetary system in which money can be created virtually at will, has removed an important external restraint on the wage-setting power of industrial bargainers”.139

In the end, maybe we should judge Keynes’s revolution and monetary nationalism as the last great experiments in alchemy, an attempt to transmute worthless paper into the most abstract and general form of social wealth. Perhaps Keynes and the monetary nationalists saw in themselves some shadow of Newton, a modern mind combining “Copernicus and Faustus in one”.140 But before Keynes opened the Pandora’s Box of state pseudo-validated credit-money, he should perhaps have sought an answer to a question first posed by Marx over a hundred years earlier: “When you play the fiddle at the summit of the state, what else is there to expect than that those down below should dance?”141

Monetary Internationalism and the Enforcement of Scarcity

"No one would have remembered the Good Samaritan if he'd only had good intentions. He had money as well"

Margaret Thatcher

4.1 Monetary Internationalism and Market Utopias

As Hayek feared in his 1937 attack on monetary nationalism, the core tenets of this new creed had already taken such firm hold that the proponents of a pure monetary internationalism were cast into the wilderness for the next four decades. The battle lost, resistance continued fitfully on in the realm of ideas – restricted to a small circle of monetary 'cranks' holding onto an archaic doctrine of classical liberalism - until the 1970s, when interest revived in the old strategies so thoroughly vanquished in the "great debate" of the 1930s. In this chapter I undertake a political reading of the key tenets of monetary internationalism – its understanding of money, the state, and the enforcement of scarcity that hangs like a pall over this dismal example of economic science.

Without doubt the purest and most sophisticated upholder of monetary internationalism during the twentieth century has been the Austrian School - especially the 'neo-Austrian' school of Mises and Hayek (hereafter simply referred to as the Austrian School). Because of their uncompromising adherence to internationalism and their

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1 I define the neo-Austrian school as the reformulation of the Austrian School undertaken by the 'third generation' Austrian Ludwig von Mises and his followers, the most famous of these being his favourite protégé Friedrich A. Hayek. Neither the founder of the Austrian School, Carl Menger, nor his second-generation followers, Böhm-Bawerk and Friedrich von Wiser, were radical anti-socialists. Indeed many prominent members of the Austrian Marxist School attended Böhm-Bawerk's *Privatseminar* in the years leading up to 1914. While the first two generations of the Austrian School were true liberals, often with a strong predilection for government intervention, it was von Mises who introduced a radical individualism into the Austrian School, a libertarianism developed further by Hayek. Of course, strong continuities remained between the Austrian and neo-Austrian Schools.
early and persistent criticism of monetary nationalism, I shall focus on the Austrian School as a counterpoint to the arguments raised in Chapter 3. Like their opponent Keynes, Mises and Hayek explicitly utilised their economic science to justify a philosophical and socio-political world-view, although unlike Keynes theirs was rooted in a belief that liberal capitalism represented the pinnacle of human organisation. For many supporters, this unification of technical analysis and philosophy stands as the greatest achievement of the Austrian School (a view that suggests Littlechild’s claim of independence between Austrian economics and philosophy is wide of the mark).  

With their resolute fixation on methodological individualism, extreme subjectivism and anti-constructivism (organicism), the Austrian School is almost led by default to celebrate a naturalised and timeless capitalist system defined by a rugged individualism unhindered by state or community and expressed in the free-playing of the market process - "the utopia of a market economy". However, just as Nature is unequal in its distribution of physical and mental capabilities amongst individuals, so too is capitalism unequal in the largesse it distributes to individuals. Yet while the gifted rise above the masses, the paradox of capitalism is that these superior beings vie “with one another in serving the masses of less gifted men”. For the true gods of the capitalist order are consumers – the common man. Of course, as freely admitted by Mises and Hayek, such a libertarian order depends on the presupposition of the rule of law upholding the ownership rights of private property. Yet behind this edifice lies a second fundamental presupposition - the need for sound money. Indeed, the Austrian School’s fusion of technical analysis and social and political philosophy is most advanced in its treatment of the ‘spontaneously’ generated institution of money. For the Austrians, the sheer power of money to enslave or free...

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5 Spontaneous here refers to the organic nature of money, that is it has evolved naturally in response to the needs of market exchange rather than a creature of state decree as the Chartelists suggest.
the individual in the economic, political and social spheres overdetermines the exigency of sound money. It is the foundation stone on which Western liberal civilisation rests, "not a minor technicality of finance but a crucial issue which may decide the fate of free civilisation". Yet the very power of money, or rather its non-neutrality, "makes money a kind of loose joint in the otherwise self-steering mechanism of the market". The Austrians never followed the spurious lead of their orthodox counterparts towards the methods of quantitative techniques that quickly slipped into complex but meaningless models of barter economies, in short a world of neutral money. As Mises noted, "in a living world there is no room for neutrality of money". Social life is dynamic and constantly changing while the future is unknown and money is the means by which we seek to cope with flux and uncertainty.

The specific technical role played by money lies in the crypto-information it contains and on which the successful operation of the market process depends. This information, communicated through the price mechanism, is the only method to coordinate the anarchy of millions of individual acts, each undertaken with only a tiny portion of information. Any corruption of this information, for example by an unwarranted expansion of credit by banks or inflationist policies by the government, acts like a virus distorting the messages sent by the price mechanism. This in turn leads to flaws in the decision making process that discoordinates capitalist accumulation and reproduction. The key point is that the discoordination resulting from cheap money is caused by its impact on the structure of relative prices, not the general price level. The inevitable result is the boom and bust of the capitalist business cycle - a product not of the anarchy of the market and capitalist production but rather the disturbances introduced by a non-neutral medium of exchange.

In the utopia of a free market, Say's Law holds supreme and any failings in its self-correcting mechanisms can only be attributed to outside forces - like the serpent

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slipping into Eden. While Mises suggests money is inherently non-neutral, he further stresses this is only in the purely theoretical sense of a stable money, not to be confused with the political concept of sound money. While there appears on first blush to be two forms of non-neutrality – political and technical - in fact it is simply a recognition of the struggle between money's form (a political problem) and content (a technical issue). The Austrians fear of money is ultimately based on a recognition of the two-sided nature of the social category of money itself. Money, as the Austrians recognised, was both a weapon that could be wielded by capital and against capital. Technically non-neutral money coordinates the reproduction of capitalism through the untainted information it contains – information that, as I argue in the following section, expresses a content of scarcity. If this informational content of scarcity is tainted however, its non-neutrality becomes something terrible and destructive. This does not derive from any intrinsic flaw in the medium itself, but rather from the institutional structures that have built themselves around money, corrupting and perverting it in the process. Two in particular stand out: fractional reserve banking and the growing politicisation of money by the state. It is the latter that is fundamental, for the former responds rather passively to the slack provided by the accommodating policies followed by the central bank. As Barry argues, money "only causes damage because in the modern world it has become the tool of government".

However, the entwinement of the state with the provision of money has consequences far more profound and dangerous than simply causing disruptive disproportionalities in the production process, for these induced failings in the market provoke yet further interference from the state to ameliorate the business cycle. Such interference merely intensifies the initial dislocation, deepening the eventual crisis required to purge these imbalances. And in this crisis opens a political space for the anti-market ideology of etatism. In this regard the twentieth century has been doubly cursed for it has suffered under the twin afflictions of unlimited democracy and the triumph of fiat money. Under

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9 Ibid, p76.
the pressures of majority rule and an election cycle geared to short-term outcomes, combined with the influence of powerful and entrenched special interests such as trade unions, the state has found it impossible to resist the temptation of cheap fiat money. In the eyes of the Austrians, these twin evils provide the paving stones for the road to serfdom. The encroachment of government against the republic of the market, justified by falsely attributing the business cycle to market failure rather than the perils of cheap money, inexorably erodes personal freedom and the rights of the individual, undermining the legal and moral code of rules that underpin individual liberty and private property. The end result can only be a crushing totalitarianism.

Given the catastrophes flowing from the non-neutrality of money, the fundamental goal of economic science must be to develop mechanisms to emasculate the disruptive power of money, to uncover pathways that transform this dangerous yet necessary institution into a socially neutral medium of market exchange expressing scarcity relations. It is this overriding goal of taming the non-neutrality of money wherein lies the imperative for monetary internationalism, for "neutral money would imply a truly international monetary system". According to Hayek, such a system would be one "where the whole world possessed a homogenous currency such as obtains within separate countries and where its flow between regions was left to be determined by the results of the action of all individuals". As is usual with the Austrian approach, the reasons why monetary internationalism act to neutralise money are found in an inter-woven mix of technical analysis and political philosophy. Without entering into details at this point, two central (and related) reasons stand out. Firstly, it is the ontological space in which economic phenomena take place (unlike the pseudo-space of the national economy, a construction of etatists) and is thus the space that allows money to deliver in its purest form the information it carries. Secondly, internationalism is the surest way to achieve the political goal of removing the state’s ability to manipulate fiat money, for it allows

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money and its owners to circumvent such efforts, that is, it creates a *cordon sanitaire* around money itself.

The goal of monetary internationalism then is to emasculate non-neutral money, removing its powers to distort not only the market process, but the very legal and moral foundations of a society built upon private property and exchange relations. This *politically neutral* money would reinforce its social power, enforcing the bond(age) of the market. For politically neutral money is sound money, that is money that is organised on the principle of scarcity. As Hayek notes, "money is valued because, and in so far as, it is known to be scarce". It is only scarce money that ensures that the appropriate information is disseminated through the price mechanism, that is information clearly expressing the undeniable "fact that there prevails a nature-given scarcity of the material things on which the satisfaction of human wants depends". Politically neutral money ensures the power of money to exclude individuals accessing social wealth remains uncompromised (its technical non-neutrality). Neutral money in short enforces the capitalist relation of boundless work. "If people want to consume what other people have produced" argued Mises, "they must pay for it by giving the sellers something they themselves have produced or by rendering them some service". For those without the means of production, the choice is clear — starvation or work. In the following section I examine in greater detail the enforcement of scarcity that lies at the heart of the Austrian's economic science.

4.2 Capitalist Accumulation and the Enforcement of Scarcity

If Keynes was the chief theorist of the Economics of Abundance, then the true apostles of economics as the dismal science - the Economics of *Scarcity* - must be the Austrian School. Instinctively feeling the "money-loving instincts" on which capitalism rests as a psychosis bordering on the macabre, particularly when manifested as the urge to

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15 Ibid, p490.
hoard, Keynes transformed the act of saving into a residual category, arguing for the eradication of that class which lived upon accumulated money-wealth. Eradicating the scarcity value of money-capital, capitalism would witness, “the euthanasia of the rentier, of the functionless investor”. In contradistinction, for von Mises and his followers the veritable truths of capital accumulation remain untouched, regardless of the claims of “the new prophet of inflationism” to “turn stones into bread”. If Keynes looked to the future to sustain accumulation, the Austrians looked to the past, to “the capital accumulated by previous generations”. Only the “moral foundations of an exchange economy” can generate this gleaming hoard, which are rooted in restraint and denial.

If Keynes’s deep ambivalence towards money freed him from money-fetishism, seeing within money a social institution to be manipulated for higher ends, the Austrians remained deeply embedded within this fetish, reflecting a particular class experience that imbued their theoretical position in its entirety. As Buhkarin forcefully argued in his 1914 classic, The Economic Theory of the Leisure Class, Austrian economics was rooted in the world-view of the rentier, propounding “the ideology of the bourgeoisie who has already been eliminated from the process of production, [expressing] the psychology of the declining bourgeoisie”.17 Von Mises and Hayek reflected the fears of a declining and financially ruined middle-class in the cauldron of a collapsing Austro-Hungarian Empire, where the liberalism of Vienna’s urban elites was in constant retreat under the combined pressures of Catholic reaction and socialist revolution. By the 1920s, Mises and his coterie represented “the remnants of old Vienna’s privileged urban elites whose security had been shattered, whose savings had been decimated by wartime and postwar inflation, and whose taxes were financing the pioneering housing programs of Vienna’s socialist municipal administration”.18

While the focus of Austrian economics appears to fall on individual patterns of consumption, the behavioural characteristic and ideological justification of the rentier lies in the denial of consumption. The resolution to this apparent contradiction lies in the realisation that the Austrian approach is actually an economic science constructed on the restraint of consumption against a backdrop of generalised and naturalised scarcity. By definition all economic goods are scarce – inevitable given unlimited wants and only limited means of production to satisfy them. The resemblance to Robbins theory of scarcity is unmistakable, unsurprising given the close linkages. Robbins was both friend and Anglophone spruiker for von Mises, while also recruiting the still relatively obscure Hayek as Tooke Professor of Economics and Statistics at LSE in 1931, largely in the hope of curbing the growing influence of Keynes and the Cambridge School. In particular, Hayek and Robbins sought to develop and propagate the Austrian theory of business cycles first adumbrated by von Mises in 1912. This pure monetary theory of economic crises was firmly rooted in Böhm-Bawerk's theory of capital and the process of capitalist production. It is here we find most clearly expressed the necessity for the enforcement of scarcity over the social relations of production.

According to Böhm-Bawerk the fundamental rule governing capitalistic production methods is that increasingly 'roundabout' methods of production are necessary to increase final output. Böhm-Bawerk argued longer periods of 'waiting' are always required if more productive ('roundabout') methods are to be used to increase total output. If increased output requires a lengthened period of waiting, there must be in place a favourable 'time preference' between current and future consumption. In other words, a more capitalistic system will require restrictions on current consumption in order to ensure sufficient resources are available to sustain the lengthened production process. Furthermore, such lengthening will increase total output at a diminishing rate. Taken together, these propositions suggest the need for ever more capital and hence ever longer periods of waiting - a shifting time-preference for future over current

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19 Robbins wrote the introduction for *The Theory of Money and Credit*, published in English in 1934.
consumption. As Hayek argues, "it is an essential feature of our modern, 'capitalistic', system of production that at any moment a far larger proportion of the available original means of production is employed to provide consumers' goods for some more or less distant future than is used for the satisfaction of immediate needs".\textsuperscript{20} The clear implication of Böhm-Bawerk's capital theory is the need for the enforcement of scarcity, albeit in the belief such abstinence will bear fruit in "some more or less distant future". Not only is such scarcity a natural law lying like a pall over social reproduction given the limitless desire for economic goods, but scarcity (in the sense of ensuring current consumption is curtailed to the requirements of capitalistic production processes) must be enforced over the social relations of production. As von Mises argues, "there will always be a strict limit to the amount that can be consumed without reducing the capital available for the continuation and, even more, the expansion of production".\textsuperscript{21}

Of course, whether increased productivity always requires additional periods of 'waiting' is highly questionable. One need only think of the possibility of less 'roundabout' methods of production (time-saving methods) increasing the total product to suggest Böhm-Bawerk's fundamental 'rule' is less than convincing. Whatever the merits of the Austrian theory of capital, it is the foundation for the Austrian business cycle theory and ultimately the argument, at least from a technical perspective, for the necessity of enforcing social scarcity. Put simply, the booms and busts of the capitalist business cycle are the direct result of misguided attempts to circumvent this scarcity required by the exigencies of capitalist accumulation. "We are forced to recognise the fundamental truth, so frequently neglected nowadays" argued Hayek in 1931, "that the machinery of capitalistic production will function smoothly only so long as we are satisfied to consume no more than that part of our total wealth which under the existing organisation of production is destined for current consumption".\textsuperscript{22}

If there is a limit to the amount that can be consumed without impacting on capitalist accumulation, the obvious corollary is that current savings becomes the key determinant of investment in more 'roundabout' productions methods. In other words, all increases in consumption are ultimately dependent on previous increases in savings. Consumption becomes little more than a passive variable dependent on the act of saving. The contrast with the Keynesian focus on consumption (or rather effective demand) could not be starker. Savings as we saw in Chapter 3, were no more than a residue in Keynes's schema, or even more negatively a powerful symbol of the rentier and the "cumulative oppressive power of the capitalist to exploit the scarcity-value of capital". If Keynes sought to smash the scarcity-value of capital through developing techniques to tame and manipulate the power of money - the political economy of the mass worker - than the Austrian School clearly sought to preserve it. Reading this politically it becomes immediately apparent the Austrian's were propounding a political economy of capital. While I develop this argument in further detail below, we can suggest at this point that the key to developing this antidote to the political economy of the mass worker resided in money itself – in neutralising it. In contradistinction to Keynes, the Austrians sought to create an impenetrable barricade between the process of capitalist production and the supply of money. The two must never be conflated, for as von Mises argued, "what is usually called plentifulness of money and scarcity of money is really plentifulness of capital and scarcity of capital".

Yet the inter-war years witnessed a collective rejection of this veritable truth in the face of the intoxicating allure of cheap money strategies. Under the guise of the Economics of Abundance the spectre of fiat money was again assuming respectability - "how pale is the art of sorcerers, witches, and conjurers when compared with that of the government's Treasury Department". Ironically, the growing acceptance of this view was driven in part by the Great Depression, itself the inevitable result of the easy money

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policies of the 1920s - a necessary purging of the disproportionalities introduced into the structure of production. Crisis is a direct consequence of the attempt to artificially manipulate time preferences that lies at the heart of all cheap money strategies. Hayek identified this problem in his extension of Mises's argument. The savings that eventuate from strategies of cheap money are not the result of a voluntary increase by an individual, but are rather 'forced' without any alteration in the current preference for consumption amongst individuals, introducing deep contradictions into the structure of production. In other words, there has been no enforcement of scarcity to back up the overinvestment triggered by the extension of credit.

Voluntary saving produces a fall in the natural rate of interest,26 encouraging capitalist's to invest in production, increasing its 'roundaboutness' and the necessary 'waiting' time. Because this price signal represents a genuine change in time preferences as individuals reduce current consumption, proportionality between consumer and producer goods is maintained. In contrast, cheap money drives an artificial wedge between the natural and market rates of interest. As banks extend credit through the fractional reserve system, the market rate falls encouraging capitalists to invest. Yet this fall in the market rate is a pollutant in the price mechanism, for the signals being sent do not represent real changes in individual time preferences, making the subsequent investment boom unsustainable. While resources are diverted into long-term projects, factor prices are driven up, increasing wages that are spent on consumption rather than the saving required to complete the more 'roundabout' production methods. In response to the booming demand for consumption goods, resources are re-diverted to meet this demand. Inevitably, the longer-term investment projects become starved of the resources required in the later stages and must be liquidated. Further injections of credit seeking to postpone the need for adjustment can only add further distortions to the structure of production. The so-called investment boom triggered by the infusion of credit is simply malinvestment. This cheap-money fuelled consumption is not the dynamo of capitalist

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26 That rate which exactly equates the supply of savings made available by the public with the demand for investible funds by capitalists.
accumulation as suggested in the Economics of Abundance, but merely "the not at all miraculous procedure of eating the corn seed".  

The Austrians found no paradoxes in the sight of dole queues and rusting factories amidst the stagnation of the Depression. Unlike Keynes who saw in the crisis of the 1930s a social, political and economic critique of the doctrine of economic scarcity, the Austrians saw it as a resounding confirmation of this eternal truth of capitalist accumulation. The Depression simply proved the impossibility of circumventing scarcity through the manipulation of money. "We 'starve'" suggested Robbins helpfully in 1932, "because we seek to pluck the fruits of prosperity before they are actually ripe". The misfortune of the Depression was the signal that a more rigid enforcement of scarcity over the social relations of production was required, that is a retrenchment of consumer demand. As Hayek argued in 1931, "the existence of unused capacity is... by no means a proof that there exists an excess of capital and that consumption is insufficient; on the contrary, it is a symptom that we are unable to use the fixed plant to the full extent because the current demand for consumers' goods is too urgent to permit us to invest current productive services in the long processes for which (in consequence of 'misdirections of capital') the necessary durable equipment is available".

As catastrophic as the business cycle is to the accumulation of capital, it is the political imperatives driving cheap money policies that pose a genuine threat to the survival of the capitalist mode of production. Capitalism, as I argued in Chapter 2, has largely defined personal liberty in the negative sense - the freedom of the individual from the rigid social bonds of feudal dependence or the Absolutist State. Such freedom however, was always based on allowing the free play of market exchange, ensuring individual needs can only be satisfied through the socially sanctioned medium of money. At heart

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it is the freedom of the individual to starve, a world that "requires a code of morality ultimately based on the fear of hunger". Yet strategies such as monetary nationalism threatened this morality of socially imposed scarcity - a fact clearly recognised by the Austrian School. Hayek in his great polemic against such 'constructivist' follies, argued that "to the great apostles of political freedom the word has meant freedom from coercion, freedom from the arbitrary power of other men... The new freedom promised, however, was to be freedom from necessity, release from the compulsion of the circumstances which inevitably limit the range of choice of all of us".

A moral code based on the enforcement of scarcity depends critically on reinforcing the bond(age) of the market. This in turn requires that money have the requisite social power to enforce the market as a moment of exclusion. For the Austrians "money prices should signal scarcity relations". If money is corrupted "the mechanism of the market no longer works to make a distinction between the would-be purchasers who are still able to buy and those who are not". This according to the Austrian School is the creed of socialists - a supposed world of potential plenty that "would make it possible to give to everybody 'according to his needs". This attack on scarcity is nothing short of a frontal assault on capital itself. While the force of such political attacks was containable as long as the state remained straightjacketed by embedded constitutional limits, the great struggle for the expansion of democratic rights greatly increased the vulnerability of capitalism to monetary corruption. In the following section, I examine in further detail this vulnerability caused by the potent mix of democratic politics and an increasingly fiat based monetary order, for it is here that we find the true raison d'etre for a rigid monetary internationalism.

4.3 Neutral Money, the State and the Problem of Democracy

Money, as von Mises recognised but many socialist and monetary cranks did not, is never an optional extra tacked onto the market process. It is an irreducible moment in the exchange process that lies at the heart of capitalist social relations: “money is part of the mechanism of the free market in a social order based on private property in the means of production”.36 Indeed the “very notion of a market economy without money is self-contradictory”.37 Like Keynes, the centrality of money arises when one moves away from the static equilibrium of Walrasian general equilibrium, with its assumptions of perfect information and omnipotent economic agents. In such a world there is no rational reason for holding cash balances, as the future is clear of the blights of uncertainty, unexpected change and informational gaps. In contrast, the Austrian School eschewed any analysis of the market as a steady-state equilibrium, conceptualising it rather as a process of dynamic change for “economic problems arise always and only in consequence of change”.38 Money lies at the heart of this dynamic process for money is likewise “an element of action and consequently of change”.39

These processes do not take place in fallacious social spaces such as ‘society’ or the ‘economy’ – indeed these constructivist follies have no analytical significance for the Austrian School. Instead methodological individualism - the "method that we owe whatever understanding of economic phenomena we possess" - focuses resolutely on the actions of individuals as the only appropriate level of analysis for catallaxy - that is the sphere of individual acts of voluntary market exchange.40 The market strictly speaking does not exist other than as a myriad of actions undertaken by millions of individuals separated across time and space, each possessing an infinitesimal portion of the total social knowledge. It is the process whereby these isolated, partially informed

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individuals pursue their subjectively derived goals within the marketplace that results unintentionally in the coordination of the market as a whole. The market is, quite simply, a mechanism for the transmission of information needed to ensure a rational economic order, a device to pool this dispersed information.

The organic and spontaneously evolved means to collate and transmit these fragments of information is the price mechanism - one of the greatest triumphs of the human mind.\footnote{Friedrich A. Hayek (1945/1949), 'The Use of Knowledge in Society', in Friedrick A. Hayek, Individualism and Economic Order, Routledge & Kegan, London, p87.} Acting on the information provided by the price mechanism, consumers and entrepreneurs alike formulate their goals. Investment and consumption choices are made, ultimately forming a structure of relative prices for all commodities that expresses the convergence of the subjective preferences of all individuals in an objective market outcome. It is both dependent on and final guarantor of personal liberty, defined in the restricted sense of the individual manifesting their subjectively derived goals in the act of commodity exchange.

Yet as I have argued, the information that the price mechanism must transmit is one that reflects the scarcity underpinning capitalist social relations. The contradictions surrounding the Austrian School's theory of money are reflected in the argument that freedom is expressed through the act of consumption, yet this freedom depends on the imposition of scarcity. Money exists as both social leveller - 'the great cynic of social rank' - and as manifestation of inequality. While the Austrians express "the 'psychology of pure consumption'... the basis of the entire life of the rentiers"\footnote{Nikolai Bukharin (1914/1927), The Economic Theory of the Leisure Class, Martin Lawrence, London, p26.}, at heart the rentier is about denial - "a holy ascetic seated at the top of a metal column".\footnote{Karl Marx (1859/1977), A Contribution to the Critique of Political Economy, Progress Publishers, Moscow, p134.} The life-blood of the price mechanism is of course money, and the purity of the price signals it sends out is dependent on money maintaining the stability of its value. Money must be 'sound' if it is to convey its crypto-information.

Money in other words, is not neutral. We have already seen the chaos this non-neutrality can cause to the process of capitalist accumulation. This clearly places the
Austrian School at odds with monetarism and other orthodox schools that seek to 'remove' money by severing the 'real' economy from a largely epiphenomenal 'monetary' economy. For the Austrians the 'real', a purely subjective category, can only gain external expression as a price and hence as a monetarised category. Of course, we are referring to relative prices, not aggregate price 'levels', and it is this that makes the assumption of monetary neutrality a chimaera. "Money without a driving force of its own" claimed von Mises, "would not, as people assume, be a perfect money; it would not be money at all". However his further claim that, "all plans to render money neutral and stable are contradictory" does not apply to the goal of rendering money neutral and sound. If Keynes sought to manipulate money's non-neutrality, the Austrians sought to impose neutrality upon it. The very power of money requires this power be circumscribed or even negated: "neutral' money... is... 'not merely entirely harmless, but in fact the only means of avoiding mis-direction of production', and in the end becomes 'our maxim of policy'"

As I argued previously, the only way to unravel this contradictory understanding of neutrality is through a political reading. Instead of following Desai’s suggestion that this hopelessly "Utopian ideal of neutral money" is required by the Austrian’s argument for the innate tendency towards equilibrium, it should be understood as a pale recognition within bourgeois economic science of the struggle between form and content in capitalist money. Money can signal both abundance and scarcity – it can include and exclude from social wealth. The aim is to tame the neutrality of money so that it only expresses one form of neutrality – scarcity. As money cannot be removed from the market mechanism, it must be controlled or emasculated and the Austrians devoted considerably effort in “comparing] the effects of alternative policies in


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regulating this emasculated money."⁴⁸ Workers must experience the anonymous coercion of the subjectless object, money, to ensure the continuous repositioning of the work/income nexus. Under a regime of non-neutral money on the other hand, the market as a force of exclusion begins to decay. In other words, the ontological status of economics as a system of scarcity breaks down. The money-form becomes absolved of the power to define legitimate from illegitimate exchange - from those who are entitled to access social wealth and those who are not. It becomes evident that concerns over non-neutrality are really a fear of “elastic” money - the central tool of the political economy of the mass worker.

Despite the vulgar appeals to objectivism and the progress of economics as science, this fear of money springs forth from a far deeper well than the dangers of capital disproportionality or the inefficient allocation resources caused by the adulterated crypto-information spread from its non-neutrality - both largely technocratic concerns. Instead this non-neutral money is a direct attack on the social, political and moral order of a system constructed on the private ownership of the means of production by a few, those “superior” and “gifted” individuals - entrepreneurs and capitalists - who “serve to the best of their abilities the wishes of the majority of the less gifted”.⁴⁹ This is the real source of the Austrian’s “innate... fear of money”.⁵⁰ It is for those who defend a system based on the exploitation of the many by the few the sounds of hobgoblins at night: the masses. As Mises argues, “only where political forces are not antagonistic to private property in the means of production is it possible to work out a policy aiming at the greatest possible stability of the objective exchange value of money”.⁵¹ Elastic or non-neutral money is thus a direct attack by hostile forces on the central presupposition of capitalism, private property.

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The non-neutrality (or elasticity) of money is not intrinsic to money itself, but rather is attributable to the institutions that have encircled it. Without doubt the most corrosive source of impurity - or non-neutrality - is the state itself. In this respect the Austrians followed their Keynesian antagonists in focusing on the growing monopolistic power of the state to issue legal tender. In dramatic opposition to Keynes who saw in money’s function as store of value an opportunity for the state to manipulate it in order to heighten its rational moment as medium of circulation, the Austrians have looked on such practices with unbridled hostility. While the powers of seigniorage exercised by the state in the age of metallic money were unwelcome, these monopoly privileges in the age of fiat money are positively sinister. As Hayek laments, it has become “an unrelieved calamity since paper money... came under political control”\textsuperscript{52} In an era where “economic policy” is primarily understood to mean the question of influencing the purchasing power of money” it is “impossible to grasp the meaning of the idea of sound money”. It is nothing less than “an instrument for the protection of civil liberties against despotic inroads on the part of governments... Inflation is the fiscal complement of statism and arbitrary government... it is a cog in the complex of policies and institutions which gradually lead toward totalitarianism”.\textsuperscript{53} It is worth unpacking these claims for on closer inspection, it is not ‘the state’ \textit{per se} that is problematic,\textsuperscript{54} but rather the ideology of \textit{etatism} and its associated “doctrines that ascribe to governments the magic power of creating wealth out of nothing and of making people happy by raising the ‘national income’”.\textsuperscript{55}

The Austrian conception of the state, considering its central role as villain, appears as ill-defined and naive as Keynes’s institutionalism. Apart from libertarian rhetoric and splenetic outrage, little attempt is made to theorise the state. This is not quite a lacuna within Austrian thought but rather a reflection of the fact that the state exists as little


\textsuperscript{54} Even an avowed libertarian such as Hayek recognises a number of roles and functions that the state must perform.

more than an empty vessel - a trophy to be 'captured' by forces existing externally to
the state. The form of the state is however vital, for the dangers lie in the democratic
nature of the modern state. It is important to emphasis this point. For Hayek there is no
automatic correlation between liberalism and democracy, a fact clearly brought out
when one is forced to "name their opposites". While totalitarianism stands opposed to
liberalism, the opposite of democracy is in fact authoritarianism. In Hayek's world view
"it is conceivable that an authoritarian government may act on liberal principles".56
This view found concrete expression in Hayek's defence of Pinochet's Chile, where he
suggested, "it is possible for a dictator to govern in a liberal way. And it is also possible
that a democracy governs with a total lack of liberalism. My personal preference is for
a liberal dictator and not for a democratic government lacking in liberalism".57 It would
appear than that democracy can be totalitarian. While the precise meaning of these
dichotomies is never clearly spelt out, it seems that totalitarianism is simply majority
rule gone 'bad', an intrusion of the interests of the majority on individual liberties. What
might these individual liberties be? In short, the essence of the Austrian's dislike of
democracy and its mutant offspring is the fear of the power it opens to those forces
hostile to a system of private property and the unfettered workings of the accumulation
process. For etatism and its supporters, "power (Macht) is the deciding factor in social
life".58

It is the eternal liberal fear of the dictatorship of the proletariat that kept von Mises and
Hayek awake at night. Any demonstration of collective will by the masses was to be
feared - a tool to be manipulated by demagogues and populists. This fear of the masses
and the empty vessel of the state fused and gained form around the issue of universal
suffrage, leading to a deep ambivalence if not outright hostility to social democracy,
which was perceived as an ideology antagonistic to market prerogatives. The mass
marches of 1907 in Vienna by Social Democrats seeking (and gaining) universal

suffrage - the "manifestation of the will of the masses to achieve the right to vote" - Mises clearly found "quite terrifying".\[59\]

Of course the principle of 'democracy' if suitably constrained is not entirely without merit. Hayek for example proposed a democratic model that he hoped would immunise the body politic against the infection of the masses and their pedagogic masters. An assembly containing only those aged between 45 and 60 would be elected for lengthy periods and at "each election the representatives should be chosen by and from only one age group so that every citizen would vote only once in his life... for a representative chosen from his age group".\[60\] Presumably such an anaemic and sluggish process would strengthen the constitutional checks and balances that protected the vessel of the state from the mobile vulgus. Popular democracy on the other hand, with its shortened political cycle and appeal to mass politics, could count on no such checks and balances. According to Hayek the real problem lies in the power democratic assemblies "hand over to the administrators charged with the achievement of particular goals".\[61\] Unlike the naive neo-Platonism of Keynes that placed enormous faith in the ability of intellectual elites to guide the Economics of Abundance to fruition, the Austrians displayed a healthy scepticism towards such an idea. In particular, the supposed distance between these social engineers and the masses was illusory for the apparatuses of the state would rapidly become hostage to the power of politicised money driven by popular democracy.

Non-neutral money thus forever resides at a crossroad - both bedrock of individual rights and freedom and potential tool for the enslavement of society by totalitarian creeds such as socialism (or even social democracy). Whether money acts as friend or foe of individual liberty rests on a gilded knife-edge, for only 'scarce' money safeguarded by "a policy of rigid restriction" can underpin the freedom of capitalist

accumulation. The issue resolves itself into the intractable problem of how to secure this scarcity when the supply of money is monopolised by a state-form so severely compromised by "the onslaught of democracy". The competing and contradictory demands placed on money by capitalism and democracy can only find a resolution in favour of the former through creating a cordon sanitaire around money. Clearly the state is unable to perform any such function. The management of money must be found elsewhere and for the Austrians, the only solution lay in the spatial strategy of monetary internationalism - money must be organised at the level of the world market - and it is this that I examine in the following section.

4.4 World Money and the Enforcement of Scarcity

For the Austrian School any notion of an independent national economy as espoused by the monetary nationalists is a fallacious analytical concept constructed not just on a false methodology, but a fundamental misunderstanding of capitalism itself. Methodological individualism does not 'stop' at the national border any more than the long chains of exchange relations between countless individuals that together constitute the market. In other words the assumed confluence between the political space of the nation state and a discrete economic space (the national economy) is spurious - a quantitative mirage based on largely meaningless synthetic aggregates and averages derived from the flawed 'science' of index numbers. In a liberal capitalist world order, the analytically correct level of analysis is the world market. Capitalism is an "open" system spread across the globe, its participants a myriad of individual shoppers linked through the price mechanism, their actions and desires transmitted through the constant movement of relative prices caused by the exercise of individual choice. The national economy on the other hand is a purely artificial 'closed system' alien to the core tenets of liberal-capitalism. Its appeal to common sense is simply a mix of lazy thinking that finds convenience in mapping economic relations over the geo-political space of the

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nation-state system, and more sinisterly the success of ideologies that place the state at the centre of social, political and economic life.

The correct analogy for defining the spatial relationship between the national economy and the global market is that of regional spaces (that is, sub-national) to the national economy. And just as we would not question fluctuations in the relative supply of money within one sub-national region compared to another, a shifting supply of money between national economies should likewise be expected. Once we break down the illusion of the national economy and see the seamless space of the world market it becomes obvious that the appearance of an absolute rise or fall in the quantity of money within the national economy is in fact a relative redistribution of global money. This is simply the adjustment process, “a necessary condition of a change in the distribution of the product of the world as a whole... enabling the inhabitants [of a particular country] to draw a larger or smaller share of the total product of the world”.64 The fundamental point to stress is that this is a relative redistribution of a given supply of money, for money neutrality dictates “the supply of money should be invariable” at the level of the world market.65 Following from the extreme individualism of the Austrian method is a radical collapse in the spatial differentiation of the market, even as it encompasses the entire global market. The functional role of this shifting access to social wealth in the market process is identical at every spatial level, and the full play of individualism can only take place across the spatial grid of the global economy. Ensuring the global supply of money is invariant guarantees that money will signal scarcity relations at the level of the individual through its constant redistribution across the world market. In short, the imposition of scarcity must be constituted at the global level.

What would be the key attributes of such a pure international monetary regime? The most fundamental component would be the creation of genuine world money. Hayek in particular radically shifted his views over what form was most appropriate to

65 Ibid, p108.
international money. For the pure subjectivist, money has no intrinsic ‘value’ beyond what an individual gives it. If money is ‘dear’ it is only because it is highly valued by individuals, nothing more. Given this, there should be no theoretical necessity to have commodity money, although institutional factors led the Austrians to a strong predisposition towards it. For example Hayek consistently argued that on the grounds of economic rationality alone, internationally standardised cheap paper tokens were probably a superior form of money than wasteful commodity money.\textsuperscript{66} However schemes to provide fiat world money, either by the market (through a global free banking sector) or by a world central bank “seem utterly impracticable in the world as we know it”.\textsuperscript{67}

Despite the theoretical superiority of fiat money – a theme Hayek would famously return to and develop with his proposal to denationalise money (discussed below) – there were “compelling political reasons why gold (or the precious metals) alone and no kind of artificial international currency, issued by some international authority, could be used successfully as the international money”.\textsuperscript{68} By 1943 Hayek had shifted again to suggest only superstitious prejudices attributed specie with special properties. In fact any commodity whose value was regulated by its cost of production would fit the bill. However, the “compelling political reasons” for retaining commodity-money in some form remained. The imperative for even an imperfect international monetary regime constructed on commodity money lay in its automaticity, for this acts as a foil against the political dangers posed by national fiduciary money. While a world central bank could conceivably ‘hold the line’ against etatism and a politicised money-form, no such hopes could ever be placed on national paper money. The automatic operation of an international regime removes money from the grasp of the liberal-democratic state form. As Hayek argued, the state’s monopoly over the issuing of money “became an unrelieved calamity since paper money (or other token money), which can provide the

\textsuperscript{68} \textit{Ibid}, p74.
best and the worst money, came under political control”. And political control, as I argued in the previous section, meant control by the mob – Bourke’s swinish multitude.

It is in short the **profoundly anti-democratic nature** rather than the economic efficiency of an international monetary regime constituted on commodity-money (whether in the form of gold or some other reserve) that appeals to the Austrian School. Mises, arguing in favour of a flawed gold standard, accepted “all its disadvantages... as part of the bargain if other services are demanded of the monetary system than that of preparing for war, revolution, and destruction”.

In the eyes of Mises “war, revolution, and destruction” are simply manifestations of democracy gone mad, a deep-seated fear of mass politics in general and the intensification of class struggle it presages. In short, the gold standard “appears as an indispensable implement of the body of constitutional guarantees that make the system of representative government function”.

A truly international monetary regime, one that would ensure the actual transfer of money between individuals located anywhere within the spatial web of the price mechanism, would sever any possibility of political mediation in the transmission of scarcity relations. The law of one price would prevail across the global market. The notion of national wage and price levels would evaporate. It would simultaneously erode the power of the working class to resist the untrammelled operation of the law of value and throw an impenetrable wall around the compromised liberal-democratic state. But as the Austrians were well aware, such a monetary order remained a pipe-dream.

Only the crude mechanism of establishing rigid parities with a commodity such as gold with its relatively fixed supply, could shackle national money to the scarcity principal, held hostage to “the accident of gold production”.

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Historically the gold standard never approximated a truly international regime. "The Monetary Nationalists condemn it because it is international" wrote Hayek in 1937, "I on the other hand, ascribe its shortcomings to the fact that it is not international enough". Apart from its economic failings, what were the deficiencies of the gold standard that impaired its internationalism? The heart of the problem lay in the erosion of money's homogeneity caused by the establishment of distinctive national banking systems structured on the principals of fractional reserve banking. This placed national central banks at the apogee of a credit-pyramid that had the potential of semi-independence from the dictates of international gold movements. Even prior to 1914 this made the gold standard a 'mixed' rather than a pure international system. It caused changes in the supply of money to occur through the creation and destruction of credit rather than the actual transfer of money between countries. Adjustment in a mixed system was thus effected through the depletion or replenishment of national reserves of gold that than fed into national banking systems through the central bank's discount rate. The ability of the central bank to effect changes in the credit structure was blunt and unlikely to impact on the particular individuals at either end of the 'string' of exchange relations, but rather those who had borrowed (or lent). As I argued in Chapter 3 and develop further in Chapter's 5 and 6, such arrangements already contained the seeds of a crude monetary nationalism as the Austrians recognised. The rot truly set in as gold reserves were augmented with various national currencies backed by gold convertibility. As Mises noted, "from the end of the last century onward it was the aim of etatism in monetary policy to restrict the actual circulation of gold".

Adjustment was thus mediated, filtered by central bankers who kept one eye on a domestic credit structure constructed on fractional reserve banking and only partially under their control, while simultaneously attempting to meet the exigencies of maintaining gold parity. Limited world money reserves created a strong incentive for central banks to speed the adjustment process (the rules of the game), accentuating the

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disruptive effects on the accumulation process. Yet it also encouraged central banks to look for mechanisms to alleviate this pressure, particular through measures to ‘economise’ gold supplies. Posibilities included using forms of ‘paper gold’ as international reserves (other currencies convertible into gold) and even sterilising the impact of gold movements on the domestic credit structure. Such practices laid the groundwork for the political manipulation of the adjustment process through its distension in time, muting the power of money to signal scarcity relations. Once again we return to a non-neutral money-form and its attendant dangers of elasticity.

The solution to such a mixed system is two-fold, although not all Austrian theorists would have subscribed to both. The first was abolishing fractional reserve banking in its entirety, a solution proposed by Mises and supported by modern adherents such as Murray Rothbard. Instead banks would be required to hold reserves of a 100 per cent against future deposits. All domestic money created by banks would be backed unit for unit with commodity reserves such as gold. Money truly would be as good as gold, with Mises arguing further for the return of gold as a medium of exchange, providing the surety that only the sound of a jingling hoard in one’s pockets can provide against the terrors of monetary nationalism. Hayek on the other hand always remained sceptical of the possibilities of winding back such a deeply embedded institution as fractional reserve banking.

The second solution, clearly implied by the first, was a return to the gold standard. For Hayek the non-neutrality of money introduced by fractional banking could be nullified through the building up of sufficient reserves to allow actual bullion transfers to take place, mitigating the need for secondary contractions and expansions of national credit structures. Gold reserves of 1/3 of monetary circulation, suggested Hayek, would be sufficient. The key was to ensure an absolute rigidity in parity rates with central banks

exercising a zero tolerance for fluctuations within the gold points.\textsuperscript{76} By adhering to such a strict enforcement of the gold standard the pipe-dream of world money could be achievable, for the "remaining differences in denomination of the national currencies would really be no more significant than the fact that the same quantity of cloth can be stated in yards and in meters".\textsuperscript{77}

It is hardly necessary to mention that such a rigid internationalism was utterly inimical to any actions restricting the mobility of money. Indeed, such a regime depended on encouraging a hyper-mobility in the money-form. Politically, capital controls were nothing short of a direct attack on individual property rights and as such a necessary first step towards the crypto-despotism of socialism. Immobilising capital - cornerstone to the strategy of monetary nationalism – involved "the whole grim apparatus of oppression and coercion – policemen, customs guards, penal courts, prisons, in some countries even executioners".\textsuperscript{78}

Returning to the form that world money could assume, Hayek’s scepticism towards the possibility of ‘backing’ money with gold increased over time, driven mainly by an awareness of the limitations posed by such a system given inelastic gold supplies meant only a few countries could ever fully participate. Yet his strident opposition to monetary nationalism never wavered, even if his views on how best to reimpose internationalism evolved over time. By the 1970s and in despair at the rapid decay of even the nominal restraints imposed on monetary nationalism by the collapsed Bretton Woods regime, Hayek saw the only solution lying in the establishment of an unfettered free market in the provision of fiat money – a step not even considered by the proponents of free banking, who remain tied to the notion of convertibility between private and commodity money.\textsuperscript{79}

\textsuperscript{76} The gold points are the band within which parity rates could fluctuate without triggering flows of gold due to the costs of arbitraging, such as transport, insurance, risk and so forth. See Chapter 5 for a more detailed explanation.

\textsuperscript{77} Friedrich A. Hayek (1937/1964), Monetary Nationalism and International Stability, Augustus M. Kelley, New York, p84.


\textsuperscript{79} For example Lawrence White, a well-known free banking proponent, argues Hayek’s proposal ignores the truism that a profit-maximising issuer of fiat money will be unable to resist producing it until its value collapses.
Hayek initially restricted this new fiat-based internationalism to chartalist money before it became apparent that both *privatising* and *denationalising* fiduciary money would blow apart the entire edifice of central banking and the fractional reserve system and with it the last foundations of monetary nationalism. Its supply would be restricted by the commercial imperatives placed on issuing banks to maintain the value of their money held by consumers. Suspect money would be quickly discounted and finally rejected *in the world market*. While the ability of banks to create money would not entirely disappear, the discipline of the market, as opposed to the laxity of the central bank's process of pseudo-social validation, would restrict it to the level demanded by the market. State money may still exist, but in competition with a range of money-forms – commodity-money, private fiat money, foreign currencies – each seeking to outdo its competitors by maintaining a greater stability in value. Money, finally freed from the spatial prison of the nation state, would return to its fundamental role of signalling scarcity relations, reinforcing the social bond(age) of market exchange. Once again the rational moment of money contained in the circuit C-M-C would be subordinated to the circuit M-C-M'. Only those who have earned this 'sound' money through labour 'priced' by the unfettered workings of a global law of value would find themselves in a position to access social wealth. Repeating the words of Mises quoted earlier, the market mechanism would once again be able "to make a distinction between the would-be purchasers who are still able to buy and those who are not".

While (thankfully) there has been no explicit movement towards the private provision of money, it is interesting that some right-wing commentators, apart from highlighting the declining proportion of 'outside' money (so-called high-powered fiat money) within the monetary pyramid, discern in the post-Bretton Woods era of unfettered currency competition a shift towards Hayek's radical position. For example, both Issing and Veljanovski celebrate the current resurgence of monetary internationalism as consistent

Furthermore, the technical difficulties introduced through multiple *numearies* should likewise not be underestimated – a problem I raised in Chapter 2 that provided a strong incentive to centralise money within the state in the first place. See Lawrence White (2000), 'Comments' in Otmar Issing, *Hayek, Currency Competition and European Monetary Union*, Occasional Paper 111, Institute of Economic Affairs, London, (March).
with the anti-democratic reforms espoused by Hayek. Veljanovski argues private money proposals “are a logical extension of and fully consistent with the swift progress that has been made in financial deregulation, and which has forced the monetary system to become much more competitive and less susceptible to manipulation by national monetary authorities”.

These free marketeers are certainly right in highlighting the resurgent internationalism of the post-1971 regime. As I argue in Chapter 8, the last three decades have seen the principle of socially imposed scarcity cast its pall over the reproduction of capitalist social relations. And while national money has not been privatised as such, it has undergone a radical process of denationalisation. Undoubtedly the five decades from the close of the Great War to the collapse of Bretton Woods were the highpoint of monetary nationalism, or what Cohen labels the Westphalian model of monetary geography. Since 1971 this spatial model has been rapidly broken down by the “increasing interpenetration of national monetary spaces”. In the face of currency competition and cross-border ownership of debt instruments, the supply and value of national money has increasingly slipped outside the control of national monetary authorities. The connection with Hayek’s radical conception of denationalisation lies in the fact that this new scarcity has been imposed without the need to ‘back’ fiat money with a scarce commodity, a fact that is incomprehensible to those who fetishise money as a thing. Like Hayek’s proposal, the value of this money is based on a vastly heightened element of competition, that is an intensified hyper-mobility of money. The imposition of scarcity is based on a space of flows rather than a space of place. The ability to rapidly reconfigure the geographical balance of global portfolios imparts a permanent element of crisis and thus discipline over national economies and those that seek to manage them. Integrated into mobile and sensitive flows of capital, the state and its agencies are locked into a new monetary internationalism as rigid and

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demanding in its commitments to the social bond(age) of the market as any commodity standard could ever hope to impose.

The erosion of monetary nationalism has seen the collapse of its spatial ontology as foreseen by Hayek. Concepts such as the balance of payments have become increasingly devoid of meaning under the dictates of monetary internationalism, nothing more than "pseudo-problems". Ideally, a new internationalism would not have to resort to contracting or expanding the credit structure, for changes in the relative distribution of world money would simply redistribute money holdings between individuals. Some would become richer, others poorer; "that would be all". In other words this new internationalism would circumvent any mediation, instead simply reflecting the underlying scarcity relations that should determine the behaviour of individuals within a social network of exchange relations. While I would not suggest we have reached this point, Bryan is entirely correct in arguing the globalisation of capital has made the analytical content of national accounts data highly questionable.

This is not to argue that it no longer serves any useful purpose, for what it has lost in analytical rigour, it has made up for as an ideological tool. Paradoxically the rigours of monetary internationalism only seem to heighten the need for 'national' responses to the contradictions generated by global accumulation. Herein lies the usefulness of the discursive tools of monetary nationalism, for it ensures "that international interactions in international accumulation are socialised as national interactions". Indeed, one might forget when reading Austrian accounts that while monetary nationalism provided a degree of protection for labour, it was designed to ultimately strengthen the social bond(age) of the market, chaining the working class further to an endless cycle of capitalist accumulation. Furthermore, the creation of spatially discrete sites of accumulation led to a sense of shared destiny – an 'imagined community' formed and reinforced by the still powerful discursive language of monetary nationalism. "While

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85 Ibid, p126.
the individual international interactions are predominantly those undertaken by capital” argues Bryan, “the process of (national) socialisation sees the responsibility for rectifying international payments imbalances transferred to labour”. 86 This blind spot is in fact symptomatic of a deeper political failing in the economic science of the Austrian School – a weakness that saw monetary internationalism in the wilderness for nearly half a century, and it this that I examine in the final section below.

4.5 The Austrian School and the Politics of the Impossible

Hayek once famously stated that the aim of economic science is “to make politically possible what today may be politically impossible”. 87 This strategy, followed consistently by Hayek from the 1930s onwards, was a recognition of the need to retreat to the realm of ideas, for the realm of action was already lost to the emerging doctrine of monetary nationalism and the Economics of Abundance. Scarcity had become a flaw to be banished, its eternal veracity to the process of accumulation forgotten. It would take a further 40 years before it would again gain currency. Yet the early recognition of this point by Hayek and the Austrian School reflected more than a lost battle. It highlighted weaknesses lying at the heart of monetary internationalism and the strategy of scarcity economics.

Its weakness as economic science, that is as a strategy of class control, flow largely from the limitations imposed by its own unwillingness to confront the challenge posed by the active and antagonistic subjectivity of the working class. While the Austrian School foresaw the probable outcome of any sustained adherence to a strategy of manipulating a politicised money-form, it could never confront the consequences following from its own prescriptions. For the student who persevered through Hayek’s turgid Prices and Production, the final conclusion was to do nothing, letting the banks liquidate inefficiencies through a credit crunch – an uninspiring conclusion to draw in 1932 as capitalism slid towards the abyss. Only Mises noted Polanyi, consistently

86 Ibid, p126.
advocated a return to the gold standard during the inter-war years, “advice, had it been heeded, [that] would have transformed national economies into a heap of ruins”. Ruins maybe, seedbeds of revolutionary action definitely. These often unworldly, at times even perverse conclusions, painfully drawn out after pages of relentless logic, are no more than an empty theoretical expression of the strategic bankruptcy of the economic science of scarcity. For all the prescience displayed by the Austrians in recognising the antagonism of the political economy of the mass worker towards a liberal world economic order, they could offer no politically feasible alternative.

Because their world-view was one of liberal capitalism and its ordering principle of denial and socially imposed scarcity, the Austrians could fulfil no other role than a Cassandra. Robbins, the English-speaking world’s first great proponent of the Austrian School, lamented the passing of economic science as the study of scarcity as follows: “it is the tragedy of our generation, red with fratricidal strife and betrayed almost beyond belief by those who should have been its intellectual leaders, that there have arisen those who would uphold this ultimate negation, this escape from the tragic necessities of choice”. Fearful of the masses and those that attempted to transform their struggle and antagonism into a motor of capitalist accumulation, the Austrian School could never confront or counteract this revolt from scarcity.

Furthermore, this pattern of political evasion is replicated in the economic analysis of the Austrian School, most evident in their treatment of money. On closer examination we find their claims that money is simply a medium of exchange rather empty. Despite the ready acceptance by commentators such as Ingham to take this claim on face value, on closer inspection it holds no more truth than the claim that economics is about nothing more than the act of consumption. The human practice of catallexy obviously requires a medium of exchange, and both the Austrians (rather disingenuously) and their detractors agree this is the core presupposition of Austrian economics. However, as this

chapter has argued, this economy of shopping is based ultimately on denial and scarcity. Consumption by the masses is not a driver of capitalist accumulation as in the Economics of Abundance, but rather the destructive waste of past savings. It is as Mises argues, simply the not so miraculous act of eating the corn seed. Consumption is a residue to the act of saving, a complete reversal of the Keynesian prescription.

If we scrape away at the Austrian claim that money is no more than a medium of exchange it quickly becomes apparent that it is more correct to see it as a medium to express scarcity relations. And even more to the point, the focus is clearly on one very special act of exchange that defines the key class relation under capitalism - the exchange of labour power for money. Money is not a passive facilitator of this process. As the Austrians always recognised, money is never neutral. It is always an active if deeply contradictory moment in the subordination of the working class into a web of exchange relations that are central to the day-to-day reproduction of capitalist class relations. When we recognise this, the underlying tension and inconsistencies within the Austrian approach between the rational ‘economic’ analysis of money and shopping and irrational diatribes on ‘politicised money’ begins to subside. The hard money men of Vienna railed against the growing influence of massified working class organisations – trade unions, political parties, even the corrupted liberal-democratic state – because these struggles were centred on the strategy of more – more money, more use values and ultimately more non-capitalist time.

The Austrian School is not the economics of shopping, but rather the economics of exploitation. It is an attempt to construct a purified theory of capital devoid of the social contradictions that in fact animate this mode of production. The weakness of the Austrian School is that while it seeks to evade the reality of capital as an antagonistic polarity, it has always recognised the fragility of this relation of exploitation, especially the brittleness of the social bond(age) of money played out through the struggle between money’s form and content. Rather than focusing on the monetary circuit C-M-C as claimed, it is clear that behind the ideological artifice and smoke and mirrors of methodological individualism and subjectivism, the Austrian School focused resolutely
on those conditions that either supported or weakened the circuit M-C-M', where money augments itself as capital.

This lack of political engagement in the Austrian School’s economic science has always left them open to extremism. The more ‘politically impossible’ the prescriptions flowing from their economic analysis, the more it seemed necessary to rail against various ‘entrenched’ interests that the Austrians identified as blocking these self-evident truisms of catallaxy – democratic parties, trade unions, even the state itself. And the less likely it appeared these special interests could be defeated, the more dire became the prognosis, requiring in turn ever more extreme policy prescriptions. The Austrian School’s constant arguments in favour of monetary internationalism were well made. It exists as capital’s most powerful monetary weapon in the ongoing struggle to decompose the working class. Yet the suggested means for imposing this internationalism, from the increasingly outmoded concept of a rigid gold standard operating through the mechanism of specie flows to the ultra-liberalism of denationalised money, failed to offer any feasible solutions for its implementation. They were little more than one-sided wish lists rather than exercises in economic science. This could hardly be otherwise given the Austrian School’s tendency to evade the simple reality that capital is a social polarity, not a self-augmenting singularity.

Undertaking a political reading of the Austrian School provides us with powerful insights into the underlying exigencies of capitalist accumulation. It shows us how capital would like to see the world – a series of isolated individuals subordinated by the rule of money and law – worker/consumers ensnared in an endless web of exchange relations governed by the principle of social scarcity. Yet while it pointed to the final destination, it could never illuminate a pathway to reach there. The Austrian School provides a prism for us to understand monetary internationalism even if the historical development of international monetary regimes rarely if ever approximated its ultra-liberalism.
At the end of the day, monetary internationalism returned anyhow, behind the backs so to speak, of the various players. Its resurrection did not require the end of liberal democracy or the resort to Chilean style military juntas. It has not required a return to the barbarous relic of gold, nor the extrusion of the state from fiat money. It has occurred without revolution and social upheaval, although its impact has been profound. Scarcity has been re-established as the correct ontological foundation for economics, and its long shadow has again fallen over the social relations of production. The Economics of Abundance was unravelled quietly, efficiently and rapidly despite the dire warnings of the Austrians. As the monetary nationalists long recognised, the entire spatial edifice built on politicised national money could never survive if money was unleashed from its constraints. The ‘entrenched interests’ of monetary nationalism were outflanked, immobile and unresponsive in the face of ‘quicksilver’ capital.

This concludes my analysis of the economic science of monetary organisation and international regimes. In the following four chapters, I provide a historical overview of this organisation and its concrete expression within international regimes that is animated by the theoretical categories discussed in Chapter’s 2 through to 4: scarcity, abundance, nationalism and internationalism. The goal, as highlighted in Chapter 1, is to trace a history driven by the cycles of class struggle that have marked the long twentieth century, refuting Odell’s claim that an analysis using class as the key analytical category has little to offer. It is a history that avoids the geo-political struggle of states or the internecine warfare of fractions of capital as its explanatory lynchpin. Rather, it looks to the central axis of conflict within capitalism – between workers and capital – and how this antagonism animates the fundamental social category of money. I begin in Chapter 5 with an examination of the classical gold standard and its lustreless successor the gold-exchange standard. Chapter’s 6 and 7 examine the birth and painful death of the Bretton Woods regime, while Chapter 8 seeks to understand the return of social scarcity imposed under the imperatives of the post-1971 international monetary order.
The Gold Standard: From Guardian of Order to Barbarous Relic

"Nor can they [the Utopians] understand why a totally useless substance like gold should now, all over the world, be considered far more important than human beings, who give it such value as it has, purely for their own convenience"

Thomas More

5.1 Auri Sacra Fames: The Mythology of Gold

Mythologies wrote Roland Barthes, have “the task of giving an historical intention a natural justification, and making contingency appear eternal”.

In the epoch of haute finance - the high point of monetary internationalism - surely a founding myth was the operation of the gold standard. With the reproduction of capitalist society subordinated to the regulating pulse of unfettered global markets, the gold standard assumed the role of “guardian of this gargantuan automaton”. To the bourgeois mentalité, it appeared as a mechanism capable of preserving and distributing wealth as determined by the dictates of this global automaton, all the while enforcing stability and social order. Indeed its hold over the imagination was so strong that it created the powerful illusion of an eternal status quo – a capitalist social order governed by the gilded laws of Economics as rigidly as the divine laws of God governed medieval society.

2 Auri sacra fames (the sacred mystique of gold).
4 Karl Polanyi (1944), The Great Transformation, Beacon Press, Boston, p217. Polanyi located the era of haute finance to the period spanning from the 1860s to the first third of the twentieth century.
This is not to suggest the gold standard was itself a myth - a position some ‘revisionist’ historians such as de Cecco appear close to holding. The gold standard was real, but its function was *mythical* - to transform the contingency and antagonism of capitalist social relations into an endless state of nature. It is impossible to understand the gold standard without realising that the myths it sought to propagate were in turn essential to its own successful operation. As long as the belief in the gold standard as guardian of monetary internationalism remained unchallenged, it proved itself a powerful if flawed mechanism for organising money at the level of the world market on the guiding principle of scarcity.

The logic driving this regime - centred on a dazzling but ultimately pseudo world-money - was neither British hegemony nor Western imperialism, although undoubtedly both played a role. Rather, we must conceptualise the gold standard as a strategy of class control: a mechanism to impose the exigencies of the law of value on the proletariat masses in the core centres of global accumulation. In particular it sought the subordination of working class reproduction to the constraints of hard money, securely bounding it to the realm of scarcity relationships. Its political power lay in the ability to posit itself as an external, ‘naturalised’ constraint. In short, it was an international monetary regime constructed on the pillars of *scarcity* and *austerity*. As the Trade Union Council argued in 1931, the mechanisms of the gold standard were “probably the most ruthless that could be devised... to increase unemployment to the point that by the sheer pressure of poverty you get the lower production costs the financiers desire”.

The dangers of confusing the mythic qualities of the gold standard with its scientific falsehoods can be illustrated by examining the so-called ‘automaticity’ of the gold standard.

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5 See Marcello de Cecco (1984), *The International Gold Standard: Money and Empire*, St. Martin’s Press, New York. De Cecco argues, as do most revisionist historians, that the gold standard was inherently unstable with none of the self-correcting mechanisms attributed to it by its supporters. However, de Cecco goes further, claiming the classical gold standard was an unstable recycling mechanism between creditors (such as India) and debtors (such as the United States), with London acting as the central clearing house. The effectiveness of the system depended on a series of contingent factors, such as the willingness of India and other centres of the Empire to hold sterling balances and purchase British manufactured goods. De Cecco’s argument verges on a denial of the gold standard, at least in terms of traditional understandings of the key mechanisms of this international monetary regime.

standard – its supposedly self-regulating adjustment mechanisms. The automaticity of
the classical gold standard (circa 1880 to 1914), and even more so with its lustreless
interwar successor, were greatly exaggerated. This is now widely accepted, although
many pre-1914 practitioners and specialists had already seen through the naturalistic
mechanics of Hume’s gold standard model. Many were clearly aware that managing the
gold standard was “an art and not a science”.

Much of the revisionist attack on the
gold standard has further debunked this mechanistic model, dismantling brick by brick
its supposed powers: self-adjusting money supplies; automatic adjustment of relative
price structures; self-correcting trade imbalances; price stability and so forth. Of course,
not all proponents of the gold standard accepted this list uniformly. Many orthodox
writers, from Ricardo through to Jevons, Marshall and Fisher, realised any price
stability accorded by adherence to a gold standard is purely coincidental. There is no
reason why the supply and demand schedules for gold should display any more stability
than those for boiled eggs or Persian carpets, at least in the medium to long-term.

That the automaticity of the gold standard proved to be illusory should come as no
surprise unless one believes in the self-regulating nature of markets. The concept of
automaticity was theoretically driven by the price-specie-flow mechanism, which in
turn was based on a quantity theory of money - a theory dependant on the neutrality of
the money-form. This venerable argument – originally a key weapon in the attack on
mercantilist hoarding (most elegantly argued by Hume) suggests that changes in the
money supply, at least in the longer-term, simply lead to an equivalent change in
absolute price levels, leaving relative price structures (so-called ‘real’ variables)
unaltered. The theory of neutrality drives a wedge between the nominal and real
economy, allowing mainstream economics to blissfully model capitalism as a kind of
complex barter economy. As previous chapters have shown, thinkers as diverse as

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8 For a brief exposition of the working of the specie-flow mechanism, see William R. Allen (1991), ‘Specie-flow
Palgrave*, Macmillan Press, London. On the neutrality of money, see Chapter 4, as well as Don Patinkin (1992),
Marx, von Mises, Hayek (who introduced the concept of neutrality to the English-speaking world in his 1931 *Prices and Production*) and Keynes have all argued that the neutrality of money is a chimera. The capitalist economy can only be understood as a monetarized economy. Indeed, it is money and its non-neutrality that makes capitalism unique. Money, in other words, is a powerful force for better or worse - reflecting not only the antagonistic and contradictory foundations of capitalist class relations, but also the possibility of manipulating and controlling these same social relations.

Yet the revisionist attacks on the automaticity of the gold standard while correct to a point, run the risk of ignoring more fundamental social and political aspects of the gold standard.9 Focusing solely on the falsity of the technical arguments made to justify a return to gold fails to ask why such arguments were used at specific historical moments. With this in mind, it is intriguing to note the classic modern statement on automaticity occurred *after* the collapse of the classical gold standard.10 Pivotal in establishing what would rapidly assume an orthodoxy on the pre-1914 standard was the United Kingdom’s Committee on Currency and Foreign Exchanges after the War (the so-called Cunliffe Committee, after its chairman and the Governor of the Bank of England, Lord Cunliffe). Established in January 1918 and releasing its *First Interim Report* in August, its key recommendation was the gold standard “should be restored without delay”.11 Amidst the growing threat of a debilitating cycle of class struggle, the Cunliffe Committee’s stylised model of the classical gold standard seemed blessed with the attributes of an atomic clock, regulating the global economy with all the neatness and parsimony the troubled bourgeois mind could wish for. According to the Committee, the classical gold standard ensured “an automatic machinery by which the volume of

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10 By modern I mean from the establishment of the classical gold standard, that is from about 1880 onwards.

purchasing power in [the United Kingdom] was continuously adjusted to world prices of commodities in general”. Furthermore, “the creation of banking credit was so controlled that banking could be safely permitted a freedom from state interference which would not have been possible under a less rigid currency system”.12

The simplistic adjustment mechanisms of the Cunliffe model - hinging on the neutrality of money - were clearly false. But we should be careful not to miss the message contained in its analysis and subsequent recommendations. The appeal to automaticity by the Cunliffe Committee was a call to re-instate the mythic foundations of the gold standard. While the return to gold was, at least in 1918 an obvious strategy to re-subordinate social reproduction to the dictates of capitalist accumulation, the supposedly automatic mechanisms offered by the Committee as technical analysis are better understood as a promise of a return to the status quo. Automaticity in other words was code for a return to working class acquiescence to the untrammeled exigencies of capitalist accumulation – a promise of political quietism and untainted scarcity relations. The method to achieve this was through the reimposition of austerity over the social relations of production. For the Cunliffe Committee, the allure of cheap money was to be avoided, and all shortfalls “must be made good by genuine savings” – a view attacked by Morgan-Webb as “exhibit[ing] a callous and supercilious indifference to internal prosperity and welfare”.13 While the promise proved empty in the face of a rapidly strengthening working class composition, it illustrates how a political reading goes beyond the new orthodoxy of the revisionist attacks on the Cunliffe model.

This brings us back to the gold standard itself – an international monetary regime designed to enforce a rigid system of fixed parities through a blend of technique, established practices and social conventions, the so-called ‘rules of the game’. The eternalism of fixed parity rates and mobility of gold - the heart of the gold standard –

12 Ibid, p172.
appeared to guarantee the old capitalist pipe dream of true world money - where time and space no longer appear as historical and thus contested social categories. In such a state of timelessness, one could easily presuppose the endless repetition of work – a promise of crisis-free accumulation as crudely modelled by Say's Law. Gold was the corollary to these time-less, crisis-free social relations: a corporealised thing that promised the eternal subordination of society to the exigencies of capitalist reproduction. Gold as world money appeared as final arbitrator over the pyramid of profane monies. Convertible national monies could be viewed as tokens, simply IOUs redeemable at will. In spreading a golden web across the world market, the gold standard promised a final resolution to the infinite regression of the value-form.

Of course, only those who understood money as a thing rather than a social relationship could believe in this apparent resolution. The power of the gold standard to act as an effective strategy of class control depended in the final instance on maintaining a belief in its own immutability. Once this shattered - denaturalising the parity system of fixed exchange rates - the gold standard was laid bare to reveal a social construction reflecting a contingent balance of class forces capable of rapid permutation. Once questioned, the mythical foundations of gold as world money unravelled. As this penultimate form of social but independent wealth frayed, so did the mechanisms underpinning the successful operation of the gold standard. Of greatest importance was the growing preponderance of destabilising flows of short-term private capital. This breakdown occurred through a process of politicisation of money itself, revealing the gold standard as another mechanism of social power. Exposed lay the raison d'etre behind the myth - its goal of social control - and its weakness - that it depended not on some natural and eternal truism, but rather on the ability to impose this class control.

This Chapter does not provide a detailed history of the gold and gold-exchange standards, but rather seeks to read these regimes politically. Highlighting the

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14 An effective gold standard requires both fixity and mobility to work. Both the UK and Sweden were technically 'on gold' at the close of the Great War, although this was meaningless as a total ban on the export (UK) and import (Sweden) of gold existed in each country.
15 For a modern version of this argument, see David Glasner (1989), Free Banking and Monetary Reform, Cambridge University Press, Cambridge, p93.
differences between the two regimes, I suggest the source of these lies in the dramatic recomposition of the working class that broke down the pre-1914 balance of class forces. Developments in the labour process together with rapidly changing modes of political organisation gave rise to the mass worker. Militant, franchised, organised and spontaneous, the rise of the mass worker altered forever the terrain of class struggle and ultimately economic science itself as it struggled to incorporate this new working class subjectivity as an engine of capitalist accumulation. Before examining this changing terrain of class struggle and the short, violent trajectory of the inter-war gold exchange standard, section 5.2 provides a more detailed political reading of the gold standard, particularly in its classical guise.

5.2 Reading the Gold Standard Politically

As Friedman realised and Ricardo seemingly did not, under a quantity theory of money it makes little difference if money is gold or paper, for its emasculation through the price and exchange rate mechanisms will occur regardless.\(^\text{16}\) The neutrality of money, in other words, will ultimately prevail. The question then becomes whether neutrality will impose itself without incurring inflation. For hard money proponents such as Friedman and even Hayek, fiduciary money provides significant economic efficiencies if suitable control mechanisms can be developed. For Friedman, fiat money is adequate so long as simple rules controlling its supply can be imposed (Friedman estimated the cost to the US of maintaining a pure gold standard at 1.5 per cent of real GNP).\(^\text{17}\) Hayek however came to believe that only privatised paper money would be able to sustain its value.

Given this, we may wonder at the determination shown in maintaining a system based, following Warburton's terminology (see Chapter 2), on a \textit{convertibility theory of monetary control} seemingly regardless of the social costs demanded. The answer does not lie with an appeal to its superior stability or technical advantages. Instead the


attachment to convertibility rested in the firm belief, at least amongst those with a solid understanding of ‘monetary affairs’, of the efficacy of the gold standard in restricting the supply of money to a level consistent with the application of a strict schema of scarcity pricing. More particularly as Cassel noted, contemporaries saw the principal strength of the gold standard as “the exclusion of all sorts of political influences upon the monetary system”.

The world supply of gold acted as “an absolute but enlightened monarch”, and by rigidly linking this golden fetter to domestic credit-money through fixed rates of convertibility (gold parities), paper money was itself subsumed within a regime of scarcity. Guaranteeing the convertibility of fiat money into a given weight of bullion (or specie) ensured its ‘hardness’. Unlike Goethe’s Devil’s Gold (“Audacity unheard of! - foul deceit”) - fully convertible paper money is restricted from offering the false prosperity promised by the hand of Mephistopheles, or worse still politicians. Convertibility ensures money retains its social power to intercede between need and object and thus as a moment of command. This as I argued in Chapter 2 is a fundamental premise for the continuance of a social system based on private ownership of property. But to maximise “the dull compulsion of economic relations” requires money itself to be scarce, imposing rigid barriers on the endless acts of market exchange. It must be ‘hard’, using the parlance of the adherents to theories of convertibility. Soft money, argue gold bugs such as Rothbard, allows one to “consume without producing, and thus seize the output of the economy from the genuine producers”. Money as both regulator and messenger of scarcity relations must “only be obtain[able] by purchasing it with one’s goods or services”, which for the bulk of us is of course our labour power. This as Kalecki noted, is “a moral principle of the highest importance [to the]... fundamentals of capitalist ethics... requir[ing] that ‘you shall earn

your bread in sweat’ - unless you happen to have private means”.\textsuperscript{22} For its adherents, the gold standard was an essential corollary to these ethical and material foundations of a capitalist order of boundless work. The blend of puritanism, Victorian priggishness and pious sanctimony that permeated discussions of the gold standard becomes more understandable when we cut through this cant to see the obvious class bias of the gold standard. Its strategic objective was to bolster the law of value, shifting the balance between necessary and surplus labour firmly in capital’s favour.

As mentioned above, the power of the gold standard lay in its ability to impose scarcity value over the monetary pyramid and the external nature of this constraint. For these golden fetters were embedded as constitutional constraints within the state itself, but operationalised at a global level and thus beyond the reach of politics. While gold always provided refuge against despotic government, the increasingly fiduciary base of money during the course of the nineteenth century required its regulation be shifted to the level of the world market. By maintaining convertibility, the “government is... placed in a position in which it must be careful not to disturb unduly, or incur the disapproval of many people with property to protect”.\textsuperscript{23} It allows the old adage “we have gold because we cannot trust governments” to take on new possibilities. Instead of the sterile act of hoarding, private owners of social wealth could take advantage of the option of systematic conversion and flight. This served the dual purpose of protecting the social power of money while simultaneously creating a permanent threat of crisis hanging over the rapidly evolving liberal-democratic state-form. As Clarke notes, “the convertibility of the currency secured the subordination of the powers of the state to the power of money by securing the subordination of the domestic currency to gold and silver as world money”.\textsuperscript{24} Table 5.1 illustrates the expanding global reach of these golden fetters during the course of the nineteenth century (and the desperate attempts of


\textsuperscript{24}Simon Clarke (1988), \textit{Keynesianism, Monetarism and the Crisis of the State}, Edward Elgar, Aldershot, p93.
peripheral members to remain in this ‘club’ despite the social costs and subsequent upheavals).

Table 5.1  Chronology of Adherence to the Gold Standard
(Nine Countries circa 1850 – 1914)

<table>
<thead>
<tr>
<th>Country</th>
<th>Period</th>
<th>Standard</th>
<th>Reason for Change</th>
<th>Change in Parity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>1853 – 1914</td>
<td>Gold</td>
<td>War</td>
<td>No</td>
</tr>
<tr>
<td>Australia</td>
<td>1852 – 1915</td>
<td>Gold</td>
<td>War</td>
<td>No</td>
</tr>
<tr>
<td>United States</td>
<td>1792 – 1861</td>
<td>Bimetallic (de facto gold after 1834)</td>
<td>War</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>1862 – 1878</td>
<td>Paper (Greenbacks)</td>
<td>War</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>1879 – 1917*</td>
<td>Gold</td>
<td>War</td>
<td>No</td>
</tr>
<tr>
<td>Italy</td>
<td>1862 – 1866</td>
<td>Bimetallic</td>
<td>Lax fiscal policy, war</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>1866 – 1884</td>
<td>Paper</td>
<td>Lax fiscal policy</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1884 – 1894</td>
<td>Gold</td>
<td>Crisis</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1894 – 1914</td>
<td>Paper</td>
<td>Crisis</td>
<td>Yes</td>
</tr>
<tr>
<td>Spain</td>
<td>1868 – 1883</td>
<td>Gold</td>
<td>Crisis</td>
<td>Yes</td>
</tr>
<tr>
<td>Portugal</td>
<td>1872 – 1891</td>
<td>Gold</td>
<td>Crisis</td>
<td>Yes</td>
</tr>
<tr>
<td>Argentina</td>
<td>1867 – 1876</td>
<td>Gold</td>
<td>Lax fiscal policy</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1876 – 1883**</td>
<td>Paper</td>
<td>Lax fiscal policy</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1883 – 1885</td>
<td>Gold</td>
<td>Lax fiscal policy</td>
<td>Yes</td>
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<tr>
<td></td>
<td>1885 – 1899</td>
<td>Paper</td>
<td>Lax fiscal policy</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1899 – 1914</td>
<td>Gold</td>
<td>War</td>
<td>Yes</td>
</tr>
<tr>
<td>Brazil</td>
<td>1857 – 1888</td>
<td>Paper</td>
<td>Revolution</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1888 – 1889</td>
<td>Gold</td>
<td>Revolution</td>
<td>Yes</td>
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<tr>
<td></td>
<td>1889 – 1906</td>
<td>Paper</td>
<td>Revolution</td>
<td>Yes</td>
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<tr>
<td></td>
<td>1906 – 1914</td>
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<td>Revolution</td>
<td>Yes</td>
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<tr>
<td>Chile</td>
<td>1870 – 1878</td>
<td>Bimetallic</td>
<td>Crisis</td>
<td>Yes</td>
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<tr>
<td></td>
<td>1878 – 1895</td>
<td>Paper**</td>
<td>Crisis</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1895 – 1898</td>
<td>Gold</td>
<td>War threat</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>1898 – 1925</td>
<td>Paper</td>
<td>War threat</td>
<td>Yes</td>
</tr>
</tbody>
</table>

* Gold embargo 1917 – 1919, Standard not suspended.
** Failed attempt to restore convertibility in 1881.
*** Failed attempt to restore convertibility in 1887.


The paradox underlying the classical gold standard lay in the low frequency this option to flee was in fact exercised. The gold standard witnessed massive flows of both long and short-term capital as one might expect in a regime characterised by a hypermobility of the money-form. The pre-war world witnessed capital flows that often reached 4 or 5 per cent of national income. Yet these unfettered capital markets led not to ongoing adjustment crises, at least in the gold-standard core (the periphery is a somewhat different story that only accentuates the point being made), but rather one of accommodation in the face of imbalances. In other words, short-term flows were stabilising at the systemic level.

A partial answer to this paradox is provided by the evolving techniques of monetary policy, which helped minimize the actual flow of gold required by the operation of the standard (although gold arbitraging obviously continued). These techniques were developed on the basis of deeper structural transformations weakening the monetary power of gold. Without doubt the key change was a dramatic reduction in the proportion of circulating specie within the domestic money supply. Gold in other words, was beginning to fade as a medium of exchange. Traditionally the circulation of large numbers of gold coin acted as a “front line of defence” in the event of external adjustment, allowing central bank policy to remain passive. In other words, a country’s share of total abstract wealth (gold) would adjust directly through alterations in individual holdings of specie, rather than indirectly through the domestic credit-structure. Central bank reserves acted as a last resort, and attacks on these hoards signalled the need for rapid and meaningful action – essentially the deployment of the discount weapon.

The declining usage of gold coin led inevitably to an increasing concentration of gold within central bank vaults. Indeed central banks actively encouraged the use of paper as a medium of exchange – a key strategy being the issuing of smaller notes. For example, in 1906 the German Reichsbank won the right to issue 50 and 20 Mark notes (the previous limit being 100 Marks), allowing for the withdrawal of gold coins. While this removed the previous buffer provided by the private circulation of specie, it also cleared increasing room for active manipulation of the gold and foreign exchange markets by central banks in order to reduce gold movements. Central bankers rapidly took advantage of this by developing tools that could assist in the management of the gold standard, especially the selling and buying of foreign exchange to smooth out fluctuations if exchange rates moved too close to the gold export or import points. Gold points signalled the band, about half to one per cent, between which exchange rates could fluctuate without triggering gold flows. They reflected the costs of transportation, insurance fees, minting costs and so forth. This mechanism became increasingly

feasible as gold holdings concentrated in central banks, for it was undoubtedly easier, at least for the key central banks, to buy and sell each other’s national paper rather than face the anarchy of the private market. As Hawtrey noted, private holders of gold tended to hoard in times of stress, proving “far less effective than the same amount of gold collected in a central reserve and permanently replaced in circulation by paper money”.27

This transformation was already well advanced under the pre-War standard, although with considerable variation between gold member countries (see Table 5.2). However it was only with the preliminary findings of the Cunliffe Committee in August 1918 that the benefits accruing from centralising gold reserves was officially recognised (although the idea had a far longer pedigree, originating with Ricardo in his Proposals for an Economical and Secure Currency). The Committee recommended restrictions on the internal circulation of specie, given effect with the Gold Standard Act of 1925, which suspended the free coinage of gold and the convertibility of paper money into gold coin, while only obliging the Bank of England to sell bullion for amounts greater than 400 fine ounces. In fact the minting of gold sovereigns had already been largely suspended in 1917 and gold specie was becoming something of a rarity in day-to-day exchanges. Official recognition of the benefits of a gold-bullion standard were further reinforced at the 1922 Genoa Conference, where it was recommended that gold be withdrawn from circulation.28 Gold flows would take the form of official movements of gold bars (bullion), rather than movements of privately held specie. Such recognition simply shadowed events, as $2,670 million in specie drained out of circulation in the UK between 1913 and 1925, replaced in stead by bank notes. During the same period, Europe as a whole witnessed the circulation of gold coins decline by 9.9 billion marks to a trifling 236 million marks.29

28 The Genoa plan actually recommended the further step of establishing a gold-exchange standard as a means to economise on the usage of gold, see section 5.3.
Central bankers also began to intervene in the gold market itself to influence the gold points. By temporarily raising or lowering the effective buying price of gold through a widening or shrinking of the gold points, central bankers could influence the international arbitraging process. These techniques, known as ‘gold devices’, provided an alternative to the use of administrative measures such as rationing specie holdings. The devices employed were diverse and creative – wavering fees and charges, accepting bullion but not foreign specie, interest-free loans for arbitragers, accepting gold at the border but requiring those wishing to convert paper to gold to travel to the capital city and so on as the particular circumstances required. Other possibilities included moral suasion, or the application (or removal) of legal hurdles or ‘red tape’ that impacted on the costs of moving gold.\(^{31}\)

While the changing nature of gold usage facilitated the development of mechanisms to reduce the movement of gold at the margins, it fails to adequately explain why gold movements were overall so small. The discipline of maintaining parity remained inviolate in the final instance, while adjustment to external disequilibrium was still required in the face of huge flows of capital. The answer lies in the fact that a further line of defence protected gold reserves: short-term capital flows. These provided the

\(^{30}\) All dollar references in the thesis are to US dollars.


### Table 5.2 Per Capita Monetary Stock of Leading Countries (1909, millions S’s)\(^{30}\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Monetary Gold</th>
<th>Paper</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>12.54</td>
<td>2.55</td>
</tr>
<tr>
<td>France</td>
<td>23.57</td>
<td>3.82</td>
</tr>
<tr>
<td>United States</td>
<td>18.29</td>
<td>8.71</td>
</tr>
<tr>
<td>Germany</td>
<td>3.15</td>
<td>5.72</td>
</tr>
<tr>
<td>Denmark</td>
<td>7.11</td>
<td>5.44</td>
</tr>
<tr>
<td>Belgium</td>
<td>3.05</td>
<td>18.27</td>
</tr>
<tr>
<td>Italy</td>
<td>8.37</td>
<td>4.29</td>
</tr>
<tr>
<td>Switzerland</td>
<td>18.48</td>
<td>7.82</td>
</tr>
<tr>
<td>Sweden</td>
<td>4.61</td>
<td>6.04</td>
</tr>
<tr>
<td>Norway</td>
<td>5.52</td>
<td>3.17</td>
</tr>
<tr>
<td>Holland</td>
<td>11.69</td>
<td>9.88</td>
</tr>
<tr>
<td>Finland</td>
<td>2.10</td>
<td>3.97</td>
</tr>
</tbody>
</table>

central adjusting mechanism of the gold standard, responding as required to interest rate differentials.32 The notable point about these flows lies in how few times they assumed the characteristics of ‘hot money’. Rather than betting ‘against’ the system these short-term flows acted as stabilisers, minimising the need for corrective action and providing “an important source of support to official reserves at times of strain”.33 While De Cecco provides a dissenting case against this view, his focus is largely on debtor countries such as Italy, whose commitment to convertibility was highly suspect (see Table 5.1).34 Further instability was also introduced by the sometimes uncoordinated nature of central bank operations at this time. Yet overall the point remains that while hot flows of flight money were in evidence, compared to the post-1914 period “they... pale into relative insignificance”.35 This point was reinforced by Lindert’s research, which found it was the “manipulation of short-term flows of capital that the impressive ability of the major centre’s to adjust exchange rates and gold flows in the short run seems to have rested”.36 In other words, the sensitivity of money to marginal differences in its inter-temporal and inter-spatial price, given free rein in open capital markets, did not induce an interrogation of the validity of money’s claim as socially validated wealth, but rather acted to support and vindicate this claim.

This belief in the immutability of convertibility was such that it fostered a deeply held gold fetish – a belief in gold as the final arbitrator of social wealth. As Morgan-Webb


35 Arthur I. Bloomfield (1963), Short-Term Capital Movements Under the Pre-1914 Gold Standard, Princeton Studies in International Finance, No. 11, Princeton, p87. Three major episodes occurred when core gold standard currencies came under pressure from speculative short-term capital movements: 1893-94, when the United States dollar came under pressure due to a confluence of a world-wide depression, banking crises and the rise of bimetallist sentiment; 1905-6 when Russian inflation after the Russo-Japanese War led to large scale flights of capital; and 1911-14 when Germany faced short-term outflows.

noted, "it is one of the characteristics of the gold complex that it is normally satisfied with the illusion of convertibility, and only seeks the reality of the possession of gold in times of crisis". The risk of systemic crises appeared minimal, encouraging capital flows to take the place of movements in gold stocks. Furthermore, strains placed on the standard overall remained fairly minimal, for it was a system characterised by the ex ante avoidance of substantial imbalances rather than ex post corrective action requiring extreme internal price and wage flexibility. Underpinning this was the commitment by core states – particularly France, Britain and Germany - to ensure national money remained 'as good as gold'.

This commitment to maintaining parity rates was beyond question. In the jargon of conservatives, the gold standard acted as a credible "commitment mechanism", establishing contingent rules that bounded policy discretion. These contingent rules ensured monetary and fiscal policies would not be "time inconsistent", newspeak for the successful avoidance of any improprieties in the domestic money supply. The source of this credibility (in orthodox terms a 'stabilisation in the rational expectations of private individuals') was located in the separation and reification of the political and economic spheres that marked the liberal 'night-watchman' state (see Chapter 2). Maintaining the boundaries between these two reified social moments was central to the operation of the classical gold standard, in turn reinforcing the continuation of this separation. Limited enfranchisement ensured the demands on fiscal policy were muted, with welfare expenditures typically below 2 per cent of GDP in the

1880s, while unemployment remained a social pathology labelled ‘pauperism’. “Management of the monetary standard” noted Eichengreen, “was not within the sphere of everyday politics”. The de-politicised status of monetary organisation allowed the market to largely manage the operations of the gold standard ‘on behalf’ of the central banks (either through flows of specie flows or short-term capital). In periods of crisis when gold reserves were under stress, the credibility of key players such as Britain, which relied on a ‘thin film of gold’, allowed the Bank of England to ‘draw gold from the moon’ via the discount rate.

Yet the classical standard held within it the seeds of its own demise. The hairline fracture already evident lay in the latent tension between the internationalism of the gold standard and the still inchoate heresy of monetary nationalism. Ironically this early tension was simply a reflection of “the very success of the gold standard in performing its task of promoting confidence in foreign currencies”. However it also “set the stage for the emergence of a system of currency-reserve manipulation”. The epicentre for shocks rippling along this monetary fault-line was the central banking system itself, for this is where the tension was most apparent. Indeed “it is precisely here that the heresy [of monetary nationalism] is clearly manifested”.

The very existence of central banks - or “ultimate banks” as Bagehot called them - gave lie to the status of gold as world money, for in their role as “those keeping the reserve”, they were instrumental in opening up spaces defined by national currencies. The institutionalisation of national monies within the central bank created a widening gap between ‘world’ and private money that was filled by fiat money. However, the control of national money was clearly an explicitly political action, exposing central banks as

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socially contestable institutions. The true prophets of hard money have ever since sought greater degrees of monetary internationalism, as outlined in Chapter 4. According to this view, the difficulties of the gold standard emerged “because the mixed national currencies – currencies which are largely paper and only partly gold - are insufficiently international... any kind of monetary management runs counter to the principles of the pure gold standard”.\(^{45}\) This mirrors the earlier claim by Williams that, “there is a fundamental conflict between the principle of central banking and the principles of the gold standard”.\(^{46}\)

Domestically the vast increase in private or ‘inside’ money (such as deposit and cheque accounts) made the job of longer-term adjustment through manipulations of the discount rate increasingly difficult for central banks. As the proportion of money directly controlled by central banks grew smaller within the total credit structure, the problem of transmitting changes in the discount rate to the market grew. In other words, it became harder for the gold standard to act as an enforcer of scarcity over inside money and thus over market relations. It forced, as Hayek noted, an increasingly harsh and undiscriminating use of the discount rate to achieve necessary adjustments in the accumulation process. This tendency was further heightened by the central bank practice of enforcing reserve requirements on the banking sector to control the expansion of inside money. These reserves by their very nature transmuted the transmission of gold movements into crude changes in the domestic credit structure as banks expanded and contracted their stock of private money as required. As the technical tasks facing central banks became harder and the required medicine harsher, tools emerged to ‘manage’ and ‘massage’ the adjustment process.

The growing contradictions occasioned by this monetary pyramid saw the traditional mechanisms of adjustment via mad scrambles for gold and the resulting fierce liquidations of credit-money claims challenged by Bagehot’s dictums for central


bankers to discount freely and act as lender-of-last-resort. Crises increasingly appeared as a form of sickness requiring treatment rather than a necessary purging. "A panic" wrote Bagehot, "is a species of neuralgia, and according to the rules of the science you must not starve it". The need to defend growing credit structures (eloquently described by Bagehot in the case of England) against 'world money' led irresistibly to the development of mechanisms to protect often slender gold reserves. In short, central bankers became increasingly ensnared in the contradictory goals of simultaneously protecting and disciplining the growing mountain of profane money. "It is the necessity of 'protecting' reserves rather than letting them go (ie. using the conversion into gold as the proper method of reducing internal circulation)" argued Hayek, "which is the evil". Mixed money regimes, in other words are inherently unstable – a view that was to find historical support over the following decades.

The first stirrings of monetary nationalism would put to pay the pretensions of the gold standard as a regime based on world money. Yet the apparent resolution of the 'nth country' problem through the use of gold as nominal anchor locking in parity rates was fictitious in the first place. As I argued in Chapter 2, the parity-system was itself an expression of the fracturing of the social totality of the world market into the political form of the inter-state system. A pure world money had never existed (even if diachronic value could be integrated into a thing), for a pure gold system never came into existence. The most concrete steps toward a 'pure' system occurred in 1867 where a world conference sponsored by the French sought the creation of a 'universal currency' based on a uniform gold-gram unit. All to no avail, as the plan foundered under imperial pretensions. Yeager's claim to the contrary, that the mint pars between gold standard currencies during the classical period, "instead of being arbitrarily chosen,

47 Walter Bagehot (1873/1915), Lombard Street: A Description of the Money Market, Smith, Elder and Co, London. For example, "the best way... to deal with a drain arising from internal discredit, is to lend freely", p51. On the leader of last resort, see pp26-7.
48 Ibid, p51. Neuralgia is a severe spasmodic pain caused by damage to or malfunctioning of a nerve, often following the course of the nerve. In other words, it is something 'real' rather than a simple mental breakdown, or collapse in the 'Protestant' faith in paper money.
expressed an equilibrium that had evolved gradually between themselves and national price levels” is quite misleading.\(^{51}\) Any definition framed in units of weight, such as the 1791 definition of the dollar as equal to 24.75 grains of gold, the equivalent of $19.39 an ounce, has to be arbitrary (this definition only lasted until 1837 when parity was altered to 23.22 grains, or $20.67 per ounce).\(^{52}\) All Yeager is really saying is that the power of the myth underlying the parity system was strong enough to transform what was merely a definition graced by tradition into one apparently reflecting some immutable, but economically significant equilibrium point. The mechanisms which supported this myth, such as central bank ‘independence’ - tied to liberal conceptions of a night-watchman state - were purely contingent. However, it was only with the passing of the classical gold standard that this became readily apparent - at the very moment when it seemed more pressing than ever to set in place a rigid international monetary regime.

### 5.3 The End of the Old Order and the Return to Gold

The push by the old order for a rapid ‘return to gold’ began even before the guns fell silent on the Western Front (the Cunliffe Committee was established in January 1918). This was hardly surprising given the very fabric of liberal Western civilisation appeared to be tearing apart under “the forces of dissolution”.\(^{53}\) For the forces of order and work, the re-imposition of golden fetters seemed a necessary first step in the stabilisation of the social relations underlying the accumulation process. Fundamental to this project was protecting the integrity of the capitalist nation-state system. “It is evident” Keynes suggested, “that the main effect of an international gold standard... is to secure uniformity of movement in different countries - everyone must conform to the average


behaviour of everyone else. The advantage of this is that it prevents individual follies and eccentricities".  

To the representatives of the old order, the greatest folly of all had recently toppled one of Europe's great powers - transforming it into a menace requiring a cordon sanitaire to halt the spread of Bolshevism amongst Europe's restive working classes. While the Soviet Republic was physically 'quarantined' by a wall of newly formed anticommmunist states, protection against Red ideology was harder to achieve." As Keynes quickly realised, the threat (or promise) of the new Soviet Republic lay in the possibilities it opened - its potential to establish a post-capitalist "religion" far removed from the profit motive.  

Despite the morbid fears of reactionaries, Red Russia had neither the inclination nor the capabilities to conduct economic warfare on the West. Despite the apparent blueprint devised by "the subtle mind of Lenin" to destroy global capitalism through its weakest link - the debauching of the financial system - the reality was far different. Indeed, Bolshevik leaders treated the collapse of the rouble during the phase of War Communism as an unmitigated evil, although by 1921 a more advantageous political strategy was to take credit for this 'successful' attack on the bourgeois monetary system. Hence Preobrazhensky's famous 1921 statement that the printing press had been "the machine gun of the Commissariat of Finance which poured fire into the rear of the bourgeois system and used the currency laws of that regime in order to destroy it".  

The reality more often than not, as I noted in Chapter 2, was that Marxist revolutionaries have made excellent Finance Ministers.

57 Keynes famously but incorrectly attributed to Lenin the claim "that the best way to destroy the Capitalist System was to debauch the currency" - a claim that was "certainly right". See section 3.5. Keynes's point in linking inflation to Bolshevism was obviously didactic.
58 See Maynard Keynes (1926) and Carr(1972), The Bolshevik Revolution, 1917-1923, Volume 2, Penguin Books, Harmondsworth, pp261-2. A second popular argument suggested the collapse of the rouble was in fact a natural progression to a moneyless society - despite this being contrary to the Party line that such a move was impossible before the transition to full communism. Preobrazhensky, the pre-eminent Bolshevik economist after Bukharin (they co-wrote The ABC of Communism in 1919), joked to the tenth party congress in 1921 that as the rouble had depreciated 20,000 fold to the mere 500-fold depreciation of the assignats of the French revolution, "we have beaten
Lenin’s comment was percipient from another angle however. Money and domestic credit structures freed under the exigencies of war financing from the scarcity relations imposed by gold now seemed dangerously vulnerable to political interference by the demagogic demands of populist leaders pandering to the now enfranchised masses. Weber, in critiquing Knapp’s chartelism, clearly recognised this vulnerability for a paper-based monetary system gave free-ride to any particular ‘interests’ sitting in the state saddle, “as was true of the use of the printing presses by the Red armies”. 59 And so the bourgeoisie endeavoured to reinforce the breached walls of the old order, re-establishing its most revered symbol and potent weapon, the gold standard. As Schumpeter noted, the gold standard “imposes restrictions upon governments or bureaucracies that are much more powerful than is parliamentary criticism. It is both the badge and the guarantee of bourgeois freedom - of freedom not simply of the bourgeois interest, but of freedom in the bourgeois sense”. 60

Despite the political will, it took far longer than initially envisaged for most countries to restore this crowning bourgeois glory - Germany establishing convertibility in 1924, Britain following in April 1925, France de facto by 1926 and de jure in 1928 and Italy in 1927 (see Table 5.3). What was not so readily understood however was the delicacy of the mechanisms underlying the classical standard, which once destroyed could not be reinstated simply by the passing of a parliamentary Act or the decrees of a world conference. 61 The inter-war years witnessed a revolutionary transformation in the relationship between labour and capital. Furthermore, the state itself was not immune to these changes and its recomposition was too advanced, its commitment in the face of...
multiplying and often contradictory policy goals too uncertain, for the market to play
the same role as it had under the classical standard. The final collapse of the inter-war
standard was in a sense overdetermined. Before examining these transformations

Table 5.3  Dates of Changes in Gold Standard Policies

<table>
<thead>
<tr>
<th>Country</th>
<th>Return to gold</th>
<th>Suspension of gold standard</th>
<th>Foreign exchange control</th>
<th>Devaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>4/25</td>
<td>4/33</td>
<td>10/31</td>
<td>9/31</td>
</tr>
<tr>
<td>Canada</td>
<td>7/26</td>
<td>10/31</td>
<td>-</td>
<td>9/31</td>
</tr>
<tr>
<td>Denmark</td>
<td>1/27</td>
<td>9/31</td>
<td>11/31</td>
<td>9/31</td>
</tr>
<tr>
<td>France</td>
<td>8/26 – 6/28</td>
<td>-</td>
<td>-</td>
<td>10/36</td>
</tr>
<tr>
<td>Germany</td>
<td>9/24</td>
<td>-</td>
<td>7/31</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>12/27</td>
<td>-</td>
<td>5/34</td>
<td>10/36</td>
</tr>
<tr>
<td>Norway</td>
<td>5/28</td>
<td>9/31</td>
<td>-</td>
<td>9/31</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4/25</td>
<td>9/31</td>
<td>-</td>
<td>4/30</td>
</tr>
<tr>
<td>Poland</td>
<td>10/27</td>
<td>-</td>
<td>4/36</td>
<td>10/36</td>
</tr>
<tr>
<td>Sweden</td>
<td>4/24</td>
<td>9/31</td>
<td>-</td>
<td>9/31</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5/25</td>
<td>9/31</td>
<td>-</td>
<td>9/31</td>
</tr>
<tr>
<td>United States</td>
<td>6/19</td>
<td>3/33</td>
<td>3/33</td>
<td>4/33</td>
</tr>
</tbody>
</table>


further in section 5.4, it is worth examining the actual mechanics of the inter-war
standard in detail, for it illustrates the growing incoherence of monetary
internationalism as a strategy of class control.

These weaknesses found institutional expression in the growing binds ensnaring the
central bank system. In one sense the inter-war years seemed to vindicate the necessity
of central banking. Central banks were increasing in number, while their roles and
institutional structures were becoming more formalised. From the turn of the century to
1920 the number of central banks only increased by three – from 17 to 20. In the
following twenty years however the figure more than doubled to 42.62 The new apostles
of central banking, such as Sir Otto Niemeyer and Professor Edwin Kemmerer, travelled
forth to Eastern Europe and Latin America to spread the word.63 Furthermore, central
bank independence became a key tenet of Bank of England thinking at the close of the
Great War, assuming more general acceptance in resolutions passed at the Brussels

(1920) and Genoa (1922) conferences. The goals of central bank establishment or formalised independence were often achieved through the mechanism of conditional reconstruction loans during the 1920s (especially in Eastern and Central Europe – key spatial barriers against the further spread of Communism). Similarly, the German Reichsbank became independent from political interference as part of the 1924 Dawes Plan.

Yet the key mechanism supposedly protecting central bank independence from political interference – the gold exchange standard - proved ineffective and ultimately illusory. Contemporaries were well aware of central bank vulnerability to capture by forces hostile to the untrammelled workings of the capitalist economy. As Theodore Gregory (conservative LSE Professor and member of the 1930 Macmillan Committee) noted in his cautious welcome of Britain’s return to gold in 1925, “the future political outlook of Europe is uncertain, the Central Banks, children of a Liberal Age, are surviving into an age of Socialisation and vigorous class opposition. To expect that they will be able to withstand the demands of Ministers of State, without the support of the gold standard – or even with it – is to belie all experience”.

Gregory’s fears were well founded. By the 1930s the political ‘independence’ of central banks was waning under the rising pressure of the new science of monetary nationalism. In some cases Treasuries and other organs under the direct control of the state began to assume the reigns of monetary management. In other cases, the central banks themselves, especially those formally created in the 1930s by a number of primary producers such as Argentine, Venezuela, Canada, India and New Zealand, were explicitly charged with deflecting the deflationary pressures crushing their economies. In the case of the United States, the Banking Act’s of 1933 and 1935, together with the Gold Reserve Act of 1934, saw the Federal Reserve System, centred now in Washington, assume the reigns of monetary power at the expense of Wall Street (see

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Chapter 6). With the state-form undergoing rapid transformation, the various measures
designed to protect monetary internationalism suddenly appeared fragile and hopelessly
inadequate. Furthermore, the shift back to fixed parities not only illustrated the political
choices involved in the return to gold, but also raised questions over the ability to
defend these clearly mutable and thus ‘demythologised’ gold parities. As Schwartz
notes, the very act of determining the ‘correct’ parity “violates the mystique of the
standard”. For now the price “becomes a political system, the opposite of the freedom
of the standard from political influence that underlay its mystique”. In short, the
problem of the infinite regression of the value-form again began to haunt global capital.
The problem was exacerbated from the start as key players, particularly Britain, sought
to re-establish pre-war parities despite wartime inflation. As Keynes pointed out, a rate
of $4.86 required a general decline of 10 per cent in Britain’s price structure. The issue
was one of credibility. If parity altered once it would be forever suspect, vulnerable to
the whims of mass participatory democracy. France appeared to provide ample
demonstration of the dangers posed by politicising parity rates. Gridlocked by class
struggle during the first half of the 1920s, institutionalised through a widened franchise,
working class agitation saw socialist parties imposing a 10 per cent levy on holders of
capital to make up for fiscal shortfalls in 1925. Vast flows of capital fled these new
dangers, although the wealth tax was shortly overturned. While there were short-term
benefits as French exports soared after parity was finally established at one fifth its pre-
war level, the memory of the internal threats posed by politicised money continued to
hang over French capital like the sword of Damocles.

The inter-war return to gold was forced to assume a form that recognised the
transformations already shaping the organisation of money, but at a cost of further
heightening the contradictions observable even within the pre-war gold standard. Two
tendencies in particular became evident, reflecting deep tensions between commodity

67 Maurice Obstfeld and Alan M. Taylor (1997), The Great Depression as a Watershed: International Capital
and fiduciary money that in turn expressed the growing spatial wedge between national and ‘world’ money. Firstly, as formally recommended at the Genoa Conference (under Resolution’s 9 and 11) the inter-war standard allowed, in the interests of ‘gold economy’, for the holding of backing reserves “in the form of foreign reserves” (as long as these were in turn convertible into gold, that is the establishment of a number of ‘gold centres’). In other words it legitimated a gold exchange standard – an option taken up by a large number of countries on a unilateral basis, especially those who restored their currencies with the assistance of the Financial Committee of the League of Nations. In 1913, the average holding of foreign exchange for 15 European central banks was approximately 12 per cent. By 1924 (for 24 central banks), the average had increased to 27 per cent, before climbing to a high of 42 per cent in 1928. Table 5.4 provides further evidence of the growth in foreign exchange holdings. Many commentators such as Ralph Hawtrey (chief economist in the British Treasury for many decades), considered the creation of ‘paper gold’ one of the finest inventions of “modern economic civilisation”. Yet the goal of widening the reserve base to reduce deflationary scrambles for gold raised contradictions that were to become famous thirty years later as the so-called Triffin dilemma.

Yet it was already clear to at least some contemporaries that the inter-war exchange standard was constructed on highly unstable foundations. By 1929 Dr Feliks Mlynarski was suggesting this “monetary alchemy” was little more than a competition between “the efficiency of the printing-presses... with the output of gold mines”. More fundamentally, the gold-exchange standard was “nothing other than an accumulation of short-term credits... facilitating the adjournment” of adjustment. Ultimately, equilib-

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72 Feliks Mlynarski (1929), Gold and Central Banks, Macmillan Co, New York, pp29-60.
Table 5.4 Foreign Exchange Held
($ millions)

<table>
<thead>
<tr>
<th></th>
<th>December 1924</th>
<th>December 1928</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>48.8</td>
<td>88.8</td>
<td>39.7</td>
</tr>
<tr>
<td>Belgium</td>
<td>5.8</td>
<td>78.8</td>
<td>73.0</td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td>21.8</td>
<td>74.4</td>
<td>52.6</td>
</tr>
<tr>
<td>Italy</td>
<td>30.2</td>
<td>316.8</td>
<td>286.6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>45.0</td>
<td>88.4</td>
<td>43.4</td>
</tr>
<tr>
<td>Poland</td>
<td>49.0</td>
<td>59.1</td>
<td>10.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>36.4</td>
<td>67.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>37.2</td>
<td>49.0</td>
<td>11.8</td>
</tr>
<tr>
<td>Colombia</td>
<td>15.8</td>
<td>38.6</td>
<td>22.8</td>
</tr>
<tr>
<td>South Africa</td>
<td>12.6</td>
<td>38.4</td>
<td>25.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>302.6</strong></td>
<td><strong>889.6</strong></td>
<td><strong>587.0</strong></td>
</tr>
</tbody>
</table>


rium “becomes more artificial and less fundamental” for the “acceleration of the adjustment of the rate of exchange is attained at the price of a delay in the adjustment of prices”. Such a system is always open to embarrassment, for at any moment these short-term credits may be called in. As Mlynarski notes, “the possibility of an actual exercise of these rights cannot be eliminated, as the legal possibility of such a realisation in gold centres constitutes the very foundation of the gold exchange standard”. In fact, the risk posed by creditors seeking final settlement on this paper gold was realised shortly thereafter. By 1932, foreign reserves were down to 8 per cent, as one currency after another fell off the standard, “attacked through its own heel of Achilles... an epidemic of Midas’ disease”.

The second tendency, counterpoised to this attempted move towards greater flexibility, was an increasingly-rigid adherence to reserve requirements as the 1920s progressed. One state legislature after another began to stipulate legal requirements enforcing a minimum gold backed reserve, usually somewhere between 30 and 75 per cent.

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73 Ibid, pp79-90 (italics in the original).
75 Examples include Germany in 1924 (75 per cent), Albania in 1925 (33 per cent), Belgium and Poland in 1927 (75 per cent) and Romania in 1929 (70 per cent). Some countries were also formally required to hold reserves comprising only of gold, such as Australia and Norway, although in practise they also held large holdings of foreign exchange.
76 Richard N. Cooper (1982), ‘The Gold Standard: Historical Facts and Future Prospects’, *Brookings Papers on Economic Activity*, (1), p20. Two distinct reserve systems were in operation, reflecting differences in banking policy that derive from the nineteenth century (reflecting the limited understanding of near monies such as deposit accounts at the time). Older banks such as the Bank of England and the Norges Bank used a fixed fiduciary system where any note issues over a set limit were required by statute (such as the Banking Act of 1844) to be fully backed by gold. Other banks, particularly on the Continent, used a proportional reserve system, where a certain proportion prescribed by law (for the Bank of France 35 per cent) of their notes and deposits was to be covered by gold. See C. H. Kisch
UK the Cunliffe Committee had already recommended the re-imposition of a fiduciary limit similar to the restrictions of the Banking Act of 1844 – a figure that became known as the ‘Cunliffe Limit’. This recommendation received further support in 1925 from the Report on the Committee on the Currency and Bank of England Note Issues before gaining final government imprimatur with the passing of the Currency and Bank Notes Act of 1928. As the Gold Delegation noted in 1930, reserve requirements were “more generally adopted than before the war, and frequently in a more rigid form”. It was as Nurske observed, an effort analogous to ‘window dressing’ - a credibility building exercise suggesting a continuing commitment to the (related) goals of maintaining convertibility and scarcity of national money (reserve ratios of course limiting the ability of central banks to pseudo-validate new money). Indeed, for critics such as George Cole - socialist economist and member of the Economic Advisory Council and Committee on Economic Information during the 1930s (along with Keynes) - forcing central banks to hoard gold through purely arbitrary limits placed on fiduciary issues “is in reality absolutely useless and without function”. For monetary nationalists like Cole, scrapping these ‘superstitious’ practices was essential in fighting the deflationary tendencies of the gold-exchange standard, for they only exacerbated the scramble for gold by central bankers.

The obvious outcome as these two counter-tendencies fed into each was a series of increasingly destabilising feedback loops. The need to defend gold made the use of foreign reserves increasingly attractive by deferring adjustment, but at the cost of heightening Mlynarski’s dilemma, in turn increasing pressures on gold reserves. Indeed, the relationship between internal and external adjustment came increasingly to the fore as a policy dilemma. Many states showed a growing hesitancy in allowing the necessary credit-squeezes required by the adjustment mechanisms of the gold-exchange

standard. Central-bankers began to use their reserves as "'buffers' or 'insulators'" rather than 'transmitters'. 
Sterilisation became increasingly frequent, as states, both those in surplus and deficit, sought to delay the day of reckoning. 
For deficit countries in particular, this failure to 'play by the rules' was a dangerous strategy, for it could rapidly trigger a crisis, forcing in extremis a suspension of convertibility.

The most fundamental transformation in the operation of the inter-war regime was the reversed polarity of short-term capital flows. Rather than acting as a force alleviating the need for central banks to continuously deflate or reflate, they actually heightened imbalances. Raising discount rates - the major pre-war weapon available to central bankers - now signalled to the market weakness rather than resolution, leading to further capital flight in the expectation of devaluation. "In the post-War world raising the discount rate to stop a panicky flight of capital has been a failure", argued Williams. Instead, it has "been taken as a symbol of fear that further flight would break the currency, which has led to further flight... a phenomenon of fear and uncertainty".

Flows of hot money, "instead of acting as stop-gaps... create new gaps or widen those [already] existing", dramatically escalating the dangers of full-blown currency crises. 

The discursive understanding of monetary symbolism had turned upside down under the gold-exchange standard. In the new era of politicised fiat money, the markets no longer believed in the state's commitment to enforcing hard money and social discipline, "subject[ing] the authorities' stated commitment to early and repeated test". As Bertil Ohlin noted, "there has been a growth of semi-speculative psychology among

capitalists, who have become aware of risks which they never before considered and thus have become prepared to export capital on the slightest provocation." The mythic foundations of bourgeois society had shattered, destroying in the process the illusion of a gilded world money and extinguishing the auri sacra fames.  

With the onset of banking crises and the deflationary spiral of the Depression, state after state succumbed, falling off the standard in rapid succession. Central banks found it impossible to preserve the domestic banking structure without triggering off-setting outflows of capital, creating convertibility crises as international reserves threatened to fall below statutory reserve requirements. The immediate response, in line with orthodoxy, was to deflate: “Liquidate labour, liquidate stocks, liquidate the farmers, liquidate real estate”, thundered Andrew Mellon, Secretary of the Treasury. The costs were enormous, futile and unsustainable. Of the $494 billion of deposits which existed in the United States as at 30 June 1929, only $32 billion were left four years later - a massive extinguishing of credit-money. The hope that “people will work harder” through the destruction of profane money dragged down both capital and large sections of the working classes. Yet the costs of this external constraint proved impossible to bear. Britain, in the face of severe unemployment, devalued and ceased honouring its gold parity in 1931, dragging a further 24 other countries off with it to form the Sterling Bloc. The final blow arrived with the US announcement of a devaluation at the opening of the 1933 World Economic Conference (see Table 5.3). In the final section I seek to throw further light on these “new risks” that Ohlin suggested were becoming apparent to capital, spelling the end of any return to a rigid internationalism.

5.4 A Barbarous Relic? Gold and the Rise of the Mass Worker

Schumper’s notion of bourgeois freedom was in fact already strategically and politically outmoded by the inter-war years, a situation perhaps not always apparent until the Great Depression. As one German financier exclaimed in 1931, “the common [bourgeois] vision of the future has been destroyed”. The failure of the gold exchange standard seems, at least retrospectively, a fait accompli, for it required the very freedom it was supposed to guarantee. Rather than freedom, the inter-war regime offered restrictions, limited choices, dilemmas and ultimately incoherent policies, made worse by destabilising market reactions as the internationalism of the gold exchange standard appeared increasingly diluted.

The declining credibility of the adjustment mechanisms available to the gold exchange standard simply reflected the growing rigidity of the working class, in particular the willingness or even ability of labour to adjust its ‘price’ downwards as required. Kindleberger dates this sudden global ‘asymmetry’ in the social relations of production from the collapse of the short post-War inflationary boom in 1921. The importance of this cannot be underestimated. As Eichengreen and Temin argue, wage flexibility “is the only way open under the gold standard…. Calling for lower wages is the discourse of the gold standard because this call follows from the mechanics of the monetary system”. In the same year as Britain’s return to gold, Keynes issued a warning that the assumption of “mobility of labour and a competitive wage-level… no longer exist; and that they [gold standard proponents] have not thought the problem through over again”. A further warning was made seven years later in 1932 by that modern apostle of scarcity, Lionel Robbins. “If we are to avoid inflationary disturbances” argued Robbins, “the authorities in different centres must work the gold standard on lines much more severe than those which have been the rule in recent years”. Most importantly

“the policy must be directed to restoring the freedom of the market in the widest sense of the term...[including] the removal of those causes which produce internal rigidity – rigid wages, rigid prices, rigid systems of production – which in the period since the war, have deprived the economic mechanism, particularly in this country, of its power of adaptation to external change”.93

While few commentators other than the fiercest proponents of hard money were concerned by the spectre of inflation in 1932, the rigidity of the working class clearly presented a problem of the highest order, for its corresponding effect was to make gold’s claim to world money status appear increasingly brittle. And this in a situation where ‘dear money’ in the form of high short-term interest rates was used frequently across a number of countries.94 While the political backlash against the deflationary policies required by Britain’s return to gold - beginning with the coal miners before snow-ball ing into the General Strike of 1926 – was worrying, even more disturbing must have been the unresponsiveness of British prices to the discount weapon. This was wielded with unprecedented and sustained ferocity in the second half of the 1920s. The Bank rate was raised to 5 per cent in 1925 – a rate at which it hovered for the next 22 weeks, followed by 17 weeks at 4.5 per cent before returning to 5 per cent for a further 72 weeks. All this was undertaken in a period where Britain was only just recovering from the 1921-22 depression – a violent reversal of previously accepted practice. Yet the most amazing aspect to this entire episode was “the remarkably moderate effect as measured by the fall in prices”.95 By September 1929 the Bank rate had again increased to 6.5 per cent – an extremely high rate in real terms.

Of course, it was not just the inflexibility of wage levels, but increasing unease over whether the state could withstand working class pressure against the application of these harsh deflationary policies. While Britain’s sterling effort to maintain parity through

the ruthless application of the discount weapon was admirable, the only result to emerge was rising unemployment. As Hawtrey noted, adjustment requires that “either wages must be reduced, or production would shrink and capital and labour would be under-employed”.96 Yet as we saw in Chapter 3, the discursive meaning of unemployment was undergoing profound changes. Replacing the Victorian ideology of unemployment as either moral failing or social pathology was a more technocratic understanding. Unemployment was a signal of market failure rather than individual flaws, and as such it was open to mitigation through economic management. In short, a second internal equilibrium point was forming – full employment – spatially defined by the boundaries of the national economy. An excellent example of this new thinking is provided by Cole, who argued “the State, and not the private employer, has to bear the burden of maintaining the unemployed”.97 For Cole, who wrote extensively in an attempt to demystify money, the key step to the State’s acceptance of this responsibility lay in removing the ‘superstitions’ of financial orthodoxy and the linkage of currency supply to the ebb and flow of gold.

On the other side of the Atlantic, demands were also growing for counter-cyclical policies to alleviate unemployment, fuelled by a strong local tradition of underconsumptionism and inflationism. By the late 1920s, business-cycle theory was gaining increasing prominence, especially as popularised by the underconsumptionists William T. Foster and Waddill Catchings.98 While theoretically unsophisticated, these early attacks on Say’s Law clearly implied a role for counter-cyclical policy to restore the purchasing power of the working class. Indeed, such proto-Keynesianism was not restricted to ‘monetary cranks’ for as Hayek complained, these ‘inflationist’ policies “are put forward to-day by economists of very high repute. They are the prevalent fashion of contemporary economics”.99 In late 1930, the Emergency Committee for

96 Ibid, p123.
98 Their ‘scribblings’ were widely disseminated amongst periodicals and newspapers, with their most successful book, The Road to Plenty (1928) presumably providing the title for Hayek’s own later intervention in the planning debate, The Road to Serfdom, given Hayek was extremely familiar with the book (it being a major target of Hayek’s 1931 ode to scarcity, see below).
Federal Public Works call for a $1 billion program gained the endorsement of over ninety economists, while Frank H. Knight informed Senator Robert Wagner in 1931 that, “as far as I know, economists are completely agreed that the Government should spend as much and tax as little as possible at a time such as this”.100

Such demands were revolutionary in their potential, for they demanded “the relative autonomy of the cycle of the maintenance of the social labour force in relation to the cycles of the reproductions of capitals”.101 While the final outcome would only became clear some years later, the fundamental transformations taking place in the social relations of production in the 1920s and 1930s would require new strategies of monetary organisation, forever destroying the possibility of a ‘return to gold’. A brief examination of the US context provides a useful example, highlighting both these transformations and disposing of the myth of US exceptionalism.102

At the close of the Great War, American capital was facing an “unprecedented revolt of the rank and file”. The conclusion seemed clear: “authority cannot any longer be imposed from above; it comes automatically from below”.103 At the confluence of the Progressive and New Eras, it seemed labour had entered a decisive new phase in its organisation. Union membership, standing at 2,716,900 in 1914, had risen to 5,110,800 by 1920. Labour militancy peaked in 1919 with over 4 million workers - 20 per cent of the labour force - on strike during the course of this single year.104 Yet the 1920s emerged as a period of immense defeat for the American Federation of Labour (AFL), signalling a decade of impotence, stagnation and political quietism. Unions suffered a

102 This exceptionalism includes claims over the limited role of class struggle in the US and general over statement of the differences in the historical development of Western European and US class relations.
serious of setbacks that drastically cut union membership, with numbers falling from over 5 million in 1920 to 3.5 million by 1924.¹⁰⁵

Despite this massive setback for organised labour, the contradictions of the drive system foreclosed any headlong flight back to pre-war strategies of labour management.¹⁰⁶ Atomisation by scientific management and homogenisation through technological innovations transformed a semi-skilled workforce into a socially massified working class. It was not surprising that it was in America where the class struggle flared brightest at the point of production. As Castoriades argues, “it is no accident that, after Taylorism, the ‘human relations’ movement developed in the United States with the aim of inventing techniques capable of taming workers’ incessant revolt against capitalist production relations”.¹⁰⁷ Three disruptive characteristics of the mass worker impressed themselves on capital. Firstly, as the massive increase in foreman numbers suggested (rising from 90,000 in 1900 to 296,000 in 1920, a rate of increase three times faster than total employment in manufacturing), there was the growing ability of informal work groups to set the pace of production. “Time study” wrote Mathewson in 1931, “owes its origin largely to the feeling of working people... that they must hide from their employers their real capacity for work”.¹⁰⁸ Closely related was the rising class awareness of these mass workers. Commenting on autoworkers, AFL official William Green claimed, “I know their state of mind... They are so closely related and inextricably interwoven they are mass minded”.¹⁰⁹ Finally, the sheer difficulty of maintaining a stable workforce in the face of extremely high turnover rates, reflecting

¹⁰⁵ Reasons included the sharp depression of 1921-22, the rapid abandonment of the labour movement by the Wilson administration, highlighted in a series of Supreme Court decisions backing the use of anti-union sanctions, legitimating yellow-dog contracts, forbidding mass picketing and so on. Finally there was the launch of the American Plan - the anti-union offensive by employer groups over ‘open shops’ and ‘the right to work’

¹⁰⁶ The drive system had three central organizing principles: (i) the reorganizing of work under the scientific principles of Taylorism and Fordism; (ii) increasing plant seize; and (iii) increasing expansion of foreman’s supervisory and disciplinary roles. See David Gordon, Richard Edwards and Michael Reich (1982), Segmented Work, Divided Workers: The Historical Transformation of Labor in the United States, Cambridge University Press, New York, p128.


"discontent... [and] revolt against the routine monotony and drudgery of modern repetitive factory work".\textsuperscript{110}

While the strategy of welfare capitalism - "one of the most ambitious social experiments of the age... aim[ing], among other things, to counteract the effect of modern technique upon the mind of the worker, to prevent him from becoming class conscious and from organising trade unions"\textsuperscript{111} - appeared effective in controlling the mass worker, this was short-lived. Indeed, the Briggs Auto strike in 1933 was followed by a 17 year burst of sustained labour unrest. Initially militant and largely spontaneous, this wave of unparalleled class struggle only ended with the formation of mass industrial unionism (see Chapter 6). It was in fact the opening salvo of the New Deal that igniting this militancy, as section 7(a) of the \textit{National Industrial Recovery Act} of 1933 (NIRA) appeared to provide an exemption from anti-trust laws for workers seeking to organise unions, leading to a wave of ‘NRA strikes’ across the country.\textsuperscript{112}

Instigated at grass-root level rather than by AFL officials, this burst of radical democratic unionism based on the \textit{generalised} class struggle of the mass worker had a dangerous aura about it. The strike of San Francisco’s longshoremen mutated into a General Strike across the city in 1934, leading General Hugh ‘Ironpants’ Johnson, NRA chief, to declare the strike “a menace to the government”, and a case of “civil war”.\textsuperscript{113}

Other city-wide strikes broke out the same year in Toledo, Ohio and Minneapolis, where the Teamsters were joined by farmers, building workers and thousands of others.


\textsuperscript{112} The NIRA established the National Recovery Administration (NRA). The Supreme Court finally declared the NRA unconstitutional in 1937, brought down by a small chicken processing plant, the Schechter Poultry Corporation. Resistance to the NRA was not restricted to ‘small business’ rebelling against ‘monopoly capital’, for major opponents included the American Liberty League, funded largely by DuPont Chemical and General Motors, as well as the ‘Brass Hats’ (senior executives from the belligerently anti-union second string steel companies), who transformed and revitalised the National Association of Manufacturer (NAM) from an organisation representing small business to a virulent anti-New Deal vehicle. See Howell John Harris (1982), \textit{The Right to Manage: Industrial Relations Policies of American Business in the 1940s}, University of Wisconsin Press, Madison; Theda Skocpol (1980), ‘Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal’, \textit{Politics and Society}, Vol. 10, No. 2, p168.

A nation-wide textile strike erupted in 1934 against the advice of the United Textile Workers union leadership, with 'flying squadrons' of autonomous workers closing down non-striking mills. By the end of the second week of the strike, 421,000 workers were out, while Southern employers, backed by 10,000 National Guardsmen and 15,000 armed deputies, were ready for a counter-offensive. By 1934 America was in the grip of open class war.

Under the pressure of mass politics driven by this violent and class conscious struggle, the 1930s witnessed a rapid and dramatic recomposition of the US state. This internal transformation was clearly necessary if the state was to wield politicised money as a meaningful policy tool. While even the Hoover administration - remembered more for the tax increase of 1932 - sought to expand public works and reduce taxes in the face of nominal falls in GNP of over 12 per cent between 1929-30, 16 per cent between 1930-31 and 23 per cent between 1931-32, such actions had minimal effects. At the onset of the Depression, the US state was little more than a disparate collection of decentralised, bureaucratically weak agencies, poorly coordinated and with limited capacity for effective intervention in the economy. The state apparatus was hopelessly ill prepared to 'allocate' the amounts needed, let alone gain access to such figures. In 1929, total federal expenditures amounted to only 2.5 per cent of GNP, while receipts stood at 3.7 per cent, falling to 2.7 per cent of a greatly diminished GNP by 1931. If 'pump-priming' was difficult, the possibilities of fiscal action through manipulation of the taxation system were almost non-existent - an income of $5,000 being liable to pay income tax equal to $16.88, while $10,000 (roughly equal to $100,000 today) paid a meagre $120.

115 For a good discussion of the institutionally decrepit nature of the U.S. state at this time see Theda Skocpol (1980), 'Political Response to Capitalist Crisis: Neo-Marxist Theories of the State and the Case of the New Deal', Politics and Society, Vol. 10, No. 2.
116 For instance, of the $3.3 billion of public works appropriation attached as Title II to the original NRA, less than $1 billion was spent by the end of the first year, due not so much to the tight-fistedness of the Public Works Administration (PWA) under the control of the Secretary of the Interior, 'Honest Harold' Ickes, but rather the sheer difficulty of expanding so rapidly the amount of public expenditure within the construction sector when starting from such a small base (standing at $210 million Federally in 1930).
Within a few short years, a new economic science – the political economy of the mass worker – will have transformed capitalist class relations and the state along with it. By 1938 Keynesian inspired concepts such as effective demand and mass consumption were clearly in the ascendancy, as was the role of government spending in maintaining these at as high a level as possible. From this point on, “government spending... was [conceived as] a positive good, to be used lavishly at times to stimulate economic growth and social progress”. Of course, fundamental to this internal transformation was the breaking of the external fetters of monetary internationalism. This freedom was initially won haphazardly and in piecemeal fashion during the turmoil of the 1930s, but with growing coherence and confidence as the blueprint for the Bretton Woods regime was laid down in the 1940s. The arrival of the Economics of Abundance was immanent, and we pick up the story of this remarkable phase in capitalist class management in the following chapter.

Bretton Woods and the Triumph of Abundance

"Full employment capitalism" will of course, have to develop new social and political institutions which will reflect the increased power of the working class. If capitalism can adjust itself to full employment, a fundamental reform will have been incorporated in it. If not it will show itself an outmoded system which must be scrapped."

Michal Kalecki

6.1 The Triumph of Monetary Nationalism

What precisely is meant by reference to the so-called ‘the Bretton Woods system’? This seemingly innocuous question has in fact led to widely disparate answers within the historiography of monetary organisation. Was it simply the unanimous adoption of plans to establish several new international agencies at a New Hampshire resort on 22 July 1944? Or was it a more amorphous, less easily definable sea-change in the techniques and management of international monetary affairs? Taking the former view, one could argue “the Bretton Woods system’ has largely been an invention of economists. It died in 1947 of infant mortality”. Others have come to a diametrically opposed position, suggesting “the Bretton Woods system may not have come to an end in 1971 - it is alive and well”. Yet neither approach appears particularly useful in

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capturing the class foundations of the Bretton Woods regime. While one view is overly institutional, the other losses the specificity and uniqueness of the new regime. Bretton Woods should be seen as an attempt to codify systemic transformations taking place in the management of money into a set of institutional structures, in turn reflecting more fundamental shifts in the social relations of production during the first half of the twentieth century.

Constructed on the new spatiality of monetary nationalism and the ‘domestic’ economy, Bretton Woods foreclosed any return to the ‘gargantuan automaton’ of the world market. The new monetary regime codified in 1944 was central to the realisation of this radical new spatial bifurcation – the first cogent attempt to not only recognise the political economy of the mass worker but to actively incorporate it into the techniques of global monetary organisation. Yet economic science was forced to model this as a spatial rupture between ‘internal’ and ‘external’ equilibrium points, modelled as a series of mutually exclusive “zones of economic unhappiness” throwing up various policy dilemmas (Chapter 3). The uniqueness of the Bretton Woods regime was the strong bias to resolve these contradictions in favour of ‘internal’ equilibrium, privileging the space of the ‘national’ economy. It is on this critical point that Keynes could argue “that this plan is the exact opposite” to the gold standard. The classical mechanisms of class control wielded by monetary internationalism were no longer operational, for “we abjure the instruments of bank rate and credit contraction operating through the increase of unemployment as a means of forcing our domestic economy into line with external factors”.

According to Harry Dexter White - the other key architect of Bretton Woods - the new regime “would not force upon a country a rigid exchange rate that can be maintained only be severe deflation of income wage rates and domestic prices... [nor] forbid countries to undertake social security programs or other social measures on the ground that such measures may jeopardise a given parity”.

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In a sense 1944 represents the culmination of this dramatic transformation in the techniques of monetary organisation. While the genesis of monetary nationalism can be traced back to the classical gold standard (Chapter 5), it was not until the 1930s that these experiments finally overthrew the era of haute finance. It was here, rather than 1944 that “heresy [became] endorsed as orthodox”.

Unlike the experience with free exchange rates immediately following the end of the Great War – notable for the cleanliness of the floats – the collapse of the gold exchange standard was marked by a pervasive and permanent state intervention in the foreign-exchange market. While the initial impulse was either to break the deflationary spiral of the gold standard, usually through currency depreciation (including the infamous beggar-thy-neighbour policies of the early 1930s), prevent currency or balance of payments crises by flights of capital (for example Germany, Austria and Hungry in 1931), or in the case of the fascist powers to allow the attainment of geopolitical objectives, deeper forces were pushing for a growing spatial isolation of the national money-form. As Polyani notes, “currency had become the pivot of national policies”.

The exceptions to this trend - the Gold Bloc countries (France, Belgium, the Netherlands, Switzerland and nominally Italy) – simply illustrate the dominance of the new ‘rules of the game’. Their resolute commitment to the required deflationary policies (until the defection of Belgium in 1935 unravelled the Gold Bloc) exacted an increasingly heavy and dangerous price, providing a harsh warning to those policymakers throughout the capitalist world whom might have considered returning to financial orthodoxy. For example France, which relied on commercial policies (such as tariffs and quotas) rather than the new techniques of monetary nationalism, was forced to drastically deflate. The price index declined from 462 in 1931 to 347 in 1935 (July 1914 = 100), while national income shrank from 331 billion francs in 1930 to 221 billion in 1935. The money supply as measured by M1 also fell 14 per cent between

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8 While capital controls and other mechanisms to alter the external value of national money had been known before this, their use was limited to exceptional and provisional cases, such as the outbreak of hostilities.

1931 and 1934, while industrial production in 1936 remained 14 per cent below 1929 levels. Yet payments to public servants and pensioners increased dramatically in real terms, with fierce resistance based on “a well-organised collective that disregarded the national interest”. With the rise and fall of 16 governments since 1921, by the spring of 1936 France was in the grip of a crippling campaign of sit-down strikes. Riding a wave of discontent, the Popular Front – a Red coalition – assumed power in June 1936, immediately expanding working class purchasing power through increased wages, a 40-hour week and paid three-week vacations. However, amidst the bitter atmosphere of open class warfare, the refusal of the French government to impose capital controls encouraged the flight of French capital en masse. As Garside notes, “the situation demanded either exchange controls to force capitalists into submission or the creation of conditions in which the profit motive would function”. The result was foregone, with the French finally devaluing in October 1936.

Table 6.1 highlights how those countries that broke their golden fetters took advantage of the opportunities raised by managed money. Furthermore, many of the countries that showed no or minor deprecation or devaluation in their currency only adhered to this rigidity through the deployment of controls that severely restricted and distorted the operation of the capital account. While the exact mechanisms and techniques used were wide-ranging - many with antecedents in earlier periods - it was only with the onset of the Great Depression that they reappeared in “extreme forms”. Controls ranged from the most illiberal to relatively minor aberrations from the traditional ‘rules’. Ironically, the most illiberal techniques were to be found in those countries still clinging to the supposedly central pillar of liberal internationalism – fixed exchange rates. Mises’s disturbing claim that the state, in its reckless destruction of monetary internationalism,

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resorted in the final instance to the hangman’s noose was not entirely the paranoia of the displaced rentier. Both fascist Germany and Italy (still nominally a member of the Gold Bloc) employed this ultimate sanction to enforce controls over the movement of money.\textsuperscript{15}

<table>
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<th>Table 6.1 Currency Depreciation in the 1930s</th>
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<td>25.2</td>
<td>41.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>25.9</td>
<td>45.6</td>
</tr>
<tr>
<td>Norway</td>
<td>26.9</td>
<td>47.0</td>
</tr>
<tr>
<td>Finland</td>
<td>36.4</td>
<td>50.4</td>
</tr>
<tr>
<td>New Zealand</td>
<td>34.2</td>
<td>52.3</td>
</tr>
<tr>
<td>Australia</td>
<td>42.5</td>
<td>52.6</td>
</tr>
</tbody>
</table>


Countries relying on exchange controls weakened, or in extreme cases such as Nazi Germany, completely neutralised the discipline of rigid exchange rates, for there was now no mechanism to either test parity or the state for suspected breaches in monetary discipline. Controls destroyed the mechanism of convertibility, as foreign exchange reserves were confined to the spatial boundaries of the domestic economy, making the apparent internationalism of these foreign exchange arrangements illusory. This system of ‘blocked balances’, the most infamous being Germany’s Gold Discount Bank, sought

\textsuperscript{15} Charles P. Kindleberger (1993), \textit{A Financial History of Western Europe}, 2\textsuperscript{nd} Edition, Oxford University Press, New York, p382 – a punishment with long historical antecedents (see Chapter 2).
to replace the need for final settlement of debts by forcing creditors to accept payments in domestic currency placed in special ‘blocked accounts’. These accounts in turn had severe restrictions placed on them, for example restricting the use of debited funds to investing in or buying exports from the debtor country. These arrangements led to the rapid development of bilateral trade relations and clearing houses to facilitate trade and by the second half of the 1930s this system had mutated into a mechanism for Germany to ruthlessly control commodity trade within Central Europe in order to support its rearmament program.16

Other countries such as Britain and Australia imposed milder forms of exchange control, with Britain relying more on a floating pound and interventions in the foreign exchange markets through the Exchange Equalisation Account. However cheap money policies in Britain, with the discount rate falling to 2 per cent by June 1932, still required the protection afforded by capital controls. Britain utilised a range of controls, including suasion, official restrictions and an embargo on large foreign bond issues. These were only partially relaxed as the alternative protection offered by the Sterling Bloc became available. Latin America for its part freely used all the policy tools of monetary nationalism, both devaluing and imposing exchange controls (as well as defaulting on sovereign loans).17 The results from the use of these new policy tools were dramatic. According to Eichengreen, M1 money supply increased by 5 per cent in the Sterling Bloc and 34 per cent in the other countries with depreciated currencies between 1931 and 1934. Furthermore, by 1936 industrial production had surpassed 1929 levels by more than 27 per cent in both sets of countries.18

Given our focus on the rise of the mass worker in the US, it is worth examining in greater detail the rapid and deliberate development of monetary nationalism in the US context, although its stop-start application probably accounts for the haphazard recovery of the US economy from the effects of the Depression. Table 6.2 lists key legislation introduced in the early 1930s that institutionalised a framework for monetary nationalism for the following four decades. The most fundamental changes were the severance from gold and subsequent re-establishment of parity within an explicitly politicised and state-centric framework; the institutionalisation of the ability of the Federal reserve to monetarise government debt; and finally the politicisation of the Federal Reserve System.

Table 6.2 Key Institutional Changes in Monetary Policy During the Early 1930s

<table>
<thead>
<tr>
<th>Year</th>
<th>Legislation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>Glass-Steagall Act (27 February): temporarily made US government securities eligible collateral for Federal Reserve note issues, thereby expanding the Fed’s ability to make open market purchases (made permanent in 1933); also temporarily relaxed rules on discount-window lending (extended in 1933, made permanent in 1935).</td>
</tr>
<tr>
<td>1933</td>
<td>Emergency Banking Act (9 March): ratified suspension of the gold standard. Thomas amendment to Agricultural Adjustment Act (12 May): authorised the Fed to set reserve requirements; gave the president authority to require open market purchases by the Fed, and to fix the weights of gold and silver dollars. Banking Act of 1933 (16 June): enhanced Federal Reserve Board control of discount-window lending; made technical adjustments to Federal Reserve System organisation.</td>
</tr>
<tr>
<td>1934</td>
<td>Gold Reserve Act (30 January): authorised transfer of monetary gold stock to the US Treasury; amended the president’s authority to fix dollar prices of gold and silver; established the Exchange Stabilisation Fund. Silver Purchase Act (19 June): authorised the president to purchase and nationalise monetary silver; authorised limited Fed lending to industrial and commercial firms.</td>
</tr>
<tr>
<td>1935</td>
<td>Banking Act of 1935 (23 August): reorganised Federal Reserve’s Open Market Committee and otherwise enhanced the authority of the Board of Governors of the Federal Reserve System relative to the Federal Reserve Banks; extended Fed authority to adjust member bank reserve requirements.</td>
</tr>
</tbody>
</table>

As indicated in the proceeding chapter, the early 1930s witnessed the beginnings of a remarkable recomposition of the US state. It was totally dependent however on releasing the constraints of the gold standard – achieved by executive order on 6 March 1933 and ratified three days later under the Emergency Banking Act. At a personal level, Roosevelt appears to have had scant regard for the “old fetishes of so-called
international bankers". The reaction by monetary conservatives however, even within the Administration, was one of unbridled horror. Budget Director Lewis Douglas proclaimed it “the end of Western civilisation”, while Bernard Baruch shrieked that the exit from gold “can’t be defended except as mob rule... The crowd has seized the seat of government and is trying to seize the wealth”. At least in one sense, Baruch was quite correct, for the exit from gold was “primarily designed to give the central bank more flexibility in controlling money supply”.

While a return to gold convertibility was achieved shortly thereafter under the Gold Reserve Act of January 1934, convertibility as a disciplinary mechanism was irreversibly altered. For one, it authorised the president to ‘fix’ parity (which Roosevelt re-established at $35 per ounce, a 59 per cent devaluation of the dollar relative to gold) - an act that destroyed any illusion of immutability in parity rates, clearly signalling the politicisation of managed money. “The issuance of money or currency or any other medium of exchange” declared Roosevelt, “is solely a Government prerogative... It [is] a question of control”. Control was necessary for the state to maintain a “sound internal economic system”, a factor more important “than the price of its currency”.

This politicisation of parity rates was further bolstered by the centralisation of gold stocks within the state, ending the role of private markets in the mechanism of convertibility. Gold was no longer to be a check on the pursuit of monetary nationalist objectives, while the statutory gold reserve requirements backing profane money were progressively weakened with “little debate or fanfare”. Furthermore, the windfall

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24 Charles W. Calomiris and David C. Wheelock (1998), *Was the Great Depression a Watershed for American Monetary Policy?*, in (eds) Michael D. Bordo, Claudia Goldin and Eugene N. White, *The Defining Moment: The Great Depression and the American Economy in the Twentieth Century*, University of Chicago Press, Chicago, p30. Much of the factual material in the following three paragraphs is sourced from this interesting article, although it suffers from the almost complete neglect of capital flows which lead it to draw incorrect conclusions on the inflationary bias of the post-1971 international monetary regime (see Chapter 8). Other changes included efforts to
profits from the revaluation of US gold stocks allowed for the creation of a $2 billion Exchange Stabilisation Fund, a resource under state control for intervention in international gold and foreign exchange markets.

The second key change was the development of new techniques that operationalised this new flexibility within the domestic money supply. Some legislation was openly inflationist: the Thomas amendment allowed the president to instruct the Fed to increase bank reserves by up to $3 billion through open market operations, while the Silver Purchase Act of 1934 allowed for the re-establishment of bimetallism. However the technique that would prove both revolutionary and lasting was the expansion of the definition of 'eligible' paper that could be held by Reserve banks as reserves (against both note issues and deposit liabilities) to include government securities. Legislated under the Glass-Steagall Act of 1932, it provided an avenue for the Fed to monetarise government debt. Fiat money could now be backed by the fictitious and infinitely elastic capital of government debt, signalling the final repudiation of the real bills doctrine that had embodied the Fed's theory of banking since its inception.25

The final transformation was the erosion of the Fed's independence, even as its central role in monetary nationalism solidified. This was not a singularly US experience, as noted in section 5.3. As we have already seen, the strengthening of central banking regimes was fundamental in the development of monetary nationalism, for they allowed “a high degree of insulation and prevent the application of salutary checks on

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nationalistic action”.26 Driving a wedge between the domestic monetary sphere and the world market transforms the money-from into an instrument of state economic policy.27 In other words, it weakens the subjugation of social reproduction, bounded by the spatial grid of the state, from the exigencies of the global law of value by interposing ‘national’ money as the validating arbitrator of abstract social value. Freed from the external fetters of a ‘world money regime’ the monetary constraint is weakened, reducing the social power of money to command through the imposition of scarcity.

Apart from the increased structural power of the US Treasury to nullify Fed monetary policy through its control of the Exchange Stabilisation Fund (the Fed could only intervene in foreign exchange markets via the Fund as an agent of the Treasury), the Banking Act of 1935 signalled a sharp reduction in independence for the Fed. Power shifted to the Board of Governors located in Washington, all of who were appointed by the president. With these two weapons, the Secretary of the Treasury (Henry Morgenthau) was able to intimidate the Board and its Chairman, Marriner Eccles, largely reducing Federal Reserve policy to an instrument to support the continuing issue of government debt. Apart from this Treasury pressure, the ‘liquidationist’ ideology of the gold standard was losing its grip over the Fed. In the radical departure from the economics of scarcity, the topography of economic policy was being transformed. Releasing the statement ‘Objectives of Monetary Policy’ in 1937, the Board argued its central duty lay in supporting the attainment of “economic stability” - defined as “the maintenance of as full employment of labour and of the productive capacity of the country as can be continuously sustained”.28

With a politicised central bank open to the idea of easy money, a domestic money source freed from the fetters of gold and new techniques for monetarising public debt, the monetary foundations for the political economy of the mass worker were already forming prior to the emergence of Bretton Woods - a process occurring across most of

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the capitalist world. However, it was only with the close of the war that a suitable international monetary regime could be institutionalised. Of course, the impetus for these transformations lay in developments in the underlying social relations of capitalism, the most explicit manifestation of this being the rapid recomposition of the liberal ‘night-watchman’ state (see Table 6.3). As Maddison notes, there was a massive surge in public expenditure amongst the core capitalist states between 1929 and 1938, particularly in social spending and support programs. It is these developments that I examine in the following section, picking up from where Chapter 5 ended its account.

Table 6.3 Total Government Expenditure (% of GDP, current prices)

<table>
<thead>
<tr>
<th></th>
<th>1913</th>
<th>1929</th>
<th>1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>9.9</td>
<td>12.0</td>
<td>21.8</td>
</tr>
<tr>
<td>Germany</td>
<td>17.7</td>
<td>30.6</td>
<td>42.4</td>
</tr>
<tr>
<td>Japan</td>
<td>14.2</td>
<td>18.8</td>
<td>30.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>8.2</td>
<td>11.2</td>
<td>21.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>13.3</td>
<td>23.8</td>
<td>28.8</td>
</tr>
<tr>
<td>United States</td>
<td>8.0</td>
<td>10.1</td>
<td>18.5</td>
</tr>
<tr>
<td>Average</td>
<td>11.9</td>
<td>17.8</td>
<td>27.3</td>
</tr>
</tbody>
</table>


6.2 The Institutionalisation of the Mass Worker and the Underwriter State

As highlighted in the previous chapter, 1933 signalled the beginning of an extended cycle of class struggle in the US that took 17 years to finally resolve. By its close, key sections of the US working class had become incorporated as the dynamic motor of the accumulation process. In this section I trace how the mass worker became enmeshed in the strategy of economic abundance, underpinned by the spatial dichotomy of monetary nationalism that allowed for an increasing plasticity in the money-form controlled and modulated by a state that acted as inflationary underwriter of last resort.

In the last chapter we left the US in the midst of the dramatic ‘NRA’ strike wave. However it was not until the outbreak of the ‘sitdown’ strikes in 1936-37 that industrial

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unionism finally breached the mighty bastions of the mass-production sector - initially GM, US Steel, GE and Chrysler, with others such as Ford and Bethlehem Steel following somewhat later in 1941. Workers in these core industries “launched a sustained offensive that was quite unequalled in American history for its tactical creativity as well as its demonstration of the power of the collective worker in modern industry”.

Some 400,000 workers across the country were involved in sitdowns during 1937 (from mass workers to gravediggers and baseball players). Furthermore strike demands began to proliferate beyond the simple demands for union recognition. Between March and June 1937, GM suffered 170 worker sitdowns after the epic winter strike that gained union recognition. Yet the successes of 1937 became mired in a series of impasses, mostly generated by forces alarmed at the increasing radicalisation of labour. There were Republican and ‘Dixiecrat’ successes in 1938, due largely to a middle-class backlash against the New Deal in the face of labour insurgency, especially as it emerged amongst the lower echelons of the working classes - women, the service sector, farm hands and Blacks. Other barriers included the 1937-38 ‘Roosevelt’ recession (the last gasp of the liquidationists), fratricidal clashes between the ‘red-baiting’ AFL and the more militant Congress of Industrial Organisations (CIO), and finally open defiance of the National Labor Relations Board (NLRB) by sections of capital, including Westinghouse, Goodyear and Ford. Resistance was especially strong over the issue of collective bargaining once union recognition had been won. With the New Deal in crisis, the economy in stagnation, and internecine warfare between the AFL and CIO, the forward movement of labour was in paralysis.

An unexpected ally of working class militancy emerged in the ambiguous role of federal intervention in resolving endemic strife. Harshly suppressed at local and state-levels, the fledging industrial unions became increasingly reliant after 1937 on the Federal government. In particular, the federal judiciary entered a ‘heroic’ period of liberalism, providing protection for the newly organised working class. Three strands of legislation

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were central in shaping the state’s approach to industrial relations in the second wave of New Deal reforms. There was judicial recognition of the right to organise, culminating in the *Wagner Act* of 1935 and enforced by the NLRB (although the Supreme Court did not ratify it until 1937). Secondly, there was unwillingness on the part of the state to intervene directly on behalf of management, with the *Norris-La Guardia Act* limiting the use of injunctions, federal laws prohibiting strike-breakers from crossing state lines, while the *Thornhill* decision upheld the right to picket as a right of free speech. Finally, there was a growing preference for federal mediation rather than state repression in ending the wave of sitdowns, which were clearly illegal. Emerging in embryonic form were the central tenets of a formalised, legalistic and bureaucratised collective bargaining structure under the impartial guidance of the state. Unions found themselves both ‘protected’ and increasingly entrapped within this highly structured set of rules. The radical mass tactics of the 1930s, even before the *Taft-Hartley Act* of 1947, were declared outside the field of play. As Harris notes, “unions were no longer voluntary associations, in the eyes of the law: they were quasi-public institutions, and could expect to be treated as such”.

It was only with the outbreak of hostilities in Europe that the deadlock between capital and labour was broken. Capital, loath to incur the costs of class war while gorging on the profits provided by the fight against Fascism, rapidly acquiesced to working class demands as unemployment fell and labour unrest rose. As Ford and the remaining citadels of anti-unionism fell, resistance to collective bargaining quickly broke down, with significant advances made in wages and fringe benefits. While union membership soared, the state also became more intrusive in labour management following the attack on Pearl Harbour. Gaining a ‘no-strike’ pledge from the CIO and AFL, the War Labor Board (WLB) quickly realised the most effective way of guaranteeing workforce stability was through the establishment of a unionism heavily reliant on the state.

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Unions were granted privileged ‘maintenance-of-membership’ rights (a form of union shop preventing members from leaving during the life of a contract) in return for ‘union responsibility’. In the face of continuing labour militancy, especially in 1941 and the wave of wildcats from 1943 onwards, this provided the necessary space for union leaders to free themselves from rank and file pressure. Unions were transforming into hierarchical organisations for enforcing discipline over their own members. The WLB, apart from protecting unions from their own members, also mandated most of the union movements pre-war agenda, such as seniority and grievance procedures, sick leave and a host of other demands converted into monetary benefits, socialising them across wide sections of the working class.  

According to the US Bureau of Labor Statistics, the ending of the war witnessed “the most concentrated period of labour-management strife in the country’s history”. Inflationary pressures from surging wages and pent-up demand for consumer durables (driven by $250 billion in savings) finally exploded. While 4.6 million workers had taken part by the close of 1946, the context in which these struggles took place had altered radically from the New Deal years. The passage of the Taft-Hartley Act over Truman’s veto in 1947 provided the final legislation shaping the legitimate boundaries of state sanctioned class ‘struggle’. Seeking to curb the class solidarity of the mass worker, it prescribed a range of effective working class tactics such as secondary boycotts, mass picketing, sympathy strikes as well as facilitating the expulsion of radical cadres under the guise of Red-purges. In its place, mass workers were locked into a centralised bargaining process shaped by parochial and economistic issues – flowing down to many secondary workers through pattern bargaining. By the late 1940s, unions had been become, in C. Wright Mills’s memorable words, “the manager of discontent... an agent in the institutional channelling of animosity”.  

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The formal subsumption of this monetarized class struggle into the wage relation was finally achieved in negotiations held between the United Auto Workers (UAW) and GM in 1948. The resulting wage-productivity deals were renegotiated and formalised in the 1950 ‘Treaty of Detroit’. Lying at the heart of these deals was a link between wage increases and an ‘annual improvement factor’, rapidly defined by increases in social productivity, that is national productivity figures. It is worth quoting the view of the editors of *Fortune*, who argued “it is the first major union contract that explicitly accepts objective economic facts - cost of living and productivity - as determining wages, thus throwing overboard all theories of wages as determined by political power, and of profit as ‘surplus value’.”

By 1950 a system of collectivised and pattern bargaining centred on the ideological underpinnings of business unionism was in place. Capital had succeeded in forestalling, to a greater extent than in much of Europe, the attacks by massified workers on management’s prerogatives. Yet of far greater importance was the fact capital *en masse* had recognised the centrality of the working class to the continuing accumulation of capital. While this seventeen-year cycle in one sense ended in working class ‘defeat’ as emphasised by revisionist New Left historians, labour was now the active subject within the accumulation process. Furthermore, while capital could posit this incorporation as a transmogrification of antagonistic class struggle into a ‘virtuous circle’ powering the ‘long boom’, the costs were substantial. The core of productive labour - if it lost a historic opportunity to challenge capital’s ‘right to manage’ - secured for itself an undreamt of security from the business cycle, protected by state institutions sanctioning a myriad of rules and provisions that made sackings difficult and costly. The despotic powers of the foreman and mechanised production line were curtailed through the establishment of grievance procedures, seniority rules and so forth, countering the speed-up, stretch-out and shape-out.

There was a further price to be paid for the assertion of (limited) managerial prerogatives. As one GM executive put it, “give the union the money, the least possible, but give them what it takes. But don’t let them take the business away from us.” The result was a growing rigidity in the wage-form, with its in-built mechanisms that applied a continuous upward pressure on both nominal and real wages, causing a secular decline in the value of money as productivity gains financed wage increases rather than price reductions. In the longer term, this rigidity in the wage-form and the exogenisation of the reproduction of the working class from the business cycle would prove costly, throwing into doubt Fortune’s claim that GM in 1950 (and capital in general) “got a bargain.”

The same 17-year period (1933-50) also witnessed a remarkable transformation in the recomposition of the state as already suggested. Freed from the external constraints of the gold standard, this recomposition took place in a haphazard and contested fashion, but succeeded in further legitimising the new roles of the state. The First New Deal (1933-35) sought to end the deflationary spiral of the Depression through the reorganisation of the economy at the sectoral level. Couched in vague collectivist terms of planned inter-sectoral coordination, it comprised the first “alphabet soup” agencies, notably the Tennessee Valley Authority (TVA), the AAA and the NRA. Against bitter rearguard actions by all sectors of capital the reforms continued, barely controlled and perhaps not even understood. The Second New Deal reflected a groundswell of populist and working class pressures (including unions and figures such as Frances Townsend, Huey Long and Father Coughlin). Containing key legislative reforms such as the Wagner Act, the Wealth Tax Act, the Banking Act and the Social Security Act (laying the blueprint for the American welfare system), the Second New Deal was a desperate attempt, leading into the 1936 Presidential election, to head off the forces pressing for more radical change. “The most serious threat to our institutions” argued Roosevelt during the campaign, “comes from those who refuse to face the need for change.

39 Cited in Mike Davis (1986), Prisoners of the American Dream, Verso, New York, p52.
Liberalism becomes the protection for the far-sighted conservative".\(^{40}\) In short, the Second New Deal represented "the economic codification of some of the most important gains of labor and the left in the United States... into a program for the economic stability of the system as a whole".\(^{41}\)

The war provided a further impetus in the recomposition of the state. Under the pressures of war mobilisation, the state’s share of total output grew rapidly to between 20-25 per cent by 1944. Furthermore, national debt, the raw material for the new plasticity of managed money, ballooned from \$40.4 billion to \$258.7 billion by the close of the war. The impact of this vast increase in public spending was not a cataclysmic decline in the accumulation process as forecast by conservatives, but rather full recovery from a decade marked by its inability to fully shake off the impact of the Depression. Of course a new problem emerged in acute form - how could conditions of full employment be sustained on closure of the war?\(^{42}\) It was clear to more progressive sections of capital, such as the Committee for Economic Development (CED), established in 1942 by key ‘corporate liberals’, that a big spending state and organised mass labour would be central. According to the CED, both institutions acted “as forces for improved social stability and efficiency rather than as threats to the Free Enterprise System and the American Way of Life”.\(^{43}\)


\(^{41}\) David A. Gold (1977), ‘The Rise and Decline of the Keynesian Coalition’, Kapitalistate, 6, p136.

\(^{42}\) As the American economy reached full capacity during the war, fears of stagnation gained renewed vigour, but this time in an intellectual climate dominated, at least in Washington due to the influx of younger economists, by a ‘stagnationist Keynesianism’, popularised by the Harvard economist, Alvin Hansen, the most prominent American Keynesian. The experience of war seemed to offer an escape route from this gloomy prognosis, but the price appeared to be permanent pump priming by the state. Numerous government departments and agencies examined the possibilities of post-war planning, including the War Production Board, Public Works Administration, the National Housing Agency, and the Department’s of Agriculture, Commerce, Treasury, and State. Perhaps most daring was the much maligned National Resource Planning Board which published in 1943 (the year of its demise at the hands of Congress) Security, Work and Relief Policies, the closest America came to a Beveridge style report, outlining in its nine point ‘New Bill of Rights’ a comprehensive program of social, health and full employment. While differences in the amount of state spending required varied between liberals and conservatives (CED estimated \$16 to \$18 billion annually, while liberals such as Oscar Gass put the figure at \$25 to \$30 billion), the important point was that all agreed on the necessity of avoiding the mass unemployment resulting from the reconversion of the war economy. Of course, while even conservatives conceded the need for state management of the economy, disagreement remained over “its forms and goals”. See Otis L. Graham (1976), Toward a Planned Society: From Roosevelt to Nixon, Oxford University Press, New York, pp52-58, p82; Robert Lekachman (1967), The Age of Keynes: A Biographical Study, Penguin Books, Harmondsworth, Chapter 6.

If the war provided the final vindication for entrenched state intervention, it still left unresolved the form this would assume after the cessation of hostilities. The fate of the proposed ‘Full Employment Bill’ (S.380) highlighted the conflicts being played out. For fiscal conservatives, S.380 promised “a completely planned economy”. The gradual paring back of S.380 in the face of almost universal business hostility - the ‘full’ replaced by ‘maximum’ in the final draft – resulted in the Employment Act of 1946. In retrospect it signified the final gasp of reforms premised on ‘explicit’ planning models. Yet to portray the Employment Act as a simple defeat for the working class misses its full significance. While fiscal conservatives may have celebrated the defeat of the original Bill, its final form established and codified a benchmark for state intervention (ambiguous as this was) that no government, regardless of its conservative credentials, could roll back. Despite the zeal displayed by the Eisenhower Administration to push back the ‘New Deal State’, especially arch-conservatives such as Treasury Secretary George Humphrey (who apparently rated deficits as dangerous as communists), Ezra Taft Benson at Agriculture and of course ‘Ike’ himself, the final results must have been galling. Whatever the intention of the ‘RIF’ agenda (Reduction In Force), the distressing fact was that the Administration was in deficit five out of the eight years in office, including the 1959 deficit, which at $12 billion was the largest in peacetime history. Furthermore, ‘Ike’ “signed a major public housing law, the first civil rights laws since Reconstruction, sponsored a program of federal aid to education, inaugurated an expensive new public works program in highways, and increased social security benefits three times”.

In any event, by the time end of the consumer-led boom in the late 1940s the frigid winds of the Cold War were beginning to blow, redefining priorities while simultaneously providing new spending opportunities for a state now committed to a

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high growth economy. Following the release of NSC-68 in 1950, the policy document recasting America’s policy of containment, an unholy alliance was established between pump-priming and the attainment of geopolitical goals. As the authors of NSC-68 pointed out, the major lesson of the last war “was that the American economy, when it operates at a level approaching full efficiency, can provide enormous resources for purposes other than civilian consumption while simultaneously providing a higher standard of living”.48 Ironically the conflation of economic growth and geopolitics through defence spending appeared to originate in the Council of Economic Advisers (particularly Leon Keyserling) – established under the Employment Act. The classical transubstantiation of guns for butter no longer applied, for now their endless proliferation appeared mutually reinforcing, transforming Keynes’s Utopia of Abundance into the nightmare of MAD.

By 1950 it seemed conflicts over the ‘legitimate’ sphere of government intervention were resolved in line with the needs of capitalist accumulation. As Hawley argues, “instead of being dependent on fluctuating public expenditures that could ‘subvert’ capitalist virtues and create ‘competition for private enterprise,’ they could now rely upon a stable core of ‘desirable’ spending and depend upon fluctuations in government revenue to regulate aggregate demand”.49 Yet one must not lose sight of the remarkable transformations that had so dramatically recomposed the state in a country famed for its strong ideological tradition of self-reliance and individualism – all in little more than 15 years. As the following two decades would prove it was not the form of government spending that mattered as this proved fluid, but rather its legitimacy. Furthermore, the monetarisation of debt and the policy of easy money continued regardless of the form of government spending. Indeed, it was only with the signing of the Treasury-Federal Reserve Accord in March 1951 that monetary policy gained any independence from the demands of government debt financing.

From this point the Fed played a more active role in seeking to regulate the Economics of Abundance, fine-tuning the costs of money and controlling in turn the monetarisation of the class struggle. "The Federal Reserve's job" joked William McChesney Martin, chairman of the Fed from Harry Truman to Richard Nixon, "is to take away the punch bowl just when the party gets going". To do so depended on the Fed demonstrating greater autonomy from the executive branch of the state when fixing interest rates. While it was credited with initiating at least two of the three recessions during the 1950s (admirably displaying its independence from political interference by coinciding these with election years), the techniques of monetary nationalism proved blunt and cumbersome to apply when trying to limit the growth in money supply. The longer-term impacts of this strategy on the social relations of production are discussed in greater detail in the following chapter. In the remainder of this chapter I return to a discussion of the international monetary regime that recognised the dominance of the 'national' economy as the key spatial variable to be controlled and manipulated by economic science.

6.3 Bretton Woods and the Codification of the National Economy

It cannot be over emphasised that the above transformations – replicated across the capitalist economies under a range of institutional guises – were inconceivable if domestic economies had remained subordinated to the dictates of an international organisation of money constructed upon the principles of monetary internationalism. As Calomiris and Wheelock note, "the necessary condition that made these [principles possible]... was the replacement of the interwar gold standard with the Bretton Woods system, which allowed price-drift that otherwise would have been impossible". This entire edifice - a monetarized class struggle exogenised from the business cycle, cheap supplies of plastic money, and a state capable of acting as an inflationary underwriter to the accumulation process - was unthinkable in the context of the classical or inter-war

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gold standards. This crucial point is more often than not lost in radical accounts as Chapter 1 argued. Instead the analysis focuses almost exclusively on the role of Bretton Woods in propping up the evils of American liberal internationalism. Fuelling US economic and cultural imperialism, as well as the inflationary funding of various sordid Third World adventures undertaken to reinforce America’s military hegemony, Bretton Woods is portrayed simply as a vehicle for the US to ruthlessly exploit its powers of seigniorage.

This thesis rejects such an understanding of the Bretton Woods regime. Instead it focuses on its class foundations, laid bare through a political reading of the central social categories that this regime sought to codify and then manipulate. Undertaking such an analysis clearly highlights the illiberal foundations of Bretton Woods. Most of the freedoms encapsulated by the word liberal, at least as understood by private holders of wealth prior to 1933, were either prescribed, heavily controlled, or else monopolised by the state. This intrusion by the state was not driven by the exigencies of US hegemony and its imperialist pretensions, but rather the demands of the new economic science of the Economics of Abundance and monetary nationalism, which I have labelled the political economy of the mass worker.

As highlighted at the beginning of this Chapter, disagreement persists in monetary historiography over the nature of the Bretton Woods regime. The major cause of this lies in the perceived gulf between the institutional arrangements ratified in 1944 and the actual operation of the regime from 1958 onwards (when the system ‘technically’ began operation). This argument, presented in extreme form by Milward, misses the point that the original plans contained the fundamental spatial dichotomy that formed the axes around which all post-war institutional developments in monetary organisation revolved.52 Furthermore, the allowances made for the orderly non-operation of Bretton

Woods until 1958 and onwards were just as much a part of the new regime (a comparison with the inter-war return to gold highlights this point). Finally, it would be impossible to understand the ultimate collapse of Bretton Woods without realising that the causes of this lay in a series of tensions that were never resolved in the original agreement. For these reasons, a focus on the original plans and the 1944 agreement remains the most fruitful means to undertake a political reading of Bretton Woods. In particular, the unresolved tensions between the dualisms of flexibility/rigidity and national/international would ultimately erode at a further dualism – state/market – that lay at the heart of the Economics of Abundance.  

Reflecting the trauma of the inter-war years, both White and Keynes sought a compromise between the fetters of a commodity standard and the near anarchy of fiat money.  

Floating rates had become widely discredited (Nurske’s war-time study being especially influential) through their association with inflation, wild speculation and the risks posed by competitive devaluations, imbuing a generation of economists with a deep distrust of the application of the price mechanism to money itself. On the other hand, rigidly fixed rates were clearly no longer feasible. Neither option offered both economic efficiency and a politically viable mechanism to achieve necessary domestic adjustments to international disequilibrium. A simple and elegant solution to the flexibility/rigidity dualism appeared to lie in the construction of a system that could “obtain the advantages, without the disadvantages of an international gold currency” – or “swimming without getting wet” as its critics quipped.  

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53 These three dualisms are loosely analogous to the familiar triumvirate of adjustment, liquidity and confidence found in the orthodox literature on international monetary regimes. The state/market dualism is examined in the final section of this chapter.  

54 Harry Dexter White, the Treasury official leading the US negotiating team, who died of a heart attack in disgrace in late 1948, 3 days after appearing before the House of Representatives Committee on Un-American Affairs on charges of being a Soviet agent (a charge that appears to have been at least partially correct). Keynes of course led the UK team, despite suffering from chronic ill-health and dying in 1946, seemingly disappointed at the turn of events taken during the first meeting of the new Bretton Woods institutions.  

55 Ragnar Nurske (1944), *International Currency Experience: Lessons of the Inter-War Period*, League of Nations, Geneva. Milton Friedman was one of the few economists of his time to complain about this yawning gap in the professed faith in market efficiency that was meant to be the defining characteristic setting apart ‘serious’ economists. See Milton Friedman (1968), *Dollars and Deficits: Inflation, Monetary Policy and the Balance of Payments*, Prentice-Hall, New Jersey.  

the new regime, under Article IV of the Articles of Agreement of the IMF, outlined a system of adjustable pegs. Signatories were to maintain parity to gold, either directly or via the US dollar (held at its 1934 parity of $35 per oz) within a one per cent band either side. However, under section 5 of the same Article, members were also allowed to unilaterally adjust parities by 10 per cent in the case of "fundamental disequilibrium", and more if in consultation with the Board.57 “The difference between stability and rigidity in exchange rates” argued White in defence of adjustable pegs, “is the difference between strength and brittleness” 58

This compromise between flexibility/rigidity was recognition of the new temporality of social relations. Increasing flexibility distends the adjustment process, reducing the antagonism between commodities and money and subsequently weakening the disciplinary power of the market to enforce scarcity relations. Yet the aim of Bretton Woods was the extension rather than the extinction of the adjustment process. Some confusion seemed to exist on this point. The first manager of the Fund Camille Gutt (formerly a conservative Belgium Finance Minister), appeared to be arguing for the latter result when he suggested the Fund would “replace the old but today ineffective gold-standard rule that a country must adjust its national economy to external pressure”.59 Likewise, Nurske argued that ‘external’ adjustment (particularly for those ‘living beyond their means’) was no longer viable, for deflation “is destructive of internal equilibrium and therefore out of the question”.60

The obvious question raised was how adjustment was in fact meant to take place (beyond the 2 per cent band allowed for by the adjustable peg)? The problem lay in ambiguities within the Articles themselves. Adjustment through parity changes was to occur only under conditions of “fundamental disequilibrium” without defining what in

fact constituted such an external position.\(^61\) As Lutz noted as far back as 1943, “the apparent idea of the plan is to avoid as long as possible the taking of steps which are necessary to adjust the balance of payments”.\(^62\) In the same year, Viner suggested (presciently as it turned out) that both schemes were in fact more rigid than either White or Keynes intended due to the practical difficulty of garnering support within the international agency on when and by how much individual countries should depreciate.\(^63\)

In practice it was hoped to forestall any need for sharp adjustment by the generous provision of global liquidity under *public* control - the second aspect of the “double screen” regulating the temporal management of national money.\(^64\) ‘Temporary’ imbalances were to be managed through the deployment of ‘buffer stocks’, present since the 1920s or even earlier but now expanded beyond central bank foreign exchange and gold holdings. Central banks would be able to access drawing facilities in the new international institutions. Access to generous quantities of publicly controlled liquidity lay at the heart of Bretton Woods and its goal of distending or even evading short to medium-term pressures to adjust. Of course, as Dennis Robertson (one time confidante of Keynes and member of the British negotiating team) reassured anxious US central bankers in 1943, these liquidity “cushions” where not provided for countries “to lie day-dreaming on in their gardens, or as magic carpets on which to soar into the clouds of extravagant living”.\(^65\)

The special needs of a system constructed on the principle of abundance required the removal of global liquidity from the control of private markets, since short-term credit flows could no longer be relied upon to act in a stabilising fashion. The institutional

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\(^61\) The obvious concern was to avoid returning to the competitive and unilateral currency depreciations of the 1930s.


\(^63\) Jacob Viner (1943), ‘Two Plans for International Monetary Stabilisation’, *The Yale Review*, 33, No. 1, p94.

\(^64\) Although this rigidity was not because of the reasons suggested by Viner. Ironically, it was governments themselves that were loath to alter parity rates - due largely to the speculative attacks that would follow.

\(^65\) Richard N. Cooper (1975), ‘Prolegomena to the Choice of an International Monetary System’, *International Organisation*, Vol. 29, No. 1, Winter, p85. Long-term flows of capital were to be undertaken by a sister institution to the IMF - the International Bank for Reconstruction and Development (IBRD or World Bank).

differences between Keynes's Clearing Union and White's Stabilisation Fund need not
detain us here, for the central point remains that both national and international reserves
were no longer 'backing' domestic money and ensuring its integration into the world
market. Instead these reserves were to be sacrificed as needed to protect the semi-
autonomy of national money (allowing some degree of autochthonic economic activity).
Only "when liquid reserves are inadequate to meet the external deficit, then and only
then is the time to take measures to correct the balance of payments".\(^\text{66}\) While the
Articles of Agreement never included Keynes's giant global overdraft facility that
sought the recycling of surpluses to finance deficits - "repeat[ing] in the international
field the same miracle, already performed in the domestic field, of turning a stone into
bread"\(^\text{67}\) - the key variable stabilising uneven development remained a pool of non-
market global liquidity. As de Cecco notes, it was a "triumph of the concept of the state
as monopolistic regulator of international economic flows".\(^\text{68}\)

The compromise over the problem of adjustment, while ill-defined, was clearly
necessary to ensure the now codified doctrine of money nationalism would not devolve
into anti-liberal autarkism. Yet in the final instance it is hard to avoid the conclusion
that the attempts to resolve the tension between flexibility and rigidity were fudged.
While the IMF rather primly noted Bretton Woods gave "time, but not time to waste",
or in the words of its key architect, provided "iron rations" rather than "daily food",
there was no obvious mechanism to actually enforce adjustment until the final moment
of crisis.\(^\text{69}\) While the aim was to mediate rather than destroy the world market, it was
not self-evident that an adjustment mechanism was provided that could replace the
traditional mechanisms of monetary internationalism. The dangers lay in the underlying
mechanics of this mediation, for Bretton Woods sought a trade-off, 'buying' time for

\(^{66}\) Ragnar Nurske (1949), 'Domestic and International Equilibrium', in (ed) Seymour E. Harris, The New Economics:
\(^{67}\) John Maynard Keynes (1943/1969), 'Proposals for an International Clearing Union' [April 1943], in (ed) J. Keith
Horsefield, The International Monetary Fund, 1945-1965, Volume III: Documents, International Monetary Fund,
Washington, D.C., p27.
\(^{69}\) IMF cited in M. S. Mendelsohn (1980), Money on the Move: The Modern International Capital Market, McGraw-
Hill, New York, p61; John Maynard Keynes (1944/1949), 'The International Monetary Fund, Speech Delivered
Before the House of Lords, May 23, 1944', in (ed) Seymour E. Harris, The New Economics: Keynes' Influence on
adjustment by reductions in the scarcity value of domestic money – a postponement of the future through a fall in the present value of money. This returns us to the antagonisms within the money-form examined in Chapter Two - between the rational and irrational moments of money, existing as both medium of exchange and abstract general wealth. The dualism between flexibility/rigidity is at heart the contradiction between form and content but socialised to the level of the world market. The risks and contradictions posed by this ‘avoidance’ of the monetary form/content dialectic are examined more fully in the following section.

Implicit in the ‘double screen’ of Bretton Woods lay the assumption that the mobility of abstract social wealth, especially that of a short-term nature, would be severely curtailed. In other words, the temporal extension of domestic (fiat) money was to be achieved through the erection of spatial barriers between the money-form and the world market. This was truly novel. In historical terms, it was analogous to “stag[ing] a production of Hamlet without the Prince of Denmark”.70 The orthodox view, as expressed in 1932 by John Williams (architect of the counter ‘Key Currency Plan’ adopted by critics of Bretton Woods) was that short-term credit flows “are and have always been a necessary part of the mechanism of international money market supply and control”.71 The heart of money internationalism lay in this spatial freedom - a point well understood by most monetary nationalists. According to Keynes, “the whole management of the domestic economy depends upon being free to have the appropriate rate of interest without reference to the rates prevailing elsewhere in the world. Capital control is a corollary to this”.72 The necessity of curtailing the re-integration of global capital markets in the post-war era was in a sense overdetermined by the exigencies of

monetary nationalism. Indeed, “the whole philosophy of the Bretton Woods
Agreements is generally opposed to disequilibrating capital movements”.

Apart from creating room for an independent internal price for money, there was the
further problem of politically motivated capital flight by the “5 or 10 per cent of
persons... who have enough wealth or income to keep or invest some of it abroad... to
evade the impact of new taxes or burdens of social legislation”. Furthermore, it was
not just interest rate differentials or political factors that could prompt the movement of
destabilising flows of capital. The attack on sterling in 1947 highlighted an inherent
flaw in the system of adjustable pegs - they provided a riskless one-way bet for currency
speculators, making the control of speculative capital or ‘hot money’ essential if this
adjustment mechanism was to retain any value as a policy tool. A few commentators
recognised the inherent risks of a mixed reserve asset system (risks that ultimately lie in
the dilemma raised by Mlynarski in 1929). A seminal but largely ignored article by
Frank Graham in 1940 argued forcefully that commodity-exchange standards almost
inevitably present the bear speculator with a ‘sure thing’ - particularly as the managed
‘profane’ component of the standard suffers a “constant bias... toward the depreciation
of such currencies against the gold standard”. Graham’s solution to short-term
speculation - increased flexibility of exchange rates allowing the setting of ‘bear traps’
(through the deliberate but unpredictable manipulation of exchange rates by central
banks) was repeated by Lutz in 1943, who argued the Keynes plan “simply invites
short-term speculation”. Their advice ignored, it was not until September 1965 that a
successful bear squeeze in defence of sterling routed speculators, although opportunities
remained severely curtailed by the limited spread in the exchange rate band. Finally,

77 As the engineer of this squeeze, Charles Coombs, noted, “as we conducted our market operations, Bridge [head of the Bank of England’s exchange operations] and I found ourselves wishing more than once that we had an exchange rate band of 3 per cent over which to manoeuvre, rather than the relatively narrow 1½ per cent spread between the
it was felt necessary to curtail capital movement in order to protect the fragile foundations of a liberal system of international trade, ensuring global finance was the "servant, not the master" of the new order. 78

Thus it was inevitable that both plans "accord[ed] to every member government the explicit right to control all capital movements". 79 Of course the technical difficulties of distinguishing between payments made on current or capital account, or between long-term productive investment and destabilising short-term speculative movements ("economic" and "anti-economic" respectively) were considerable. 80 Techniques such as leads and lags, forward exchange operations, over and under invoicing, black markets or simply smuggling via stuffed suitcases or postal mail ensured that even in the immediate post-war period "controls [provided] no guarantee against large-scale speculative and flight movements of capital". 81 The problem was heightened by the strident opposition of the New York financial community, boosted by Dixiecrat victories in 1943, to capital controls. This opposition, both ideological and self-interested, succeeding in ensuring controls would be unilateral, not "at both ends" as originally envisaged, making the task of controlling capital movements considerably more difficult. 82

Despite these setbacks, there was to be no return to the unfettered flows of a liberal market for private capital. Article VI, Section 3, of the Articles of Agreement sanctioned the use of controls limiting the movement of capital (except for current
account transactions). While rather vague (considering the centrality of restricting the spatial mobility of money for the operation of the Bretton Woods system), the expectations of the negotiators were clear. “It was practically assumed” noted one negotiator, “that there will be exchange controls on capital”. Capital controls, by deepening the fissures of the spatial grid that money flowed over, sought to sever a central thread integrating the world market without in the process destroying it - a spatial limitation reflecting the exigencies of a class strategy of temporal extension.

However a further setback occurred when the US fought for tighter requirements on countries seeking access to global liquidity. In 1946 it insisted that Fund resources not be released to cover deficits stemming from capital movements - the major source of the 1947 European currency crisis. Then in March 1948 the IMF Executive Board agreed it could challenge representations made to it under Article V, Section 3. Thus was IMF conditionality born. These changes ensured the IMF would never emerge as the global provider of liquidity as originally envisaged - a partial victory for the retreating monetary internationalists. As Randolph Burgess, president of the American Bankers’ Association argued before the U.S. Senate, “here is an administration in power in X country that is careless politically, that is careless economically”. “Now” he continued, “in my judgement it isn’t clear enough here that that administration might not draw funds from the fund to carry on an uneconomic policy... you want to fence this fund in so that it is very carefully safeguarded”.

These changes appeared to offer at least partial protection for the social power of money by whittling down the protective layers designed to alleviate the adverse impact of capital flight on the national economy. However, rather than signalling a return to

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83 However, under Article XIV (Transitional Period) members were allowed to place restrictions on payments and transfers for current account transactions for a rather open-ended period - in the event until December 1958.
external discipline enforced by private markets as favoured by a coterie of bankers and State Department officials, the US state stepped in directly, providing off-setting credits in the face of European balance of payments deficits caused by a mix of rapid internal expansion and capital flight. As Germain suggests, this represented “a structural transformation in the organisation of credit of the first order”. 87 While the role of the US dollar as pseudo-world money regulating the adjustment rate between domestic and global accumulation was thus assured, it came at a cost of intensifying the pressures on the national/international spatial dualism that lay at the heart of the new regime.

Reflecting a range of incompatible views and mutually exclusive goals, wartime debates wandered between liberal utopias of a world state and heightened concerns for national autonomy reflected in the economic science of monetary nationalism. Confusion over the precise nature of the relationship between these two spatial levels is evident even in the early Bretton Woods documents. In the one document Keynes could argue on the first page that there “should be the least possible interference with internal national policies, and the plan should not wander from the international terrain” only to suggest on the last page that the Clearing Union represented “a genuine organ of truly international government”. 88 It seems fairly self-evident these are mutually exclusive goals. Even the usually astute Joan Robinson, discussing the proposals in 1943, argued the benefits were “well worth the sacrifice of national autonomy”. 89 Conceptual confusions aside, this spatial uncertainty reflected deeper contradictions in the project of monetary nationalism - sometimes labelled by liberals under the vague but non-offensive title of ‘interdependence’. 90 The re-ordering of space necessitated by the temporal strategy of money nationalism threw open fundamental questions, such as how

to co-ordinate the reproduction of social relations now constituted on a domestic scale with the exigencies of a capitalist accumulation process spread across the world market?

The national/international dualism was to be managed, at least in Keynes’s plan, by the creation of a global form of credit-money - the bancor. Etatist technocratism was to replace the anarchy of market discipline as the ultimate arbitrator of the law of value. While this may have ironed out the geopolitical disadvantages of a system with a national currency as reserve, it is not clear how it would have resolved the broader contradictions. As there was to be only one-way convertibility between gold and the bancor, it was not effectively ‘backed’ by anything other than decree. Its provisions were also of a generous enough nature (Keynes suggesting the Credit Union have between $30-35 billion in reserves) to likewise ensure it would have been unlikely to act in any way as an exogenous restraint on national fiduciary monies. According to Williamson, the credit potentially created by the bancor was equivalent to a one-off allocation of over 720 billion in Special Drawing Rights (SDRs)! Such a system failed to anchor national fiat monies, raising the problem of the infinite regression of the value-form to an acute level. For example Dennis Robertson argued the post-war regime must ensure “there is no question of its [the state’s] cheque being returned to it as non-acceptable”.

This remarkable claim appears to suggest that national monies were to always be valorised by a world fiat money, eviscerating the ultimate sanction of the world market - the devalorisation of national monies as general and abstract value. As Williams (the main critic of the Bretton Woods arrangements) long argued, it was only ‘key currencies’ that would ever have any hope of fulfilling the role of world money – a solution to the infinite regression of the value-form would never be found in

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91 While White’s plan referred to the creation of unita’s, these were purely accounting devices rather than a medium of exchange.
93 John Williamson (1983), ‘Keynes and the International Economic Order’, in (eds) David Worswick and James Trevithick, Keynes and the Modern World, Cambridge University Press, Cambridge, p93. Note that at the time of this article, one SDR was worth approximately $1.08. Up to three quarters of this quota (bancors in excess of $30 billion) would have accrued as debts to the US via the recycling of US surpluses.
the vast majority of national currencies. In other words there was a hierarchy of currencies that Bretton Woods appeared to be ignoring.

In the event there was no bancor, only gold and the US dollar, although this probably heightened the underlying spatial tensions. Gold, while designated official *numeraire*, failed to act as nominal anchor for the world price level as parities were adjustable. The ambiguous role of gold in the regime was neatly expressed by the comments of US Assistant Secretary of State Dean Acheson, who argued “the British like to say that this is a departure from the gold standard. We like to say that this resembles the gold standard. Neither one of us has any differences as to what the plan provides. We differ in the words we like to use about it”. Indeed many have argued that by the time Bretton Woods began technical operation in December 1958 it resembled a “dirigiste Gold Standard”. More correctly, it seemed reminiscent of a gold-exchange standard but with only the US dollar convertible into gold. From here it is only a short step to focus on the ultimate role of the US dollar as regulator of the global supply of money - one of the “absurdities associated with the use of national currencies as international reserves” as Triffen argued for over three decades.

It is this point that most revisionist (especially New Left) historians focus on. Extrapolating from surface events that expressed the deeper contradictions within Bretton Woods, commentators on both the left and right have concluded the regime was simply a vehicle for US imperialism or hegemony (depending on one’s political

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95 Cited in Kenneth W. Dam (1982), *The Rules of the Game: Reform and Evolution in the International Monetary System*, University of Chicago Press, Chicago, p97. The ambiguous role of gold in the original plans - seemingly more a psychological residue - opened the door for an increased role for gold at some later point, especially as plans for a genuine world-money failed to materialise and gold took on the role of fundamental reserve asset. Lutz, perhaps sensing the destabilising role gold could play, noted “there is no doubt that gold is a nuisance rather than a help in the plan”. Friedrich A. Lutz (1943), *International Monetary Mechanisms: The Keynes and White Proposals*, Essays in International Finance, No. 1, Princeton University, Princeton, New Jersey.


97 Robert Triffin (1961), *Gold and the Dollar Crisis: The Future of Convertibility*, Yale University Press, New Haven, p10; Robert Triffin (1991), ‘The IMS (International Monetary System... or Scandal?) and the EMS (European Monetary System... or Success?)’, *Banca Nazionale del Lavoro Quarterly Review*, No. 179 (December).
persuasion). Yet from a political reading, the final role of the dollar does not define the regime from a class basis. Prior to the ascendancy of the dollar, certain commentators were drawing similar conclusions as Dean Acheson over the role of gold in the new regime. “Either scheme would work much as the gold standard worked in its heyday” argued Robinson, “or rather as it would work in such conditions if every country had an ample gold reserve and was never shy of losing gold”. The italicised words are of course the fundamental point. The social basis of the gold standard was its ability to transmit scarcity relations, never its technical attributes. A gold standard without the requisite ability to impose the discipline of scarcity over the reproduction of social relations could never uphold the tenets of monetary internationalism. While Bretton Woods never assumed the form envisaged by its original architects, it clearly remained within the general framework of monetary nationalism. The ascendancy of the dollar did not alter this, but retained and amplified (through the failure to resolve flaws in the adjustment mechanism) the tensions within Bretton Woods as it was originally formulated, and it is these contradictions I turn to next.

6.4 The Contradictions of Bretton Woods

Overarching these tensions were two conceptions of convertibility that existed ambiguously side-by-side: a gold-exchange and a dollar-exchange standard. If the more traditional meaning of convertibility held sway, constraints were placed on the temporal extension of monetary nationalism by the integration of national monies into a rigid monetary pyramid. The US dollar would be the initial regulator of global accumulation, and gold in turn would ‘police’ this - all other currencies being limited by the rate of expansion of the US money supply (or those portions which ‘leaked’ out as global liquidity). Of course the opposite would occur if the second, purely fiat standard


dominated. Because gold convertibility was no longer market driven, while many of the associated 'freedoms' that made convertibility meaningful as a device to impose scarcity (such as flows of short-term capital) were heavily regulated or proscribed, there was always an immanent threat the system would assume the characteristics of this second purely Chartelist regime.

Convertibility was the traditional mechanism for not only taming Gresham’s Law, but actually reversing it at the level of the world market. ‘Good’ money drove out ‘bad’ — discounting or even revoking the status of money deemed ‘soft’ as abstract social wealth. However the Chartelist conception of convertibility sought to deaden or neutralise this Law by assuming all currencies were equal (neither good nor bad). Ironically the outcome of combining alternative reserve assets and associated notions of convertibility was the resurrection of Gresham’s Law in its original guise. Wealth holders increasingly sought to hoard ‘good’ money (gold), while palming off the suspect alternative reserve asset (the dollar). The ambiguity between these alternative theories of convertibility was an outward manifestation of deeper tensions in Bretton Woods, the focal point around which the trilogy of adjustment, liquidity and confidence circled in ever tighter and more chaotic circles.

The tensions between the national and international layers of the Bretton Woods regime, evident in the pressure exerted by Gresham’s Law, deepened as the failure to uncover a workable adjustment mechanism became acute. Rather than providing strength through suppleness, as White and Keynes had hopped, the apparent flexibility in the adjustment mechanism highlighted the overall brittleness of the regime. Ultimately Viner was proven correct on the rigidity of the exchange rate adjustment mechanism (but for different reasons as noted previously). After the debacle of 1947 when sterling attempted a premature restoration of convertibility, and the near across the board devaluation relative to the dollar in 1949, the only subsequent adjustments occurred with the Canadian float in 1950, France in 1957 and 1958, minor revaluations by

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Germany and the Netherlands in 1961, and in the lead up to the final period of collapse, Britain in 1967 and France and Germany in 1969. Indeed, “almost every major devaluation of the Bretton Wood period was instigated, not by an authority’s cool-headed perception that the economy was in fundamental disequilibrium, but by a foreign-reserve crisis”, that is, by *force majeure*.\(^{101}\) Furthermore, attempts by central banks to defend themselves from the riskless ‘bets’ placed by the market proved extremely costly. For example, the 14.3 per cent devaluation of sterling in November 1967 occurred only after four years of speculative attack, while the 11.1 per cent devaluation of the French franc in August 1969 was the culmination of fifteen months of crisis involving French reserve losses of roughly $5 billion.

This growing inflexibility was initially camouflaged by the early success of monetary nationalism in driving a wedge between domestic social reproduction and global accumulation. The key to the ‘golden age’ of capitalist accumulation lay with the impressive rates of productive investment, more than 50 per cent higher than between 1914–49 - an essential prerequisite for the political economy of the mass worker.\(^{102}\) Initiated in Europe by massive imports of capital goods, the resulting balance of payment blowouts were no longer met by deflation, but rather a continuation of expansionist high growth policies. This was possible up until 1952 by the overriding of the balance of payments constraint, at least in Europe and Japan, through inflows of dollar aid under schemes such as the Washington Loan Agreement and the Marshall Plan.\(^{103}\) Yet as these flows of American largess tailed off, net capital transfers between the industrialised countries remained small, reflecting minor trading imbalances. Instead of equilibrating flows of foreign capital, the 1950s and early 1960s witnessed a

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strong internal correlation between savings and investment.\footnote{104} This correlation did not reflect private sector ‘equilibrium’ but rather the successive expansions and contractions of credit acting inversely to the private saving-investment gap. This kept “each country’s current account surplus (deficit) small... obviating] the need for large capital transfers from one country to another”.\footnote{105} Furthermore, the manipulation of domestic money (‘autonomous’ credit-policies) through the tools of monetary nationalism resulted in a de-synchronisation of the global business cycle between 1948-68, that is recessions were largely national in origin. This temporal separation made the process of global class management considerably easier, for declining production and domestic demand could be compensated for via increased exports to those economies in an upswing.\footnote{106}

Despite these early successes, the constant deferment of the adjustment process underlying the Bretton Woods regime eventually created conditions allowing a widening disjuncture between the spatial layers of the domestic and global economies. While exchange rates were in practice rigid, they were disabled by the techniques of monetary nationalism from enforcing internal adjustment. More fundamentally, amidst growing balance of payments problems, speculative attacks against fixed parities and upward drifting interest rates, a more pervasive social sclerosis was slowly inhibiting the ability of the domestic economy to adjust in any fashion. Bretton Woods was reduced to a mechanism to waste time, a kind of endless deferment. Yet the longer the period of postponement, the more rigid became the domestic economy, making the necessary adjustments more difficult. White’s dictum (section 6.1) was in fact wrong,


\footnote{105} Ronald I. McKinnon (1993), ‘The Rules of the Game: International Money in Historical Perspective’, Journal of Economic Literature, Vol. XXXI (March), p24. A corollary to this is the pattern of trade amongst the industrialised economies in the post-war period. Rather than following the dictates of orthodox trade theory that suggests inter-sectoral trade will maximise total social welfare (given a particular international division of labour), post-war trade tended to grow most rapidly along intra-sectoral and intra-continental lines, i.e. similar goods within similar regions such as Western Europe and North America. Such a trade pattern lessens the degree of unilateral adjustment required, both politically and economically, by domestic economies - another aspect of what Ruggie has called ‘embedded liberalism’. See John Gerard Ruggie (1982), ‘International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order’, International Organisation, 36, No. 2.

for the flexibility required by capital in the social relations of production was ultimately dependant on the imposition of austerity, achievable through the discipline of an external rigidity constituted at the global level.

This dynamic relationship between rigidity and flexibility in the Bretton Woods regime reflected the instability of the division between state and market but generalised to the level of the world market. This division depended above all else on containing the monetarized class struggle within the boundaries of the accumulation process. This was just as true ‘internationally’ for the Bretton Woods regime as it was ‘domestically’ for the Economics of Abundance. As Gardner argued, “both plans [those of Keynes and White] acknowledged, either implicitly or explicitly, their dependence on the assumption of economic equilibrium”.

Of course, ‘economic’ equilibrium depended on maintaining the boundaries between economic and political struggle as I highlighted in Chapter 3. It becomes immediately evident that the coherence of Bretton Woods was dependent on the hypostatised and reified notion of class ‘compromise’ that afflicted the political economy of the mass worker. Class struggle, contained within economistic parameters, was now the dynamic force driving the accumulation process through mass consumption and high productivity. Yet this struggle was seen in essentially static, synchronic terms, suggesting a one-off settlement or ‘compromise’ between capital and the working class. It failed to realise that class struggle is dynamic and diachronic; existing in and against particular fetishised forms (the ‘state’, ‘money’ and so forth) and transforming them in the process. Social relations are never made once and for all, but rather are continuously in a state of becoming.

The ideology of growth and productivity, “the great conservative idea of the last generation”, failed to comprehend this dynamic lying at the heart of the Economics of Abundance. Seeking to transcend class struggle, it argued the “true dialectic was not

one of class against class, but waste versus abundance”. Yet waste is simply the obverse to scarcity, manifesting itself socially as rusting capital, unemployment and stockpiled inventories. It is the individual that experiences this as scarcity and as I sought to show in Chapter 2, it is central to capitalist class relations. Yet monetary nationalism in the form of Bretton Woods ultimately removed the key regulator of social scarcity – money – from the logic of scarcity relations. The result, as the following chapter highlights, was not the containment of class struggle, but rather a corrosive intensification that strengthened the power of the working class through the unstable social categories of fiat money and the liberal-democratic state. The raw fuel that made this possible was a politicised fiat money dependent on the regulatory space of the national economy carved out by Bretton Woods. While the intention was for Bretton Woods to act as a fuse, the monetarised surges of the political economy of the mass worker simply resulted in an “overload on the international monetary regime”.

This chapter has argued that Bretton Woods was a necessary presupposition for the political economy of the mass worker. The following chapter examines the unintended consequences that resulted from the Economics of Abundance and how these proved fatal to the Bretton Woods regime of monetary nationalism. As with previous chapters, the focus remains on the experience of the US, for the seeds of monetary nationalism bloomed as noxiously here as elsewhere for capital. However, the impacts were highly damaging not just within the US but across the global economy as the impact of this monetarized class struggle was transmitted far and wide through the US dollar as pseudo-world money. Surging flows of dollars further destabilised a capitalist strategy in crisis: the stop-go strategies forced upon the British state; May ‘68 in France; the Italian ‘hot autumn’ of ‘69; and the dangerously overheated German economy of 1970-72, straining under massive increases in unit labour costs and state welfare (from DM120 billion in 1969 to DM170 billion in 1972). In short, the US class struggle was a

barometer and regulator for capitalist social relations in their entirety, and it is to this I turn to next.
1971: The End of Monetary Nationalism

"Social Democracy could not abolish capitalism by decree and could not indeed manage without it, but neither could it guarantee capital the security it needs to fulfil its functions. This contradiction would irrevocably destroy Social Democracy; the outcome would only be colossal defeat."

Eduard Bernstein

7.1 Collapse of the Post-War Order

Orthodox and radical economists alike agree corporate America was experiencing an alarming decline in profit rates by the mid-1970s - with hindsight a trend evident from the mid-1960s onwards (Figure 7.1). Of course, differences arise over where to apportion blame. Many orthodox economists pointed to a series of spectacular but ultimately superficial exogenous factors that rocked the global economy during the 1970s (such as oil shocks - despite crisis conditions existing long before this). Nordhaus in a hopeful paper suggested a falling cost of capital (declining taxes and smaller risk premiums on equity as memories of the Great Depression faded). Others pointed to intensified foreign competition (the fall in profits was general, if lagged, across all advanced capitalist economies). One popular line of argument pointed to a lack of investment (the fall in investment was a result and not a cause of the crisis). Radicals who did not ascribe to these pointed to a crisis of overaccumulation, a rising organic composition of capital, inter-imperialist rivalry, or profit-squeezes from rising wage shares - accentuated by rapidly declining rates of productivity growth (see Table 7.1). As Marx argued, "crises are always prepared by precisely a period in which

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wages rise generally and the working-class actually gets a larger share of that part of the annual product which is demanded for consumption".  

**Figure 7.1 Business Net Profit Rate, 1960-75**

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**Table 7.1 US Productivity Slowdown, 1948-78**

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<td>2.4</td>
<td>1.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.2</td>
<td>2.8</td>
<td>2.4</td>
<td>1.5</td>
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This chapter makes no attempt to offer a complete explanation of the collapse of the 'golden age' of accumulation, focusing instead on the fundamental role played by the growing failure of the money-form to *command* through market exchange. More than a growing distributional fight between labour and capital, this failure is directly attributable to the corrosive effects of Bretton Woods and the Economics of Abundance it permitted through the splintering of the world market. The techniques developed to manipulate politicised money undermined the foundations of capitalist social relations, gnawing at the coercive bonds that impose capital as a relation of boundless *work*.


To highlight these impacts it is illustrative to focus on the auto-sector, for it occupies a central position in the post-war accumulation process, being “the industrial branch that essentially ‘generated’ the long period of post-war expansion in the imperialist countries”.\(^4\) According to Linebaugh and Ramirez, a “sixth of US jobs, a sixth of GNP, a sixth of every retail dollar is locked in the auto industry. A fifth of American steel, a third of zinc, a tenth of aluminium, two-thirds of rubber is tied to autos. The auto industry and its suppliers have integrated within a single circuit the social division of labor”.\(^5\) Auto offers us a microcosm of the malaise affecting the social relations of production as a whole, resulting in the collapse of the class compromise forged by an earlier generation of auto-workers (discussed in the previous chapter).

General Motor’s state of the art Vega plant at Lordstown provides a case study of the crisis afflicting the auto sector.\(^6\) Occupying the interstices between the ‘long boom’ and the following years of ‘managed crisis’, Lordstown was constructed in the late 1960s amidst the vast flat cornfields lying along Route 45 near Warren, Ohio - part of GM’s ‘Southern Strategy’.\(^7\) An economically depressed rural setting far from the heartland of the auto-industry, Lordstown workers were predominantly young (average age under 25), white (85 per cent), and new to unionism. The logic behind this spatial reorganisation was a desire to escape the struggles tearing apart the auto heartlands. The rising costs of living labour created incentives to increase the rate of surplus value extraction and hopefully impose discipline over an unruly working class. Technology, as capital has long recognised, is a powerful weapon to achieve these inter-related goals. As early as 1835 Ure suggested “when capital enlists science into her service, the refractory hand of labour will always be taught docility”.\(^8\) With this lesson in mind, the late 1960s saw capital per worker in the US manufacturing sector increase 3.7 per cent

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\(^6\) The Vega, a small Chevrolet, was one of GM’s better selling models.


annually - a substitution of dead for living labour reflected in the capital stock to labour ratio. This tactic operated in tandem with the more intensive use of existing capital stock, increasing the rate of exploitation through the ‘speed up’. Yet the benefits failed to materialise as productivity increased at a rate of only 2.4 per cent. This was reflected in output/capital ratios, which slumped from annual growth rates of 4.5 per cent during the early 1960s to -1.6 per cent by the latter half of the decade (-0.1 adjusted for capacity utilisation). Figure 7.2 illustrates this, showing two measures of capital formation between 1948-1979 indicating rising unit labour costs for capital. These figures, roughly correlating to an increasing organic composition of capital, are in a sense an index of the increasing costs of exploitation and the limits to this strategy. As GM Chairman James Roches complained, “GM has increased its investment per hourly employee from $5,000 in 1950 to $24,000 in 1969, but tools and technology mean nothing if the worker is absent from his job”.

Opened in June 1970, the Vega line, renovated at a cost of hundreds of millions, signalled American auto’s ‘fightback’ against foreign competition - especially Volkswagen and Toyota. Equipped with 26 ‘Unimate’ robots to replace militant welders, automatic spray guns as well as automated control and inspection programs, the ‘futuristic’ factory proved as moribund as any other. GM, acting with a resolve required by a slump in profits (falling to a paltry 7 per cent by 1971), called on its ‘marine corp’ management group - the General Motors Assembly Division (GMAD) -

9 Of course, the other possibility was to lengthen the working day, or in Marxist terminology, the rate of absolute exploitation. It should be noted this strategy still played an essential and increasingly important role. Between 1955 and 1967, employee hours worked increased by 18 per cent in the non-farm business sector, and 14 per cent in manufacturing, usually achieved through compulsory ‘overtime’. As militancy increased, overtime itself became an issue of confrontation. During the recession of 1974, one Ford executive expressed his surprise at the refusal of thousands of Ford workers to work overtime. “We’re mystified by the experience in light of the general economic situation”. See Kim Moody (1988), An Injury to All: The Decline of American Unionism, Verso, New York, p85; John Zernan (1974), ‘Organized Labor versus “The Revolt Against Work.” The Critical Context’, Telos, No. 21, Fall, p206.


11 Fortune (1970), ‘Blue-Collar Blues on the Assembly Line’, July, p70. According to Armstrong et al, “The criterion for capitalists to scrap old equipment is not whether the machine is physically serviceable - most machinery is withdrawn from use well before it has worn out - but whether it can any longer be operated profitably. And the key factor which renders unprofitable the operation of older vintages of machinery is a rise in wage costs”. Phillip Armstrong, Andrew Glyn and John Harrison (1991), Capitalism Since 1945, Basil Blackwell, Oxford, p122.
to find a resolution. GMAD’s response was swift, brutal and crude. Retooling over the late summer of 1971, the speed of the line increased from 60 to 102 cars an hour - one car every 36 seconds. Despite the apparently objective parameters of these technical specifications, the ‘perfect efficiency’ of automation was governed by another logic. “There is no ‘technical’ imperative to specify whether Lordstown’s line should yield 25, 50, 75, or 120 Vegas per hours” argues Montgomery, for “its tempo simply measures the relative strengths of the two parties which confront each other over the pneumatic wrenches, spot welders, and spray guns each day”.12 This ceaseless, hidden war over work intensity (at the heart of wage-productivity deals) claimed 65 ‘accidental’ deaths a day in the auto sector alone, a higher annual body-count than any single year of American involvement in Vietnam.13

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Despite the appearance of innovation and technical advance, Lordstown was organised along traditional Taylorist lines using established Fordist technology. Not surprisingly "the major principle of Lordstown production", as in all auto-lines, was "the speed-up, as developed in the 1910s". This crude strategy of increasing the intensity of exploitation was admirably summed up by GMAD's chief executive, Joseph Godfrey who argued "if a man works sixty minutes an hour, that's full productivity. That's how I measure it". Yet the reality of managing labour in light of its political composition at this time made such pronouncements largely empty. As one Vega autoworker argued, "[management] got all the technological improvements... But one thing went wrong... We've been telling them since we've been here: We have a say in how hard we're going to work".

Over the next five months the Vega workers engaged in guerrilla warfare as "new forms of struggle [were] developed by workers during the winter and spring of 1971-72". Absenteeism soared, slowdowns occurred, 5000 grievances were filed with the UAW, while acts of 'sabotage' saw increasing numbers of "half-finished" Vegas came off the line. Some estimates suggest that up to 500,000 were deliberately disabled between December 1971 and March 1972. By January 1972, the Wall Street Journal was referring to the "Utopian GM plant in Ohio" as "Paradise Lost". The struggle culminated in February, when workers at the Vega plant voted by a 97 per cent majority to walk out, precipitating a three week strike that achieved something close to iconic status amongst the national media as symptomatic of the 'revolt against work' by America's workers, particularly the young. "Once prototypes of efficiency" argues Rothschild, "the Lordstown factories had now become prototypes of revolt".

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15 Cited in Ibid, p110.
20 Emma Rothschild (1974), Paradise Lost: The Decline of the Auto-Industrial Age, Allen Lane, London, p102. Lordstown was just one of a wave of wildcats to affect the auto-sector in 1972-3, obtaining national prominence as a
This internecine warfare in the auto-sector reflected a rising militancy more generally in the workforce. Any quantitative measurement of working class resistance is at best partial and suggestive only. The usual indicators such as strike activity, while indicative, are too thoroughly mediated through the institutionalised relationship between the unions and the state. Other categories of worker militancy - so-called "cut-price industrial action"\(^\text{21}\) - because of their unofficial or individualistic character assume a hidden, subterranean form, recorded only by anecdotal or 'indirect' evidence. These forms of struggle can however assume costly proportions. On average 5 per cent of GMs hourly workers were missing from work without explanation every day, rising up to 10 per cent on Mondays and Fridays - a doubling of causal absenteeism in the space of five years. For Ford, the average rate of absenteeism rose to 5.8 per cent in 1968, twice the rate recorded in the late 1950s, rising to 15 per cent on Mondays and Fridays - while the quit rate rose to 25.2 per cent in 1969.\(^\text{22}\) Grievances, another indirect measure of militancy, increased at GM during each contract period from 11,000 in 1958 to over 39,000 in 1970. Such proliferating demands caused massive disruption to the mechanisms of collective bargaining. According to one GM official commenting on the costs of local grievances, "in 1967 we began negotiations in July, signed a contract in December, and didn't clear up all the local problems until the following July. We were in the trenches for a year".\(^\text{23}\) By the summer of 1970, "observers of the labor-management scene... almost unanimously assert that the present situation is the worst within living memory... Morale in many operations is sagging badly, intentional work slowdowns are cropping up more frequently and absenteeism is soaring".\(^\text{24}\) For non-farming industries as a whole, part-week absenteeism rose steadily during the late 1960s.

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result of media trivialisation of workers' struggles at Lordstown as symptomatic of the 'blue-collar blues'; the rejection by long-haired white youth against the alienating work their parents willingly undertook - "an industrial Woodstock". There was nothing more 'mysterious' or new however about this rebellion than in other wildcats in this period, such as those in the summer of 1973 at Chrysler's Jefferson Avenue Assembly plant, Mack Avenue stamping plant, and the Lynch Road Forge plant. The issues were murderous safety practices, speed-ups, discipline procedures and the inability of the union to resolve these issues. See Business Week (1972), 'The Spreading Lordstown Syndrome', March 4.


and early 70s, increasing by 44 per cent between 1964 and 1973. In one United Steelworkers local, by 1970 3400 disciplines had been meted out to workers for various offences including absences, drinking, arguing and late arrivals, up from a few hundred in 1965.

Not surprisingly, such shop-floor militancy increasingly spilled over into ‘official’ channels, throwing into stark relief the contradictory role of the union as “manager of discontent”. The function of unions in the wage-productivity relation became increasingly problematic under pressure from the rank-and-file. Growing opposition to entrenched leadership even within disciplined unions such as the Teamsters and Steelworkers saw record rejection rates by membership of the contracts agreed upon by their leaders (see below). There was also growing dissatisfaction with the rigid triennial collective bargaining system with a shift in favour of direct, unmediated action - usually wildcat strikes – especially in the context of unresolved and escalating local grievances. Union officials at all levels were finding themselves at the hostile end of shop-floor anger, a power shift “from the familiar faces to the nameless men of the rank and file”.

John Perkins, vice-chairman of Chicago’s Continental Illinois Bank claimed “it seems that many union leaders have lost their sense of security and have to go for broke”. A Teamsters leader commenting on the rising tide of local demands complained “the rank and file have shown limitless desires, and when a local president doesn’t deliver they kick him out”. Even when militancy was forced on union officials the gulf between these bureaucrats and the aspirations of the rank-and-file seemed to widen. Between mid-1965 and mid-1966, 10 per cent of the 7,500 contracts handed down by federal mediators were vetoed by rank-and-file, Fortune noting “the figure has apparently never been higher”. Yet in 1967, the Federal Mediation and Conciliation Service reported that over a thousand contacts had been voted down, representing 14.2 per cent of its

annual caseload. In the following years the rate evened out to around 12 per cent. Of greatest importance was the increasing willingness of workers to take direct action, bypassing business unionism and the baroque structure of contractual industrial relations which encoded management’s ‘right to manage’, buttressed by no-strike clauses and carefully constructed over the previous quarter century. The incidence of strikes occurring during the life of a contract increased from one thousand in 1960 to two thousand in 1969, rising to around two fifths of all stoppages by 1972.

### Figure 7.3 Work Stoppages, 1960-75
(% of total estimated working time)

The evidence from these various forms of worker militancy points to an intensified cycle of class struggle from the late 1960s onwards; the external manifestation of an internal organisation of the working class signalling an emerging political composition as a class-for-itself. As Aronowitz correctly points out, “the configuration of strikes [both official and wildcats] since 1967 is unprecedented in the history of American workers”. More worrying for capital than sheer quantitative increases (see Figure 7.3) were clear signs that the prerogatives of capital were again under attack. It seemed to

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33 Political composition refers to the “level of unity and homogeneity that the working class reaches during a cycle of struggle in the process of going from one composition to another”. In essence, it “involves the overthrow of capitalist divisions, the creation of new unites between different sectors of the class, and an expansion of the boundaries of what the ‘working class’ comes to include”. Zerowork Collective (1975/1992), ‘Introduction to Zerowork I’, in Midnight Notes Collective, *Midnight Oil: Work, Energy, War, 1973-1992*, Autonomedia, New York, p112
signal a rupture in the post-war order, as the formalisation and monetarisation of class struggle around the economistic parameters established by the political economy of the mass worker spiralled out of control. Table 7.2 illustrates the declining number of strikes centred solely on the issue of wages, suggesting the erosion of the foundations of the truce between organised labour and capital. In short, the *subjective underpinnings* driving demands for more money were spilling across social categories. The demand for more money increasingly took the form of a *refusal to work*, at least in the form demanded by capital. For capital, workers demands appeared increasingly ‘irrational’, divorced from objective realities, making inexplicable “the extraordinary persistence of tremendous wage settlements that run far beyond anything implied by productivity gains”.35 The 1970 strike at GM, concocted between union leaders and management to allow workers to ‘blow some steam’, sought to refocus discontent on wage claims. The strategy came close to total failure as the UAW lost control over the rank-and-file, for while struggles could still take economistic forms, the subjective content was increasingly divergent and antagonistic to these established patterns. As Aronowitz argued, “the main feature of the auto strike [at GM] was that the real issue propelling it was liberation from labor”.36 This radicalised subjectivity found expression, *but no solutions in the open-ended demands for more.*

| Table 7.2 Behaviour of Three Elements of Militancy (Mining and Manufacturing, 1953-77) |
|-----------------------------------------------|-------|-------|-------|-------|
| Indicator                                      | 1953-60 | 1961-67 | 1968-73 | 1974-77 |
| Per cent of strikes over working conditions   | 16     | 22     | 30     | 35     |
| Per cent of wildcat strikes                   | a      | 32     | 40     | 43     |
| Per cent of wildcat over working conditions   | a      | 59     | 66     | 77     |


7.2 Rigidity in the US Post-War Order, 1965-1975

What was the source of this radicalised subjectivity that was breaking apart the political economy of the mass worker? Fundamental were the connections between multiple points of resistance, forming one continuous social circuit of struggle. Paradoxically the multiplying of anti-capitalist struggles and thus subjectivities (race, gender and so forth) led to a breakdown of the segmentations that divided the interests of the working class. Key to this solidifying political composition of labour were the changing objective conditions engendered directly by the techniques of monetary nationalism.

The first of these was the move to full employment, a modulation of external conditions. As Kalecki perceptively argued in 1943, “under a regime of permanent full employment, the ‘sack’ would cease to play its role as a disciplinary measure... and the self-assurance and class-consciousness of the working class would grow".37 Such a situation became increasingly apparent during the course of the 1960s, as unemployment figures fell from 6.7 per cent in 1961 to 4.5 per cent in 1965, and a low of 3.5 per cent by 1969. Of course, every recession in the post-war period (1948, 1951, 1955, 1959, and 1966) “can be attributed to deliberate policies” designed to moderate aggregate demand and weaken organised labour through increasing unemployment.38 Yet each of these was more than two-thirds less severe on average than the business cycle during the period of expansion at the turn of the century.39 Furthermore under the guise of the ‘New Economics’ and Kennedy tax cuts of 1961 and 1963, the goal had shifted from moderating the business cycle to achieving the rising full-employment potential of the economy. The explicit politicisation and modulation of the business-cycle allowed a creeping rigidity to spread across the relationship between capital and labour, as capital lost one of its key tools for disciplining labour.

A second change occurred in the internal composition of labour (also at least partially attributable to declining unemployment levels). US capital had long relied on a strategy of segmentation to control labour, especially in response to the massification and homogenisation of US labour under the imperatives of the ‘drive system’. At least 40 per cent of American workers, mainly women, youth and minority workers, existed outside the wage-productivity deals, their position vis-à-vis organised labour deteriorating throughout the post-war period. Yet as labour markets tightened, core sectors of capital began drawing in growing numbers of these more militant and marginalised workers. The labour-relation problems in the auto-sector derived in large part from this changing internal composition of the working class. Most notable was the massive urbanisation and proletarianization of Southern rural Afro-Americans in the industrial heartlands of the North - over 4 million emigrating between 1940 and 1960. By 1969, 1 out of 4 inhabitants of major urban concentrations was Afro-American, with large numbers finding their way into core sectors of capital. By the late 1960s Afro-Americans comprised between 30 and 70 per cent of auto-plant workers in the Detroit area. In general, they occupied the least skilled and most strenuous, dangerous and exploitative positions, lacking job-security and pay-equality with white workers.

Yet these Afro-American workers were only one pole of a dualism, for the ‘Inner City’ ghettos were not only home to these workers, but also a large reserve pool of labour - the urban poor. It was the uprisings of the Afro-American urban poor that provided the connecting link in the circuit of struggle between the ‘inner city’, the reserve army of labour, and the ‘niggermation’ of US industry. The urban riots that rocked America, beginning in Harlem in 1964 through to Detroit in 1967 - a year in which 83 major riots and civil disorders broke out - marked a significant transition in Black struggles.

Shifting from the institutional politics of the Civil Rights movement to greater

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41 Plants, such as Chrysler’s Eldon Avenue Gear and Axle plant, which were up to 70 per cent black, were allowed to decay to sub-standard working conditions. It was, in the words of UAW Safety Director Lloyd Utter, “inexcusably dangerous”. See Dan Georgakas and Marvin Surkin (1975), ‘Niggermation In Auto: Company Policy and the Rise of Black Caucuses’, Radical America, Vol 8, No 6. At Lordstown the equivalent were white ‘hillbillies’ who emigrated from the depressed coal mining regions of Appalachia.
demands for “money without any strings”, “the civil rights movement as the US knew it lay dead... in the ashes of a thousand and more fire-bombed buildings in Detroit”.42

“Negroes are almost entirely a working people” argued King in an address to the 1961 AFL-CIO convention, “our needs are identical with labor’s needs - decent wages, fair working conditions, livable housing, old age security, health and welfare measures”.43

Denied these, America’s urban poor had only one channel of communication - violence. Generally misunderstood as ‘race riots’ fuelled by ‘rifffrass’ elements - criminals and those suffering from other social pathologies of the poor - these violent confrontations and the resulting ‘welfare insurgency’ “were fundamentally working class and poor people’s movements”, a “rebellion by the poor against circumstances that deprived them of both jobs and income”.44

America’s welfare system, largely unchanged since the Social Security Act of 1935,45 had two core but potentially contradictory functions: to provide relief in times of turmoil ensuring social stability, while simultaneously maintaining enough incentives/strictures to ensure the continuing viability of the poor as a reserve army of labour. Aid to Families with Dependent Children (AFDC) - the main form of welfare to the reserve army - was buttressed with “welfare statutes and practices [that] were designed to enforce work norms and to insure the availability of low-paid labourers by restricting aid”46. Accordingly, growth in welfare rolls was extremely modest during the 1950s. This pattern was disrupted as families on AFDC increased from 745,000 in 1960 to 3 million by 1972, with 71 per cent of this increase occurring after 1964. Overall, welfare recipients increased by approximately 10 per cent annually during the 1960s. Not only did more people apply, but acceptance rates grew rapidly as well.

45 Apart from Aid to the Permanently and Totally Disabled added in 1950. Coverage of all forms of welfare, both monetary and otherwise, was extended throughout this period. A number of important non-monetary programs began in the 1960s, such as the Food Stamp Program (1964), and Medicaid and Medicare (1965).
46 Frances Fox Piven and Richard A. Cloward (1979), Poor People’s Movements: Why They Succeed, How They Fail, Vintage Books, New York, p266.
rising from 55 per cent in 1960 to 64 per cent in 1966 and 70 per cent in 1968. The cost of AFDC escalated from $1 billion in 1960 to $6 billion by 1972. Under sheer weight of numbers, "traditional procedures for investigating eligibility broke down... for all practical purposes, welfare operating procedures collapsed".47 Furthermore, as Castells notes, "the spectacular increase in welfare rolls during the sixties was not due to increasing needs (these already existed) but to increasing demands".48

For the first time, significant numbers of ghettoised blacks in the reserve army had an alternative to the low-wage employment offered by capital.49 Caught in a vice between escalating urban violence - a legitimation crisis - and intensifying demands for cheap labour, Johnson’s ‘War on Poverty’ formed a conduit for rebellion and refusal. "The mechanism of the reserve army" argue Body and Crotty, "requires not only the existence of unemployment but a threat to those still employed".50 The circuit of struggles connecting the Inner City to the workplace existed not only as a structural intersection of the waged and unwaged, for the militancy generated through urban riots found expression in the factories. Indeed, rioters and workers were usually one and the same. The Kerner Report found that "one half to three quarters of the arrestees were employed in semi-skilled or skilled occupations", while overall "three fourths were employed".51 Black rebellion and welfare insurgency fused into a circuit of struggle connecting the ghetto to the factory, the waged to the unwaged, throwing into doubt the effectiveness of many of the central internal divisions amongst the working classes inculcated over the proceeding century. The strategy of segmentation began to unravel with dire results, for "the post-war accord worked effectively only as long as working-

class demands could be constrained to reflect the interests of particular class fractions".\textsuperscript{52}

The third objective factor transforming the composition of the working class was the rapid growth of income flows divorced from work, a subject already touched upon in the second point where I examined the effects of welfare on the reserve army. Yet the questions raised by the declining ability of welfare to discipline the workforce were more fundamental. These struggles demanding more defused across large sections of labour, strengthening the militancy of established workers by extending the potential length of strike actions while lowering the costs of job loss. One 18-month study by the Wharton School of Finance and Commerce found that “the American taxpayer has assumed a significant share of the cost of prolonged work stoppages” through state subsidies such as welfare benefits, unemployment compensation, and food stamps.\textsuperscript{53}

The actual income ‘lost’ by being laid off (average length of unemployment and welfare payments) fell rapidly during the 1960s, as indicated in Figure 7.4, which uses an index devised by Schor and Bowles. More generally, by 1976 44 per cent of all household units received an average governmental cash transfer of \$3,368, representing 24 per cent of their mean post-transfer income, while other state programs also contributed through non-cash transfers such as medical aid, child nutrition and so forth.\textsuperscript{54}

Daniel Patrick Moynihan, Harvard ‘liberal conservative’, adviser to Lyndon Johnson and Nixon and master-mind behind the ‘workfarist’ Family Assistance Plan (FAP), wrote the following comments in his 1973 polemic: “By the end of the decade, social services had expanded so greatly that a dependent family that optimised its situation - public housing, Medicaid, food stamps, and the such-like - could have an equivalent income at least equal to and probably above that of the average New York family...
Among a large and growing lower class, self-reliance, self-discipline, and industry are waning; a radical disproportion is arising between reality and expectations concerning job, living standard, and so on... It is a stirring, if generally unrecognised, demonstration of the power of our welfare machine.\textsuperscript{55} The growing scale of welfare payments can be highlighted by comparing the costs of maintaining the 'war at home' to external security costs. From a high of 10.5 per cent of GNP in 1955, defence's share fell gradually, climbing again to a high of 9.5 per cent in 1968, before declining rapidly to around 5.7 per cent in 1974. In contrast, public spending on the 'civil' sector rose steadily from 16.8 per cent in 1960 to 19.4 per cent in 1968, and then to 22.5 per cent in 1973. "Shockingly" notes Graham, "the 1975 budget revealed that spending on income maintenance ran higher than on defence for the first time in American history".\textsuperscript{56}

\textsuperscript{55} Daniel P. Moynihan (1973), The Politics of a Guaranteed Income: The Nixon Administration and the Family Assistance Plan, Random House, New York, pp31-76. FAP was an overhauled plan originally devised by Milton Friedman, the major point being to buttress work motivation and ensure the continuing supply of disciplined workers.

\textsuperscript{56} Otis L. Graham (1976), Toward a Planned Society: From Roosevelt to Nixon, Oxford University Press, New York, p253.
Figure 7.5 charts military to income security spending in the Federal Budgets between 1960-1975, achieved without increased taxation and thus representing a gain for labour.

**Figure 7.5 State Expenditure, 1960-76**

(% GNP)

(butter for guns). Growing expenditure on the home front saw a corresponding proliferation of regulatory agencies, with 29 emerging between 1964-73 (compared to 10 between 1946-63). Indeed, the Nixon administration probably witnessed the greatest amount of new regulation since the New Deal (including the Environment Protection Agency, Equal Employment Opportunity Commission and the Occupational Safety and Health Administration.

While welfare transfers constituted an increasing overall share of household income, some critics have suggested this failed to involve any net transfer to the working class as a whole. O'Connor in his classic analysis of the “welfare-warfare state” argued in rather functionalist fashion that state expenditures “can be seen as a complex mechanism that distributes income backward and forward within the working class - all to maintain industrial and social-political harmony, expand productivity, and

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accelerate accumulation and profits in the monopoly sector".59 Pushing the argument to a more extreme position, Shaikh and Tonak argue labour has in fact subsidised the state. They estimate that on average between 1960 and 1974 the net transfer rate between labour and the state was -7 per cent, once all levels of taxation are included and adjustment is made to the average number of dependents and taxpayers (that is, workers) in working class households. This contrasts with the findings of Bowles and Gintis who estimate that between 1959 and 1972, weekly social welfare expenditures increased at an annual growth rate of 5.6 per cent.60

Important as the sign on these net flows is, a more fundamental issue raised by welfare transfers is the impact on the internal composition of the working class and how this alters the structural parameters of its antagonistic relationship with capital. If as Shaikh and Tonak suggest, “the [welfare] state has actually served to increase the rate of exploitation of workers”,61 it appears problematic as to why such energy would be devoted to winding back the welfare state in the first place - a preoccupation of all ‘social democratic’ systems over the last two decades. Welfare payments are better conceived as a strategic tool that strengthens the power of the class as a whole to resist inroads by competitive market relations. Reducing competition in turn undermines the socially coercive relations underpinning and bonding labour to capital. In other words, even if only an internal shifting of resources (rather than an absolute gain), welfare harnesses the collective power of the working class through the state to buttress points of internal stress (such as the reserve army) that are used to attack it.

The most fundamental, indeed the defining and generative structural force ordaining the very existence of the working class, lies in its non-ownership of the means of

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59 James O’Connor (1973), The Fiscal Crisis of the State, St. Martin’s Press, New York, p162. Likewise, O’Connor argues social insurance “is not primarily insurance for workers, but a kind of insurance for capitalists and corporations” [p138]. O’Connor does note the contradictions in such a strategy when combined with insurgency amongst the ‘surplus population’, but fails to grasp the internal contradictions within the money-form itself, manifested in the growing separation between work and income, which lies at the heart of welfare payments.


production. This ensures labour must, in order to materially sustain itself, exchange labour-power via the market. Welfare (income divorced from work) acts as a dissolving agent on these market bonds, allowing sections of the working class, particularly lower strata's, to fully or partially circumvent the discipline of the market relationship. We see here money negating its own existence as a moment of nonfreedom and exploitation, as analysed in Chapter 2. This I would argue is the central point in the debate over welfare - not 'who' pays, but rather its effects on the structural power that capital wields over labour. 62

The purpose of this section has been to chart the unravelling of a strategy of class control - undone by the self-negating social forms through which class relations are materially constituted. Pivotal to this strategy was a dematerialised money-form freed from external constraints and manipulated through the liberal-democratic state. Fiat money is of course channelled through a second social form, the state, which must try and integrate 'private' and 'world' money through the pseudo-social validation provided by national money. Bretton Woods relaxed the external constraints on this integration/valorisation process by greatly reducing the constraint of scarcity at the level of the world market (a distension of the domestic adjustment process). The result was a weakening of the organising principal of scarcity that underpins the coercive mechanism of the market itself - the only social mechanism recognised as valid under capitalism. Weakening market constraints inevitably leads to a weakening of the bonds that force together the antagonistic opposites of capital and labour.

Yet dire consequences were to follow from this. Pseudo-social validation under the guise of stimulating aggregate demand involved the near automatic monetarisation of increases in wages, prices and escalating public spending. The growing relaxation of the monetary constraint eviscerated the business cycle, leading to increasingly vicious

62 This is not to say that the question of who pays is unimportant for it may be indicative of the overall balance of class forces. Likewise, the level of welfare must reach a certain level before it offers a viable alternative to lower strata or reserve army workers. Of course, the caveat to this analysis is that it applies to welfare payments only when they reach a certain level of money payments and institutional/ideological availability (i.e. a lessening of the statutes and practices, moral or otherwise which limit or make excessively onerous, access or acceptance of welfare - itself another indicator of the balance of class forces and class consciousness).
circles of monetarized debt and subsequent inflation in an attempt to indefinitely defer adjustment. The resulting crisis in the ‘public’ management of money was becoming readily apparent. The Bank for International Settlements (BIS) noted in alarm “how difficult it can be to keep money and credit conditions under control in the face of major domestic or external disturbances... persistent cost inflation almost inevitably necessitated a larger growth of money and quasi-money (ie. time and savings deposits) than in the previous year. Severe monetary restraint under these circumstances would not only have put pressure on the solvency of business firms but more generally would have had difficult political and social consequences”. Furthermore according to the BIS the central disturbance was “rising costs, due mainly to wage pressures, [which] had to be accommodated so as to avoid a more pronounced economic slow-down”. This crisis in the economic science of monetary nationalism manifested in the political form of a legitimation/fiscal crisis in the liberal-democratic state, analysed by theorists such as Habermas, Offe, O’Connor, and on the right, Huntington and Buchanan.

The state, having become the focal point of both the accumulation process and class struggle, faced a continuous and escalating threat from a collapse of the ideological boundaries that separated the political and economic spheres of social life. As social relations existed both as a moment in and against the state, it found itself increasingly incoherent and contradictory as it was shaped and transformed by class struggle. At the very time hard political decisions were required to support the needs of capital, they appeared to be receding as feasible policy options. The monetarisation of the class struggle had broken through the ideological boundaries of economic and political life, its mode of existence the conflation of two social forms – state and money - unable to resist the pressures to endlessly valorise working class demands for more. As Cooper noted, “in the final analysis, the monetary authorities must - for political reasons - provide a money supply adequate to ratify any given level of money wages, no matter

how it was reached, in order to avoid excessive unemployment".66 This political crisis emerged, as Clarke points out, as "the class struggle rapidly developed from a struggle within the institutional forms of the Keynesian Welfare State to a struggle over the form of the state itself".67 The solution for capital clearly lay in regaining control of the state itself through decomposing its form. And in restructuring the state, capital could simultaneously re-impose the discipline of a 'hardened' money-form across the social relations of production. "The governmental process must again be made subject to fiscal discipline" thundered Fortune in 1972, "or the price-cost battle, and even the free economy itself, will be in serious jeopardy".68 Harry Johnson for his part, argued the "answer [to 'inflation'] depends... in the long run... on the will of society to turn away from the Welfare State".69

Returning to the channels through which profane money was valorised, it must have appeared that the role of the Fed was relatively clear following the re-activating of monetary policy with the signing of the Accord in March 1951. Yet the problem of controlling the money supply without incurring politically unacceptable bouts of liquidation remained. As the Fed soon realised, pulling the punch bowl away from a swinging party is a task easier said than done. Its holdings of government debt began to swell from the early 1960s onwards, growing from around 14 per cent of marketable securities in 1960 to 29 per cent in 1973, "provid[ing] much of the basis for the accelerating growth of money".70 Table 7.3 illustrates this process of pseudo-validation, highlighting the general upward movement in public debt, the money supply, inflation, and the link fusing these indicators together, the rising holdings of T-bonds by the Federal Reserve, a monetarisation of state debt that led automatically to the infusion of high-powered money. Of course, the main mechanism for the creation of credit lies in

67 Simon Clarke (1988), Keynesianism, Monetarism and the Crisis of the State, Edward Elgar, Aldershot. 298.
68 Fortune (1972), 'Fighting Inflation After Phase Two', June, p157.
the private banking sphere itself. The actions of the Federal Reserve accommodated this expansion, achieved by "linking bank lending to the issue of new money", 71 that is by converting a structure of credit-debt privately pre-validated by the financial sector into 'money' by socially pseudo-validating through the discount window, altering required reserve ratios or open-market operations. 72

Table 7.3 Inflationary Bias of State Budgets and Monetarisation of Public Debt (1960-75)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Government Budget deficit/surplus ($ Bills)</th>
<th>Money (M1) Supply (% of change)</th>
<th>Federal Reserve holdings of marketable government securities (as % of total outstanding)</th>
<th>Implicit Price Deflator</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>3.1</td>
<td>0.7</td>
<td>14.5</td>
<td>1.7</td>
</tr>
<tr>
<td>1961</td>
<td>-4.3</td>
<td>3.2</td>
<td>14.7</td>
<td>0.9</td>
</tr>
<tr>
<td>1962</td>
<td>-3.8</td>
<td>1.8</td>
<td>15.2</td>
<td>0.9</td>
</tr>
<tr>
<td>1963</td>
<td>0.7</td>
<td>3.7</td>
<td>16.2</td>
<td>1.8</td>
</tr>
<tr>
<td>1964</td>
<td>-2.3</td>
<td>4.7</td>
<td>17.4</td>
<td>1.5</td>
</tr>
<tr>
<td>1965</td>
<td>0.5</td>
<td>4.7</td>
<td>19.0</td>
<td>2.6</td>
</tr>
<tr>
<td>1966</td>
<td>-1.3</td>
<td>2.5</td>
<td>20.3</td>
<td>2.2</td>
</tr>
<tr>
<td>1967</td>
<td>-14.2</td>
<td>6.6</td>
<td>21.7</td>
<td>3.3</td>
</tr>
<tr>
<td>1968</td>
<td>-6.0</td>
<td>7.7</td>
<td>22.3</td>
<td>2.9</td>
</tr>
<tr>
<td>1969</td>
<td>9.9</td>
<td>3.2</td>
<td>24.3</td>
<td>4.5</td>
</tr>
<tr>
<td>1970</td>
<td>-10.6</td>
<td>5.2</td>
<td>25.0</td>
<td>5.0</td>
</tr>
<tr>
<td>1971</td>
<td>-19.4</td>
<td>6.5</td>
<td>26.8</td>
<td>5.4</td>
</tr>
<tr>
<td>1972</td>
<td>-3.3</td>
<td>9.2</td>
<td>25.9</td>
<td>5.1</td>
</tr>
<tr>
<td>1973</td>
<td>7.8</td>
<td>5.5</td>
<td>29.0</td>
<td>4.1</td>
</tr>
<tr>
<td>1974</td>
<td>-4.7</td>
<td>4.4</td>
<td>28.5</td>
<td>5.8</td>
</tr>
<tr>
<td>1975</td>
<td>-63.8</td>
<td>4.9</td>
<td>24.2</td>
<td>5.6</td>
</tr>
</tbody>
</table>


As Hirsch notes, "containment of the latent distributional struggle without financial instability requires either sufficient authority, or sufficient consensus". 73 Under the recomposition of the working class occasioned by the political economy of the mass worker, neither condition was in evidence. The gentle inflation of the post-war period

gave way to an accelerating rate from the late 1960s onwards.\textsuperscript{74} More importantly, the effects of a collapsing value of money had themselves transformed.

Traditionally, as figures as diverse as Keynes and von Mises have argued, fluctuating values of money have often assumed a central role in re-imposing necessary flexibility over the working classes. For money to have this power, it must be able to impose what Irving Fischer labelled ‘money illusion’ - the subjective gap existing between real and nominal monetary values. Keynes further expanded this point, arguing, “it can only be a foolish person who would prefer a flexible wage policy to a flexible money policy” for, “whilst workers will usually resist a reduction of money-wages, it is not their practice to withdraw their labour whenever there is a rise in the price of wage-goods”.\textsuperscript{75} One can thus manipulate the supply of money in order to effect reductions in the real wage rate, generally achieved through inducing an inflationary spiral in those sectors central to the reproduction of the working class - food, housing and fuel. But as von Mises realised, Keynes’s strategy was outdated before the ink had even dried, for the “masses had already begun to see through the artifices of inflation” with the development of techniques such as purchasing parity and wage indexation.\textsuperscript{76} The German working class was especially advanced, assisted by the high level of collective bargaining already evident by the mid-1920s.\textsuperscript{77} Empirical support for this view was provided by Dunlop in 1938 and Tarshis in 1939 using English and American data respectively, leading Keynes to refute his earlier arguments based on supposed working class ‘acquiescence’ or ignorance of real wage erosion.\textsuperscript{78}

\textsuperscript{74} The wage-productivity deals were themselves somewhat inflationary, as productivity improvements led not to falling prices, but higher wages, meaning a unit of money actually purchased commodities with a declining value content. Likewise administered pricing, eg mark-up pricing by monopoly capital, tended to give an upward push to the price level.


\textsuperscript{77} See Barry Eichengreen and Peter Temin (1997), \textit{The Gold Standard and the Great Depression}, NBER Working Paper 6060, Cambridge MA, p17. According to Eichengreen and Temin, by 1928 1.4 million workers were covered by Reich contracts, 3.4 million by district or regional agreements, and a still larger number by company or plant-level contracts.

\textsuperscript{78} John Maynard Keynes (1939), ‘Relative Movements of Real Wages and Output’, \textit{The Economic Journal}, (March).
By the late 1960s this “Real Wage Resistance” was deeply entrenched, for a pervasive inflationary atmosphere “renders money illusion into money disillusion”. Former CEA member Otto Eckstein, reflecting growing unease amongst theorists and policymakers alike, noted fearfully that “after 1968, there was a gradual but final collapse of the ‘money illusion’... a truly explosive situation in every sense of the word”. The gentle controlled inflationism of the ‘New Economics’ had failed. Overall prices increased on average by 4 per cent per annum, less than the 4.5 per cent increase in unit labour costs. Institutionally, increasing sections of the working class were gaining immunity from inflation by the re-emergence of Cost of Living Allowances (COLA), covering around 60 per cent of major agreements by the mid-1970s.

Of course, more orthodox medicine was also tried. In late 1967 US monetary policy was tightened, the discount rate climbing to 5.5 per cent by April 1968, its highest level since 1929. Relaxed prematurely shortly thereafter, the economy continued to overheat with the average duration of unemployment falling to 7.9 weeks in 1969, a historic low and by April 1969 the Wall Street Journal was calling for a “deep recession”, a view mirrored by corporate elites who were now ready to stomach the stiff medicine of economic recession. The Nixon Administration responded quickly, throwing on the fiscal and monetary brakes. The results appeared dramatic, the federal budget swinging from a $6 billion deficit in 1968 to a $9.9 billion surplus in 1969. Growth in the money supply (M1) fell from 7.7 per cent to 3.2 per cent, while the rate for three-month certificates of deposit at New York banks rose to 7.5 per cent by

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82 Increasing use of fringe benefits was another option being utilised in order to combat the accelerating decline in the value of money-wages. See Thomas A. Kochan, Harry C. Katz and Robert B. McKersie (1994), The Transformation of American Industrial Relations, ILR Press, Ithaca, New York, p40.
September 1970. Something however, was terribly wrong. Despite the sharp contraction and high unemployment, wage increases crept up from 6 per cent to 7 per cent, an unfathomable breakdown in the operating mechanisms of factor markets, at least to orthodox economics. Table 7.4 illustrates this growing inability of induced recessions to discipline labour, the 1969-70 downturn being the first to produce a truly ‘perverse’ outcome. Chairman of the Federal Reserve, Arthur Burns, was “deeply disturbed that huge wage increases were still being won, even though unemployment was high and the economy was in recession”. By 1971 Burns, testifying before the Congressional Joint Economic Committee, was forced to admit “the rules of economics are not working in quite the way they used to”. What shocked economists was that the recession of 1969-70 “proved so appallingly ineffectual” - throwing up fundamental questions over how to ‘manage’ the social relations of production now the market itself appeared on the point of collapse as a ‘depoliticised’ force of discipline.

Table 7.4 Percentage Point in the Rate of Change of Money Wages and Real Wages

(Downturn in the Business Cycle, 1948-75)

<table>
<thead>
<tr>
<th>Cyclical Downturn</th>
<th>Percentage Point Increase in Unemployment Rate</th>
<th>Percentage Point Decline (-) or Increase in Rate of Change of Hourly Earnings in Manufacturing (adjusted for overtime and inter-industry shifts)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Money Wages</td>
<td>Real Wages</td>
</tr>
<tr>
<td>1948-49</td>
<td>4.0</td>
<td>-7.2</td>
</tr>
<tr>
<td>1953-54</td>
<td>4.2</td>
<td>-3.4</td>
</tr>
<tr>
<td>1957-58</td>
<td>4.7</td>
<td>-1.4</td>
</tr>
<tr>
<td>1960-61</td>
<td>2.2</td>
<td>-0.5</td>
</tr>
<tr>
<td>1969-70</td>
<td>3.4</td>
<td>0.8</td>
</tr>
<tr>
<td>1973-75</td>
<td>6.1</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Note: Each cyclical downturn should be read as follows. From the peak in 1948 to the second quarter after the trough in 1949 the rate of unemployment rose by 4 percentage points (from 4.2 per cent to 8.2 per cent, not shown in the table); the rate of money wages fell by 7.2 percentage points (from 9.1 per cent to 1.9 per cent, also not shown), and the rate of increase in real wages fell by 2.1 percentage points (from 4.6 per cent to 2.5 per cent, also not shown).

Source: Calculated from Table 20, Council of Economic Advisers (1978), Economic Report of the President, p145.

Any sustained squeeze was politically impossible as Arnold Weber, Executive Director of the Cost of Living Council, realised. “Deflationary measures to deal with the situation were unfeasible or politically perilous” he argued, for “any strenuous effort to change these developments [escalating deficits and money growth] ran the risk of increasing unemployment to unacceptable levels in terms of political and national economic requirements.”88 This was clearly evident during the 1968-70 recession, where Nixon was soon crawling to the Fed for relief. The Fed responded quickly to Nixon’s plea (“Dr. Burns, please give us some money!”89), bank rates falling rapidly to 3.5 per cent by the spring of 1971. There appeared to be only one feasible option left - to temporarily suspend the ‘laws of economics’. So was born the New Economic Policy (NEP), one of America’s more infamous examples of unilateralism. Unleashed on August 15 1971, the major elements included the [formal] end of dollar convertibility into gold, a ten per cent surcharge on imports, cuts in government spending and a freeze on wages and price.90

Conceived as a strategy to deal with the two-fold nature of the crisis - manifesting itself ‘internationally’ as serious and sustained pressure on the US balance of payments - the overarching goal was clear enough. “The idea of the freeze and Phase II was to zap labor and we did”, noted Arnold Weber with rare and disarming candour.91 Capital was clearly gearing itself for a period of permanent crisis - a war of position to decompose a working class that had become a chain dragging at the accumulation of capital. The ominous warning of GM Chairman James Roche clearly left no doubt as to the overall strategic goal of capital: “Management and the public have lately been shortchanged. We have a right to more than we have been receiving”.92

This is the context in which Bretton Woods finally collapsed. Gowa’s claim that the root cause of US abnegation lay in the primacy of national autonomy over regime

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90 The emphasis being on wage control - it being no coincidence that 1971 was a year of major contract bargaining in particularly acrimonious conditions.
maintenance is somewhat disingenuous. To suggest the objective behind the August 15
decision was “to enhance [the US’s] control over its domestic economy, a control that
was threatened by the rules of the Bretton Woods game” obscures the fact that the US
state had already lost control of its domestic economy. The induced recession of 1969-
70 proved so disturbing because it indicated a breakdown of fundamental economic
relationships between employment levels, real wages and inflation rates. The NEP was
in response to this. Following from this, Gowa’s statement that ‘closing the gold
window’ was politically ‘neutrality as it was driven by “public opinion, writ large”
appears untenable. Abnegation (essentially a devaluation) was meaningless without a
simultaneous policy shift imposing internal discipline, the obvious design of the Wage
and Price Freeze. “To the market” argued the BIS, “a devaluation unaccompanied by
any tightening of belts at home seemed as incomplete as a house with no roof”.
Recession was the counterpoint to devaluation. Chairman of the CEA Paul McCracken
noted at the emergency Camp David meeting that cooked up the NEP, “people’s
reaction to closing the gold window would be negative. On the other hand, they will see
it as part of a program of strong action on wage-price matters”. Only Burns argued
against closing the gold window at the meeting, claiming “Prevada would write that this
was a sign of the collapse of capitalism”. Contra to the position held by pro-floaters
such as Friedman and Johnson (and implicitly Gowa) that closing the window would
‘free up’ the strategy of monetary nationalism, the ‘market’ looked increasingly to
internal discipline as the lynchpin of external stability (see the following section). As
Coombs (himself a senior member of the Federal Reserve Bank of New York) noted,
“central bankers invariably urged their governments to deal first with the domestic
economic troubles that were in turn breeding embarrassing weakness on the foreign
front”. With the Bretton Woods regime clearly failing, it was apparent that monetary

93 Joanne Gowa (1983), Closing the Gold Window: Domestic Politics and the End of Bretton Woods, Cornell
94 Ibid, p165.
96 Cited in John S. Odell (1982), U.S. International Monetary Policy: Markets, Power, and Ideas as Sources of
98 Charles A. Coombs (1976), The Arena of International Finance, John Wiley and Sons, New York, pxi-ii

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nationalism was running up against its own internal contradictions. In the following section I briefly examine the rise of key objective conditions that provided the basis for the development of a post-Bretton Woods regime, before turning to the apparent paradox thrown up by the events of August 1971 in the final section.

7.3 From Capital Flight to Capital Fightback

Efforts to restrict the spatial mobility of capital under the Bretton Woods regime were always porous given controls were 'optional' under the Articles of Agreement. As Hirsch and Oppenheimer note, by the 1960s and 70s the international monetary regime “was rather like a mini-golf course, with some hole or other always accessible, but others shut off and a variety of shifting obstacles to be negotiated”. Even these limited opportunities encouraged repeated ‘testing’ of parities by speculative movements of money. Initial concerns focused on the ambiguous but central parity between gold and the dollar. Even as early as the Eisenhower administration US authorities were keen to “reassure other nations as to America’s ability to pay her debts and lessen their desire to convert their dollars into gold”. During the 1960s concerns heightened in the face of widening capital account imbalances amongst the major economies, indicating the potentially disruptive confluence of limited mobility, peg rates and the breakdown of domestic equilibrium. Between 1960-66 net balances on capital accounts averaged $5.3 billion for the US, $0.6 billion for the UK, and $0.5 billion for West Germany, before rising dramatically between 1967-69 to $13.6 billion, $2.8 billion and $3.8 billion respectively. Increases of this magnitude could only spell trouble for a rigid international monetary order faced with growing internal rigidity. Furthermore, markets were well aware of where priorities lay in this new order. According to Obstfeld “market expectations were informed by the reality that post-war governments

would be held politically accountable for maintaining high employment and growth". “Diminishing confidence in authorities” continues Obstfeld, “coupled with a growing scope for international hot money movements proved to be an unstable mixture”. As confidence in major currencies waxed and waned as each domestic economy stumbled from one crisis to the next, speculation began to feed on itself as financial capital became increasingly aware of the riskless nature of speculating against adjustable pegs. Table 7.5 highlights the growing difficulties experienced by central bankers in defending parity rates, in this case the level of Bundesbank intervention in the foreign exchange market required to neutralise pressures on the DM to appreciate.

Table 7.5 Weekly Changes in Bundesbank Holdings of Foreign Exchange (1949-1977, millions of DM)

<table>
<thead>
<tr>
<th>Year</th>
<th>Average absolute weekly change</th>
<th>Maximum weekly increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949</td>
<td>35</td>
<td>104</td>
</tr>
<tr>
<td>1952</td>
<td>73</td>
<td>184</td>
</tr>
<tr>
<td>1955</td>
<td>56</td>
<td>146</td>
</tr>
<tr>
<td>1958</td>
<td>129</td>
<td>774</td>
</tr>
<tr>
<td>1960</td>
<td>204</td>
<td>514</td>
</tr>
<tr>
<td>1963</td>
<td>127</td>
<td>369</td>
</tr>
<tr>
<td>1966</td>
<td>150</td>
<td>1089</td>
</tr>
<tr>
<td>1967</td>
<td>147</td>
<td>570</td>
</tr>
<tr>
<td>1968</td>
<td>477</td>
<td>3036</td>
</tr>
<tr>
<td>1969</td>
<td>1310</td>
<td>11482</td>
</tr>
<tr>
<td>1970</td>
<td>567</td>
<td>3270</td>
</tr>
<tr>
<td>1971</td>
<td>1230</td>
<td>8040</td>
</tr>
<tr>
<td>1972</td>
<td>581</td>
<td>6261</td>
</tr>
<tr>
<td>1973</td>
<td>3735</td>
<td>16064</td>
</tr>
</tbody>
</table>


It is usual to attribute this growing capital mobility to various exogenous or contingent events, such as oil shocks, developments in IT, spontaneous market evolution or simply an unintended result of US balance of payments and aggressive abuse of its rights of seigniorage. More institutionally sensitive accounts stress the pivotal role of key states that either inadvertently or deliberately followed policies that encouraged the movement

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of capital ‘offshore’. Institutional room was created for this speculative capital by the regulatory void that were the Euromarkets - little more than an obscure curiosity until a surge in the mid-1960s catapulted them to centre stage. From $17 billion in 1965, offshore markets grew four-fold over the next five years, accelerating to $255 billion by 1975. These markets in debt in turn forced states to shore up the spatial defences of the Bretton Woods regime, further exacerbating the Euromarket threat.\footnote{104} For while the contingent factors listed above may have played some role in the ongoing development of offshore markets, at a more fundamental level it was the contradictions of monetary nationalism itself that provided the underlying impulse for the ‘creation’ and initial expansion of these markets. Both states and capital sought relief from the binds of monetary nationalism and the Economics of Abundance, and the decisions taken by key states in trying to relieve the pressures and circumvent the policy dilemmas created by the political economy of the mass worker were directly responsible for establishing offshore markets.\footnote{105} For example, the high domestic interest rates resulting from the attempted slowdown in the US during 1968 encouraged US banks to borrow heavily offshore shore. As credit conditions eased in 1969-70 this reversed direction, leading to a massive shift in US capital flows from a positive $5.8 billion average in 1968-9 to a negative $6.5 billion in 1970.\footnote{106}

As Dufrey and Giddy argue, the evidence in support of the claim often made on the left that the Euromarkets were the result of US imperialism and/or abuse of seigniorage rights is limited.\footnote{107} The likely source of funds that flowed into these markets were those individuals who wished to invest their funds off-shore – a choice faced by all wealth

\footnote{104} Eurocurrency markets are not markets for foreign exchange, but simply bank time-deposits and loans denominated in currencies other than the currency of the country the bank is physically located in. Technically speaking, they are markets for credit, not markets for means of payment. However the Euromarkets are obviously intricately linked to foreign exchange markets and exchange rate determination, for this market in debt often involves transactions in foreign exchange, while the flows of Eurocurrencies in and out of ‘national’ banking structures either involves exchange into local currency, or alters the supply and demand function for particular currencies which impacts on the exchange rate. On the Euromarkets, see Gunter Dufey and Ian Giddy (1994), The International Money Market, Prentice Hall, New Jersey.

\footnote{105} For a useful account of the role of states in establishing off-shore markets, see Eric Helleiner (1994), States and the Reemergence of Global Finance: From Bretton Woods to the 1990s, Cornell University Press, Ithaca.


\footnote{107} See for example Fred L. Block (1977), The Origins of International Economic Disorder: A Study of United States International Monetary Policy from World War II to the Present, University of California Press, Berkeley, p162.
holders, whether ‘foreigners’ or US ‘residents’. The US balance of payments has only a minor bearing of this decision, for “most of the funds deposited in Eurobanks are probably obtained in the foreign exchange market by individuals and institutions... who have investible funds in one currency or another”.\textsuperscript{108} What is undisputed is the massive growth in global foreign exchange trading at this time, undoubtedly fuelled by transactions in these off-shore markets. Trading rose from $25 billion in 1970 to more than $50 billion in early 1973 and over $100 billion by the end of the same year.\textsuperscript{109} The reason why ‘individuals’ – essentially large banks and corporations – chose to park their money-capital offshore and engage in currency trading is examined below. Prior to this however, I briefly examine the attempts to shore-up the sagging spatial barriers of monetary nationalism during the 1960s as this rising tide of footloose capital threatened the foundations of Bretton Woods.

The first of these attempts took the form of various \textit{ad hoc} and often experimental controls and restrictions on the movement of capital. Abandoning its post-war opposition to controls, the US government under the Kennedy Administration initiated a series of restrictions on capital account transactions. The first of these was the stillborn 1962 Revenue Act, quickly followed by the Interest Equalisation Tax (IET, 1963-74), the Voluntary Foreign Credit Restraint Program (VFCRP, 1965-74), and the Foreign Direct Investment Program (FDIP, 1968-74).\textsuperscript{110} A final mechanism that could be included here was the Fed’s so-called ‘Operation Twist’ in 1961, aimed at flattening yield curves by buying long-term Treasury bonds (lowering long-term interest rates for internal targets) and selling short-term Treasury bills (increasing short-term rates to encourage inflows to shore up the balance of payments).

\textsuperscript{110} The IET placed a tax on the purchase by American residents of new or outstanding foreign securities issued in the US. The aim was to increase the costs of credit emanating from New York in an effort to stem the outflow of portfolio capital. The VFCRP involved a series of voluntary restraints on lending abroad by commercial banks, non-bank financial institutions and non-banking corporations. The main form of these restraints was a series of caps on the rate of increase of foreign claims. In 1968, mandatory controls were placed on FDI to all industrialised countries in Europe and South Africa - essentially a moratorium. All these regulations were repealed in January 1974. For more detailed analysis see James P. Hawley (1987), \textit{Dollars and Borders: U.S. Government Attempts to Restrict Capital Flows, 1960-1980}, M.E. Sharpe, Armonk; Eric Helleiner (1994), \textit{States and the Reemergence of Global Finance: From Bretton Woods to the 1990s}, Cornell University Press, Ithaca; Brian Tew (1988), \textit{The Evolution of the International Monetary System, 1945-88}, Hutchinson, London, pp105-09.
New regulations such as the IET deliberately encouraged offshore markets by assisting in the formation of European capital markets to relieve pressure on the US balance of payments. Furthermore, earlier regulations associated with the reorganisation of credit, notably Regulation Q, expedited the push offshore as the demand for credit intensified (see below). For some countries, controls were necessary to protect policies of credit activism (artificially low interest rates and rationing of credit through state institutions) as practised in France and Spain. For countries suffering inflows such as Germany, Switzerland, Netherlands and Belgium, controls (as anti-inflationary devices) were indirectly placed via the banking sector, such as reserve requirements on bank deposit liabilities to non-residents, various prohibitions on interest payments to non-residents, and ceilings on overall net inflows through the banking sector.

A second line of defence was tailored more specifically to protect the dollar against speculative attack. Configured as a series of ramparts administered by a coterie of central bankers, the ultimate goal of these various stopgap measures was to protect US gold deposits. The first layer of protection targeted the gold market directly through the Gold Pool, which intervened directly in the private gold market to stabilise gold prices. However, March 17 1968 saw the unravelling of the Gold Pool, establishing a two-tier market for gold (separating private and official market transactions, effectively making only ‘old’ gold stocks money), which combined with the US’s unofficial reluctance to engage in gold transactions, appeared to largely break the linkage between gold and the dollar, at least as a constraint. The domestic annex to this external pressure on US gold stocks occurred on March 12 as the last direct linkage between domestic credit structures and gold - the 25 per cent gold reserve requirements for Federal Reserve notes (already weakened in 1965) - was severed, making this gold available for conversions that would never happen, in short a window-dressing exercise. Secondly, a complex system of swap facilities was created. These were essentially bilateralised

112 Growing surpluses with internal inflationary pressures, combined with growing capital mobility, compromised the effectiveness of monetary policy, greatly exacerbating the contradictions between internal and external balance.
IOUs between central banks, created *ex nihilo* as a form of reciprocated credit line facilitating central bank intervention in the foreign exchange markets. Beginning with a $50 million line of credit established between the Bank of France and the Federal Reserve in 1962, this pool of defensive credit grew to a $20 billion network by 1975. These swaps were further supported in the longer-term by so-called ‘Roosa’ bonds - non-marketable dollar securities denominated in foreign currencies - issued to immunise central banks from exchange-rate risks on balance of payment surpluses held as dollars.

The final and most general defensive measure was a re-organisation of credit facilities at the IMF. Central was the revocation in 1961 of the 1946 US-sponsored amendment proscribing access to Fund resources for imbalances driven by capital account transactions. By 1962 this had evolved into the General Arrangements to Borrow - a fighting fund to deal with short-term destabilising flows created under the auspices of the newly formed Group of Ten. Concurrent with this was a growing role for IMF ‘surveillance’ in the adjustment process, culminating in the Surveillance Decision and Second Amendment to the Articles in 1977. This stated the Fund should “oversee the international monetary system in order to ensure its effective operation”, as well as “exercise firm surveillance over the exchange rate policies of members with respect to those policies”. Indeed, even the US began to engage in ‘voluntary’ consultations with the Fund from 1962 onwards to alleviate IMF concerns, amidst a deteriorating US balance of payments, over wage inflation “that threatened to exacerbate international payments imbalances”.

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113 The actual use of swap facilities was somewhat more complicated. For instance, the UK in its efforts to support the price of sterling activated its swap facilities to buy sterling. The US however, usually used swap facilities to convert uncovered dollars held by central banks to covered dollars via the forward contract nature of swaps, i.e. it assumed all exchange-rate risk in the hope of preventing conversion of excess foreign held dollars into gold. For more details see Coombs, one of the architects of these facilities. Charles A. Coombs (1976), *The Arena of International Finance*, John Wiley and Sons, New York.


This retreat to market controls by the US has often been portrayed as evidence of a 'decline' in US hegemony.\textsuperscript{117} This is often further generalised by a variant of hegemonic stability theory to suggest the "fragility of the international monetary system [was] inherently related to the declining power of the US".\textsuperscript{118} However the arguments of this thesis suggest the retreat from the market was in fact driven by a tightening of the Gordian Knot formed by the contradictions arising from the spatiality of monetary nationalism. The US was trapped in the class logic of monetary nationalism, but mediated by the unique role of a dollar theoretically 'as good as gold'. Of course, the 'decline' of the US - simply the normalisation of relations, both politically and economically, between the core centres of capitalist accumulation - exacerbated the contradictions faced by both the US and Bretton Woods as a whole. The inability of the US to adjust, overdetermined by both the exigencies of monetary nationalism and the role of the dollar as \textit{nth} currency, witnessed the return of the infinite regression of the money-form with a vengeance. As Meltzer notes, the most basic international responsibility of the US was "adjusting the production of dollars to maintain confidence in future gold convertibility" - an increasingly difficult task given the impossibility of internally adjusting through the classical mechanism of deflation.\textsuperscript{119} By 1964, US liabilities to central banks were equal to gold stocks, rising to twice that level by 1970. Realisation of the growing constraints binding US policymakers was driven home somewhat earlier, when in October 1960, fear of Kennedy's election promise of "getting the economy moving" saw gold skyrocket to $40 in the London market. From this moment onwards "the international financial markets would mercilessly scrutinise American economic performance and rate the dollar accordingly".\textsuperscript{120}


\textsuperscript{120} Charles A. Coombs (1976), \textit{The Arena of International Finance}, John Wiley and Sons, New York, p57.
The increasingly dirigiste approach to global monetary organisation by the US reflected this growing ‘double bind’. In the continuing policy clash between nationalists and internationalists, the former consistently gained the upper hand throughout the 1960s. Domestic expansion could not be retarded to meet external constraints. According to the apostles of the ‘New Economics’, “domestic conservatives... were using the gold loss as a means to throttle expansionary domestic economic policies that they opposed anyway’.

Apart from a few half hearted efforts, such as McChesney Martin’s attempted deflection of controls by enforcing domestic adjustment, raising the discount rate from 4 to 4.5 per cent in 1965 (over LBJ’s strenuous objections), and the tax surcharge of 1968, in the main there would be no “subordinating domestic welfare to the requirements of external balance”. There is no doubt that the impact of the regulatory attempts to hold the dike of monetary nationalism simply diverted increasing flows of money offshore.

But what were the sources of this increasingly mobile capital? As argued above, there is no simple correlation between US deficits and offshore markets. The recycling of ‘petrodollars’ was yet to occur, while the suggestion it was the expression of a new techno-paradigm is less than convincing, given earlier periods of monetary hypermobility were possible with no greater technology than electricity. Why was capital making a choice to go offshore? The timing of this move offshore provides us with some clues, for the rapid growth of the Euromarkets coincided with the intensification of class struggle from the mid-1960s onwards. As I have already noted, currencies are not bought and sold on Euromarkets, but rather lent and borrowed, that is it is a market

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for debt. Furthermore, at least during this period it was essentially a market for short-term debt. For example in 1976, 86 per cent of all UK bank assets in the Eurocurrency market had a maturity of less than a year, while 93 per cent of their liabilities were guaranteed for under a year. The key point is to unravel why capital withdrew to these global offshore debt markets and two key reasons in particular can be identified.

Firstly, indebtedness was an essential corollary of the Economics of Abundance and its policy of permanent cheap money. However, the growing contradictions of this strategy intensified the growth in debt at all levels - consumers (workers), business and the state. It took 15 years (1945-60) for total debt in the US to double, but only 10 years (1960-70) to double again. By 1975 there were $8 of debt per $1 of money supply, a doubling in twenty years. Corporate debt increased to a figure more than 15 times after-tax profits, compared to less than 8 times in 1955. This massive shift to external corporate financing was the outcome of two opposing forces: the collapse of equity markets and the growing costs of exploitation outlined in the previous section. These pressures combined with more pervasive controls on capital flows, forced "companies that had been modest suppliers to the international money markets into major international borrowers". Falling profits both dried up internal sources of funds and witnessed the death of the "equities cult" that peaked in the US in 1968 before fading under the "justified pessimism of investors". This crisis in capitalist expectations can be traced by charting Tobin’s Q, at least until its breakdown in the early 1970s when the


126 In many countries, discount rates had been virtually frozen at between 2-3 per cent, not only encouraging borrowing because of their low level, but also on the basis of low expectations of any future increases.


q ratio nosedived yet investment increased. Regardless of such negative indicators, companies continued to increase their ratio of liabilities to used funds (that is, debt).  

Increased debt levels was partly driven by the dynamic of inter-capitalist competition, as key sectors of US capital, such as auto and electronics, were feeling the heat from European and Japanese rivals. However of far greater importance was the structural shift by capital across the industrialised economies to increase constant capital in an effort to remove variable capital from the production process. In the face of the working class’s refusal to work, capital sought to replace living with dead labour. As the BIS noted, “the accelerated rise in labour costs in most industrial countries... has given businesses a tremendous incentive to steer investment towards the labour-saving type, at the expense of capacity (and job) creating investment of the capital-widening type”. To satisfy this demand for debt, either intermediaries or the companies themselves entered offshore markets, taking advantage of lower interest rates and easy lending.

The first modality between class struggle and Euromarket formation thus sees capital as the key borrower, while supply is furnished by a banking sector seeking (or pushed) to circumvent the tightening spatial grid of monetary nationalism. However, this only partially explains the growth of ‘Eurodebt’, as the share of loans to corporations was already declining, falling to approximately 50 per cent by 1970 as the public sector, attracted by the apparent low entry barriers (compared to IMF conditionality), assumed an ever greater share. From this point a second modality between the cycle of class struggle and capital mobility becomes discernible. Increasingly capital sought offshore markets as a sanctuary from the crisis within the social relations of production - a flight from the factory floor to the heady, enchanted world of speculation and fictitious

130 Tobin’s Q (a ratio between the market’s valuation of a company’s shares and long-term debt, divided by the value of its real capital) was devised by James Tobin and William Brainard in 1977. It simply suggests that firms will invest more if the stock market values these investments highly, and will correspondingly invest less if the market assigns a low value to these investments. By the early 1970s however the link between this ratio and investment decisions had broken. For a useful summary, see Doug Henwood (1998), Wall Street: How It Works and for Whom, Verso, pp144-9. Also see the interesting article by Robert Pollin (1986), ‘Alternative Perspectives on the Rise of Corporate Debt Dependency: The U.S. Postwar Experience’, Review of Radical Political Economics, Vol. 18, (1 & 2).

capital. Capital sought to ‘forget’ “the daily struggle for the extortion of surplus labour”. The evidence for this is patchy, for Euromarket statistics (source and use of funds) are presented on a geographical basis, forcing us to rely on a mix of anecdotal and inferred evidence.

Without doubt the central funnel for speculation was the use of short-term Eurodebts as a means to speculate against parities through the foreign exchange markets. Eurodebt “supported currency speculation and provided fodder for the massive flows of short-term capital which disrupted foreign exchange and money markets”. For instance, in both 1971 and 1973, Eurodollars were borrowed in substantial amounts to speculate against the dollar. Furthermore, as the dollar looked increasingly precarious as a store of value, there was growing diversification in currency portfolios, facilitated by the rapid growth in offshore markets in other key currencies such as the mark, yen and Swiss franc. The liquid assets held by capital were huge, with US corporations alone estimated to have currency portfolios of between $30-35 billion in 1970 - three times the seize of US government reserves. Diversified portfolios in turn encouraged management strategies and trading in money itself as a commodity (whether betting on its price (exchange rates) or its return (arbitraging interest rate differentials), further destabilising currency markets. While precise figures are difficult to ascertain, speculation appears rife from 1970 onwards, not just in currency, but also in commodities, gold, real estate, art and so forth. As Armstrong et al argue, “the tendency of official commentators... to play down the role of speculation is totally unconvincing”. Even the BIS was forced to admit to the rise of “hedging and

speculative considerations reflecting an erosion of confidence in paper currencies." This collapse in the confidence of paper signalled the struggle between money’s form and content was reaching critical proportions. Its grip over living labour – the ability to impose work - had relaxed to the point where capital sought the solace of the credit system, where “everything... is doubled and trebled and transformed into a mere phantom of the imagination”.

This “meaningless form of capital” suggests a rupture in the forced unity between the antagonistic poles of labour and capital. The recomposition of capital as “automatic subject” manifested as a sharp decline in the rate of investment in constant capital despite the earlier attempts to eject living labour from the factory floor. While growth rates were slowing across the OECD, “that of fixed capital formation [was] dropping even more markedly” in the period before the 1974-5 induced recession. The BIS further noted “enterprises have not yet shown any obvious enthusiasm for increasing investment”. While it is difficult to find direct evidence linking massive speculation in the Euromarkets with declining investment, Figure 7.6 provides more suggestive evidence, charting US corporate funds used to purchase physical assets compared to increases in financial assets. These increased, as a percentage of total corporate funds, from an average of 19.8 per cent between 1959-66, to 25.4 per cent between 1966-73 and to 25.8 per cent between 1973-79. This triumph of finance over production was mirrored by the ascendancy of financiers and assorted bean counters within corporate hierarchies. Wheeling and dealing through this “institutionalization of currency speculation” could also be undertaken under the guise of everyday activities, such as leads and lags and transfer pricing, making identification even more difficult.

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As Tronti once noted, working class struggle is “an irreplaceable instrument of self-consciousness for capital”.\textsuperscript{144} Capital only knows itself when its adversary appears before it. The revolt against work that resulted from the erosion of the social power of money initially led to a headless flight by capital, but in so doing it clearly highlighted its adversary. Furthermore, this capital flight laid the groundwork for capital’s fightback against the insubordination of labour. While this was not immediately apparent, as I argue below, the return of restless pools of liquid capital paved the way for a return of the central organising principle of monetary internationalism – scarcity - although in a radically different form to its earlier incarnations as commodity standards. In the final section below I briefly examine the theoretical understanding of this short interregnum in the international organisation of money.

7.4 The Paradoxes of August 15, 1971

The demise of Bretton Woods on August 15 1971 was as spectacular as it was widely expected.\textsuperscript{145} The abnegation of US commitment to convertibility severed the final

\textsuperscript{144} Mario Tronti (1972), ‘Workers and Capital’, Telos, 14 (Winter), p39.

\textsuperscript{145} Some dispute exists over when to date the end of Bretton Woods as a system. Some would point to key decisions made in 1968 as signalling the \textit{de facto} end of Bretton Woods, such as the ending of the Gold Pool and the creation of Special Drawing Rights (SDRs) - the first ‘unbacked’ world money, i.e. ‘paper gold’ created \textit{ex nihilo}. Others would point to March 19, 1973, with the final collapse of the Smithsonian agreement when the major industrial countries reneged on their commitment to maintain parity within a band of ±2.25 per cent to the dollar - the beginning of \textit{de}
golden thread of commodity money - the closing act in a long and drawn out process of dematerialisation of the money-form. Money was issued as legal tender solely by state decree, seemingly cementing the final victory of Chartelism at the level of world money. The implications were profound. “A world monetary system has emerged” noted Friedman, “that has no historical precedent: a system in which every major currency in the world is, directly, or indirectly, on an irredeemable paper money standard”. Similarly Glasner called this situation “unprecedented in monetary history”, for “never before had all links between the world’s currencies and any real commodity been severed”. While the actions of August 1971 only achieved de jure status in 1976 at the IMF Ministerial Committee meeting at Jamaica, it remains a defining event in the global organisation of money. Witnessing the death of one monetary regime and the birth pangs of its successor, 1971 signalled the beginning of the end for the exogenisation of working class reproduction from the accumulation process. Of course, the appearance of ‘unbacked’ world money was mere illusion, for this backing was and always had been a mediation between scarcity and market relations. The uniqueness of post-1971 is that now it would be a direct and unmediated relation between the most abstract form of social power (money) and the fundamental commodity of capitalist social relations (abstract labour-power). In other words, the new international monetary regime would seek to ‘back’ money directly with the power to command work, as I analyse in Chapter 8.

Yet none of this was evident at the time. To both critics and supporters of the double demise of convertibility - as money appeared severed from both its commodity backing and state-guaranteed parities - the emergent system appeared to intensify existing biases towards monetary nationalism and inflationism. As Niehans complained, “the Western world is further away from international money than at any time in modern

\[\text{facto} \] fluctuating rates. While both catch key elements, 1971 still appears the most central date, for it was the explicit moment of recognition that Bretton Woods was in crisis. From August 15 the system of fixed but adjustable rates was in permanent crisis, as successive waves of speculation tore it asunder. The BIS also points to the events of this day as ending Bretton Woods, see Bank for International Settlements (1973), Forty-Third Annual Report, Basle, p33.

148 A system of floating rates would have been classified as ‘inconvertible’ under earlier regimes.
history’. Misreading the speculative forces that overwhelmed Bretton Woods as aberrations arising from technical deficiencies, proponents of the post-Bretton Woods ‘regime’ argued floating rates would neutralise the ‘constraints’ of fixed parities, allowing for the full fruition of the Keynesian dream of national autonomy in the setting of economic policy – “a world of macroeconomic autarky”.\footnote{Jurg Niehans (1976), ‘Comment’, in (eds) Carl H. Stem, John H. Makin and Dennis E. Logue, Eurocurrencies and the International Monetary System, American Enterprise Institute for Public Policy Research, Washington, D.C., p66.} While theoretical aspects of monetary nationalism had been attacked in the two decades following the establishment of Bretton Woods, its basic raison d’ être - the construction of an insular national economy “ontologically prior to the international economy”\footnote{Robert M. Dunn Jr (1983), The Many Disappointments of Flexible Exchange Rates, Essays in International Finance, No. 154, Princeton, p4.} was never questioned within the orthodoxy. The prime example of this was the simmering debate on exchange rate flexibility. Even from the beginning, a small group of monetary nationalists were proposing freely fluctuating exchange rates, including such ardent Keynesians as Roy Harrod, Abba Lerner and James Meade.\footnote{Dick Bryan (1995), The Chase Across the Globe: International Accumulation and the Contradictions for Nation States, Westview Press, Boulder, p112.} Interestingly, the arguments in favour of exchange rate flexibility became most closely associated with the monetarist revolution following Friedman’s seminal 1953 article, although the arguments clearly remained within the framework of monetary nationalism.\footnote{For example, see James Meade (1966), ‘Exchange-Rate Flexibility’, Three Banks Review, No. 70.} As the strident monetarist Harry Johnson argued in 1969, “flexible exchange rates are essential to the preservation of national autonomy and independence consistent with the efficient organisation and development of the world economy”.\footnote{Milton Friedman (1953), ‘The Case for Flexible Exchange Rates’, in Milton Friedman, Essays in Positive Economics, University of Chicago Press, Chicago.} Friedman likewise saw floating rates as “a means of combining interdependence among countries through trade with a maximum of internal monetary independence”\footnote{Harry G. Johnson (1969/1973), ‘The Case for Flexible Exchange Rates, 1969’, in Harry G. Johnson, Further Essays in Monetary Economics, Harvard University Press, Cambridge, Massachusetts, p199.} Further credence to this view was provided by the formal incorporation of flexible rates within the Fleming-Mundell model, illustrating the increased effectiveness of monetary and fiscal policy in targeting internal equilibrium as equilibrium in the balance of payments is automatically
maintained by fluctuating exchange rates.\textsuperscript{156} Regardless of the naivety of these views (in retrospect) it is clear acceptance of the political premise behind the spatial fragmentation of the global economy remained high.

Critics for the most part simply flipped the coin. For monetary internationalists the end of fixed rates would “break up the world market”, ending the disciplinary power it imposed on irresponsible governments.\textsuperscript{157} The predictable result, given the freedom of states to exploit their now unconstrained monopoly powers of money creation, would be inflation: “debt can be monetarized without the necessity ultimately of reversing this process”.\textsuperscript{158} It seemed ironic that the apostles of the new monetarist challenge such as Friedman and Johnson argued the case for flexibility on the basis of propping-up the Keynesian class strategy of monetary nationalism, while internationalists looked to the old foe, Bretton Woods, with a nostalgic eye. While highly imperfect, the balance of payments constraint seemed to guarantee, at least in the long-run, the necessary contractions (or expansions) of the domestic money supply.\textsuperscript{159} Of course, one could retort (following the arguments in the proceeding chapter) just how long is the ‘long run’ before a constraint becomes totally ineffectual in influencing behaviour? Yet the point remains. With exchange rates liberated from the formal strictures of parity maintenance, what could serve the disciplining function once performed by the balance of payments?

The initial years following the closing of the gold window appeared to support the internationalists case, as “monetary expansion... proceed[ed] at an alarmingly high rate”.\textsuperscript{160} Triffen fretted that between 1970-72 world reserves increased “by as much in this short span of three years as in all previous centuries in recorded history”.\textsuperscript{161} The


raw fuel powering this rapidly expanding supply of profane money was the relentless spiral of wage and price increases, seemingly freed from the dictates of economic laws in their refusal to move in sync with the business cycle. The fears of the internationalists seemed confirmed by this apparent inability or unwillingness of states to resist the passive monetarisation of domestic credit expansion. For opponents of the push to exchange flexibility such as Arthur Burns and French Finance Minister Valéry Giscard d’Estaing, it appeared as misguided escapism. The shift from fixed rates suggested a desire to avoid the real issue confronting capital: reimposing discipline and flexibility over a working class that had achieved a political composition capable of autonomising its social reproduction from that great regulator of market relations - the business cycle. The key to this was the exogenization of nominal income as an economic variable from the reproduction of capital. This weakening linkage between work and income was underpinned by state-policies that turned expansionary “at the appearance of the slightest slack in demand”. Bretton Woods was of course complicit in this fading social power of money to command. However, for the proponents of hard money the apparently elegant solution of floating rates to the crisis afflicting Bretton Woods was delusional; “an easy way out - as it were, a sort of monetary LSD”. This drug offered only more of what was already poisoning the patient - unbridled credit expansion.

Most Marxist accounts of the collapse of Bretton Woods highlighted ‘inter-imperialist’ rivalries or sank into an ever more irrelevant ‘gold-buggism’, leading to similar conclusions that focused on intensifying tendencies towards economic nationalism (such as rising protectionism) and inflation. Of course the remarkable point, or rather paradox surrounding the collapse of Bretton Woods, was it led to neither nation-state autonomy nor galloping world inflation. Instead it inaugurated a new and intensified process of monetary internationalism and socially imposed austerity. In other words,

162 Burns, as I noted earlier, was the only consistent voice raised against ‘closing the gold window’ at the Camp David meeting just prior to the August 15 decision.
165 See Chapter 1 for an outline.
there was a reversal of the spatial and temporal developments in monetary technology that had unfolded over the proceeding five decades. On the ruins of Bretton Woods rose a new and nameless monetary regime centred on radically different ordering principles, that sought to intensify exploitation - a recalibration of the law of value in favour of surplus over necessary labour. The mechanism to achieve this was re-establishing the social bond(age) of the market, securing exchange relations more firmly on the foundations of exclusion and scarcity. Of course these efforts contained deep contradictions, and the strategies deployed were as symptomatic of crisis as capitalist counter-attack. Outcomes, intended or otherwise, remained provisional and fluid.

Why did commentators on both the left and right have such difficulties in seeing the events of 15 March as a signal for a radical disjuncture in international monetary organisation? Perhaps one reason lay in a failure to realise the debate had become ensnared by “the naturalisation of its own arbitrariness”.166 Articulated through the discursive power of a theoretical structure (macroeconomics) centred on the ontological pre-eminence of national economies, there was an initial failure to recognise the collapse of Bretton Woods was in fact a concrete manifestation of the incoherence of this internal/external spatial dichotomy. It took time to grope towards some form of theoretical resolution that could break through this ‘naturalisation’, requiring a theoretical rediscovery of the tenets of monetary internationalism and the economics of scarcity.

Not surprisingly, it was amongst West German monetary theorists and technicians where the initial recognition of the need for a radical break with the prevailing orthodoxy first appeared.167 This call for a return to austerity was well summed up by the eminent West German central banker, Otmar Emminger. “Greater exchange rate stability cannot in the long run be enforced merely by intervention and exchange rate

167 On the grudging and only partial and intermittent acceptance by German authorities of the tools of monetary nationalism, see McNamara who provides a useful account of the proselytising role assumed by the Bundesbank and the German authorities for a new austerity. Kathleen R. McNamara (1998), The Currency of Ideas: Monetary Politics in the European Union, Cornell University Press, Ithaca.
manipulation since the external stability of a currency must be underpinned by domestic stability”, argued Emminger. Instead “an attempt is to be made to achieve exchange rate stability from within by internal stability and with the help of market forces. This represents a sort of “Copernican revolution” in the approach to exchange rate policy”. Decoding this, we see a leap in analysis over the initial debate on the collapse of Bretton Woods, although it is still inchoate. The focus is squarely on the breakdown of the class compromise - the sought after domestic stability presuming a political decomposition of the working class. It marked a progression over earlier monetarist accounts that remained snared in the class compromise of monetary nationalism. It also recognised the dead end, both politically and economically, of external rigidity as demanded by an assortment of monetary internationalists. Something more radical was required: some way to coherently articulate flexibility at the level of the world market with increasing domestic flexibility. Emminger failed to make this connection, positing no mechanism (apart from the vague notion of the ‘market’) for imposing this discipline on the working classes while categorising exchange rate stability as a simple residue.

A further leap in the analysis lay in recognising external monetary flexibility could be the means to achieve the end of working class decomposition. We can thank another German, Professor Herbert Giersch from the neo-liberal Institut für Weltwirtschaft for an admirably clear exegesis of this final theoretical denouement, locating the market for foreign exchange as the deus ex machina. Perceiving a logic behind the monetary chaos of the 1970s, Giersch argued 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 the failure of flexible exchange rates as portrayed in orthodox economics, but rather a mechanism to impose from above the necessary discipline on the working classes. This strategy was foundered on the

dislocation imposed by a permanent crisis in the international organisation of money – decomposing the working class 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”.

This “non-system” was both a flight from growing working class insubordination and a search (increasingly separated from the enchanted world of economic theory) for some alternative strategy to organise money, to once again subordinate the reproduction of social relations to the rule of money constituted at the global level. In the frantic cauldron that followed the collapse of Bretton Woods, a logic of uncertainty became the organising principle, around which orbited “weak and shifting expectations”. The new regime was driven by a foreign exchange market that “by its very nature... [was] a nervous, high risk, ultra-sensitive mechanism, primarily geared to short-term developments... dominated by short-term capital movements in search of quick profits or a hedge against exchange rate risks”. The final chapter examines this post-Bretton Woods regime – seeking a political reading to unravel the paradox of an international monetary regime constructed on the apparently permissive foundations of fiat money yet characterised by the ability to ruthlessly impose austerity and scarcity over the social relations of production.


The Return of Scarcity: Debt, Risk and Class Decomposition Under a Pure Credit Regime

“I don’t do favours. I accumulate debts”

Traditional Sicilian motto

8.1 The Return of Scarcity

The last three decades have been witness to a curious phenomenon. While the pace of economic growth has declined somewhat from the levels reached during the ‘Golden Age’ of post-war accumulation, real GDP per capita still increased by 25 per cent within the OECD between 1973 and 1992, rising from $12,963 to $17,945 (in 1985 $’s). Yet paradoxically in an age of increasing material wealth, the incidence of socially imposed scarcity has risen dramatically. More than growing social inequality, the return of scarcity has encompassed much of ‘the affluent society’ - that once dominant ‘middle’ social strata that appeared to presage an era without want or insecurity.

Instead of the banishment of ‘work’ as predicted by Galbraith, there has been an increasing intensity and length to the workday. The average hours of work for manufacturing workers in the US were higher in 1998 than in 1950. Rather than a

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1Michael Lewis (1990), Liar’s Poker, Coronet Books, p92.
2In 1958 Galbraith released a call to the United States (and presumably other industrial countries) to prepare for “the greatest prospect that we face – indeed what must now be counted one of the central economic goals of our society… to eliminate toil as a required economic institution… We are already well on the way”, John Kenneth Galbraith (1958/1963), The Affluent Society, Penguin Books, Harmondsworth, p273.
‘New Class’ freed from the miseries of economic insecurity, much of the middle and lower strata of the working class have seen real wages either stagnate or fall (see Table 8.1). Job insecurity has intensified, justified by a profusion of euphemistic jargon as firms ‘re-engineer’, ‘benchmark’ or ‘downsize’. Between 1980 and 1993, the largest 500 manufacturing firms in the US slashed 4.7 million, or one quarter of their workforce.4 In the boom year of 1998, US companies slashed a further 677,000 permanent jobs, a greater number than any other year of the decade.5 Causalisation and the rise of part-time work have further added to the insecurity, falling wages and intensified work for these ‘throw-away employees’.6 Scarcity manifests itself in rising indebtedness amongst ‘households’ as workers struggle to stabilise declining living standards. In the US, the bottom 40 per cent of households by income distribution have borrowed to compensate for stagnant or falling wages, while the overall level of consumer debt has exploded to the highest levels since the Federal Reserve began

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collecting data in 1945, a pattern replicated across the OECD. Furthermore, the recommodification of working class reproduction increases apace as once publicly provided services are privatised under the guise of ‘fiscal consolidation’ of state finances. Welfare payments have generally declined in real terms, while eligibility criteria become harsher, imposing increasing discipline over the reserve army of labour. Despite three decades of growth, “many governments in industrial countries... question seriously whether they [can] still maintain all the regulations and honour all the promises made earlier to protect workers, pensioners and other beneficiaries of the social safety net”.

<table>
<thead>
<tr>
<th>Country</th>
<th>Annual growth in real compensation / Annual productivity growth rate (1961-71)</th>
<th>Annual growth in real compensation / Annual productivity growth rate (1972-87)</th>
<th>Percentage change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>0.71</td>
<td>0.58</td>
<td>-18</td>
</tr>
<tr>
<td>France</td>
<td>0.84</td>
<td>0.96</td>
<td>+14</td>
</tr>
<tr>
<td>Germany</td>
<td>1.25</td>
<td>1.02</td>
<td>-18</td>
</tr>
<tr>
<td>Italy</td>
<td>1.24</td>
<td>0.60</td>
<td>-52</td>
</tr>
<tr>
<td>Japan</td>
<td>0.78</td>
<td>0.51</td>
<td>-52</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.96</td>
<td>0.84</td>
<td>-13</td>
</tr>
<tr>
<td>United States</td>
<td>0.62</td>
<td>0.21</td>
<td>-66</td>
</tr>
</tbody>
</table>


Why can these promises no longer be met? How has scarcity and insecurity returned despite significant real growth over the last three decades? Answering this question is obviously complex, and cannot be answered by one single event or causal explanation. However, this chapter suggests a key prerequisite for this new austerity has been laid by the transition from the spatial strategy of monetary nationalism to internationalism following the collapse of Bretton Woods. In short, the removal or bypassing of the

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7 Robert Pollin, in Doug Henwood (1997), *Wall Street: How It Works and for Whom*, Verso, London, pp65-223. Examples from other OECD countries show a similar trend. For example, debt as a percentage of disposable income in Japan rose from 45 per cent in 1975 to 96 per cent in 1990. Over the same period, the figure for UK households rose from 47 per cent to 107 per cent, while Germany’s increased from 62 per cent to 84 per cent. In Australia, household debt rose by over 10 per cent every year from 1992 onwards, with the ratio of household debt to disposable income increasing from 54 per cent in 1990 to nearly 100 per cent in 1999 (and has continued to rise). See Bank for International Settlements (1992), *Sixty-Second Annual Report*, Basle, p195; Marianne Gizycki and Philip Lowe (2000), *The Australian Financial System in the 1990s*, Reserve Bank of Australia, p5.

protective layers that had formed around national money has been instrumental in forcing a sea-change in the relationship between capital and labour - fought as always in the balance between surplus and necessary work.

The form of this new monetary internationalism fully emerged only in the 1980s and 1990s, although its origins as I argued in the last chapter, lay in the unravelling of Bretton Woods. Regardless of the term used – order, system, or in my case regime – this new internationalism clearly constitutes a coherent, if contradictory, set of social practices governing the integration and organisation of money at the global level. This chapter will not provide an institutional or historical account of the rise of this new regime as this has been widely documented. Rather, as in the previous chapters, I will seek to read this new regime politically in order to discern its class basis, a task that initially requires identifying the key characteristics of this new strategy of monetary internationalism.

8.2 A New International Monetary Regime

It is telling that the post-1971 international monetary regime remains for all intents nameless. This anonymity is particularly acute at the level of official discourse. While a number of authors have coined titles, usually defining the regime in a negative sense by pointing to its deficiencies, especially its apparent lack of disciplining mechanisms, none has gained widespread currency. For Williamson it is “a non-system”, while Boarman, refuting even this epitaph, labels the post-1971 order “a major perversity”. Triffin for his part refers to it as the IMS - or “International Monetary Scandal”. Max Cordon, less pejoratively but rather clumsily, tags it the “Managed-Floating, High-Capital Mobility Non-System”, while De Grauwe refers to a “System without Commitments”. For their part, Padoa-Schioppa and Saccomanni have labelled it a “market-led international monetary system (or M-IMS).”

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This state of innominatness is more than a lack of professional agreement, failure of official nomenclature or institutional messiness. Rather it suggests a certain ontological fuzziness surrounding the entire post-Bretton Woods monetary order; a lack of fixity in the basic ordering principals governing the global organisation of money. These deeper issues manifest clearly in the current state of orthodox theories of exchange rate determination, which lie in shambles after "a heroic age... from the mid-1970s to the early 1980s". One model after another succumbed to a "vast amount of econometric research" challenging the underlying assumptions of risk neutrality and rational expectations driving foreign exchange markets to optimal equilibrium levels. Core economic relationships, especially the assumption of purchasing power parity (PPP) - the corner stone of money's supposed neutrality - were thrown akimbo as exchange rates overshot, deviating from 'fundamentals' not just momentarily, but for weeks, months, even years. Volatility escalated to unprecedented levels, often reaching levels five times or more higher than those experienced under Bretton Woods (see Table 8.2).

In response, economic theory has increasingly reverted to subjective variables - perceptions, expectations, confidence - as the driving explanatory force of exchange rate determination. Of course, this retreat undermines the 'scientific' status of economic modelling according to its own positivist methodology, for few refutable predictions are possible using such a subjective basis. As anyone familiar with the financial press would be aware, 'analysis' is usually little more than an exercise in attributing ex post

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12 Purchasing power parity is an argument that if the law of one price holds (that is there is sufficient arbitraging of goods globally to produce a 'single' price for each commodity so-traded), then there should also be a similar correlation in aggregate price levels. The underlying message is that money is neutral and that real exchange-rates in a floating regime should passively reflect this. Empirical studies have failed to find evidence that PPP holds other than in a weak, long-term sense. One well-known application of this theory is The Economist's 'Big Mac' index. See Kenneth Rogoff (1996), 'The Purchasing Power Parity Puzzle', Journal of Economic Literature, Vol. XXXIV, (June).
Table 8.2 Exchange Rate Variability For the G-7 Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Exchange rate variability 1961-87</th>
<th>Exchange rate variability 1961-71</th>
<th>Exchange rate variability 1972-87</th>
<th>Percentage change in exchange rate variability (between two sub-periods)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>0.234</td>
<td>0.036</td>
<td>0.209</td>
<td>481</td>
</tr>
<tr>
<td>France</td>
<td>0.253</td>
<td>0.056</td>
<td>0.232</td>
<td>314</td>
</tr>
<tr>
<td>Germany</td>
<td>0.335</td>
<td>0.054</td>
<td>0.255</td>
<td>372</td>
</tr>
<tr>
<td>Italy</td>
<td>0.378</td>
<td>0.030</td>
<td>0.338</td>
<td>1027</td>
</tr>
<tr>
<td>Japan</td>
<td>0.375</td>
<td>0.032</td>
<td>0.312</td>
<td>875</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.269</td>
<td>0.074</td>
<td>0.213</td>
<td>188</td>
</tr>
<tr>
<td>United States</td>
<td>0.253</td>
<td>0.032</td>
<td>0.222</td>
<td>594</td>
</tr>
<tr>
<td>All (unweighted average)</td>
<td>0.300</td>
<td>0.045</td>
<td>0.254</td>
<td>464</td>
</tr>
</tbody>
</table>


outcomes to an infinite set of possible market pathologies, with few if any predictive powers even in a weak, conditional sense. The dynamics of exchange rate determination under the new monetary regime are reduced to an endless stream of largely incoherent chance events explained in *ad hoc* fashion by variables derived exogenously of the models.

Despite the difficulty in modelling the new regime and the failure of orthodox crystal ball gazing, three fundamental transformations can be isolated that together have coalesced into a coherent if institutionally sparse international monetary regime capable of subordinating the reproduction of society to the social bond(age) of scarce money.

Firstly, the final erosion of any lingering conceptual distinctions between the monetary and credit systems following the total conversion to chartelism at a global level following 1971-3. Secondly, the re-emergence of vast, mobile and integrated global capital markets. And finally, the shift from fixed to essentially market-determined

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13 A conditional forecast involves predicting what would happen given a change in another variable. For example, what would the dollar do if the US domestic money supply increased? At its most basic it simply must predict the direction of change correctly - a task that has proven "as difficult to make as the unconditional [forecasts]". Paul De Grauwe (1996), 'Exchange Rates in Search of Fundamental Variables', in (ed) Marc Uzan, *The Financial System Under Stress: An Architecture For the New World Economy*, Routledge, London, p196.

14 In economics jargon, exchange rate models based on 'fundamentals' have been unable to outpredict simple 'random walk' models. For a recent overview of the role of fundamentals in determining exchange rates, see the short overview by Huw Dixon (1999), 'Controversy: Exchange Rates and Fundamentals' and other associated papers in *The Economic Journal*, Vol. 109 (November).
exchange rates. These transformations suggest the current regime is anchorless, decentred and competitive.

8.2.1 Anchorless

As already indicated, the global organisation of money is now operating on the basis of a pure fiat money regime with no material barriers blocking the endless creation of global liquidity, that is, there is "no single 'anchor'... for the system as a whole". The shift to a permanently anchorless global regime is a quantum leap in the techniques of monetary organisation. Money has simply become another form of 'credit' that exists alongside numerous other financial instruments. As such money, as with all forms of credit, can function as capital only as long as it can exist as a potential moment of exploitation – as an instrument capable of commanding labour. While this has always been the case, it is now raised to a particularly acute level. While national monies are still unique in their ability to act as a means of exchange within national spaces and thus have a special importance in integrating the working classes into capitalist exchange relations, national money like all forms of credit instruments is simply a promise. As such, money is merely another financial 'promise' to trade and speculate on like any other. Marazzi’s 1977 prediction has come to pass, for as the mediation of socially imposed scarcity through the mechanism of gold convertibility has waned and then disappeared, money has had to directly command labour power. This convertibility – a promise that this money-form is in fact convertible into work – is judged alongside the promises contained in other financial assets.

This point while little observed appears fundamental, for it raises the infinite regression of the value-form to an acute level, generalised to the level of global capital markets. For orthodox economics, which initially conceptualised this problem simply in terms of the $n-1$ problem - a technical issue rather than one embedded in the contradictory social unity of the money-form itself - the problem drops away under a system of generalised floating (although the search for the 'fundamentals' that determine the 'price' of money

continues). Yet from a Marxist perspective, the issues raised are crucial. Money as the most abstract and generalised form of social wealth must continually prove itself as such. It must be interrogated and judged as universal equivalent. The new anchorless regime cannot look back reassuringly upon a gleaming hoard of reified human labour - even if this gold fetishism was essentially mythic. Rather, a pure fiat regime must look to the future, for its survival depends on a belief in the continuing and ongoing ability of money to command. To maintain this belief in an anchorless regime poses considerably difficulties, as money must ultimately maintain its scarcity value if it is to command effectively in the market. The problem is how to ensure this scarcity when no material barriers exist to prevent money’s endless creation.

Domestically many countries have sought partial solutions to this problem by creating nominal anchors. Monetary policy can aim at external or internal targets but not both at the one time, and there appears to have been a general retreat from setting external anchors - that is a target zone for the exchange rate. The key problem for exchange rate intervention in an anchorless regime lies in establishing the ‘fundamental’ equilibrium exchange rate. As Friedman’s old comrade-in-arms notes, there is no agreement on whether to base such estimates on PPP for traded goods, the real exchange rates for equilibrium current accounts, or a structural current account model. Thus authorities have chosen an internal anchor as the key monetary target – initially the money supply directly as suggested by monetarist theory (a wide range of targets were used in various countries, ranging from high-powered money (M1) to more arcane definitions, such as M4, as the central bankers sought a correlation between monetary growth and economic activity). However, financial innovations in private money saw a breakdown in traditional money aggregates, further complicated by continuous switching by deposit holders that disrupted the ‘patterns’ that once guided central bank policy, including the velocity of money. In recognition that they had could no longer measure, let alone directly control domestic money, central bankers increasingly turned to the synthetic

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anchor of price index targets, that is some measure or ‘checklist’ to chart inflationary pressures in the economy. Using price stability as a nominal anchor ensures the setting of monetary policy is limited, reducing interest rates to “symbols of policy”. The message being transmitted is that monetary policy has been emasculated, for it “can sustainably hit only one target and that target must be a nominal one [that is, prices]”. Nominal anchors do not ‘solve’ the problems raised by the infinite regression of money. They are however a recognition at the level of individual states of the problems raised, for they provide a mechanism allowing states to show their commitment to market discipline to the face of an anchorless global regime (for example the central banks of New Zealand and Canada began to publicly announce ‘inflation targets’ from the early 1990s, a practice followed by many industrial countries).

At the level of the world market the problems raised by chartelism have become clearly evident as the current regime has intensified the temporal extension of the money-form.

Fiat money has continued to grow to unprecedented levels over the past three decades. Figure 8.2 illustrates the increase in international reserves since 1968, with the vast increase in foreign exchange reserves clearly evident. As noted in previous chapters, fiat money acts to pseudo-socially validate the credit generated in the banking system—a valve or regulator seeking to control the creation of socially ordained money. This valve has widened to a point where it is uncertain that states can any longer control the expanding capacity of private agents to create credit, forming private reserves of international liquidity that dwarf official international reserves. Table 8.3 illustrates the declining ability of states to influence this vast pool of private liquidity by comparing the assets of the 50 largest banks to the total official reserves of the US, UK, Germany, Japan and France between 1972-95.

Table 8.3 Ratio of Bank Assets to Official Reserves
(5 year averages, billions of $)

<table>
<thead>
<tr>
<th>Years</th>
<th>Average bank assets</th>
<th>Average official reserves</th>
<th>Percentage ratio of reserves to assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-6</td>
<td>957</td>
<td>76</td>
<td>8</td>
</tr>
<tr>
<td>1977-81</td>
<td>2,037</td>
<td>139</td>
<td>7</td>
</tr>
<tr>
<td>1982-6</td>
<td>3,380</td>
<td>153</td>
<td>5</td>
</tr>
<tr>
<td>1987-91</td>
<td>7,310</td>
<td>290</td>
<td>4</td>
</tr>
<tr>
<td>1992-5</td>
<td>11,610</td>
<td>357</td>
<td>3</td>
</tr>
</tbody>
</table>


For many analysts from both the left and right, the flows of money/credit emanating from these vast financial markets are “weakening external pressures for policy adjustment”, an intensification of one of the key policy goals of monetary nationalism.18 The size and rapid growth of private capital flows is indeed startling. For instance, while the rate of increase for foreign direct investment (FDI) has been impressive,

portfolio investment has increased by a factor of nearly 200 since 1970 (see Table 8.4).^{19}

<table>
<thead>
<tr>
<th>Table 8.4 Gross and Net Flows of Foreign Direct and Portfolio Investment (Group of Seven Countries, billions of $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
</tr>
<tr>
<td>Portfolio</td>
</tr>
<tr>
<td><strong>Net Flows</strong></td>
</tr>
<tr>
<td>FDI</td>
</tr>
<tr>
<td>Portfolio</td>
</tr>
</tbody>
</table>


As Turner points out, these capital flows have sustained current account imbalances during the 1980s and 1990s on a scale reminiscent of the pre-1914 era, not just for ‘emerging’ economies but for the global economy as a whole. For Turner however, these capital flows are in sharp contrast to the “rigorous anti-inflation discipline” of the gold standard.^{20} To avoid inflationary pressures and impose discipline upon countries, capital flows should not be so readily accommodating – something Turner hoped to witness during the 1990s. In fact, there is no evidence that such a slowdown took place, or that countries ‘adjusted’ any faster during the 1990s. Large imbalances remained and capital flows continued to meet them. Yet there is little sign of inflation or any of the other evils that should be in evidence under such a loose pure credit regime. Rather, it has enforced a new regime based upon the ordering principles of scarcity and austerity.

In the same year that the BIS highlighted the anchorless nature of the new regime, it also referred to it as a “sound money standard”^{21} - an apparent contradiction when applied to a pure fiat money regime. Furthermore, rather than a loosening of market constraints achieved by the devaluation of the money-form relative to other

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^{19}It should be pointed out that the distinctions between FDI and portfolio investment made in official statistics are somewhat arbitrary. Purchasing equity beyond a certain threshold can sometimes be counted as FDI, although there is no undertaking that it is treated any differently to other portfolio investments.


commodities, the last two decades have seen a “process of global disinflation”, highlighted in Figure 8.3.\textsuperscript{22} It appears then that the scarcity value of money may have increased, raising an obvious interpellation – how has this worthless money-form become sound? How does this ‘profane’ money achieve status as the most abstract and general form of social wealth?

**Figure 8.3 OECD Consumer Price Index, 1971-1997**

The apparent contradiction between fiat money - an infinitely elastic and valueless object – and a ‘sound’ organisation of money where scarcity relations are strictly enforced, is less apparent when consideration is given to the spatial configuration of the new regime. The collapse of Bretton Woods effectively signalled “the demise of the multilateral management of international liquidity” and the spatial practices underpinning this state-centred regime.\textsuperscript{23} In its place an integrated global network of


private markets has rapidly evolved, underpinned by a radically heightened and decentred spatiality.

In its simplest sense, the new regime is decentred geographically and geo-politically. As Germain notes, there is "no definitive hub" or "clear and geographically representative centre" in the post-Bretton Woods era. This lack of a hub or obvious centre reflects the truly global nature of the new regime. 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 the networks of global money. Of central importance was the removal of exchange controls - the regulatory keystone 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. 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 (see Table 8.5).

However this simple geographical understanding of decentredness can be taken a step further. The globalisation of financial markets and the growing number of nodal points increasingly points to the fact these markets are constituted not by place or location, but by space - or rather the ability to shift across spaces. In other words, the defining spatial characteristic of the new regime is movement. This does not require us to go so

far as to celebrate “the end of geography” or claim “markets are no longer geographical locations”. Movement is meaningless in itself. Movement decentres the regime because it involves the shifting of financial assets between locations. Money/credit must park itself somewhere - the key point is that it can move rapidly from this space to another, and another and so on.

Table 8.5 Financial Markets – World Rankings

<table>
<thead>
<tr>
<th>GDP</th>
<th>Foreign Exchange By Market</th>
<th>By Currency</th>
<th>Equity Market Turnover Physical Market</th>
<th>Futures Market</th>
<th>Fixed Interest Market Turnover Physical Market</th>
<th>Futures Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>UK</td>
<td>US dollar</td>
<td>USA</td>
<td>USA</td>
<td>USA</td>
<td>USA</td>
</tr>
<tr>
<td>Japan</td>
<td>USA</td>
<td>Euro</td>
<td>Taiwan</td>
<td>Germany</td>
<td>Japan</td>
<td>Germany</td>
</tr>
<tr>
<td>Germany</td>
<td>Japan</td>
<td>Japanese yen</td>
<td>Germany</td>
<td>Japan</td>
<td>Germany</td>
<td>Germany</td>
</tr>
<tr>
<td>France</td>
<td>Singapore</td>
<td>Pound sterling</td>
<td>UK</td>
<td>France</td>
<td>Italy</td>
<td>Japan</td>
</tr>
<tr>
<td>UK</td>
<td>Germany</td>
<td>Swiss franc</td>
<td>Japan</td>
<td>Italy</td>
<td>France</td>
<td>Singapore</td>
</tr>
<tr>
<td>Italy</td>
<td>Switzerland</td>
<td>Canadian dollar</td>
<td>Switzerland</td>
<td>UK</td>
<td>UK</td>
<td>Australia</td>
</tr>
<tr>
<td>China</td>
<td>Hong Kong</td>
<td>Australian dollar</td>
<td>Hong Kong</td>
<td>Korea</td>
<td>Canada</td>
<td></td>
</tr>
</tbody>
</table>


Movement has in turn led to market integration, both internationally and within national financial systems as national regulatory structures separating financial institutions (‘Chinese walls’) has eroded under the competitive pressures caused by capital flows. Table 8.6 provides an indication of this process of integration by measuring cross-border flows in bonds and equities, a process that equates to growing ‘foreign’ ownership of an array of financial assets denominated in various national currencies.

Finally, the new regime has been spatially decentred by the shift to market driven mechanisms - the privatisation of the international monetary regime. Markets are diffused but spatially bounded social networks. Even if markets never approximate the theoretical abstraction of perfect competition, the decision-making processes driving these social networks are private and disaggregated. As markets expand, the spatial

Table 8.6 Cross-Border Transactions in Bonds and Equities  
(Major Industrial Countries % of GDP)  

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>4</td>
<td>9</td>
<td>35</td>
<td>101</td>
<td>89</td>
<td>96</td>
<td>107</td>
<td>129</td>
<td>131</td>
<td>135</td>
<td>160</td>
<td>213</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>8</td>
<td>62</td>
<td>156</td>
<td>119</td>
<td>92</td>
<td>72</td>
<td>78</td>
<td>60</td>
<td>65</td>
<td>79</td>
<td>96</td>
</tr>
<tr>
<td>Germany</td>
<td>5</td>
<td>7</td>
<td>33</td>
<td>66</td>
<td>57</td>
<td>55</td>
<td>85</td>
<td>170</td>
<td>158</td>
<td>172</td>
<td>199</td>
<td>253</td>
</tr>
<tr>
<td>France</td>
<td>-</td>
<td>5</td>
<td>21</td>
<td>52</td>
<td>54</td>
<td>79</td>
<td>122</td>
<td>187</td>
<td>197</td>
<td>187</td>
<td>258</td>
<td>313</td>
</tr>
<tr>
<td>Italy</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>18</td>
<td>27</td>
<td>60</td>
<td>92</td>
<td>192</td>
<td>207</td>
<td>253</td>
<td>470</td>
<td>672</td>
</tr>
<tr>
<td>Canada</td>
<td>3</td>
<td>9</td>
<td>27</td>
<td>55</td>
<td>65</td>
<td>83</td>
<td>114</td>
<td>153</td>
<td>208</td>
<td>189</td>
<td>251</td>
<td>358</td>
</tr>
</tbody>
</table>


complexity of these social interactions increases accordingly. In this sense, decentred refers to the spatial diffusion of social actions that are an integral aspect of the operation of private markets. Yet the privatisation of financial markets over the past three decades has involved more than a simple shift away from the realm of public decision making. While financial markets have expanded across space, markets themselves have been transformed in ways accentuating the decentredness of the social networks they bound. This transformation has a two-fold aspect. Firstly, a process of securitisation has increasingly commodified financial instruments. Illiquid assets (particularly mortgage backed bonds, credit card receivables and sovereign loans, see Table 8.7) have been re-packaged and moved off the books of financial intermediaries “into the vast pool of liquid assets in the securities market”.28 This in turn has fuelled growing disintermediation in financial market transactions. The traditional mediation between savers and borrowers by banks has eroded as ‘wholesale’ assets (that is, debt) are marketed directly in the form of securities, forcing banks to find new avenues for profit such as trading, underwriting and other fee-producing and off-balance-sheet activities. Between 1970 and 1992, the share of US corporate borrowing needs provided by banks fell from 65 to 36 per cent, while over-the-counter (OTC) derivative products are a major, if not the largest, source of earnings amongst the world’s biggest commercial banks that actively trade in derivative markets.29

29 One explanation for this process of disintermediation is simply cost considerations. Issuing securities reduces the associated costs of borrowing from over 200 basis points above the base rate under traditional forms of intermediation to around 50 points. The Economist (1994) ‘Recalled to Life: A Survey of International Banking’,

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Ironically, this decentering of markets through the privatisation of global debt has relied on the pivotal role played by the public sector. Sovereign debt has established pricing benchmarks that scales relative risk profiles amongst an array of financial instruments, as well as providing deep liquidity in financial markets (particularly secondary markets). Indeed, “government securities are the backbone of world securities markets”, and it was unsurprising that levels of state indebtedness exploded during the 1980s and 1990s with the ratio of government debt to GDP rising from 43 per cent in 1980 to 68 per cent in 1994. In line with this, public sector issues in the international bond market grew dramatically, establishing a record in 1992 as they accounted for 42 per cent of total issues (with a further 20 per cent issued by international institutions). Furthermore, the holding of sovereign debt has likewise become globally dispersed as Table 8.8 illustrates. In short, state debt is integrated into these decentered global markets, with ‘non-resident’ shares growing dramatically over the past twenty years.

Securitisation and disintermediation has not led to some laissez-faire wonderland where financial markets “reflect the perceptions of risk and reward of millions of individual

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investors". Financial markets are clearly dominated by the new leviathans of rentier capitalism - institutional investors (such as mutual, pension and hedge funds, insurance companies, investment banks and securities firms). For the Group of Seven countries, total assets held by institutional investors totalled more than $20 trillion in 1995, up from $12.4 trillion in 1990 and a mere $2 trillion in 1980. Average annual growth rates of 13 per cent were achieved during the 1990s, while hedge funds increased the assets under their management by an order of 12 between 1990 and 1997. Furthermore, during the 1980s and 1990s a clear trend of consolidation was observable amongst institutions themselves "with the largest asset managers growing much more rapidly than the smaller asset managers". Stripping away the fantasy of 'shareholder' companies, investment banks and securities firms).

### Table 8.8 Non-residents Holdings of Public Debt (% total public debt)

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Japan</th>
<th>Germany</th>
<th>Italy</th>
<th>United Kingdom</th>
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<td>-</td>
<td>-</td>
<td>23.1</td>
<td>-</td>
<td>21.9</td>
</tr>
</tbody>
</table>


33 End-of-year data; definitions vary across countries.
34 Ironically, the growth of institutional investors is driven in large part by the restructuring and winding back of state pension and welfare schemes. Workers are being forced to save independently of their tax contributions, fuelling a massive growth in funds (such as pension, mutual, or superannuation funds) especially in the US but increasingly Europe, designed to 'provide' a living for workers in their retirement. Invested globally in money, debts and equity, these savings come back to haunt workers as part of the vast pool of restless capital movements seeking increased yields. Workers are becoming active participants, albeit passively, in the new global monetary regime of scarcity and austerity.
36 For an illustration of this point, the largest institutional investor in the United States in 1995 controlled more than $900 billion in assets, about five times the amount of the largest institution in 1985 (in constant dollars). In contrast, the 300th largest institution controlled $2.7 billion in 1995, only slightly more than the equivalent firm in 1985 with
capitalism however, leaves the kernel of truth in The Economist's claim, for the markets do reflect perceptions of the "risk and reward" of financial assets, but not those of discrete individuals but rather of capital. As ex-Citicorp supremo Walter Wriston rhapsodised, "since global financial markets are a kind of free speech, many complain about what the market reveals about their country's policies".  

This free speech is of course exercised through the vote of movement. This is the sleight of hand that allows real value - the relation of work - to be created from meaningless capital. However one final mechanism needs to be uncovered to see how endless work is constituted at the level of global money markets.

8.2.3 Competitive

The third fundamental characteristic that defines the class basis of the new regime is the shift to a market driven system of exchange rate determination, that is, a competitive system of floating exchange rates. The arrangements that took hold following the collapse of Bretton Woods gained de jure legitimacy under the Second Amendment to the IMF's Articles of Agreement announced at Jamaica in 1976 (essentially revisions to Article IV). While IMF members in fact have a wide choice of exchange rate mechanisms (only pegging to gold and multiple exchange rates being proscribed), the overall movement has been towards increasing flexibility. Between 1975 and 1997, IMF members with floating currencies rose from well under a third to nearly two-

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This growing institutional fluidity, a reflection of the new regime's decenteredness, led one former French Minister of Finance to exclaim: "it is a great presumption to attempt to institutionalise anarchy. The drafters of the new IMF Articles have shown such presumption!". Cited in Guido Carli (1987), 'Why Banks Are Unpopular', in (ed) Pierluigi Ciocca, Money and the Economy: Central Bankers' Views, Macmillan Press, Basingstoke, p217.

Since 1982, the IMF has classified exchange rate mechanisms as follows: (1) Peg: Single Currency, (2) Peg: Currency Composite, (3) Flexibility Limited vis-à-vis Single Currency, (4) Flexibility Limited: Co-operative Arrangements, (5) More Flexible: Adjusted According to a Set of Indicators, (6) More Flexible: Managed Float, (7) More Flexible: Independent Float. While the overall tendency of the post-71 system has been towards exchange rate flexibility, there are significant exceptions. Apart from the European Community, countries as diverse as Argentina, Estonia, Bulgaria and Hong Kong, as well as parts of West-Central Africa, have attempted to 'eliminate' the exchange rate by applying various degrees of rigidity. The most extreme form is 'dollarisation' - the complete removal of a national currency in favour of a foreign money, usually the US dollar. One of the more recent examples was Ecuador's President Mahau's proposal. The plan to make the Ecuadorian sucre tender for only small purchases, while the dollar would be used for all larger transactions, was rapidly derailed by Mahau's removal in a bloodless coup instigated by a rare alliance between Ecuador's indigenous people and the army in January 2000. This only managed to postpone the scheme briefly.
Furthermore, despite the apparent diversity of arrangements allowed for under Article IV, the key bilateral rates have remained essentially flexible, that is, the S-DM, S-Y, ¥-DM (and now the Euro). What ties these experiments together is a uniform movement out of an unstable ‘middle-ground’. If understood as political strategies, the two poles of floating and fixity clearly seek the common goal of constructing a *cordon sanitaire* around the national form of money.

The markets that form this barrier are vast. According to the IMF, foreign exchange markets are “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”. As at April 1995, average daily turnover on the global foreign exchange markets was estimated at $1,190 billion, while world exports of goods and services in 1995 was in the order of $6.1 trillion - less than 2 per cent of this total (see Table 8.9). The next largest financial market was for US government securities, averaging $175 billion daily turnover, while the average for the ten largest stock markets was a mere $42 billion, only 3 per cent of the volume recorded by foreign exchange markets. As another indication of the sheer size of foreign exchange market transactions, daily turnover exceeded the total equity of the world’s largest 300 banks. The power of these flows can be seen by comparing daily transactions to total world fiat reserves - peaking at 86 per cent in 1992 (Table 8.9). Central banks can easily face runs of $100-200 billion a week as institutional investors re-dominate the currency composition of their asset portfolios in response to altered risk/return outlooks.

As noted earlier, what determines exchange rates has become, if not exactly a mystery to orthodox economics, a problem that has resisted all attempts at formalisation. What

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42 Excluding repurchase (repos) and reverse-repurchase agreements. Repos are agreements by a borrower to repurchase (in a specified period or open-ended) his/her securities at the same price plus a specified interest charge. They are often used by central banks such as the Federal Reserve to supply temporary liquidity. A reverse repurchase is simply the opposite of this, where a lender agrees to resell.
is clearly evident is that balance of payments theory, particularly in its Keynesian formulation as developed by the proponents of the economic science of monetary nationalism, such as Lerner, Meade and Machlup, is totally inadequate. Within this framework the determination of exchange rates was made by such ‘real’ economy mechanisms as the Marshall-Lerner condition and Keynesian absorption strategies. The so-called capital account was viewed largely as a ‘residue’ factor off-setting current account deficits or surpluses. This is clearly no longer a sustainable view. To put it bluntly, exchange rates are determined by trading in national monies and debt, driven by the decentered nature of the new regime and fuelled by its endless supply of anchorless paper. The lack of an anchor has encouraged financial transactions from two angles. Firstly, it has engendered a vastly more volatile foreign exchange market, with rapid and substantial price swings (see Figure 8.4). This has obviously made trade transactions riskier and encouraged the use of instruments to hedge this risk, such as currency derivatives. However, this can only partially account for the use of foreign exchange options and futures. A substantial portion of hedging transactions is clearly speculative in nature. Indeed, the more volatile the market the greater the potential profits to be made from ‘picking’ the direction of change. For major currencies, quoted

<table>
<thead>
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<th>Table 8.9 Foreign Exchange Trading</th>
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<td>Spot transactions</td>
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<td>Outright forwards</td>
</tr>
<tr>
<td>Foreign exchange swaps</td>
</tr>
<tr>
<td>World exports of goods and services</td>
</tr>
<tr>
<td>Total reserves minus gold (all countries)</td>
</tr>
</tbody>
</table>

prices can change 20 times a minute, while the $-DM rate altered up to 18,000 times a day.\textsuperscript{44}

Secondly, with the passing of any distinction between money and credit the market for foreign exchange - once merely an intermediate process - has become an arena for trading an asset class in itself - money. Large institutional investors - 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. This makes the determination of exchange rates competitive in a deeper sense, for money as an asset class must compete with other money-assets, that is other national currencies, as well as an entire spectrum of alternative assets offering a full risk-return spread. 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".\textsuperscript{45}

This competitive determination of exchange rates is exacerbated by the centred nature of the new regime, for with the growing integration of financial markets, all assets are increasingly judged on a 'national' basis by the global markets. Any number of events (or even perceptions of possible events) - such as inflation differentials, government finances, interest rate movements, current account figures and so forth - can be seized upon by the markets as they constantly sit in judgement. National 'IOU's' judged negatively by the markets are either discounted or dumped. As the IMF note, "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".\textsuperscript{46}

This impacts on exchange rates for the simple reason that financial integration can only occur through the medium of national monies. All financial assets, whether equities, securities (or their derivatives) and increasingly money itself, are denominated in

particular national currencies. This is a direct consequence of the failure to construct a viable form of world money. Any transaction between assets (equity, bonds or money) denominated in different currencies must be mediated through the foreign exchange market. The implications are important, for any shifts in asset portfolios (including money holdings), are likely to generate large flows through the foreign exchange markets. Similarly, any factors that suggest immanent change in exchange rates can shift asset holdings (by affecting rates of return and portfolio risk profiles), immediately impacting on the foreign exchange market and thus exchange rates.

A new player on the global markets - rating agencies - augment this incessant surveillance exercised by the market. Indeed the ‘activist’ trading strategies of institutional investors (more on this below) are heavily influenced by these agencies, especially the two American heavyweights Moody’s Investors Service and Standard & Poor’s Ratings Group. Ratings agencies weight, scale and assign risk values to key sections of the market for securitised debt. Such ratings are ultimately nothing but subjective judgements - “the heart of every rating”\(^{47}\) - despite attempts to hide behind walls of quantitative data. Yet they are neither arbitrary nor meaningless. Judgements are based on a melange of ‘facts’, biases, ‘evaluation filters’, assessments and arcane forecasting techniques all driven by only one consideration - the ability and willingness of debtors to honour their pledge to repay. They also hold great power. Some institutional investors, such as pension funds, have statutory rules binding them to allocate funds in debt rated at investment grade or above. If a sovereign credit rating is downgraded to non-investment grade as happened to South Korea (recording the largest drop in recent history – a downgrading by S&P from A+ to B+ in under two months), Indonesia and Thailand during the Asian crisis, these institutions must unwind their exposure to this debt, placing further pressure on the currency (see Table 8.10). Furthermore, credit ratings are a virtual prerequisite to enter the Eurobond market,

Figure 8.4 Nominal Exchange Rates and Monthly Volatility

(US dollar and yen, 1960-2000)

US dollar and deutschmark, 1960-2000

Source: Federal Reserve Board
although membership of this ‘club’ has risen rapidly over the last ten years, with the number of countries allocated a rating increasing from 11 in 1989 to 53 by 1997.48

<table>
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<th>Country</th>
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<th>S&amp;P Date</th>
<th>Moody’s Date</th>
<th>S&amp;P Date</th>
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<td>BBB 20.92</td>
<td>Baa1 18.11.86</td>
<td>A- 26.6.89</td>
</tr>
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</tr>
<tr>
<td></td>
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<td>A3 η 12.3.90</td>
<td>A- 26.6.89</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>A2 9.11.88</td>
<td>η 9.2.90</td>
<td>A2 η 11.9.93</td>
<td>A 8.7.91</td>
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<td>Malaysia Baa1 18.11.86</td>
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<td>18.2.98</td>
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</table>

For long-term foreign currency debt. Other categories of debt had different grades.

η = upgrade; otherwise downgrade. A non-investment-grade rating is shown in italics.


What drives these markets is the “relentless search for higher yields” - a search that forces investors to accept “lower-rated issues and a proliferation of increasingly complex structures”.49 As such, financial markets trade assets with no regard for their underlying maturity structure. 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.50

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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”\(^{51}\). This incredible volatility is in turn mirrored in the global foreign exchange markets, where money exists simultaneously as asset and medium.

The potential for overshooting is obvious in such a volatile and risk saturated environment. As an example, during 1995 volatility between the major currency axes - the $US, DM and ¥ - increased markedly, peaking in March, where on several days volatility in the $US-¥ rate jumped 50 per cent.\(^{52}\) Such volatility saw daily turnover in the foreign exchanges likewise leap by 100 per cent, reaching $2 trillion during March. In turn nominal exchange rates moved dramatically, the dollar falling from ¥101 in January to a low of ¥80 by mid-April, and from DM1.56 to DM1.35. Yet by May 1997 the dollar had appreciated by more than 50 per cent against the ¥ and 25 per cent against the DM, completing one of the largest two year roller-coaster rides recorded between these core currencies. Appreciation was driven not by changes in underlying conditions affecting relative levels of competitiveness between these major currency areas. Instead, it was driven by huge shifts in portfolio funds responding to attractive yields on US bonds. While the US current account deficit was around 2 per cent of GDP in 1996, foreign purchases of US securities were in the order of 5 per cent of GDP. Overtaking the record of $221 billion set only the year before, nearly $372 billion of debt was purchased in 1996. Of this total, $294 billion was government paper, which together with the $163 billion sold in 1995, exceeded the total amount of government bonds sold over the previous ten years.

\(^{51}\) Morris Goldstein, David Folkerts-Landau, Peter Garber, Lilana Rojas-Suarez and Michael Spencer (1993), *International Capital Markets, Part I: Exchange Rate management and International Capital Flows*, International Monetary Fund, Washington, D.C., p5. The disparity between the BIS and IMF figures is explained by the inclusion of repurchase agreements (repos) between dealers in the IMF figure. The 1995 figure of $175 billion turnover for US government securities quoted above would increase to $645 billion if these agreements were included.

This constant churning is largely driven by the “activist asset and liability management culture” evident in institutional investors. Activist is a polite way of saying short-term and speculative strategies prevail over more traditional ‘buy and hold’ investments. These players, in line with the privatised market as a whole, use such activist strategies on an increasingly diversified portfolio of global assets as illustrated in Table 8.11.

Table 8.11 Institutional Investors’ Holdings of Securities Issued by Non-Residents (Selected Industrial Countries % of total assets)

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<td>0.7</td>
<td>0.5</td>
<td>0.5</td>
<td>2.4</td>
</tr>
<tr>
<td>Mutual Funds</td>
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<tr>
<td>United States</td>
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<td>-</td>
<td>6.6</td>
<td>-</td>
<td>10.1</td>
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</tr>
<tr>
<td>Japan</td>
<td>-</td>
<td>-</td>
<td>9.1</td>
<td>7.9</td>
<td>13.0</td>
<td>9.9</td>
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<tr>
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<td>-</td>
<td>24.8</td>
<td>20.3</td>
<td>20.2</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>17.9</td>
<td>33.0</td>
<td>31.0</td>
<td>34.3</td>
<td>35.2</td>
<td>35.8</td>
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</tr>
<tr>
<td>Canada</td>
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<td>17.5</td>
<td>16.1</td>
<td>17.0</td>
<td>20.0</td>
<td>24.0</td>
<td>24.6</td>
</tr>
</tbody>
</table>


According to IMF figures, the average holding of foreign assets by institutional investors was approaching an average of 20 per cent by the late 1990s - a figure translating into roughly $4 trillion of invested funds capably of being switched rapidly in line with perceived shifts in risk/return outlooks. Debt is held but only on strict performance criteria - a hard lesson learnt both in ‘Euroland’ and the so-called emerging markets. This short-term perspective is heightened by changing patterns of behaviour amongst institutions themselves as rather staid investors such as pension funds are delegating management of their assets to the more ‘swinging’ part of town, notably

mutual and hedge funds. By 1993 pension funds directly managed a mere 12 per cent of all institutional assets, despite controlling approximately one quarter of the total market. The volatility engendered by such ‘activism’ is further aggravated by the widespread use of programme trading when undertaking aggressive position taking in asset markets. When linked to risk management systems such as marking-to-market and stop-loss limits, such programmes can trigger sudden automatic liquidations inducing large swings in asset prices. Such systems typically cover a multitude of contingencies, leading to cascading effects flowing from one market to another. In the turbulence that hit global bond markets in early 1994, where up to $1.5 trillion may have been wiped-out almost 10 per cent of GDP for the OECD region - sales of European bonds were triggered by losses incurred on $US-$ trades as the dollar depreciated following the collapse in US-Japan trade negotiations.

‘Activism’ as an investment strategy reaches its pinnacle (or rather nadir) with hedge funds. Leveraged by anywhere between 5 and 20 times their asset base (mainly through the use of derivative products and borrowing from commercial banks) hedge funds are often seen as market ‘leaders’ due to their gluttonous appetite for risk. With high risk/high return profiles, hedge managers seek ‘super’ profits by betting on changes in interest rates, exchange rates and equity prices in global markets. At least during the first half of the 1990s, hedge funds appeared to outperform both mutual funds and the S & P 500 and, as the IMF notes “money flows to performance”. Of course the market can giveth, and the market can taketh away. Quantum Fund saw its asset base fall from a high of $22 billion in 1998 to a mere $13 billion by mid-1999 as it suffered huge losses on highly speculative bets on internet stocks, leading to further loses as nervous investors shifted out of the fund. It finally closed its doors after its founder and now vocal critic of global financial markets decided to devote his time to such philanthropic

tasks as stocking Russian schools with copies of *The Road to Serfdom*. Tiger
Management, the second largest ‘macro’ fund, performed little better, losing 13 per cent
of its assets through ‘bad’ investments (that is poor guessing) between January and
August 1999.\(^{57}\)

We are now in a position to summarise how the key characteristics of the 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 financial markets and assets into global portfolios that surge through exchange rate
mechanisms as demand and supply of these ‘debts’ ebbs and flows. The mediation by
foreign exchange markets in these massive flows of global capital “highlights the
foreign exchange’s role in transferring liquidity from one currency to another”.\(^{58}\) This
“migration of currencies from one area to another”\(^{59}\) lies at the heart of the new
international monetary regime and its overarching strategy of imposed scarcity.
Decentred markets driven by a logic of competition have a greatly magnified “capacity
to re-denominate the currency composition of its assets at short notice”.\(^{60}\) The
organisation of money is determined globally through these vast, rapid portfolio
recompositions, manifesting as sharp movements in liquidity preferences for particular
currencies and thus as intense pressures on the exchange rate.

Where the provision of global liquidity once allowed for a mediation and weakening of
the law of value within the ‘national’ economy, it now becomes the central mechanism
integrating national money-forms into the rigid discipline of the now unfettered law of
value. While the money-form is the mode of existence of the antagonistic struggle
against the subordination of social reproduction to the capitalist relation of work, its

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\(^{57}\) Jane Martinson (1999), ‘Soros Loses S700m in Failed Gamble on Internet Shares’, *Guardian Weekly*, August 19-
25, p14.


\(^{60}\) Morris Goldstein, David Folkerts-Landau, Peter Garber, Lilana Rojas-Suarez and Michael Spencer (1993),
Monetary Fund, Washington, D.C., p22.
content is once again foundered on a social power of money constituted at a global level. This new internationalism determines the demand and 'value' of national currencies, integrating monetarized social relations into global markets on the basis of maintaining a promise – that this particular money-form has the social power to command labour. It has not required a return of commodity money - an unnecessary anachronism – nor does it signal the 'end' of capitalist money.\(^{61}\) It has instead created pathways to enforce the principles of scarcity on national monies through their direct and immediate integration into the hypermobility of global financial markets. Furthermore, this new form of integration has again reversed Gresham's Law. Rather than the sterile act of hoarding that underlies the strategy of Gresham's Law, money judged to be 'bad' is driven from the global markets, either experiencing severe discounting, or at worse totally expunged and sent in disgrace back to its national space. Such a rejection entails not just a country's money but its entire pyramid of financial assets (debts) with devastating effects – at worst occasioning complete economic, political and social collapse (for example in Asia and Latin America), or at best a severe warning that greater austerity is required (for example Australia, Euroland and Eastern Europe).

To argue that the formation of exchange rates has become little more than a by-product of unstable global currency and financial markets driven by neither the flow of goods and services nor by so-called economic 'fundamentals' is undoubtedly correct.\(^{62}\) However, to simply condemn the apparent irrationality of this new regime completely misses its class foundations. Reading this regime politically it becomes possible to trace how out of financial excess, austerity has been created. In the following section I wish to trace this politically reading further, in particular examining the social relation of debt that underpins this anchorless regime.


8.3 The Politics of Debt and Risk

The IMF in its usual fetishistic fashion considers the foreign exchange market as a giant "mechanism for pricing tradable wealth internationally."\(^63\) 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, softening the constraints of market discipline, its counterpart debt is a means to impose the rule of money in the here and now. Debt creates a social space for the re-imposition of the social bond(age) of money.

As Marx pinpointed, at a general level the fundamental contradiction of credit lies in its ability to leverage accumulation beyond the barriers of the market, while remaining simultaneously dependent on containing accumulation within profitable bounds in order to guarantee its repayment as \( M < M' \). Credit reduces the antagonism between the money and commodity-forms (the salto mortale of the commodity) through a process of pseudo-social validation. It attenuates the business cycle, allowing class antagonisms to be displaced from the present to a future point - a strategy gradually codified in a succession of international monetary regimes. This strategy is not costless for it entails a progressive erosion of hard market constraints and a further weakening of the power of money to enforce the social bond(age) that ultimately guarantees credit's successful transformation into debt and work.

In short, to sustain itself as a strategy of capitalist accumulation credit must be successfully combined with its antagonistic counterpart debt. Just as the future can never be postponed indefinitely, so to must credit transform into maturing debt. This

transformation reasserts hard market constraints and the social power of money. It also re-ignites class antagonisms, for debt exists as a claim to validated social wealth.\textsuperscript{64}

While this claim appears to the creditor in the fetishised form \(M \leftarrow M'\), behind this lies the reality of maintaining the exploitation of living labour into the future: “Credit depends on the confidence that the exploitation of wage labour by the bourgeoisie... will continue”.\textsuperscript{65} Furthermore, the singularity credit/debt, as exploitation yet to happen, rests on a fragile basis for “any political stirring in the proletariat, whatever its nature, even if it takes place under the direct command of the bourgeoisie, shakes this confidence, impairs credit”.\textsuperscript{66}

Credit, like fiat money, must maintain its grasp over living labour in order to realise itself as debt. The difference between credit/debt and money is simply inter-temporal. The former exists as a claim on future labour, while the latter must ensure it does not “lose its grip” (\textit{begrifflos}) in the here and now. Otherwise both become meaningless forms of capital. As Ricciardi argues, any failure to achieve this ‘grasp’ over labour explodes the contradictory unity of form and content as argued in Chapter 2, for with “the failure to command future labour... the advance of money as capital is collapsed into the mere circulation of money as medium of exchange”\textsuperscript{67}

Credit is thus a leap of faith, a view reinforced by its Latin derivation of \textit{credere} - ‘I believe’. As Sismondi noted, credit is “an exchange of a reality against a hope”.\textsuperscript{68} However, an examination of 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 \textit{Schuld}, closely linked to the infliction of punishment, debt thus being ‘backed’ by suffering, while \textit{Geld} (money) is supposed to

\textsuperscript{64} Joseph Ricciardi (1987), ‘Rereading Marx on the Role of Money and Finance in Economic Development’: Political Perspectives on Credit From the 1840s and 1850s’, \textit{Research in Political Economy}, Vol. 10, p72.
\textsuperscript{66} Marx, cited \textit{ibid}, p193.
have originated from *Vergeltung*, the settling of scores or revenge. 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.

In this antagonistic relationship between debtor and creditor, St. Ambrose’s formula still holds true: “*Ubi ius belli ibi ius usurae*” (Wherever there is the law of war, there is the law of usury). Since Gratian’s Decretum of *circa* 1140, inspired by St. Ambrose (the first part of the *Corpus Juris Canonici*), little has changed except the generalisation of this antagonism to all regardless of creed.\(^70\) Jack Clark, manager of Citibank’s LDC debt during the ‘lost decade’ of the 1980s, outlined the banks’ *modus operandi* for potential defaulters in the following terms: “The banks try to create as many negative incentives as they can think of: they cut off trade credits, they stop financing government programs. I remember the Senegalese got in very bad shape, and we announced that we weren’t going to finance their rice imports. That got their attention very quickly”.\(^71\) As Swiss central banker Dominik Egli’s notes, between creditor and debtor “the strategic situation is as simple as it is explosive”.\(^72\)

Sharpening sanctions against defaulters has always been a priority for the functionaries of money capital, while the power to enforce them has waxed and waned in line with shifting historical circumstances.\(^73\) However there appears to have been a dramatic shift

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\(^{70}\) Jacques Le Goff (1988), *Your Money or Your Life: Economy and Religion in the Middle Ages*, Zone Books, New York, p22. This Decretum, compiled by the monk Gratian in the twelfth century, allowed Christians to charge interest (usury) to non-Christians, the beginning of the end of the Church’s Aristotelian inspired prescription against the ‘unnatural’ act of making money from money.

\(^{71}\) Cited in Jeffrey A. Frieden (1987), *Banking on the World: The Politics of International Finance*, Hutchinson Radius, London, pp146-7. Citicorp, unscrupulous even by corporate American standards (Citibank was the last US bank to cease dealing with the Apartheid regime, finally pulling out in 1987 on ‘business grounds’ despite claiming there were ‘strong moral grounds’ for Citicorp’s dealings with the regime) was heavily involved in the business of lending to the South. By 1976, international earnings, a substantial portion of which came from these loans, comprised 72 per cent of Citi’s total profits, up from 54 per cent in 1972. This was Walter Wriston’s strategy, formed on the basis that people and companies go bankrupt, not sovereign countries. In 1975 the Chairman glibly boasted to *Fortune* that “round here, it’s Jakarta that pays the check”. By 1982 the smiles had presumably been wiped off the collective faces of Citicorp’s executives. See Richard B. Miller (1993), *Citicorp: The Story of a Bank in Crisis*, McGraw-Hill, New York, pp103-115.


in the dynamics of this relationship over the past two decades. The cycle of ‘food riots’ against IMF-imposed structural adjustment programs, beginning in Peru in 1976 and sweeping across the debt-laden ‘South’, is just one, albeit highly visible, reaction to the increased power of creditor sanctions.  

As “punishments are the driving force behind international lending”, the vast increase in the global markets for debt - the outstanding stock of publicly traded debt and equity securities in Europe and the US climbing to approximately $24 trillion by 1992 - suggest a commensurate increase in the vulnerability of debtors to punishment.

While this vulnerability is imposed through the decentralised and competitive nature of the new regime, the further question is how this vulnerability transforms itself into socially imposed scarcity. The answer lies in the risk generated by the new international monetary regime. Of course risk permeates financial markets and as the IMF notes, “financial instruments are bundles of risks”. In turn financial markets “manage, allocate and price risk”. Many market analysts go even further, attempting to justify the massive growth in financial markets, particularly for derivative products, as the development of techniques capable of cancelling risk as a whole. In this view increased risks produce their own cure, for they act as “an inducement to innovation in order to shift the burden of risk” - a pathological response “like in infectious viruses”.

However as Barclays Bank chief Martin Taylor suggests, “risk, like energy, is neither created nor destroyed, merely passed around”. Of course, risk results from social actions – it is not governed by cosmic forces as Taylor’s analogy suggests. Furthermore, these actions can generate risks and it seems difficult to refute that this is

the case in the face of successive and rapidly recurring financial crises that rock the new monetary internationalism. However it is not just that the new regime creates risk, it is also how this risk is allocated and to whom.

The dynamic interplay between ever-increasing volumes of credit/debt, its spatial plasticity, short-term time horizons and “relentless search for higher yields” creates a global matrix that constantly plays off risk against return. This in turn generates increasing volatility in international capital markets, further ratchetting up the level of risk as returns become unpredictable. Furthermore, the need to maximise yields, particularly for institutional investors, has seen “a growing acceptance of lower-rated issues and a proliferation of increasingly complex structures”.81 The end result has been predictable, with markets displaying alarmingly “permissive attitudes towards risk”.82

This escalation in underlying risks has been further exacerbated by the contradictory role played by sovereign debt. As previously mentioned, this debt plays a pivotal role in global markets by providing a near riskless benchmark that all other debts can be measured against to create a full risk-return yield curve. Yet markets have exerted a constant pressure on states to limit their indebtedness. In other words fiscal policy - the core mechanism for creating state debt - can only be “allowed to operate sparingly, least financial markets should deduce that fiscal consolidation no longer figured as prominently on the supply-side agenda”.83 Rising debt to GDP ratios provoke age-old fears that debt will be monetarized (that is, the use of inflation to decrease the state’s debts), yet the pressure exerted has witnessed a process of fiscal consolidation, massively reducing the emission of government paper from core OECD countries. In other words, global debt markets have placed states (essentially the OECD) in the contradictory roles of provider of debt that is “as good as gold” and key player in the re-imposition of social austerity. While supply is contracting under these exigencies there is no evidence that demand is falling away. The outcome is obvious for “demand will

have to be satisfied by other asset classes”. According to the BIS, this “is likely to give impetus to the markets for securitised debt, private equity, emerging market securities and other alternative forms of investment”. The paradox of austerity lies in this increasingly fictitious and risky structure of debt underpinning the edifice of the global monetary regime.

While it seems clear that the new regime creates risk, it is not clear this is then “allocated through markets to those who are willing to bear it in return for appropriate reward”. For in this new regime, a trickle down effect can be seen – not in the form of wealth – but rather of risk itself - seeping into every crevice of the social relations of production and working class reproduction. Private risks generated in the international monetary regime in effect become socialised within spatial grids defined by the use of particular currencies that bound the ‘national economy’. The political consequences flowing from this is the decomposition and recomposition of both the state-form and working class formations and in the following section, I examine some of the mechanisms through which these risks are transmitted and pushed down.

8.4 Risk and the Reimposition of Austerity

As Martin correctly points out, “it is within the nation state that the instabilities of global money appear”. Instability, or rather the risks generated by global debt markets confront the domestic economy (a spatially bounded network of social relations connected through the medium of a national currency) in a number of forms, but are usually transmitted through one of two channels: the state or directly through national currencies themselves. The particular social form assumed by risk is usually related to the dynamics of the interaction between the state, fiat money and the global markets. For example, if the state decides to ‘guarantee’ the value of its fiat money (through a fixed bilateral exchange rate), it faces the constant threat of a speculative attack testing

the state's resolve to defend this rate. Floating exchange rates on the other hand, tend to undergo volatile and dramatic shifts as market sentiment waxes and wanes. While the following analysis is far from comprehensive in its coverage, sufficient detail is provided to allow us to complete our political reading of the new regime, for the aim is to highlight the 'end product' of the new regime - the creation of social scarcity and the imposition of austerity.

The most dramatic form assumed by risk occurs at the moment when creditors faith in the promise held (debt) collapses - a point signalled by crisis. This can manifest in various markets: the domestic financial sector, exchange rates, sovereign debts or balance of payments. Resolution of the crisis will occur when faith is restored - the state is disciplined or restructured, the successful re-imposition of domestic austerity, or a devalorisation of domestic capital. All such strategies involve the re-imposition of hard monetary constraints, shoring up the social bond(age) of money and ensuring a continuing ability for debts to be honoured through an intensification of work. Contagion effects often spread these across countries or even entire regions due to perceived linkage, often tenuous on closer inspection. However the herd mentality of the markets ensures investors act first and analyse afterwards: "safety first is the motto of investors when they smell a rat".  

Many analysts suggest such crises are "becoming more frequent, more severe, and less predictable". While these escalating crises have impacted disproportionately on developing and emerging markets, core OECD countries have not been immune. What unites all such manifestations of social risk is the socialisation of these private loses, especially those incurred by the financial sector. The magnitude of these can be enormous - ironic given the high value placed on fiscal rectitude by global financial markets. An indication of the extent of the losses suffered by the banking sector for

88 Jane Sneddon Little and Giovanni P. Olivei (1999), 'Why the Interest in Reform?', in (eds) Jane Sneddon Little and Giovanni P. Olivei, Rethinking the International Monetary System, Federal Reserve Bank of Boston, Conference Series No. 43, (June), p43.
some of those countries affected by the Asian crisis is provided in Table 8.12. As the IMF noted, “a sizeable portion [of the recapitalisation costs] will have to be met by public funds”. 89 Obviously bailouts of this magnitude divert public funds from alternative uses – such as social spending and infrastructure - not only in the short-term but for several decades. In Thailand, where the public debt following the Asian meltdown was estimated at only 40 per cent of GDP in 2000, the IMF was “already urg[ing] the Government to cut public spending”. 90 In Mexico, the costs of bailing out the financial sector from the 1994 meltdown have increased from 14 per cent to more than 19 per cent of GDP.

### Table 8.12 Banks’ Liquidity and Solvency Risks (Selected Asian Countries)

<table>
<thead>
<tr>
<th>Banks’ Foreign Liabilities (Billions of $)</th>
<th>Peak Problem Loans (% of total loans)</th>
<th>Recapitalisation Costs (% of GDP)</th>
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<td>---------</td>
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</tr>
<tr>
<td>Indonesia</td>
<td>23.4</td>
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<tr>
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</tr>
<tr>
<td>Thailand</td>
<td>85.7</td>
<td>67.6</td>
</tr>
</tbody>
</table>


While the socialisation of the costs of bad debts are often heavy, “all too frequently, the subsequent macroeconomic effects [from a financial crisis] in terms of lost output and rising unemployment have been considerably more costly”. 91 The 1997-1998 Asian crisis provides an obvious example, where estimates of the impact of the crisis on the real economy of the region have suggested the loss of “at least one decade in the development race”. 92 Such devastation is not restricted to Asia however. Indeed the trial by space has taken on a particularly acute form between the emerging economies of the Western Hemisphere and Asia. The massive surge of capital flowing to emerging

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markets following the 1994 Mexican crisis "was associated with greater regional and asset-class differentiation than had been evident before". Like the 'correction' before it in 1992, the market began a "general reappraisal... looking more rigorously at the specifics of country risk and the credit of the issuer".93 The result for Mexico is well known, as is who ultimately had to pay. Eight thousand firms closed in 1995, with official figures speaking of real wage cuts of 25-30 per cent.94 In Thailand following the 1997 crisis, the number of Thais living below the poverty line jumped 15.9 per cent during 1998 to 7.9 million, while nearly 7000 firms closed down and unemployment hovered close to 2 million.

However risk more often permeates through less dramatic mechanisms, for every state, including those in the OECD core, face the more mundane but nevertheless powerful surveillance of the market, exerting a constant restriction of policy choice in order to avoid crisis and reduce instability. This leverage is further enhanced by the growing marketisation of public debt on the global financial markets (albeit a declining total for many countries), posing fundamental questions over not just the continuing efficacy of state economic management, but also the form of the state itself. As the BIS notes with typical understatement, "such holdings are very sensitive to shifts of sentiment in international financial markets".95 The IMF, always more forward, argues "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".96 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

94 Susan Strange (1998), 'The New World of Debt', New Left Review, No.230, July/August, p99. It should be noted that real wages were cut by over 41 per cent between 1982 and 1988 due to the structural adjustment programmes introduced as a response to the debt crisis. These conditions saw half of Mexico's population driven below the poverty line. See Walden Bello (1994), Dark Victory: The United States, Structural Adjustment, and Global Poverty, Pluto Press, London, p40.
Indeed, the participation and integration of the state into global debt markets has seen “the competition state itself... become the main vehicle, the pre- eminent carrier, of ‘embedded financial orthodoxy’. 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 provided the leverage to impose scarcity through a national money-form integrated into global capital markets. The hidden strength lying behind this apparently substanceless fiat money is that it expresses the subordination of the state to global scarcity relations.

An added complication for many sovereign borrowers from developing economies lies in the refusal of capital markets to accept bonds denominated in national money. Debt must be further mediated by a ‘hard’ currency, adding further layers of risk. Any hint of weakness in an economy’s ability to ‘trade’ itself out of the red triggers vast portfolio shifts as investors move to assets perceived as ‘safer’. From 1975 to the mid-1990s external debt held or guaranteed by developing countries rose from 7 per cent of GDP to 30 per cent, and by 1995 nearly $1.5 trillion of this was held in externally denominated debt against total paper reserves of $538 billion, in effect shifting most of the risk exposure to the debtors themselves. Such loans were subject to adverse movements not just from currency realignments but often interest rate movements as well, transforming apparent bargains into ghastly crises. Many Asian countries, taking advantage of low Japanese interest rates during the early 1990s, steadily increased their exposure to yen denominated debt, only to see the yen appreciate against the dollar - their major source of hard currency. Indonesia was especially hard hit, with a third of the increase in the dollar value of its external debt attributable to cross-currency movements (37 per cent of

its external debt denominated was in yen while 90 per cent of its export revenues were
denominated in dollars.100

For their part, the US, Japan and Germany issue no foreign currency debt - an
illustration of the largesse available for those able to exert the rights of seigniorage.
However, despite attempts by radicals such as Parboni and Cox to focus on seigniorage
as the defining moment of international monetary regimes, the ability to issue debt in
one’s own fiat money is actually widespread amongst OECD countries. As at 1997,
France and the UK held virtually no foreign debt, while Italy had a small 6 per cent.
Canada was even more modest in its use of foreign debt, with an outstanding total of 3
per cent. A number of smaller OECD countries such as Belgium and New Zealand only
issued foreign debt to replenish their reserve war chests. While the ability to issue IOUs
is obviously of benefit, the extra degree freedom is perhaps more apparent than real.
Simply by issuing public debt that is subsumed within global portfolios - whether as
national IOUs or in some ‘world currency’ – states become integrated into the global
circuits of money capital, falling under the harsh discipline of the global rule of money.

In short, whether actualised as crisis or simply a latent threat, market generated risks act
as points of leverage over the state, neutralising the threats posed by the liberal-
democratic state. Using Lukes’s typology of a three-dimensional view of power,
socially generated risk exercises power in a simple one-dimensional fashion.101 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 per cent) 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.” 102

100 David Folkerts-Landau, Donald J. Mathieson and Garry J. Schinasi (1997), International Capital Markets:
101 See Steven Lukes (1974), Power: A Radical View, Macmillan, London. This was an influential text in the ‘three-
faces of power’ debate in the 1970s.
102 Lecio Morais, Alfredo Saad Filho and Walter Coelho (1999), ‘Financial Liberalisation, Currency Instability and
Crisis in Brazil: Another Plan Bites the Dust’, Capital & Class, No. 68, p14. Also see Bank for International
However, financial markets also exercise power in more complex fashions, offering a clear example of a two-dimensional view of power, which extends the concept of power to include the ability of A to limit the scope of B’s decision making. It is in essence a form of exclusion of certain issues or conflicts from the legitimate sphere of (political) activity. This has clearly become the case as the definition of what is legitimate economic management and what is not is increasingly codified in “the unwritten rules of the marketplace”. This, rather than the spectacle of crises, is the most 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 lies the real triumph of the current global monetary regime. 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 in the face of a resurgent monetary internationalism. The potential risks facing a state that ignores the dictates of global money (the “fucking bond-traders” so loathed by Clinton)\(^\text{103}\) are too great to ignore for an entity charged with ‘managing’ the economy.

Thankfully we have not yet seen within this virulent new monetary internationalism the “third” face of power - “the most effective and insidious use [preventing]... conflict from arising in the first place”.\(^\text{104}\) Certainly, the gold standard exercised such power as the guardian of bourgeois order. It was only with the rise of a new active subject - the working classes – that this power was deflated – and the current situation is still too fluid and contested to suggest the current regime has achieved the same ‘mythic’

\(^{103}\) Cited in Bob Woodward (1994), *The Agenda: Inside the Clinton White House*, Simon & Schuster, New York, p84. Apparently yields on long-term Treasury bonds increased by 35 basis points at a time globally yields were falling – a sign of the market’s nervousness at the beginning of Clinton’s Administration as he dabbled with health reform and homosexuality in the armed forces.

qualities of the gold standard. Furthermore, its own legitimacy, as even its own supporters recognise, is tenuous at best and questioned at every major crisis.  

But even one-dimensional power is more than capable of restructuring the state, for it has led to its very role "now having to be reassessed in the light of a sound money standard and the revealed limits to government borrowing". In terms of the organisation of money, the most important restructuring has seen the depoliticisation of the central bank, usually backed by the rule of law and policed by the markets (see Table 8.13). Sealing off these internal contradictions of the liberal-democratic state-form is as vital to imposing scarcity relations as was their initial opening to the Economics of Abundance. 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 diminishing welfare net, volatile interest rates impacting on personal debt repayments and the list goes on. Underlying all these strategies is the attempt to reimpose the capitalist relation of unbounded work - I say attempt because these strategies are of course being resisted. As social conservative and MIT pedagogue Rudi Dornbusch notes, "the areas where changes have most political fallout is the abolition of the welfare state. This is being fought street by street, so to speak".

There is however a far simpler and more direct mechanism that has contributed to decomposing working class power through this anchorless and decentered regime. While exchange rate crises afflict fixed rate regimes, floating regimes are, as I argued in section 8.2, characterised by large volatility and sharp changes in the exchange rate over the short to medium term. This in itself is a constant and unmediated mechanism for transmitting risks from churning global debt markets to the social relations of

107 Table 8.13 is not exhaustive. Similar strategies can be found in other OECD and emerging countries, such as New Zealand, and to a lesser degree Australia.
production through the impacts these have on the exchange rate of the national currency. This is fundamental because of the effects nominal exchange rate movements have on the formation of domestic and international price levels. As Cooper notes “movements in exchange rates... [are] a substantial source of uncertainty for trade and capital formation, the wellsprings of economic progress”.

Table 8.13 Central Bank Autonomy: Selected Developments

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Summary of Developments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>1993</td>
<td>A new law stipulates that the Government cannot oppose central bank decisions in its area of responsibility, including monetary policy. Credit to the Government is forbidden.</td>
</tr>
<tr>
<td>France</td>
<td>1993</td>
<td>New legislation assigns to the central bank the responsibility for formulating, not just implementing, policy and specifies price stability as its objective. The Government cannot give instructions to the central bank or obtain credit from it.</td>
</tr>
<tr>
<td>Germany</td>
<td>1994</td>
<td>Cash advances to the Government discontinued.</td>
</tr>
<tr>
<td>Italy</td>
<td>1981</td>
<td>The obligation to underwrite Treasury bill issues is abolished.</td>
</tr>
<tr>
<td>Japan</td>
<td>1992</td>
<td>The central bank gains autonomy in setting the discount rate.</td>
</tr>
<tr>
<td>Japan</td>
<td>1993</td>
<td>Prohibition on granting credit to the Government (previously automatic up to a ceiling); exclusive right to set reserve requirements.</td>
</tr>
<tr>
<td>Japan</td>
<td>1997</td>
<td>A bill proposes new statutes: price stability is set as an explicit goal; the Ministry of Finance loses its power to give instructions to the central bank with respect to its business, to carry out inspections, to dismiss its executives and to be permanently represented on its Board. Accountability is increased through regular reports to the Diet, publication of policy minutes and Diet approval of the three top appointments.</td>
</tr>
<tr>
<td>Netherland s</td>
<td>1993</td>
<td>The obligation to make current account advances to the Government is abolished.</td>
</tr>
<tr>
<td>Spain</td>
<td>1994</td>
<td>A new law grants the central bank autonomy in the formulation and implementation of monetary policy, with price stability as its primary objective. Extension of the Governor’s and Deputy Governor’s terms of office. The law forbids government financing.</td>
</tr>
<tr>
<td>Sweden</td>
<td>1989</td>
<td>New central bank statutes formalise and strengthen the central bank’s autonomy: legal responsibility to Parliament rather than to the Government; autonomy in monetary policy decisions; lengthening of the Governor’s term of office and reduction of political influence on the appointment.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1992-1994</td>
<td>The Chancellor asks the central bank to produce an independent assessment of progress in meeting the inflation objectives (1992). The central bank acquires discretion over the timing of changes in policy (interest) rates (as long as they are implemented prior to the following monthly meeting with the Chancellor) (1993). Publication of the minutes of the monthly meetings in which the central bank gives its independent advice to the Chancellor (1994).</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1997</td>
<td>The central bank is given autonomy in setting short-term interest rates; the Government cannot give instructions (except under special circumstances); policy decisions are assigned to a new committee.</td>
</tr>
<tr>
<td>United States</td>
<td>1978</td>
<td>The Full Employment and Balanced Growth Act requires the central bank to pursue several objectives, including full employment and production, balanced growth and reasonable price stability. The central bank is obliged to report semi-annually on its progress in meeting the final goals as well as its plans for, and performance in respect of, growth ranges for monetary and credit aggregates.</td>
</tr>
</tbody>
</table>


109 Richard N. Cooper (1999), ‘Exchange Rate Choices’, in (eds) Jane Sneddon Little and Giovanni P. Olivei, Rethinking the International Monetary System, Federal Reserve Bank of Boston, Conference Series No. 43, pp114-115. For supporters of floating rates such as the free market economist Allan Meltzer, such movements can be dealt
Following Friedman’s seminal 1953 article stating the case for flexible exchange rates, the first wave of naive monetarist models put forward in the 1970s simply assumed exchange rates were determined by the supply and demand for different national monies, that is, they expressed the relative price of two monies.\(^\text{110}\) Implicitly this was conceived as flow rather than stock adjustments, suggesting foreign exchange markets adjusted rapidly to relative price change while PPP is maintained at all times. Assets were also assumed to be perfect substitutes, that is, interest rate parity holds. In short, the determination of exchange rates, in line with their monetarist beliefs, was a fairly uninteresting story if markets were left to themselves - a nominal price phenomenon driven by real economic variables. Flexible exchange rates meant however only one price would need to adjust to reflect inflation differentials between countries rather than the entire internal price structure composed of thousands of individual prices. In other words nominal exchange rates would act as an inflation filter while real exchange rates reflected changes in fundamentals.

However, the evidence over the last twenty years has shown real and nominal rates moved in tandem – that is, “since 1980, nominal exchange rates have been reflected in nearly one-for-one changes in the relative prices of goods and labour”.\(^\text{111}\) Taking the SUS as an example (see Figure 8.5, although this pattern is replicated by other currencies) between 1981 and February 1985 – a truly lassise-faire period of exchange rate setting during the first Reagan Administration under the doctrinaire Secretary of the Treasury Beryl Sprinkel – the dollar soared as capital flowed in, attracted by high interest rates and the Administration’s pro-business and anti-inflationary policies. The

\[\text{with simply “if countries followed stabilising policies”. It is interesting to compare the current rationale for floating regimes to their original justification - enhancing the policy autonomy of countries. Today’s arguments are the complete opposite - it is clearly seen as a mechanism forcing states to follow sound money policies. See Allan H. Meltzer (1998), ‘Financial Structure, Saving, and Growth: Safety Nets, Regulation, and Risk Reduction in Global Financial Markets’, in The Implications of Globalization of World Financial Markets, Conference Proceedings, Bank of Korea, p19.}\]


US trade-weighted index rose by 49 per cent while its real rate increased by 44 per cent, causing an enormous impact on the structure of the American economy. Then between

Figure 8.5 Real Versus Nominal Exchange Rate
(USS, 1973 – 2000)

1985 and 1990 the nominal rate fell 47 per cent, a decrease again tracked by the real rate, which declined by 43 per cent. In other words, rapid shifts in nominal exchange rates generate significant changes in the patterns of international competitiveness, in turn producing considerable 'internal' macroeconomic instability. As Gourinchas concludes "exchange rate movements affect significantly both net and gross factor reallocation", that is unemployed workers and rusting factories.

While US manufacturing was decimated during the first half of the 1980s by the high dollar, obviously a depreciating currency can in turn act as a boost for the exporting sector. What is significant here is not just the absolute rise or fall of real exchange rates – it is the amount of instability in the domestic economy that these changes engender. For example, exchange rate effects have been found to be significant contributors to 'job churning' in the US economy, although as the authors of the study noted, "job


creation does not respond significantly to changes in the real exchange rate". Not only do volatile real exchange rates destroy jobs (and to a lesser degree create jobs), but they also create a climate of uncertainty that is disruptive. Uncertainty can dampen investment and increase unemployment. It may also, as in the case of America, see the threat of capital shifting off-shore if wage costs are not reduced. Transmitting competitive pressures into the heart of those sectors of the economy integrated into global circuits of production – often manufacturing sectors that were once pivotal centres of working class organisation during the era of abundance 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 the churning real economy – an essential strategy in the decomposition of the working class and the imposition of austerity.

Thus the risks generated by the new internationalism governing the organisation of capitalist money clearly acts to decompose working class formations and recompose the state and we return to the paradox highlighted at the beginning of this chapter. This chapter has suggested the return of socially imposed scarcity is premised on the rise of a new pure credit regime. I have attempted to read this new regime politically, drawing out its key characteristics - anchorless, decentered and competitive - and seeking to identify their class significance. This concludes my analysis of the international organisation of money and in the final chapter I seek to briefly restate the case for why we must undertake a political reading of money.

Afterword

"in the current world short-term capital funds shift about hither and yon, driven by fears and
rumours about the industrial and political outlook of this or that country. Liquidity preference, the
desire for security in a world subject to extraordinary risks, a world which facilitates the contagion of
fear by highly developed systems of communication – in such a world short-term capital movements,
instead of serving as an equalising factor... become a seriously disrupting factor"

Alvin H. Hansen

9.1 Why Undertake a Politically Reading of Money?

There would be few on the left today who would dispute the veracity of the above characterisation of global capital markets: destabilising and fickle, chronically short-term in perspective, risk adverse (yet paradoxically increasing systemic risk) and divorced from the needs of the 'real' economy. Against an ideological backdrop of neoliberalism, these resurgent global capital markets infuse a content of exploitation and work into the substanceless form of profane money. Hayek was ultimately proven correct in focusing on the spatial organisation of the money-form as the surest way to overcome the internal struggle between form and content in favour of the capitalist relation of work. The class struggle of the mass worker found its mode of existence in social forms such as a plastic money-form mediated through the liberal-democratic state-form. Yet the return of monetary internationalism has hollowed out these social forms, recomposing them through instilling a content of scarcity. Money in particular is increasingly able to express scarcity relations, propping up the social bond(age) of the market through globally constituted markets for credit/debt – a mediation that ultimately

expresses the capitalist relation of work. Likewise, it is only in this context that we can situate the recomposition of the liberal-democratic welfare state over the past 30 years. This is nicely summed up by the MIT pedagogue Rudi Dornbusch, who recently argued that welfare recipients “need to be integrated into a normal social life – i.e. a working life – from which the welfare state in its perversion had given them unlimited leave”. The profoundly anti-democratic nature of this new internationalism has sought to resolve the internal contradictions of liberal-democracy by once again reifying the political and economic moments of social life into discrete areas.

Thus the social power of money seeps into every aspect of our lives whether as worker, consumer or citizen. Yet the words quoted above were in fact penned over six decades ago, reminding the modern reader that the return to globally integrated financial markets, whether perceived as a return to a gilded age of liberalism or as a corrosive threat to over a century of working class struggle, is not a unique phenomenon. The recurrence of Hansen’s concerns some six decades later draws attention to the fact that this social power of money is never fixed or irreversible, but rather waxes and wanes over time. The forces driving the organisation of capitalist money are never autonomous or ‘organic’ as assorted apologists and technological determinists argue. Neither are they driven by some hermetically sealed social process within blocs or fractions of capital and their client states. Nor are they the result of hegemonic scripts woven by cybernetic elites. As this thesis has sought to demonstrate, shifts in the social power of money are driven by us; whether we succeed or fail is a matter for history to decide, and as Marx pointed out, we make our own history but not on the terms of our own choosing.

Thus we return to the question posed at the start of this chapter: why should we undertake a political reading of money? The simple answer is that it allows us to reclaim analytically and thus politically the historical trajectory of the global organisation of money as an expression of working class struggle. The gold and gold

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exchange standards, Bretton Woods and the post-1971 system are not, as I’ve sought to
demonstrate, the result of struggles between states and capital, arcane phenomena of
only limited relevance to the day to day constitution of capitalist social relations.
Instead each of these regimes expresses the process of changing money-forms that is
one central mode of existence of class struggle.

A failure to recognise that the social power of money is contingent has seen many on
the left see in the return of monetary internationalism deeper epochal forces, at times
sliding into a kind of stupefaction at the magnitude, force and alien nature of globalised
capital markets. Like a child before some omnipotent being, these accounts see global
money “travelling at the speed of light, as nothing but assemblages of zeros and ones…
perform[ing] a syncopated electronic dance around the world’s neural networks in
astonishing volumes”\(^3\). Overawed and politically emasculated, the analysis slips into
the mysticism of post-modernism to find comfort, creating a radical disjuncture between
social life and global capital markets.

An article written by Bill Maurer provides an excellent example of this tendency and the
dangers it poses.\(^4\) 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.\(^5\) For Maurer, Lionel Robbins – the modern apostle of
scarcity – speaks to us from an age of modernity no longer applicable to the post-
scarcity of global finance. Apart from the obtuseness and meaninglessness of Maurer’s
cyber-punk musings, its political message is disastrous. Little separates his position

\(^3\) Barney Warf (1999), ‘The Hypermobility of Capital and the Collapse of the Keynesian State’, in (ed) Ron Martin,
Money and the Space Economy, John Wiley & Sons, Chichester, p230.
\(^5\) Ibid, pp117; 125; 136.
(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”. 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 and its associated regime (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 modernity.

Similarly however, we must guard against simply identifying ‘finance capital’ as the class enemy. This view reflects the traditional hostility of the left towards “financial capital”, evident in Hilferding arguments (and replicated in populist and racist prejudices against the ‘Gnomes of Zurich’ and assorted “international gang[s] of financial ghouls and nation-scuttlers”), that suggest the enslavement of productive capital by big banks. Lenin (and Marx) amongst others railed against stockjobbing, corrupt banking practices and systemic swindling endemic to unregulated financial sectors, creating a tendency to strongly identify ‘money capital’ as the pre-eminent class enemy. Yet a focus on big banks, Wall Street and the City of London has obscured the analysis by seeking to identify ‘reactionary’ or ‘progressive’ fractions of capital rather than the core antagonism between labour and the working class. From this it is only a

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short step to focusing on inter-capitalist competition, the search for dominance and finally hegemony – a tendency replicated in both orthodox and neo/post-Marxist approaches. While individual capitals clearly have different ‘interests’, conceptually one must stress the essential unity of the circuit of capitalist accumulation that is determined by one overriding interest – the extraction of surplus value.

The goal is to transcend money, something only possible when those it enslaves, whether through abject poverty or a stultifying proliferation of needs that in turn only leads to the living impoverishment of endless work, destroy capitalism itself. Until then the struggle against the social power of money continues, expressed in the shift from one underlying ordering principle governing the organisation of the money-form to another. From scarcity to abundance and back, the key task now is to once again shatter the global constitution of profane money. Only then can the ongoing struggle against socially imposed scarcity be fully pursued, until once again the fundamental contradictions of a system where the few exploit the many reach a point of tension where a resolution is required. Whether this leads to freedom from money and capitalism itself, or the reimposition of the social power of money, only history and ourselves can tell.
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