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Introduction

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One of the strange and bitter pills of contemporary life is the activities of the big banks and financial markets, and their dubious sanctifications over many years. Strange because few want to think about the role money plays in the world. This indifference suggests potential fears about money – it's easier to imagine money and its institutions are rock-solid, not flimsy social creations, promises and sources of threat. Governments are prone to this escape route – into fantasy. This book analyses such aspects of money – of mobile capital's multiple relations with states and populations, and with hegemons and denizens.

Far better understood than money are the world's two great threats: nuclear war and climate change. They bring destruction either of instant death or gradual ruin to the end of this world. The social forces arrayed against efforts to prevent irreparable destruction from climate change are far more hysterical than the grim knowledge and disapproval of mutually assured destruction – MAD – of nuclear war. Political leaders who raise nuclear arms races truly shock: agreement is wide but counter action limited. States resist.

There is less consensus with climate change but equally no fantasy. Culprits in the climate denial movement are chiefly economic, the fossil fuel industries, since supporting politicians only gain unpopularity. Think of the Chinese command economy running out of water and clean air; leaders must act. Likewise, the Pentagon sees 'security' dangers. Capitalism is threatened more by climate change than its restraint and, even if profits from wind-solar powered clothes driers are pitiful, more firms accept renewable energy. States can benefit from centralized energy supplies for population or diplomatic control, and this is as short-sighted as governments refusing to lay down nuclear weapons.

Mobile capital is a social force that profits from funding and encouraging both these threats and often other socially useless activities, although it is rarely seen as a 'force' (and one reliant on states) until

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a financial crisis. Why is this? Our collective book is not about nuclear or climate destruction *except* for the complicit, pecuniary relations that capitalist financial sectors have with war finance and climate change. I mention them not to scare (further), but to give perspective. Money is much more ambiguous and intangible. Who are the culprits in financial disturbances, when pollution deniers are so easy to identify? There's a cacophony of *narratives and moralism*, some of which poses as science. Theories of money are not the science that safeguards surgical operations, or the science of climate change. Because money is social, a complex relation of debtors, creditors and states, there can be no natural science, as about (say) the effects of nuclear warfare. Money is maddeningly unpredictable, reliant on debt servicing into the future. From where, is the next question.

Far from money being a rock-solid *thing*, if undoubtedly handy to use, that comforting fantasy is constantly disrupted. For three decades before the 1914–18 war, money seemed peaceful and socially useful. Not for the majority non-voters or colonized but for ruling class Europeans who, as if by nature *adjusted* the denizens downward to rebalance the gold standard. Gold never prevented money from becoming unstable, and the centre always lifted the gold standard to suit itself – notably under London City panics – although large gold discoveries did mitigate business trends towards 'chronic depression' (Morgan 1943; Veblen 1904: 235). And, after the World War 1 that created unheard-of full employment, it was savagely stopped by 1920, disturbances became extreme and, far from financial 'diplomacy', during the 1920s–30s a vicious race to the bottom set in. The City of London kept the UK domestic economy stagnant for the period. There was considerable resolution after World War 2. But since the critical 1970s, financial sectors became increasingly socially useless and sponsor political neo-liberalism to return to pre-democracy.

However, this sketch has *crucial elements, usually hidden*: States spend money into existence, and taxpayers are their coerced debtors to service the National Debt. Taxes are only needed to keep money trustworthy, not to *pay directly* for state spending on war and peace. Banks also create money by depositing loans – to governments, to businesses and households. Another *logical* point, then, in an introduction to the secrets recounted in this Volume, is that all money is debt. However not all debt is money – my IOU (on a scrap of paper) for

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goods or services cannot be presented to pay a supermarket bill, as it is not transferable. There are, then, types of private 'near money'. Adults need paid jobs, money to pay taxes, bank debts and, above all purchasing power for household survival. Banks *require* but do not invariably create economic activity for their advances to be serviced.

This Volume is a work of macro-economic sociology, political science and macroeconomics that explores capitalist-state money creation. Everyone loves to hate banks and, while that is not wrong, there's more to the problems of money creation than just banking's role. Max Weber (1981: 337) remarked that capitalism depended on mobile capital's ability to play off nation states. If there were to be a global 'empire', he warned, capitalism might not survive. The birth of capitalist money 400 years ago was a 'memorable alliance' between nation states and merchant-money classes, Weber said (1978:353). The deal was one where states would 'rule' and merchants would 'make money'. The sovereign state is motivated to secure war finance and peace finance, and after various experiments with monarchs to fund their wars, a deal was clinched in London. From the English Civil War's regicide, a mob of merchants took parliamentary power from aristocrats and made a loan deal in 1694 with an imported king from the money-smart Amsterdam. William of Orange created their Bank of England to perfect the trick, repellent as it was. This Bank lent gold and silver to the Crown which granted it a charter to 'securitize' its state debt (backed by imposing on the Crown tax collection), to make advances of *the same amount* (in notes) to the private sector.

That doubled the 'money' that becomes acceptable at the tax office, for wars and the bourgeois class. Geoff Ingham explains this money is the symbiotic capitalist-state money we all use. Repellent or not, moralism is out of place. To this day, the (capitalist) state protects banks and makes markets for mobile capital possible.

Not everyone in the Volume agrees *precisely* with Weber on how 'mobile' it is, but all explore capital's disconnections from today's electorates, economies and the public sphere. Both money manufacturers – capitalist banks with their finance sectors, and capitalist states with their spending treasuries – are equally substantial and often malign forces. We didn't need the 2016 election in America to tell us about the return of the malign state, elected by, yet ignoring highly disaffected populations. We have worried far longer about problems of the global market fantasy. Entire constitutions have been written to prevent

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malign threats, hence 'checks and balances', separation of powers and tempering approaches to corporate and state excesses. The social democratic states were the most moderating and peaceable.

These central relations between states and mobile capital need healthy public airing since they are barely discussed. Short-term, alarming conjectures or worse, *predictions* about election results or money market crises are hourly headlines, but rarely about money creation as a 'memorable alliance' of ruling elites. That is, unless one takes the New York Stock Exchange peaks in 2017 as saying something meaningful about US Congress and the White House, which they don't. In fact, financial market results give no analysis of current affairs whatsoever, since traders are mimetic, they just copy each other and rely on the entire market in which they trade to remain *liquid*. Market results are only informative when liquidity stops, that is, when no one wants to buy junk bonds or whatever, and everyone is frantic to sell, dump, run for the exit door.[1]

The dramatic parts are easy to portray, compared to the political management of banks and sovereign debts between networks of economic-political actors, mostly in impersonal, official capacities. These economic-political relations are more important than naked interest conspiracies and personal economic advantage from deploying state powers (increasing though they are). No one doubts plots and subterfuge occur, yet open alliances can also involve manipulation of, and disconnection from, people's needs.

Debates about the mobility of capital are rare in mainstream agendas, public opinion polls, you name it. How is this linked to the global role of the US dollar? Money creation itself is never mentioned unless to blame governments for spending (creating) 'too much' money (seldom 'too little'). Least useful is indignation against *either* states *or* banks. Neither is so attractive, both can be destructive or socially useful, and our novel aim is to stress critical thinking about their symbiotic alliances. Moralism is especially ill-informed. There are very few sainted savers or creditors to whom deep moral obligations are said to be owed (that Claus Offe 2015 argued). Banks only use a fraction of savers' deposits, to advance loans out of nothing. Loans may be sold aggressively, loans going nowhere for long term good, and therefore less likely to generate

[1] Clothes drier profits are peg sales. These paragraphs draw on Weber 1978; 1981; Ingham 2004; Orléan 2014; Pixley 2013.

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profits and wages on which loan-advances can be serviced. Creditors advance 'money' they do not have, for (likely) future profit and by definition, do not exist without their debtors – states, businesses and households – from whom they profit. Similarly, states in surplus do not exist without deficit states, so high-minded superiority is out of place. Political-social relations are unpredictable, threats can shift.

Mobile Capital

In world-historical comparisons, mobile capital, Weber insisted in his *General Economic History* (1981: 337), was the capital of a new European merchant class through which modern capitalism arose from alliances between this class and nation states. This juncture was a joint dependency that secured unheard-of levels of financing of the state (mostly for wars, colonies), for economic development, and the flourishing of this class. Mobile capital exists within a national context although it could 'play off nation-states' and profit from financing their conflicts, or lose. Thus, it also exists in a global context, which is probably the most common understanding of the term.

Questions on analogies to centuries ago – on how mobile today or tied to each nation state – are considered in the Volume's chapters. Of much import is the position of the hegemonic state, the United States. Its military stockpile is the largest ever yet few look at whether arms funding relies on mobile capital. Warfare is directly considered in Chapter 4 and the United States's world currency status in Chapter 6. Other chapters consider lack of capital controls, impacts on regions, and on labour relations of mobile and less-mobile capital. Before that, let me introduce the shifting 'value' of money and sources of its perpetual instability.

The heated 1970s and 80s conflicts were over money's value. More democratic states from the grim 1930s had attempted to tame capitalist-state money somewhat, but by the 1980s, that reversed. State policies and mobile capital transformed rapidly. Poverty and inequality took off (again). Anti-democratic popularizers gave inordinate praise for 'unstoppable' capitalist money. The *New York Times* journalist Thomas Friedman offered a hymn to a world-wide financial 'golden straitjacket' (1999) and American philosopher Francis Fukuyama proposed an equally scandalous idea of the 'end of history'. In contrast John Eatwell, whose analysis of the 1970s origins of global

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unemployment from this (then) celebrated 'straitjacket' has not lost its validity, argued against this hymn. But he and others stressed that any simple return to past policies was difficult:

> *The money markets and foreign exchange markets become dominated by simple slogans - larger fiscal deficits lead to higher interest rates, public expenditure bad, private expenditure good – even when these slogans are* persistently *refuted by events. To these simplistic rules of the game there is added a demand for governments to publish their own financial targets. (Eatwell 1993)*

Legitimation problems were glaring already; some governments welcomed these moves, reduced top taxes rates, stifled unions and excised social democratic projects. Whereas from 1940 to 1980, the top 1 per cent of OECD income shares were *somewhat* modest as so many benefited from wage growth and jobs, that reversed after 1980. The 1 per cent share doubled in the United States and United Kingdom.[2] Eatwell showed that 'hot money' flows (90 per cent in 1994) far exceeded global trade and long-term investment (10 per cent): the *opposite* to the pre-1970s more careful mobile capital. Heterodox economists and a handful of sociologists who understood money all along, explained Nixon's 1971 US dollar float, and end of fixed exchanges with the compelling analyses.[3] Their informed caution was dismissed to the hymn of unfettered financial markets and the banks behind them: until they had to run to their hated 'nanny-states' and the US Fed. Most governments had little choice in 2008, but many gave *unconditional* bailouts.

Thorstein Veblen's analysis of the robber-baron world of late nineteenth century United States stands as a warning against facile analogies and determinist *laws*. Historical analyses of earlier phases of capitalism put in question any 'outburst' over money's value, such as the 1970s, that could be called unique. Thus, the volume's title is

[2] Economic Policy Institute 2012, Chart 'Share of income' 1913–2009; Crotty 2012: 89 on austerity; Crotty shows the United States lowest quintile had –0.3 per cent income 'growth' 1979–2009. See Pixley Chapter 9.

[3] Heterodox monetary macroeconomists include Eatwell, John Smithin on his 1980s 'revenge of the rentiers'; Randall Wray on 'modern money theory'; Randall Collins 198 and Geoff Ingham led sociology, and Schumpeterian scholars, from Minsky to Sweezy. Some were sidelined upstairs: Eatwell, Giddens and Meghnad Desai to the U`K House of Lords. The labour theory of value as Bryan and Rafferty's Chapter 5 use it is also constructive.

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mindful that earlier apocalyptic troubles were under very different contexts. So, in 1900 United States the lack of democratic engagement was marked, and the US state was still to grow. Veblen analysed a new phase of capitalism of that era and, drawing on the European 'historical school', he contested classical and neo-classical economics about their depiction of 'the life history of objective values' and their 'laws'. The point was that laws of 'supply and demand' were abstracted from the life history of the social relations among humankind of a given era. These 'laws' are somewhat like the 'straitjacket' and often convenient to the powerful social forces of the day. For example, utilitarian and classical theory's 'failure to discriminate between capital as investment and capital as industrial appliances' that Veblen attacked, has been repeated tirelessly in many different circumstances.[4]

Veblen's 1904 *Theory of Business Enterprise* analyses the US enterprise's methods, principles and motives for 'pecuniary gain' of the era, and the enterprise's bearing on 'the modern cultural situation' in 1900 America. Instead of the harmonious timelessness of orthodox laws, free of human unpredictability, Veblen's capitalism had a bullying persona of a new 'financier-businessman' who creates huge instability purely from 'his' conjectures about 'the metaphysical stability of the money unit'. Although money's value is fought over and so cannot be orthodoxy's 'objective value', it is this 1900 US businessman who was at the seat of depressions and exaltations (1904: vi; 20; 238). Everything that is counted is 'run in terms of the value unit', and a *reduction* of earnings, as so 'rated' in those terms . . .

> *. . .is felt as an impoverishment . . . even if it carries no hardship in the way of a reduced command over the material means of production, of life, or of comfort. . . . A business man's rating . . . rests on the pecuniary magnitude . . . not on the mechanical serviceability of his establishment or output. An enhancement is a source of gratification and self-respect . . . Veblen (1904: 232–3)*

Instead of laws of declining rates of profits (and so on), Veblen pointed to a teensy fall in the value unit as a shock to the robber baron's status *versus* his competitors, and not to his conspicuous consumption

[4] The historical school included Weber and Schumpeter. Veblen 1899: 421, and if with Marx, he was against him on 'laws' e.g. declining rate of profit, p. 234. Contributors make sharp distinctions, and against similar assumptions of QE, we see later.

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(Veblen 1904: 234; [1899] 1953). It is sociologically familiar as class; stigma; invidious distinctions; the power of squeaky wheels, yet the *shock* about the shifts in the 1970s' value unit was not comparable in every other way. The US Administration was huge by then, central banks allegedly interfered, unionists had rights and democratic participation was much enhanced since Veblen's day (US voting rights only truly extended in 1970). Present data shows long-term investment through bank money is much reduced, and mobile capital and the un-owned corporation has replaced the robber-baron financier-business 'man', his 'trusts' and brutality to unionists. Impersonal institutions can mask their methods.

Yet this variable fluctuation of the value of the money unit in wage inflation (say), is the nightmare of the financial world although the absentee businessman is now a stock owner. Not one cares a jot about the old nineteenth century creative, cooperative venture itself. Money's instability is why Bryan and Rafferty use the 'anchor' metaphor for financial traders' efforts to seek a constancy that cannot exist, given money's deflation and many kinds of inflation. As their Chapter 5 supports, what was *assumed* in Veblen's 1900 was not so by 1970; deflation could not be so blandly if cruelly imposed as before WW2. A 'natural rate' of unemployment was not law but expressed owners' power. Unions notably in Britain and the United States, appallingly treated for some centuries, had the temerity to raise wage claims in the 1970s, out of a modicum of fair shares between labour-capital of the full employment (FE) era. Suddenly the financier cast *wage inflation* into a sole scandal, that neglected the 1973 oil inflation, asset inflation, nuclear and Vietnam War inflation (Chapter 4).

An excellent work of James Forder (2014) argues that *laws* to destroy FE like the still extant 'Phillips curve' was *myth*. Milton Friedman accused post war authorities of being inflationary (ignoring multiple inflations) 'in order' to maintain full employment, castigating a Phillips curve, unproven, *unused*, disliked and rejected by Bill Phillips! In fact, authorities fought all inflations up to 1970. Nixon's dollar float brought asset inflation, Wall Street's total dominance, and the Fed's inflation for CREEP expanded the price-wage spiral. The Fed switched to attack wages from 1974, and full employment ended by 1980. With the apparent certainty of cutting wages and destroying 'unpredictable' union activity, bank-money inflation took off to new heights. But in today's deflation of money's value,

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authorities are desperate to *raise* wage-price inflation *up* to the low postwar, 2 per cent levels, but still use a Phillips curve against jobs. Central banks plea for wage rises, arguing the bargaining power of unions has evaporated to economic detriment.

Veblen said Captains of Industry influenced the markets, their competitors and investors, via 'interstitial disturbances' in the chance for profits, to knock out rivals, and form trust companies (conglomerates). In consequence, the 'management of industrial affairs through pecuniary transactions, therefore, has been to dissociate the interests of those men who exercise this discretion from the interests of the community'. They have 'an interest in making the disturbances large and frequent', no matter widespread hardship, since they are like bull or bear speculators disrupting enterprises regardless of efficiency (Veblen 1904: 28–30). These owner-managers were often financiers, and thus Wall Street entered the robber-baron networks and rivalries (J. P. Morgan notably) until Wall Street had a huge crash in 1907. Afterwards, income taxes were imposed (via referendum) but, also in 1913, Congress designed the Federal Reserve to promote Wall Street and the US dollar, which dominated after financing WW1.[5]

This disruptive capitalist 'investment' Veblen recounted is now in corporate finance sectors. In contributing to criticisms of today's financial mess, many chapters herein insist that the decisive failure of banks to lend for new business ideas, to maintain decent enterprises and therefore (taxable) jobs, is the old, forgotten (Schumpeter or Keynes) problem of mobile capital. Instead of fulfilling the reasons for banks' privileged state licences to manufacture money and to 'pick winners', lending increasingly went to predatory and no-hoper schemes and bets on price changes (in financialization, in currencies, derivatives and securities). Only states can reverse depression, but chose austerity to increase the value of debt to the money-creators, banks, to fund US war finance (see Chapter 4) and thus extend stagnation to depressions.

[5] Greider 1987 US Fed; it should also be noted that US robber-barons had unionists murdered in the 1890s; union taming succeeded, also US WW1 financed the Allies. And, whereas Veblen's idols were craft workers and 'workmanship', Schumpeter (1934; 1954) idolized the 'entrepreneur', given permission by bankers to develop the new 'combinations' in 'creative destruction', or capitalism's dynamism. However, he agreed that Veblen was a top economist, although he criticised him for saying 'efficiency' was not the goal of pecuniary interests, or capitalism per se.

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Before moving on, let me say that Veblen (1904: 237), and Schumpeter cannot avoid 'national' views, about the US robber-barons seeking 'secure gratification' in the 'nominal capitalization which they have set their hearts on', or about Germany or Austria whose banks fostered capitalist-industrial dynamism, to Schumpeter (1934). The same applies herein, yet trends are similar and the United States is still the hegemon to the world for good and ill. The City of London excelled in ignoring Britain's industrial firms (Ingham 1984) so that by 1900 industry declined against Europe, Japan and America.

Ever since 2007–08, a larger picture is emerging against facile histories. Few politicians confess that only a quarter of bank lending is to productive business now, but a half of that business lending is for Commercial Property speculation. Worse, most deny facts that public debt *declined* despite the world wars and GFC bank bailout costs (which raised deficits). From 1975–80, private debt took off (Schularick 2014; Turner 2013). States refuse to spend to meet needs either; the reverse in arms races. The situation is bleak even to mainstream standards. But where 1990s articles warned 'Don't Mess with Moody's', in that a poor credit rating could destroy a country better than nuclear bombs, todays' warn against *messing* with Wall Street. Heterodox macroeconomists and sociologists (and distressed populations) are sidelined by what financial sectors and governments want: extreme libertarianism in economics and postmodernism.

Banking Today

Libertarians are personified in bank executives, *de jure* managers of edifices that rely on governments (taxpayers), and on central banks when they make advances, the contracted debts of which may not ever be serviced. US banks – apparently at a *safe* distance – lent sub-prime mortgages to people highly unlikely to be able to service any loans. That remains our large question as to why governments in the post-GFC continuing fall-out remain unwilling to control banking (Mayntz in Chapter 1). The payments system, for which banks were licenced to maintain, nearly collapsed. That 'rock-solid' everyday use of bank money disappeared, were it not for governments creating more money. It 'expands and contracts' as economists say, rarely mentioning the political reasons why bank money above all, does the same.

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