1 Global Markets or Social Relations of Money

ECONOMIC POLICIES AIMING to defend money as a store of value have prevailed for thirty years over postwar attempts at social democracy. It is a complex story of the financial sector regaining some of its former policy control, which had been lost in the national and international initiatives of the 1930s and 1940s, from the New Deal to Bretton Woods, to overcome the Great Depression. Those interventionist policies sought to alleviate economic uncertainty and its attendant shocks; the current anti-inflationary policies attempt to reduce the uncertainty of money's value as a financial asset. But, as this study argues, uncertainty is not only inevitable in economic activity generally but is magnified in finance because money is based on a trust that is inherently problematic.

Uncertainty is unavoidable. Squeezed in one place, it emerges in another. After the postwar welfare state compromises to sustain full employment were disbanded, even Federal Reserve Chairman Greenspan admitted this, behind closed doors in 1996. He said 'product price' inflation can be conquered only at the cost of price–earnings ratios going 'through the roof' (quoted page 111). Recurrent speculative booms and busts bring debt-deflation in their train, historically a common phenomenon. Defenders of economic orthodoxy often argue that asset inflation results from emotional intrusions into a rational world. But emotions are unavoidable. Rational calculations can be based only on the past. Instability continually arises, especially when money is treated as a financial asset. Money entails claims and credits, and so presumes social relations created from prospective and therefore unknowable promises. Secure rational calculation can only be retrospective; it cannot see or reach beyond the horizon separating the future from the present. Yet financial firms, banks and, increasingly, non-financial firms these days trade ever-proliferating claims to future income, creating more debt and more uncertainty. Uncertainty can only be dealt with by emotional projections and, since finance is a vital part of economic activity, the fundamental role of emotions deserves serious analysis.

This book looks at the 'financial heartland', the major institutions where money is controlled and traded as though it were a predictable commodity. It is not. 'The money power', as British Prime Minister Gladstone termed it, is more mundane than its jargon implies. Central banks issue the most trustworthy, most accepted, 'high-powered' money; these monetised debts rely on trust in government debts, as we will see. Yet since the idea of money as 'promise' is counter-intuitive, going against the everyday experience of its tangibility in our hands and wallets, most critics neglect the implied promise that money entails and so leave unexamined the trust on which it rests. Instead they argue that greed drives the City of London or Wall Street. This book, in contrast, argues that finance is inherently emotional, and that *specific emotions in finance* arise from the radical uncertainties of money. Since promises are of uncertain reliability, distrust, sometimes fear, inspires all financial action. This is confirmed by the experience and words of the informed sceptics whose interviews form the basis of this book.

WHY EMOTIONS?

I start from the idea this world is driven by a combination of emotions *and* rationality – not personal or private emotions, and not greed per se. In finance uncertainty is masked (disguised as 'risk', not losses). It cannot be spoken, for it is the unsayable. Since uncertainty about claims is always extreme, decisions rely on future-oriented emotions. Competitive financial firms live and die upon predicting future outcomes which are unknowable, no matter how rational their calculations of past information. Therefore, firms must project emotions and conventions about the unknowable future and, through strategies of a pseudo-rational kind, bring these conjectures back to the present in order to act. The typical emotions are trust and distrust, whereas the typical convention is to assume that the future will resemble the past. These are the inevitably shaky, emotional foundations of finance.

Financial life publicly revels in greed and risk today because these are exciting; inherent unknowability is duller, though fraught. No one knows the future. Each area (from banking to insurance) has its own definitions of risk; however, rarely is the gulf between the future vista (in the jargon, 'expectations') and the inevitable lack of knowledge of the future made explicit. It hides in the 'fine print' or *ceteris paribus* escape clause. As they seek to face uncertainty rationally, huge organisations are driven by trust and distrust. Firms explicitly admit this. Although their in-house jargon is about anonymous markets, the call to 'Trust Us' is implicit in their names. You, sweet investor, are 'made free' by your control over your money.

Yet inside this world, financial firms can barely control all their promises to pay each other. Star CEOs, not just the public, are confused by the latest financial 'product'. Inside this world firms do not know their own (future) interests. They extoll competition and insist on complete freedom from government supervision, at the very moment when they are going bankrupt or collapsing from chains of corruption that are often, as we will see, weirdly unintended because unimagined. Both orthodox and Marxian economics assume that rational interests drive the world. Their insistence on this claim reduces all of social life to the economy. But integral to all financial interrelations is a deep uncertainty which unavoidably involves emotions, which are often powerful and usually unperceived.

Central banks try their honest, public service best, but private banks and financial experts demand they be 'credible' in monetising public debt. Governments require them to maintain stability, yet central banks must present government promises as credible to private creditors. What is credibility? No sooner do credibility and trust appear newly stable and deserving of confidence than some new and unforeseen factor intrudes, and genuinely trustworthy reputations are destroyed. As this book shows, these inter-organisational relations of trust and distrust among major institutions involve emotions, which fuel demands for, and even promises of, 'risk-free' money. At each failure, this trust collapses into fear, and mistrust calls forth new futile quests for control over the future. The emotions born not of personal desire but of the unknowability of the future drive economic life as much as does rational calculation.

AMBIGUOUS TRUST IN THE IMPERSONAL MARKET

In the wake of economic crisis and collapse, the losers are so quickly forgotten. To the financial world view, the catastrophic effects on whole countries of speculation on future claims are merely passing tragedies. From a democratic viewpoint, relations of money are in principle important and could be fine in moderation – so long as they are restrained by democratic regulation and oversight. *Caution* is the key emotional term. But the 'money power' has never faced democratic control beyond the flimsy post-1945 controls on capital movements and 'fixed' exchange rates – in contrast to today's uninhibited selling and buying of currencies that float on forex markets – and serious prudential regulations. Yet wild as the numerous financial markets may seem, the Anglo-American financial world is not 'evil personified'. Such talk is extremely dangerous. The racist personifications and scapegoating that were so characteristic of our modern world's murky past were opportunistically resurrected by Malaysia's Dr Mahathir during the Southeast Asian crisis of 1997. As we will see, modern finance is increasingly abstract, impersonal and imprudent. Competitive policies drive cautious and foolish banks to the wall. This is my focus, not any conspiracy in finance nor, in contrast, whether the millions individually involved on the periphery are willing punters or reluctant, fearful investors. Indeed, gambling is far more predictable than financial speculation (since losses are openly inevitable), and billions more people gamble than play the financial markets.

Money continually generates financial crises and when it does it is not 'markets' that are the target of those whose trust has been abused and their savings and houses lost. Rather, the victims correctly specify and loathe commercial (retail) banks or merchant banks, insurance firms or mutual funds across the USA, Europe, the UK, Japan and peripheral countries. Through their public relations efforts these financial institutions are unable honestly to convince people of their probity and innocence. So, as its critics tirelessly recount, 'money power' has far more effective recourse to political lobbying and donations by the peak investment banks, accountancy firms and commercial banks. Though such strategies can backfire, financial power also wields strong if often unseen weapons against those, especially democratically elected legislators, who might aspire to restrain its operations by statutory regulation and oversight. Downgrading of public creditworthiness, hostile mergers and capital 'flights' are rightly feared. These measures may silence democratically elected governments and so demean the political process. While unemployment also results, it is financial losses among middle-income groups of creditors or debtors that often prove a more frightening sword suspended over governments.

The focus of this present analysis is on the forgotten element – the necessity, and the inescapable insecurity, of 'trust' and its emotional consequences – within this mysterious world of the financial heartlands; it is not on whether individuals are willing punters or on the operation of markets per se. Financial organisations are unavoidably involved in *impersonal* relations of trust and distrust. But can routine projections of trust and distrust help to counteract uncertainty, to foster institutional guarantees for the chimera of risk-free money, and to ensure trustworthy reputations? Trust and confidence help to reduce perceptions of uncertainty in financial decisions, but when they foster arrogance, then abuse and collapse, they can easily inspire fear of failure, of financial losses, or of loss of institutional reputation. Trust is an emotion best recognised when it turns into the opposite. In moments of crisis the trust that is intrinsic to financial life may be suddenly transmuted into blame and rage. This book is primarily concerned with the ambiguous nature of this neglected ingredient, trust. In its argument the larger questions about values, democracy and socially beneficial compromises are noted in passing. The practical imperatives of understanding emotions in finance are too important and too misunderstood to be left off the public agenda. Impersonal trust and distrust relations are inherent in modernity, and the trust in money is extraordinarily ambiguous.

Certainty about the economic future is a mirage. To help us cope with its unattainability, to soften the pain born of our ignorance, we put our trust in trust. Yet by doing so, by thrusting trust forward as a bulwark against the unacknowledged implications of uncertainty, we expose and even undermine our trust in trust itself. Our enforced reliance on trust makes trust itself increasingly insecure, fraught and unreliable. We chop off the branch to which we are ever more desperately clinging. So the quest for certainty is futile. And even though recognising its existence, uncertainty must remain unacknowledged by financial organisations, no matter how competent and honest.

John Maynard Keynes makes a major contribution in linking uncertainty to emotions, but his analysis, like many others, started with individual psychological feelings. That is an unhelpful point of analytical departure. To begin with individuals – lone, powerless natural persons who face a world of large organisations in chains of relationships about promises – diverts the analytical focus from those chains of relationships and the institutional world in which they are formed and sustained. And when individuals lose, they are cast as consumers in markets on the 'buyer beware' principle. Many may even experience shame for losing, for having been 'conned', for being stupid. Yet the problem lies not in individual miscalculation or in any personal misplacing of trust; its source lies in those chains of impersonal trust between large financial organisations and in those controlling them. This sense of personal shame, funnily enough, may also apply to those individuals formally enmeshed within this rarefied world of high financial strategising.

BEYOND ORTHODOXY: THE REALITY OF UNCERTAINTY

My book takes existing financial organisations as historically given, questioning only a few key 'events' which shaped or institutionalised specific ways of acting towards the future. It explores how 'social emotions' – those that are inherent within certain institutional complexes – generate expectations in financial decisions and negotiations between these vast organisations of finance. The analysis offered is inspired by sociology, but it draws on the Keynesian tradition in work such as Hyman Minsky's and on perceptive interpreters of Keynes such as G. L. S. Shackle. While it is armed with the Keynesian concept of uncertainty, it offers an explicitly social approach to exploring the ways that trust and distrust are projected, not by the supposedly isolated investors but by organisations, in formulating decisions that may enjoy a semblance of rational conviction.

While this account challenges orthodox economics, its central concern is to investigate trust relationships. It neither debates the abstractions of theoretical economic orthodoxy nor covers the immense detail about institutional structure and evolution that are ably marshalled by political scientists and economic historians such as David Kynaston (1994, 1995) and Glyn Davies (1994) in Britain alone. So too, there are national variations in corporate law and financial regulations. While an enormous specialist literature details every global financial transformation in each country, this study draws on US and UK experiences, with their so-called capital market or 'exit'-type practices (Cerny 1993; Helleiner 1993; Grahl 2001). But no institutional description of 'what is' can ever predict the future, regardless of whether finance is purely 'global markets' or whether national governments and major social groups might resume a democratic role in financial supervision. Since the future is unknowable, and the implications of its unknowability may be terrifying, attention must be paid to the emotions surrounding uncertainty that enable decisions to be made.

When I began this research, many social scientists, not to speak of the public at large, seriously underestimated the extent to which financial organisations rely on impersonal trust and confidence. Keynesian 'uncertainty' was long forgotten. By 1999, the climate of optimism was high, and it was extraordinarily difficult to suggest that stock market excitement for a 'new economy' of internets and e-mails was about impersonal trust. Some perceptive people thought I was onto an unusual and worthwhile idea, but many looked at me in disbelief: they could not imagine that all their money was resting, as usual, on a flimsy edifice of mere emotions. Several years of ensuing scandals brought widespread lack of trust, yet my focus is not so much on the frauds because there are books on every scandal. Rather, I look at the insecurity inherent in the procedures the financial world employs to master the unknowability of the future, and the volatile emotions entailed in its futile quest.

Orthodox economists tend to dismiss sociology for dealing with the 'residue of "irrationality"' or 'tosh' (cited in Ingham 1996b: 224–5). The claims of economic orthodoxy appear to me suspect for a number of reasons. These economists see only risk, not uncertainty; they see money as neutral in the long run; and they regard financial crises as emotional or irrational 'intrusions' into the 'real' goods-and-services economy. Anonymous market actors are said to act rationally in response to purely economic signals and indicators, while remaining detached and abstracted from the influence of social relations, whether with groups or with organisations. This is an unsustainable view also acknowledged in institutional economics which, following Thorstein Veblen as well as Joseph Schumpeter, shows how institutions have developed precisely to deal with uncertainty. The 'rational economic actor' does not exist in the complexity of actual social life. Real, living human beings come first, and the economic actor is a simplified abstraction from what they do. Humans only become human through their relationships. Less orthodox economists are now becoming increasingly sensitive to this fact and its implications, especially through dialogue with other social scientists. They now recognise that their discipline's received wisdom has been as much a source of social problems as any cure for them. Many economists, from recanters to non-believers, now criticise the decades of neo-classical hegemony over public policies, while among academic economists its social irresponsibility and lack of intellectual credibility are exposed. As the supposed ruling monarch of the social sciences, economics has not only been revealed as an emperor with no clothes; its role in keeping clothes from the backs of so many living, real people is also becoming ever clearer.

This book trespasses only lightly on economic turf. Unlike many critiques of economic orthodoxy which rarely move beyond the endless point-scoring that never convinces the faithful, this work neither engages centrally with received economic wisdom nor employs it as a foil for the display of an alternative analysis to that offered by mainstream economics. Rather, it strategically plunders conventional economics in order to raise for public debate issues that lie beyond its own intellectual assumptions and horizon.

MONEY: A SOCIAL RELATION OF DEBTS AND PROMISES

The term 'financial markets' highlights a broad contrast between the present and postwar era, when money and finance played a less prominent role than giant manufacturing corporations, bureaucracies and public institutions. As late as the 1970s, so a consensus across the political spectrum held, a 'central and distinguishing' feature of the modern social world was that it was 'a world of organizations' (Burns 1974: 123). That view was soon sidelined, partly by theoretical criticisms and partly by substantive economic changes. The key term was now 'market', which some saw as synonymous with 'democracy'.

Like those in the area of production, the relationships of money constitute a huge world of organisations. However, financial organisations are very different from the old corporate firms (though they too now invest heavily in financial assets, offer customer credit, and use pension funds). Money is different from commodity and service production, because it magnifies uncertainty. Money is also produced differently. It is debatable whether money is a commodity at all, since it is created from debt relationships. The money in our wallets and purses is part of an abstract chain of social relations of claims and credits, no less organised than plastic card money and bank mortgages. In many ways, money is one of the most enigmatic of social institutions (Wennerlind 2001: 557) because it is 'worthless unless everyone believes in it' (Greider 1987: 226).

The idea of money as an enigmatic social institution and social relation is counter-intuitive – and one that is far less understood today than in earlier eras. Money is highly 'productive'. Differing political views of capitalism, such as those of Keynes and Schumpeter, emphasise the major role money plays in capitalism. Schumpeter argued that money is the *internal engine* driving capitalism (e.g. 1954: 318). Even though orthodoxy uses him to focus narrowly on the heroic entrepreneur, it is finance as the 'gatekeeper of development' that allows Schumpeter's debtor-entrepreneur to act or not (Tobin 1987: 164; Ingham 2004: 201). Georg Simmel's classic text *Philosophy of Money* similarly draws enthusiastic attention to money's enormous 'productive power', not from owning or hoarding money but from 'the money yielded by money' (Simmel 1978: 182). This underestimated but dynamic role explains the instability of money.

All contemporary economists accept that money arises from the debt structure. How? Perhaps because it is counter-intuitive, or even alarming, orthodox economists underestimate the importance of this main premise. They see money as, in the long run, neutral. This view of money as a veil, as mainly barren, underlies all neo-classical views. But this argument is maintained by focusing on one of the functions of money that everyone knows – the one that seems to make sense of our daily experience of exchange. In performing its 'exchange function', money seems easier to use than bartering with a mass of different, cumbersome goods or services. When seen as a handy device, money appears relatively unimportant: as merely a medium, as a passive instrument for simplifying exchange. In this view, if money can be said to do anything at all, then all it does is to send messages about 'real' activities in the 'real' economy, in its price signals. Schumpeter demolished this view long ago: 'you cannot ride on a claim to a horse, but you can pay with a claim to money'; banks are 'merchants of debt' (Schumpeter 1954: 321; Minsky, cited in Ingham 2004: 161).

Money is created from the debt structure and its promise has two dimensions. In one sense, money is a promise or claim of 'payment' in something (Schumpeter's point) – an alienated, exchangeable promise. In its credit dimension, money is a promise to creditors about the borrower's ability to discharge a debt and the issuer's promise to take it back as payment. It is no two-way arrangement like barter exchange, whereby you take my table and in return I get your desk, and the deal is then over. In its 'claim' dimension, money is not simply bipartisan, imprisoned in a single moment in the space between two people. It is a promise into the future, and as token of that promise it can only be created between three parties. No one can believe or trust this token or promissory note unless it includes the 'community that guarantees the money' (Simmel 1978: 177). It is a three-way relation between the credit and debt relations of the economically active groups and the central power that enforces these promises by unifying and issuing a currency and outlawing counterfeiting. Because of its basis in these centrally supported promises of claims *and* credits that create money through chains of public and private debts and government guarantees and safety-nets, money is itself a social relation (Ingham 1996a).

Exchanges that involve no generation of additional debt do not determine the value or 'productive power' of money since they do not create further money. If we pay in full for a car or dress with a cheque or cash, we incur no debt. In contrast, if we issue an I Owe You (IOU) through a hire purchase, a bank loan or a credit card, money is created since we receive the car now 'in exchange for a promise to pay in the future' (Wray 1990: 301). Far from being barren as in the orthodox view, money has 'a value in possession' (Shackle 1972: 13). It gives highly significant economic options. In any private property economy where loans involve interest payments, monetary values are usually accumulated. Those who borrow or issue IOUs face continually growing contractual obligations, whereas those who lend or hold IOUs see their nominal wealth (not inflation-adjusted) expanding (Wray 1996: 447).

The private sphere was where the whole modern edifice of money-creation through IOUs gradually emerged (notably in Renaissance Florence, Genoa and Venice, later Amsterdam, then London). Here the bulk of money is created. Trade credit is very old, and these debtor–creditor relations were common several thousand years before the first coins. Even Babylonian clay tablets were the representative acknowledgement of indebtedness – or tokens of indebtedness which the issuer must promise to accept in repayment of a debt owed. Although the story is a complex one of tax debts and so on, our modern story develops when merchant classes made loans to post-feudal governments and there was a general rise in IOUs from the Renaissance onward. Partly due to the old uncertainties of trading with strangers, Renaissance traders created bills of exchange in their merchant networks between Constantinople and Venice, or Genoa and London, which became pure credit (Ingham 2004: 46; 108). This unfamiliarity, as before, fostered the charging of interest. Interest, in turn, tended to 'orient production toward sale on the market' (Wray 1996: 444). Markets therefore grew as feudalism crumbled, because they were the places for 'earning the means for settling debts' (Wray 1990: 8) and for meeting the interest payments on debts. To the present day, repayments on loans can be made by gaining money from wages, or by expanding the values of the IOUs, say by starting businesses and state ventures, or by raising taxes. The likely proceeds are expected to make true the initial promise to the lender that the IOU will prove to be a 'claim to future wealth' from production of goods and services for sale (Wray 1996: 447). Here is the engine of capitalism.

Money is created out of debt. There is more of it when the volume of credit granted by financial intermediaries increases, and less when debts are paid off. It expands and contracts (Smithin 1994: 5). Most people do not perceive money in this way. It seems, in a disturbing sense, to be created out of nothing to finance loans, and disappears when paid back. Money is a promise, even if, more deeply, its value rests on its being a claim on future wealth, on the promised future wealth creation to be undertaken by non-bank borrowers (Parguez & Seccareccia 2000: 105). The lender has a claim on the future wealth yet to be created by the borrower, but the promise is always uncertain. It can never be known in advance whether borrowers will create future wealth, enabling them to pay the interest (which is the price of their promise to pay). These are long-term uncertainties, whereas borrowing for trading financial assets is even more uncertain, because it entails short-term uncertainties which easily mount up. An enormous chain of uncertainties and a wide range of distrust strategies were institutionalised from these relations of promises, as the exploration of 'impersonal trust' in Chapter 2 will show.

Money is unique in contemporary times, not because it seems less solid and is heavily traded, but because financial assets have vastly expanded in number and significance. As we all know, the form may be plastic or electronic but it is still primarily credit, and in this sense all money has long been 'virtual' and often heavily traded. Late 20th-century money became unique with the massive and contradictory expansion in the proportion of share-owners (rentiers) and debtors just when postwar controls unravelled. Only over the last fifty years or so could low-income working-class customers gain credit from banks (Davies 1994: 338). Types of debt expanded in the 1950s, with the growth of home ownership (with mortgages) and consumerism, beginning with consumer hire purchase plans and the lay-by offered by retail firms and now fully developed in plastic credit cards. Many employees have become shareholders by purchasing private sector financial products. In contrast to the Great Depression, when almost entire working populations were plunged into unemployment by the loss in value of the shares that were then owned by a mere 3 per cent of the people, more than half the English-speaking populations own shares today.

The relation between money and credit is basic to economic thought. However, this point has profound social implications which sociological work highlights but which orthodox economics denies (money is neutral in the long run). The main money creators are usually both Treasury departments and central banks, and private banks. Treasuries and central banks create (high-powered) state money and private banks 'manufacture' credit money from promises of future wealth-creation.

Private banks create money according to conventional rules and practices. Starting with an original deposit of some other people's money, a bank will loan most of it out. The new deposits from the proceeds of the loan can be used to make payments; it too can 'be used as money' (Galbraith 1975: 19). In lending money, a bank may profitably use most of its deposits to loan out perhaps five or eight times over, and some of the money lent will be deposited in its own or other banks. In this sense, banks do appear to create money out of nothing, to manufacture it. However, there is not an infinite growth of money by the merchants of debt. The increase in money stems from a collective sense among all banks that 'loans create deposits' (Schumpeter 1954: 320; Davies 1994: 420). Banks find ways to employ most of the sums created. However worrying this sounds, private banks are not to be confused with central banks.

INSTITUTIONALISING MONEY

Today, private banknotes are mainly backed by government through access to its central bank, which usually holds private bank reserves or deposits, sets the interest rate it charges banks, and lends in emergencies. In many countries banks must retain a reserve or capital requirement, regulated by law and usually lodged in the central bank. In contrast to private bank money, high-powered money is 'the monetary debt of the government and its central bank, currency and central bank deposits', sometimes referred to as the base money. It represents a claim the private sector has on a government: high-powered money is the most exchangeable, the most marketable monetary liability. 'Low-powered' money consists of the private deposit obligations of banks and depository institutions (Tobin 1987: 159). Some private credit instruments have limited transferability by being *potential claims* (unlike high-powered money) and when this 'near money' expands, it is a key source of instability (Ingham 2004: 140–1).

These complex debt relations developed when governments borrowed from private merchants or banks (e.g. Spain from Renaissance Genoa) because near-modern states were weak and often bankrupt from wars and exploration, and many had little capacity to tax (Ingham 1984: 47; Arrighi 1994: 100–30). Tidy sums were made privately from financial deals with financially pressed states. But over time there has been an interesting evolution in the relations between the private banks, the central banks and the state structures that create and stand behind the central banks. The question of who is dependent on whom in these evolving relationships is not always transparent, or as things would outwardly seem. The first combination of public debt and private debt was forged in Britain. J. K. Galbraith explains the loan from wealthy creditors of the new Bank of England by noting that 'the government's promise to pay would be the security for a note issue of the same amount' to private borrowers (1975: 31). William III's Charter (1697) gave the then private Bank of England a privileged monopoly position over all other private banks. National debt had to be serviced by future taxes, and private debt was given legitimacy by a central bank purchasing private bills of exchange at a discount before maturity. The Charter explains the birth of high-powered money, in which the most trustworthy money became government debt, a claim by the private sector. Thus were the two old sources of credit money fused, in a way, into one 'sovereign monetary space': the public debt of state bonds, and the private debt of bills of exchange (Ingham 2004: 128–9). In Gladstone's view, William III had put the state in 'a position of subserviency . . . to induce monied men to be lenders', describing the imbalance as 'the money power supreme and unquestioned' (cited