Idle Money and the Merchant of Venice Economy it Begat

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Introduction

In popular parlance, capitalism or "capital" is often thought of as money. "It takes money to make money" is thus a popular adage. The fact is money making money is not a distinguishing economic feature of capitalism alone: In much of recorded history usurers or money lenders of various sorts have "made money" from their money. They did this by loaning it and charging a price, or interest rate, for that service. As well, merchants, who may have been the borrowers of the money lenders' money, or possibly drawing upon their own money, used money to make money by buying things at one price and selling them at a higher price. Of course, such activities persist at the margins of capitalist economies. However, diverging from all previous historical societies, in capitalist economies money idiosyncratically makes *more* money through a unique and efficient, though circuitous route, in which it engages in a shape-shifting of sorts.

This "shape-shifting" entails money or *capital* successively assuming and shedding its liquid form as *money* capital, *productive* capital as means of production and labor power, and capital as the goods or *commodities* which emerge from the labor and production process pregnant with potential profit *if* they can be sold. However, capital in capitalist economies is none of the above, considered separately. It exists in part as money, and in part as commodities, though capital is found primarily in its form as productive capital. For this essential reason we refer to capitalist economies as production-centered societies given the fact that production of material goods is their distinguishing economic activity. So constituted, the "efficiency" of capital derives from two main facets of its wealth augmentative or profit-making ability. First, capital secures or "internalizes" its own fount of regeneration and augmentation as it subsumes the labor and production processes of society. Second, it conscripts the activities of money lending or loan "capital" and merchant buying and selling or commercial capital under conditions where it calls the shots. That is, both the business of lending and that of buying and selling commodities are operated to ensure the perpetual "motion" of capital in assuming and shedding each of its forms to consummate its goal of mercantile wealth augmentation.

The implications of this latter facet cannot be overestimated: Remember, in pre-capitalist economies, particularly those economies broadly defined as "feudal" that reigned in Europe from the last centuries of the 1st millennium through to the middle of the 2nd millennium, where social wealth was rooted squarely in land and agriculture, the activities of money lending and merchant trade were highly corrosive to that stable order, as bemoaned ubiquitously in historical accounts. In intervening between producers and consumers, local merchant activity monetized social relations, fostering indebtedness and expropriation of land as long distance luxury trade corrupted the ruling classes. In pre-capitalist society usury or money lending had even less redeeming economic value given its virtually complete disconnection from substantive economic life. That is, money lenders are *indifferent* to the use of funds as they are to how loan plus interest will be repaid. As such, loan repayment may be arbitrarily set to exact such an exorbitant cost that the debtor, whether merchant or individual consumer, is destroyed (or must strive for the ruin of others to meet debt

obligations). The demand of perfidious Shylock in the Shakespearian tragedy, *Merchant of Venice*, to settle a debt with a "pound of flesh", dramatically captures such a condition.

In what is a paradigmatic view of the capitalist economy both the origins and activities of what we refer to as loan "capital", derive from the wealth-augmenting circuit of capital itself. In the course of the business cycle monies drawn from profits are set aside for future investment purposes, and as contingency funds or depreciation funds, and so forth. From the above perspective of capitalist efficiency these funds are rendered temporarily *idle* and deposited in the banking system. Idle funds or idle M so "socialized" (pooled from individual businesses to be made available to all), is then lent or "traded" in the money market at the rate of interest, or price of borrowing, established in the relation between supply of funds and existing demand for their use. The redeeming economic value in utilization of idle M as such resides in the fact that credit is offered in anticipation of income created by its determinate use. Similarly, idle funds socialized in the banking system are advanced to commercial capital engaged in the business of buying and selling. If commercial capital can more rapidly discount bills in sale of commodities it can speed up infusion of profits back into productive investment (such income generation also justifying allocation of initial credit). In all cases however, the accumulation of idle M is to be kept within bounds as the time funds remain idle, minimized.

Two serial confusions spring from the foregoing: one is perpetuated by mainstream economics, the other by Marxian economics. First, banks in our capitalist production-centered economy do not lend their *own* money. Rather, their role is one of financial intermediation between lenders and borrowers. And, strictly speaking, idle M funds removed from the shape-shifting circuit of capital and deposited in banks to then be traded in the money market are *not* capital. Rather, they are funds that have assumed the form of a commodity or "asset" with a price reflected in the rate of interest. There is also no certainty that such funds will *ever* become capital. Nevertheless, the trading of funds on the money market at the prevailing rate of interest serves to foster perceptions of actual capital itself as simply an asset entitling its owner to an income stream, akin to the age-old activity of money lending. It does this by sublimating the origin of the funds in the specific production-centered mode of capitalist wealth augmentation or profit making. Similarly, in borrowing idle M socialized in the banking system, and deploying the funds in discounting of bills, the operations of commercial capital reinforce the perception of actual capital as automatically an income generating force. This is the case because operations of commercial capital appear in the guise of the age old activity of merchant buying and selling; where commercial capital pays interest on funds borrowed to facilitate its operation and pockets the difference as reward for its wily "merchant" or entrepreneurial acumen. In the end, even productive or industrial capital comes to view its own capital as funds lent to it by itself, and profit springing from entrepreneurial activity, with all trace of the idiosyncratic capitalist labor and production process of wealth augmentation effectively effaced.

On the other hand, Marxist debate on financialization has sought to capture the sheer scope of the casino/speculation economy with the concept of "fictitious capital" proffered by Marx. Marx elaborated the notion of fictitious capital within the context of the rise of joint stock corporations and subsequent growth of *equity* or "capital" markets. Unlike idle M, stock markets develop *outside* the circuit of industrial capital under the auspices of a financier class. (Subsequently, equities are *not* "produced" in capitalist economies in response to "demand" for them). Though, as we shall see, ever bloating oceans of idle M with no possibility of ever being converted into real capital may certainly make their way into equity markets under the spell of financiers. While "capital" or stock markets spawn in conjunction with money markets, whether shares or bonds/securities are being traded their prices are *not*

rates of interest as established in the money market in the relation between supply and demand for funds. Rather stocks are traded in the "capital" market according to *fictitious* values; fictitious, in that equity market activities occur *independently* of the motion of real or productive capital (we may recall world renowned economist John Maynard Keynes opining how stock markets were akin to a beauty contest where the winner guessed which of the contestants was deemed most beautiful in the eyes of other judges). Further, while equities constitute an asset entitling their owner to an income stream or return on their "sale", unlike interest earning idle M held by banks, stocks actually become a commodity only indirectly in the circumstance when a business is closed and its parts physically sold off.

Idle M and Capitalists without Capitalism

During the golden age the potential for pooling idle M was high. Earnings of MNCs in consumer durable industries were such that capital accumulation was largely self-financed lessening need for recourse to banks or even equity markets for that matter. The partial decommodification of labor power saw worker personal and benefit scheme savings grow. Through to the mid 1970s, however, MNC foreign direct investment (FDI) as adjunct to the domestic production centered activities of capital offered ample scope for multinational banks (MNB) utilization of pooled funds. Thus the US remained a net creditor nation to that point. The welfare/warfare state mopped up another portion of pooling idle M through macroeconomic countercyclical fiscal spending.

With the demise of the golden age and US abdication of its production centered economy idle M, with absolutely no possibility of investment in the real economy of production and trade, initially began to bloat aimlessly, but then metastasized into a predatory force. A major element in the bloating of idle M was swelling financial assets of various funds – pension funds, insurance funds, mutual funds, money market funds, hedge funds – referred to en bloc as "institutional investors". Already by 1995, funds resident in Organization for Economic Cooperation and Development (OECD) 17 major economies amassed holdings worth $21.9 trillion equal to 103 percent of OECD 17 GDP. By 2007, institutional investor assets under management (AUM) near tripled to $62. 8 trillion equal to 181.7 percent of OECD GDP; with US investors accounting for around half of all OECD institutional AUM.[1] Institutional investors (particularly pension and insurance funds in the early going) and the private financial intermediaries (PFIs) that "managed" their assets both impelled and became major cheerleaders for neoliberal ideological policy initiatives to "free" capital from its golden age tethers.

This "freeing" of capital, or deregulation and liberalization in neoliberal speak, set off a tsunami of change in rules and practices of financial and corporate governance. The whittling away at the US Glass-Steagall or Banking Act of 1933, and its ultimate replacement by the Gramm-Leach-Bliley or Financial Services Modernization Act of 1999 which demolished firewalls separating commercial and investment banking and insurance is, of course, the signature transformation here. However, paralleling that process, but unfolding even further below the political/public radar, was a concatenating of deregulatory initiatives designed to smooth the flow of institutional funds into riskier, high return, short-term, easily exited, "investments". This in turn drove the engineering of arcane securitization instruments like derivatives to not only "hedge" risk and volatility but speculate on it. It also acted as a surreptitious industrial policy hastening the disinternalizing of MNC production centered activities touched on above. MNCs then morphed into arch arbitragers in their own right

issuing and buying back their own shares in pure speculative gambits. By end 2013 the value of publicly traded companies worldwide had exploded by 524 percent over what it was in 1990 (though with a brief cascade back to reality in 2008-2009).[2] Such activity only compounded the aforementioned siphoning of earnings away from profit reinvestment to unproductive interests which exacerbated deflationary tendencies in the real economy. With the real economy becoming ever more “jobless and wageless”, [3] what neoliberals refer to as “growth” could only be spurred by a surrogate economy based on casino play whereby finance simply finances itself. And in financing itself “casino capital” embarked upon orgies of debt and leverage with idle M, even operating a “shadow banking system” which conjured up “collateral” to extend its own money games.[4]

Shadow banking then became the template for a new economy-wide banking model catering to idle M – so-called *originate-to-distribute* (OTD) banking – which replaces the relationship banking at the center of the capitalist production centered circuit of profit-making. In the OTD model banks engage in financial disintermediation – originating loans only to package them as marketable securities and sell them off, collecting fat fees as the moves are endlessly repeated.[5] Under OTD banks have little concern for the creditworthiness of borrowers or to what purpose the loans will be applied given that interest payments along with the principal are paid to end buyers of securities, *not* banks. The preferred customers of OTD banking are finance, insurance, real estate, the so-called FIRE sector. And the game is asset inflation through debt.[6] From the late 1980s even the capitalist business cycle is superseded by rotating asset bubbles and meltdowns driven by the casino play with oceans of idle M.

In a widely reviewed book, Colin Crouch questions the “strange non-death of neoliberalism” in the wake of the global meltdown despite the fact of neoliberal policies fomenting it?[7] Well, the answer is simple. Neoliberal ideology of “the market” epiphany is *all* that remains. Every last drop of capitalist rationality has been leeched out of the current economy. Neoliberal “freeing” of idle M spawned a modern incarnation of antediluvian usury or “loan capital” as Marx analyzed it. Money lending as such was inveighed against in precapitalist societies precisely because of the paucity of socially redeeming value it held for then human communities. As tragically captured in Shakespeare’s work, usury or “loan capital” like OTD finance today is *indifferent* to use of funds and to *how* loan plus interest will be repaid. As such, loan repayment may be arbitrarily set to exact such an exorbitant cost that debtors are destroyed; or must strive for ruin of others to meet debt obligations. The demand of perfidious Shylock to settle a debt with a “pound of flesh” captures this condition. Only now that “pound of flesh” is literally being scraped off bones of humanity from the austerity suffered by Greeks to non-developed country children perishing from preventable and/or treatable diseases because loan “conditionalities” divert government spending from dealing with these.

Instructively, neoliberal ideological policy initiatives have *only* been possible for their three decade run by ratcheting up the role of “big government” from the golden age period to now galactic proportions. The figures in themselves are clear: on the eve of World War I (WWI), as a percent of GDP government spending by Britain (UK) reached only 13.3 percent, that of France 8.9 percent and the US 8 percent of GDP. By 1973 government spending as a percent of GDP in the UK, France and US was 41.5 percent, 38.8 percent and 31.1 percent respectively.[8] In 2009, the OECD 32 country average was near 48 percent with US government spending as a percent of GDP hitting around 43 percent. UK and France government spending now sits comfortably at well above 50 percent of GDP alongside heavy social democratic Scandinavian state spending.[9]

According to economist Richard Duncan, it is not simply a matter here of large state subsidies received by major businesses in each US economic sector or the 50 percent or so of US population receiving government support of one kind or another given the fallout from what I refer to above as the neoliberal "surrogate economy" .[10] Rather, for Duncan, the hand of "big government" is bolstered by severing of the link between dollars and gold with the demise of Bretton Woods. What remains is simply *fiat money*, claims upon which are backed by the ability of government to issue (by print or digitally) more fiat money. Thus the power of "big government" now resides in money creation by governments "big bank" and the manipulation of its value. It is this power that facilitated the expansion of total US credit market debt to over $52 trillion, including US household debt to over $13 trillion in 2010 and 140 percent of household disposable income at the time of the meltdown. That credit, then, underwrites the bloating asset bubbles of neoliberal "growth" (along with securitization games played around them), which in turn engenders the consumption fete amongst those plugged into the bubble upside. Duncan argues this is all a far cry from the capitalist economy on a gold standard economic textbooks study. Duncan calls this new economic system "creditism";[11] or, quite simply, "a government-directed system on a paper money standard".[12]

For Duncan, then, the global meltdown of 2008-2009 and its lingering recessionary aftermath is *not* a crisis of *capitalism* as mainstream economists on the Right along with self-styled Marxists maintain. It is a crisis of his "creditism". Duncan further recognizes that it is simply not possible for the private sector to extricate itself from the debt it has incurred. This leaves "big government" with the task, which it has met heretofore, of bailing out commanding heights financial institutions and arbitraging MNCs *plus* remaining on a robust stimulus footing to avert what would certainly be deep, destructive depression.[13] For Duncan, however, there is a limit to how long "big government" can continue piling on debt (though the US is accorded some wiggle room with debt at just over 100 percent of GDP as compared to the 240 percent of GDP constituted by Japan's debt today). Yet a limit will ultimately be arrived at and debilitating deflation set in unless "big government" pairs its actions with trillions in fiscal spending to remake the US economy with 21st century eco-sustainable infrastructure and technologies, according to Duncan.[14]

But, as prescient as Duncan is, this strategy still leaves us with a several problems. First, to the extent 21st century technologies increase the knowledge intensity of production, in the absence of substantive change in the broader property and social relations of production the skewing of income distribution toward a caste of über-rich will only be exacerbated. As I have argued at length elsewhere, the seismic shift in employment to the service sector in states like the US in particular, has seen a bifurcated structure emerge of low wage McJobs and the high flying managerial, ICT developers and technologists, designers, financial services "1 percent" plugged in to the surrogate economy of rent seeking and asset inflation. The dark underbelly of this is a division of labor which routes manufacturing abdicated by countries like the US through low wage, proto-capitalist production and assembly locales such as China.[15] Without exiting from this side of what is euphemized as globalization paired with significant income redistribution and remaking of the employment landscape (which demands the dramatic shift in property and social relations of production adverted to above) it is not clear how massive fiscal spending alone will get us out of the current morass.

Second, and related to the above, is the elephant in the room. This is the US transubstantiation into a global economy. A "knowledge" or "service economy" is an oxymoron. Medieval "city states" survived only by parasitism on the surrounding community ability to provision them. The US dependence upon the world for the consumer goods its

population demands as tantamount to their freedom, furnished by severe repression of labor costs, subtended the aforementioned proto-capitalist if not medieval or modern slave modes of labor control across the third world (though increasingly even in the bowels of US and other advanced economy cities). US commandeering of global wealth to finance its quadruple deficits (trade, government, capital account, saving) and over $17 trillion debt through the role of the dollar as world money has further fomented the most monstrous misallocation of global resources imaginable. There is thus *no* international business as usual for the US in anything remotely resembling a progressive future for humanity.

Third, the sustainable 21st century technologies and infrastructure Duncan has in mind tend to involve a significant move away from the petroleum energy complex and transportation infrastructure it fuels. Whether we are talking about sustainable public transportation grids, redoing the urban/suburban/rural residential divides along with the ways activities of production and agriculture are geospatially related to these; and, of course, remaking the energy matrix, this entails once-and-for-all type installation which defies the sort of "treadmill" characteristic of the age of capital where quantitative considerations in economic life associated with repetitive standardized mass production of goods trumped all.[16] While we will delve deeper into what is fundamentally at stake here later in this book, especially the necessity of factoring environmental considerations into our each and every move into a progressive future, it is worth pointing out how Marx conceptualized this roadblock human material life faces today in terms of the *forces of production* beckoning humanity on the horizon outpacing social *relations of production*, demanding revolutionary social change for human society to move forward.

Then there is the Merchant of Venice economic dynamic neoliberal, "state directed" so-called creditism spawned and continues to fuel. As I emphasize in my book the *Evil Axis of Finance*, during its century and a half or so march through human history, production centered capitalist societies translated industrialization into development and development into growth bringing about rising living standards and wealth tied to capitalist satisfying human wants for standardized material goods. Of course, this process unfolded as a byproduct of capitalist abstract wealth augmentation or profit making and under wealth asymmetries of capitalist social class relations. Yet, with the abdication of production centered activities by major advanced states commencing with the US which rapidly disintegrated and disarticulated production activities across the globe from the 1980s, growth worldwide is decoupled from both development and industrialization as profit making is supplanted by rent seeking and money games based on debt leverage. The problem our capitalists *without* capitalism face here is that with little in the way of profit from *real* production centered economic activity to be reinvested in same, there is no way to pay off debt except through deductions from current incomes (private or government), dubbed "austerity" in mainstream parlance, or more debt. On the more debt side of the equation the problem is that the plague each bubble/burst cycle visits upon humanity becomes ever more life throttling each time around. This is because achieving the desired faux growth bang demands ever greater leverage with more debt generated bucks. Governments will then ultimately saddle the backs of taxpayers with the swelling casino markers (at least those taxpayers, unlike über-rich or MNCs, that maintain their economic wherewithal onshore) as it bails out *much* too big to fail financial institutions.[17] On the deductions from current incomes side of the equation, numbing austerity has already befallen much of humanity to service debt from previous meltdowns. There is precious little left in the way of "pounds of flesh" on the bones of humanity. Yet our capitalists *without* capitalism on Wall Street are determined to scrape if off to the end. This is precisely what the surrogate casino economy is all about – expropriation of wealth that will destroy society.

As Edward Fullbrook shows in no uncertain terms, government policymaking in the US is so thoroughly infiltrated with consummate Wall Street casino operatives that no sooner had the last pieces of the bursting bubble from the 2008-2009 meltdown been mopped up by bailout liquidity the global casino sprung to life once more.[18] The new bubble flavor of the first post meltdown decade is what has been explained as the "global government finance bubble". Notwithstanding the recent "deleveraging" discourse, total credit market debt in the US thus leaped from meltdown days by around $6.2 trillion to over $57 trillion as of March 2013. Even more instructive here, given my thesis on the "axis" of finance that lasso's Japan and then with a vengeance China into the game to the benefit of the US, is the fact that as China's international reserves spiked around $2.3 trillion from 2008 to end 2013, US Federal Reserve Bank (FED) credit expanded over $3.1 trillion during the same period. Near zero interest rate policy (ZIRP) in seeming perpetuity has also impelled "investor" funds into speculative gambits across third world so-called emerging markets as they have pushed "mom and pop" savers once again into the eager hands of Wall Street which has been busy devising ever more esoteric speculative vehicles for them. These trends in turn have driven the giddy re-inflation of equity prices from 2008-2009.[19]

And atop this house of cards sits a looming Armageddon of $693 trillion (notional value) of derivative contracts according to BIS as of end Q2 2013:[20] Up from $632 trillion, as of Q4 2012.[21] Though there are those that see BIS figures as truncated and the total notional amount of these unregulated contracts coming in closer to a quadrillion. Which is approximately 14 times the world's annual GDP. And given that what we are talking about here is between $10 trillion to $20 trillion *actual* monies invested the leverage is simply mind boggling.[22] "Big government" is also eagerly continuing to play its part as bubble inflating handmaiden with US FED, European Central Bank, Bank of England and now Bank of Japan pumping over $5 trillion into their economies between mid 2006 and January 2014.[23]

In the end, this coincidence of the predatory operations of "casino capital" with needs of people forced to eke out their livelihood in a neoliberal surrogate economy has extrapolated irresponsible "big government" backed speculation into what Colin Crouch dubs a "bizarre collective good".[24]

Humanity is now at its final crossroads. Indeed, so entrenched in our economic fabric is the idle M casino dynamic of Merchant of Venice expropriation masquerading as wealth generation that it is not clear whether it is even possible to save humanity as we know it on this point alone. Yet neoclassical economists along with much of the Left continue to talk about the old devil we know capitalism and debate policy solutions the choices among which might have given humanity some respite from the deluge up to the mid 1970s but now constitute the equivalent of Nero fiddling as Rome burns. Again, this all has little to do with "the market". Through the golden age to maintain accumulation capital enlisted the herculean extra-market support of the state. The neoliberal era commenced with the view that to reinvigorate capital it was necessary to "free" it from its golden age tethers. However the often surreptitious rule changes under the neoliberal banners of deregulation and liberalization gutted the production centered capitalist economy and unleashed the predatory ravages of idle M. It cannot be emphasized more, that in the surrogate economy created by neoliberal "freeing" of capital, from the issuance of money itself to the generating and backstopping of the credit tsunami through the casino gaming that has ensnared virtually all economic activities in domestic and international economic spaces, it is "big government", "big bank" and "big MNCs" that are politically orchestrating current goings on. Neoliberalism and the ideology of "the market" is simply the façade. But the policy magical mystery tour has now come to an end. Following the 2008-2009 meltdown, with "big government" madly printing money under ZIRP conditions, and so-called austerity

expropriating what meager pickings are left on the bones of humanity, there is simply nowhere left to go except fundamental, thoroughgoing social change.

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