

# MONEY, THE THREAD THAT WEAVES THE FABRIC OF CAPITALIST GLOBALISATION<sup>1</sup>

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Just as the «end of history» was announced with the collapse of the USSR and the end of the Cold War, so the end of geography was announced with the growing financialisation of capitalism (O'Brien, 1992). All the same, we have seen that the materialisation of such financial liquidity has intensified ecological deterioration and social and regional polarisation across the globe (Martínez Alier, 2004).

The aim of this article is to provide evidence of some of these impacts and their geopolitical roots: the dominion of the Dollar Wall Street Regime (DWSR), the seizure of power by multinational corporations and the intense appropriation of wealth at the expense of the exacerbated exploitation of resources, reflected in the balances of payments, and particularly in portfolio investments.

## CAPITALIST FINANCIALISATION

The most recent transformation of capitalism is defined by financial flows and relations. Among other contributions, David Harvey (2006) and José Manuel Naredo (2006) have provided the analytical and theoretical framework to analyse this new regime of accumulation and its associated geographical transformations. During the period between 1980 and 2004, the world GDP multiplied by 2.1, reaching 40.9 billion dollars, whilst world trade – exports assessed in monetary terms – multiplied by 4.7. Yet the key to capital accumulation resides in the role of financial assets (excluding derivatives) in the global economy, which have displayed an essential increase, going from 13.9 billion dollars in 1982 to 148.6 billion in 2004, and therefore multiplying 10.9-fold and reaching a value 3.6 times higher than the value of the world GDP (Naredo, 2006: 78).

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## THE GEOPOLITICS OF THE DOLLAR WALL STREET REGIME

The US holds hegemony in this era of capitalism based on the so-called Dollar Wall Street Regime (Gowan, 2000: 21). Under this regime, the State and the stock market of the United States have reinforced their absolute priority in financial markets. The interest rates set by the United States Federal Reserve have gone on to set the international standards for the other countries to follow, given that the creditors and securities buyers go to the markets that most suit them. In the formation years of the Dollar Wall Street Regime, the US industrial fabric was dismantled and relocated, giving rise to a deep urban crisis in the major industrial cities, where there was greater social opposition. Thus, financialisation spurred a new regional-economic model while disbanding social opposition (Harvey, 2007).

The conservative and neo-liberal economic policy, «**Reaganomics**» in the US, combined the adoption of a strong dollar, a reduction in public spending in social services and a solid boost of military Keynesianism. The external debt crisis of peripheral countries also favoured the interests of the dollar and those of the US elite. The neo-liberal recipe of the «Washington Consensus» (Stiglitz, 2003) implied the application of Adjustment Programmes to the affected countries: the privatization of public services, a negative flexibility for the workforce, the devaluation of the currency to favour exports, a decrease in public investments in services and funding for public health, education and welfare, etc. According to Gowan, «Thus started the use of the DWSR to open the country's domestic financial regimes and domestic product markets to American operators» (2000: 63). Along these lines, the debt crisis served to restructure the social production relations in peripheral regions, giving rise to a greater penetration of foreign capital, along with a **wave of privatisation** that laid down the foundations for a growing trend of **accumulation by dispossession**, as described by Harvey (2004). Naredo (2006) defined it as a **wave of acquisition**, given that such accumulation by dispossession was primarily determined by the enormous purchasing power of the planet's major economic agents.

## THE PURCHASING SPIRAL OF FINANCIAL MONEY

The financial capital accumulation regime involved the appropriation of wealth by means of the multinational corporations' creation of financial money, with the invaluable support of governments that legitimised the consolidation of such model. This process began with the deregulation of the capital market, which was supported by a military deployment abroad and a police deployment domestically (Gowan, 2000; Fernández-Durán, 2003; Harvey, 2007). Neo-liberal globalization has given rise to a new mutation, **financial money**, which consists of issuing **rights on securities**: stocks, futures and other derivatives. All of these securities are *deferred liabilities*, as opposed to current liabilities, which are «outside resources that generate the obligation to return the principal plus the interest (credits, loans, debentures, etc.)» (Carpintero, 2009: 86). With this new model, the power falls more into the hands of the companies and less into the hands of the states. «Seigniorage» – defined as the difference between the cost of manufacturing the means of payment and the inherent monetary value of such means of payment – thus becomes private, going beyond public seigniorage in this financial phase of capitalism (Carpintero, 2009: 110). The growing abstraction of money reconfirms the role of the states as agents of control and social dominion if military force

is necessary, or through the rescue of financial institutions, in what Robert Brenner refers to as financial «Keynesianism» (2003). This was epitomised by the United States Federal Reserve's 1998 Long Term Capital Management hedge fund.

### **THE WAGER ON THE «WINNING HORSE» IN THE «CASINO ECONOMY»**

Using the UNCTAD Handbook of Statistics 2008 as our reference, we have identified the advanced capitalist countries that have centred their accumulation strategies on the expansion of their financial spheres, with commercial deficits. At the top of the list is the US. This heavy predominance of financing and its inherent speculation have triggered socioeconomic disruption. The crises of peripheral stock markets (Mexico, 1995; South Korea, 1997; Brazil, 1998; and Argentina, 2001) worked to the benefit of Wall Street, as capital made its way to the US exchange as a safe haven. Thus, the debt crisis served to reorganise peripheral social production relations, leading to a greater penetration of foreign capital. The United States acted as a magnet for the financial speculative capital (i.e. hedge funds and pension funds) of much of the planet. The expansion of the stock market bubbles, technology, credit and mortgage securities of the United States led to the revaluation of the dollar thanks to the systemic collapse on the peripheries, and eventually spurred an increase in US trade deficits. The hegemony of the Dollar Wall Street Regime and the US was undermined by the colossal «**twin deficits**»: the current account deficit, due to the imbalance in foreign trade, and the fiscal deficit, as a result of the reduction in taxes and the increase in certain public expenditures. This explains the «Permanent Global War» project, which was devised to strengthen the Dollar Wall Street Regime, with the rupture of multilateralism and the launch of preventive wars (Fernández-Durán, 2003). Peter Gowan (2000) suggests that the US financial-economic policy has been tied to **oil geopolitics** and US presence in and military control over the Middle East, particularly since the rupture in dollar-gold parity. Since then, the US has had to resort to the strategy of global-trade and political-military control to reduce its heavy trade deficit, to shore up the Dollar Wall Street Regime and to quench its thirst for oil (Fernández-Durán, 2008).

### **THE BURST OF THE MORTGAGE BUBBLE**

In the United States, an enormous speculative bubble emerged in finances, with securitization, segmented structuring and mortgage-backed securities – which included subprime securities –, a resort for speculative capital (particularly hedge funds), which found the ideal profitability and opacity in the wake of the «new economy's» crisis. The direct social and environmental consequences of this bubble were a rise in real estate prices and the advent of a global **urban tsunami** (Fernández-Durán, 2006; Chesnais, 2008). This time, the wealth effect generated by the stock market booms described by Robert Brenner (2003) took the shape of a colossal **real estate bubble**, with extremely negative social consequences and catastrophic biophysical impact (Fernández-Durán, 2006 and Aguilera y Naredo, 2009). In August 2007, the bubble **burst** with the announcement of the bankruptcy of the financial system. The fall in the stock exchange marked a new crash in the recent history of capitalism, which extended the crisis to the whole of the world financial system (González, 5/10/2008). The IMF took advantage of this situation to implement new structural adjustment programmes

(SAP), reinforcing the system headed by the «unholy trinity» (Peet, 2004). The G-20 summit of 15 November 2008, which became known as the «Bretton Woods of the 21<sup>st</sup> century» in Washington, agreed to uphold the status quo, meticulously respecting the workings of the free market, with more economic stimulation (Alcaide, 23/11/2008).

## THE ECONOMIC POLARISATION OF FINANCIALISATION

The strategy of the wealthy countries in relation to the rest of the world resided in moving up on the «notary curve»<sup>2</sup> or acting as a magnet for world savings through a strong currency, a powerful army and an «attractive» (i.e. deregulated and speculative) financial system. The balance of payments is one of the main tools that we have to analyse a given country's role in the world economy. Most of the **wealthy countries** physically show immense trade deficits, which they tend to offset monetarily by climbing up the «notary curve»: they import goods at a low price, whereas their exports receive payment in a higher weight/currency proportion (\$/Tn). Monetarily speaking, there are noteworthy differences among the wealthy countries. Two **major subgroups** can be distinguished: first, the group made up of countries that monetarily present trade balance deficits, such as the United States and the United Kingdom; and second, countries with surpluses in such foreign balances, as are the cases of Japan and Germany.

## IMPOVERISHMENT BY PLACING WEALTH IN THE HANDS OF THE POWERFUL

The successive and repeated financial crises in the peripheral countries have led to the fortification of the safest financial «squares» which are those located in the central countries, consequentially reinforcing the Dollar Wall Street Regime. Thus, during the consecutive financial crises of the 1990s, the funds of the world financial system tended to flock to Wall Street, expanding and reinforcing its pre-eminence (Gowan, 2000: 58). Power leads to better credit, as it converts the given square into a safer gamble, which is precisely the basis of polarization. During this global financial peak period, portfolio investments went from 13 billion dollars in 2002 to some 32 billion dollars in 2006. The International Monetary Fund (IMF, 2004a and 2007) identified the US as the number one country in the world for both the issuance and the reception of portfolio investments. The characteristic difference between its investment side and its reception side was extremely significant: the portfolio investments received in the US in 2002 were 1.7 times greater than the portfolio investments made. Thus, the United States has constantly increased its deferred liabilities, in other words, its debts to the rest of the world. In contrast, Japan holds a different position, as its foreign portfolio investments were 2.7 times higher than those received in 2002. These international flows of

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2 Naredo and Valero (1999) and Naredo (2006: 190-197) have defined the notary rule as a rule by which certain agents (i.e. people, companies, countries, etc.) take the «lion's share» of the value chain, whilst most of those involved in the economic process, and with more gruelling tasks, end up with the short end of the aforementioned chain. Moreover, according to this rule, the products and economic processes are more highly valued in the final phases, when the natural resource costs (materials, water and energy) are lower, whilst in the initial phases in which the biophysical costs are greater, their monetary compensation per unit is lower. As a result, a physical-monetary and socio-monetary asymmetry develops throughout the economic process. The «notary rule» benefits the companies, countries and people who undertake the final stages of administration and sale, thus accentuating «north-south», «city-country» and «rich-poor» disparities.

capital have advantageous squares in tax havens, which Ramón Fernández-Durán (2003: 112) refers to as the «knee joints of the global financial economy skeleton». At the top of the list are Cayman Islands, which are ranked ninth among the portfolio investment «magnet countries», followed by Spain, which ranks number ten (IMF, 2004b).

According to Carpintero, et al. (1999), Naredo (2003, 2006) and Carpintero (2009), the portfolio investment favours the wealthy countries that receive huge amounts of capital, which are allocated to finance the deferred liabilities that both the corporations (i.e. shares) and the states (i.e. treasury bonds) put on the financial markets. The entire system hinges on the confidence in the **financial and political stability** of the affluent countries, which is often further strengthened by military force (Fernández-Durán, 2003; Gowan, 2000). In fact, the strength of the wealthy countries, upon which most of the world's poor countries rely, is founded on the capital that flows into their financial marketplaces, which is precisely what makes their marketplaces so powerful. Paradoxically, much of the capital that supports those financial marketplaces are from the peripheral regions. Furthermore, the so-called poor countries have been the great suppliers of materials and energy, which have brought about this phase of economic growth and expansion in the central economies (Naredo and Valero, 1999; Naredo, 2006; Sachs and Santarius, 2007). They have fed the enormous physical deficits of the wealthy countries, much despite their characteristic debt-ridden reputations.

## **IMPOVERISHMENT BY ENVIRONMENTAL AND SOCIAL PLUNDERING**

As a result of neo-liberal globalisation, the peripheries –the poor countries– are suffering new tensions and inequalities based on the application of adjustment programmes that have enabled a wave of accumulation by dispossession through acquisition (Harvey, 2004; Naredo, 2006). Thus, for example, a drop in the value of a country's currency forces that country to launch higher volumes of goods on the world market to try to stop the fall in the profits of its exports. The thirst for currency forces countries to over-export natural resources. Thus, in difficult times, countries are forced to pawn the «family jewels». Such was the case of the privatisation that took place in many peripheral countries of the world economic system. Thus, for example, with the fall of the Mexican peso in 1994 (following a speculative attack by the Wall Street hedge funds), Mexico rescinded the laws that once protected the national forests, in an effort to strengthen exports. For its part, after the collapse of its currency, Indonesia was forced to modify its legislation on land ownership, following talks with the IMF. The idea was to afford foreign paper and cellulose producers entry into the country's jungles (Sachs, 2001). According to French (2000), both the World Bank and the IMF pay little or no attention at all to the effects of the imposition of their policies on the social fabric and the health of the natural systems and people who inhabit the host countries. In the case of Indonesia, the IMF promoted an increase in the production of palm oil, forcing the country to lift restrictions on foreign investments in the sector. As a result, the country has lost a considerable amount of its forests, which have been felled, only to be replaced by oil palm plantations<sup>3</sup>.

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3 «The exports of palm oil increased from 1.4 million tonnes to nearly 3 million tonnes between 1991 and 1997. The devastating fires of the last years were in part deliberate to make clearings in the forests for the plantation of the African oil palm and the forest cultivations of paper pulp» (French, 2000: 329).

## SPAIN ALONGSIDE THE «WINNING COUNTRIES» OF FINANCIAL GLOBALIZATION

Spain has inserted itself into global financial capitalism by rechanneling Spanish capital in **Latin America**, appropriating goods, companies and privatised natural resources, in keeping with the neo-liberal doctrine (Carpintero, 2005). From within, the Spanish **tourism haven** has become a speculation «floor» where the lashings of cement have particularly transformed the coastline and the archipelagos with the so-called «**Spanish urban tsunami**» (Fernández-Durán, 2006). In 2007, Spain ranked number two in terms of its capacity to attract world capital, accounting for 10% of the total, behind the United States, which attracted 50% (Carpintero, 2009). The speculative-financial dynamics of the boom that have brought us to the current crisis would be impossible to understand without the shortened distances between politics and business. In some cases, such interests and dealings have been unmasked by the courts and the mass media, with accusations against politicians, popular celebrities, law firms, etc. (Agudo and Iglesias, 2007).

## CONCLUSION

Money is a liability for the institution that issues it. One of the key problems inherent in the expansion of money (paper-coin, bank and financing money) is that the debt-wealth ratio is broken in the end, and the money no longer depends on the real economy. Instead, it tends to circulate around a **casino economy**, which becomes worse when the money is also produced by private companies and not only by states. This confirms Frederic Soddy's formulation (1926), according to which wealth was confused with what he referred to as «virtual wealth», which is no more than debt. Money has gradually dissociated itself from social control through its successive mutations, becoming an independent entity. The transfer of monetary policies to a remote, technical sphere (i.e. the Central European Bank) severs monetary decisions from their political dimension. Moreover, because corporations are capable of creating their own money and a great deal of the world's money rests in the hands of a few corporations, money can be construed as the thread that spins the capitalist globalisation process under the regime of financial accumulation. This situation has placed the transnational corporations at centre stage, giving them a solid foothold in the neo-liberal regime, backed by a strong financial Keynesianism. Money seeks maximum profitability, as it tends to move towards the strongest player, reinforcing his/her power. This situation divests the poorer countries of their capital and forces them to intensify their environmental and social exploitation. In the meanwhile, financial demand reinforces strong currencies, particularly the dollar, ensuring that the power will remain in the hands of the so-called Dollar Wall Street Regime: the United States and the multinational corporations, by creating deferrable liabilities that are attractive to the market.

In the case of Spain, the **urban tsunami** has been slowed by the very illusory financial limitations that initially set it in motion, rather than by their social or environmental drawbacks. The financialised growth of the «Spanish version» is showing those of us who are concerned about the land and its changes, that the financial issue is important. It is similarly allowing us to see that geography and land are also important to financial speculative capital. For proof, we need only consider the money that is converted into spatio-temporal fixes (Harvey, 2004).

The great spiral of financial growth and material and land consumption was only possible thanks to the disproportionate purchasing power of the different forms of money, particularly in recent years. According to our studies, the USA, the UK and Spain show deficits in their commercial balances, which are offset by direct and portfolio capital investments. The financial dimension has become virtually the only aspect considered when it comes to social behaviour and political decisions. Moreover, no doubt is cast on its significance, despite the well-known fact that monetary aggregate expansion is a sign of ecological deterioration (Naredo and Valero, 1999) and that global capitalism's financialisation process is in fact a «geographical project» that has enabled the concentration of power, as well as the inclusion of new regions as extraction and supply areas for the countries and companies that control the **money** (Swyngedouw, 1998). The current global systemic crisis must generate thought and enable us to influence the logic of money if we hope to move forwards, towards a socially and ecologically fairer and more sustainable world.

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