THE FINANCIAL REGIME

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ABSTRACT
Starting from the premise that the financial regime has become a power in and of itself—a fourth, 'monetative' power as it were—this essay gives an account of the ascendancy of finance and the shift from geopolitical to geo-economical order, within which there is no democratic legitimacy and no legal accountability and within which a new class conflict also emerges. It goes on to advance five theses on this new financial sovereignty, concluding that sovereign is he, who can transform his risks into other's dangers and position himself as the creditor of last resort.

KEYWORDS:
Finance, Sovereignty, Power, Geo-economical order, Democracy, Class

Modernity has given rise not merely to the sovereign state apparatus, to international trade companies, to influential financiers, to decentralized markets. It has also witnessed the formation of a particular type of power—the financial regime—that cannot be properly described in terms either of political structures or of economic strategies. This type of power is constituted, instead, by the interpenetration of these poles. From the integration of private creditors into the politics of early modern states, to the creation of central banks and public credit, all the way up to today's capitalism of financial markets, we can trace the emergence of a type of 'economic governance' that ultimately has immunized itself against the democratization of political power. We find ourselves in a situation in which, above all, the financial regime has taken on the character of a 'fourth power' and the accumulation of capital power is intimately associated with the deployment of power capital. Insofar as crises are intellectual windfalls, driving forces out of latency that, under normal conditions, remain inconspicuous, the last financial and economic crisis offered an apt illustration: in it a style of government could be observed that merits the title of a 'coup d'état'.

This means two things. On the one hand, from 2008 to current Euro policy, we have been dealing with decision-making bodies consisting of state representatives, international organizations and private companies, which have joined together in informal committees, operating outside the legal framework, to represent the interests of creditors. One particular example has been provided by the so-called Eurogroup, which directly dictates the fate of European debtor countries. In response to the question, on what legal basis they intended to enforce their decisions against resistance by individual members, the secretary of the Eurogroup retorted: "the Eurogroup does not exist in law […]. It is an informal group […] of the eurozone member states. Thus there are no written rules about the way it conducts its business, and therefore its president is not legally bound."[1]

On the other hand, the measures taken have manifested themselves as quasi-sovereign acts. In the Eurogroup, but also the European Stability Mechanism and the Fiscal Pact, legislative procedures were circumvented, creating a secondary structure without legal formalization, which acted as a transnational executive, suspending budgetary powers, intervening in tax law, social policy, labor law, and so on. The results are well known: In Greece, for example, economic output collapsed by 28%, unemployment rose to 27%, youth unemployment to 65%, and average wages fell by nearly a quarter.

What is going on here? How could such an ostentatious alliance between finance capital and government power come about? How did this fusion of informal consortia, sovereign competencies and transnational executive authority emerge? What components comprise the current financial regime?

To begin with, it was formed through a process that has, for some time now, been referred to as 'financialization'. Its beginnings reach back to the 1970s and are characterized by a confluence of disparate actions and events. A first condition was the collapse of the Bretton Woods Agreement in the early '70s, leading to floating exchange rates, new financial instruments (like currency derivatives) and expanding financial markets. Then came the so-called 'Volcker shock', when the Federal Reserve under Paul Volcker drastically increased the fed funds rate, redirecting profits from surplus countries (like Japan and Germany) to Wall Street, while at the same time forcing a fall in wage costs. This was supplemented by liberal economic reforms under Thatcher and Reagan: deregulation of financial markets, tax privileges for interest-bearing assets, and privatization of social security systems. In addition to further interventions which allowed finance capital to break out of its containment by the welfare state (reduction of corporate taxes, reform of labor markets, financial market promotion laws), two additional components came into play.

On the one hand, a new and dominant role for international organizations and treaties in the financial world—as was most evident in the role of the IMF. Since the 1970s the IMF had been given a very special field of activity, namely monitoring adherence to 'stability criteria' in the face of floating exchange rates. The heyday of 'structural adjustment programs' had begun: granting loans to developing and emerging countries subject to strict conditions, including budgetary discipline, tax reform, privatization of state-owned enterprises, investor protection, liberalization of capital markets, and facilitation of foreign investment.

On the other hand, a reorientation of central banks was undertaken—as can be seen in particular in the founding of the ECB. The ECB considers itself to be the guarantor of the financial and monetary system: it provides services to banks and financial markets, while operating as an independent enclave of governance, immune from other governmental bodies. And its orientation is therefore conspicuously one-sided: While it is no way accountable to European parliaments and governments, it answers to the financial public. It is obligated to those investors and actors who dictate the dynamics of financial markets to safeguard currency and monetary value. In other words, the ECB offers a kind of 'minority protection' to the representatives of the financial sector; through central banks, financial markets have become an integral part of governmental practice and manifest themselves as para-democratic.

This picture certainly does not capture all the elements of the current financial regime (for instance, e-commerce, shadow banks, and the dominant economic doctrines should not be forgotten). But, of course, it raises the question: What are the characteristics of the financial regime, past and present? What kind of governance does it represent? What kind of power? Let me just formulate a few theses concerning the present situation.

First. The ascendancy of finance is due to an intense interplay between public and private agencies and cannot be described by the opposition of the state and the markets. Here, the antagonism of state and capital is weak or absent altogether. The financial regime must be defined as a special kind of modern power, as a special technology in the execution of modern power, modern government: that is the conversion of state power into capital (and vice versa), which guarantees perpetual scenes of primitive accumulation. This has led to a movement as powerful as it is ambiguous. Just as the modern state secured its permanence through the perpetuation of public debt and taxation, so the financial regime obtained a quasi-sovereign power in fiscal affairs. At the same time, through a permanent state of emergency (that is, a permanent dependence from private financiers and creditors), this power evaded sovereign intervention and later obtained institutional form in national, central and note issuing banks. This indicates the precarious status of the financial regime. In it, the alienation or privatization of state resources comes up against the political occupation of private finance. It is this two-way public-private interplay that gives the financial regime its special status. On the fiscal side, this regime claims arcane components and sovereign dignity; as the embodiment of private capital, on the other hand, it resists acts of arbitrary political power. The formation of the sovereign state unleashed, together with private business, a dynamic which manifests itself in an eccentric becoming-sovereign of the financial regime. With finance, a reserve of sovereignty forming a category of its own established itself alongside and apart from state authority.

Second. When we speak today of the financial system, we are not referring to a purely economic matter, a special market system. The present financial system is rather a conglomerate of government bodies, central banks, international organizations (IMF), and privileged private corporations (investment groups, rating agencies), an ensemble of public, semi-private, and private actors. One could speak here of 'regulatory capitalism'[2] and of a transnational, trans-governmental executive, which is to say: of a power that makes and implements political decisions, which intervene directly in national economies and in the politics of traditional nation states. As a power of its own kind, the financial regime structures a global space in which sovereign competencies, business, and market mechanisms are converging. This characterizes a shift from geopolitical to geo-economical order which distributes areas of exploitation and zones of accumulation, establishing a new class conflict: mobile investors, or super-citizens, against earthbound sub-citizens.

Third. In the history of finance, essential ruptures are not marked by the 'resounding' events of recent crises. Rather, the historic break took place in the seventies when secular trends reversed. Up to this date, progressive taxation, solidary social insurance, and strong trade unions fought for a continuous reduction of inequalities in the distribution of revenues and assets. Financialization reversed these dynamics and caused a situation in which a maximum of private fortune confronts a maximum of private (and public) debt.[3] Two aspects are noteworthy. On the one hand, an increasing portion of profits and credit was invested in financial products causing an offensive deindustrialization (e.g. in the UK and the USA), a movement which is reinforced in present platform capitalism, creating high market values for companies that are increasingly unburdened by liabilities against fixed capital and labor. On the other hand, the financial regime installs a transfer system which turns the lower part of the population into payers of net interest in favor of finance capital. This process was accompanied by the passive inclusion of wage earners in the financial economy: expansion of consumer credits, mortgages, privatization of social security. One could observe one of the results in the Euro crisis: The weakest countries and groups had to bear the costs of the crisis—an internal colonization of European populations. The dynamic of finance not only released centrifugal forces in politics and economy; it also eroded social milieus of solidarity—one of the most important resources of democracy.

Fourth. This raises a related problem which has already become a major preoccupation for economists today: namely, the devolution of the monopoly on regulating liquidity from states and central banks to financial markets themselves. We are witnessing a transition here from a financial system regulated by governments to a system of financial governance regulated by markets. This has two consequences. For one thing, central banks are increasingly losing control of interest rates and the money supply in circulation. Money creation now happens in the market itself; even the vast quantities of cheap money injected into the economy by the ECB have barely been able to counter deflationary tendencies in recent years. For another thing, financial markets have become a 'prison' for governments, states, and societies. This has become particularly apparent in the policies of the ECB: the ECB is subject to a rule blocking it from purchasing bonds directly from the European member states; government bonds can only be purchased indirectly, through markets. That's why states are now evaluated by these markets, setting up a kind of reputation or beauty contest among them. An automatic profit-generating mechanism has been set up: the ECB supplies private banks with cheap money, which they pass on to governments at higher interest rates. Using the threat of capital flight, interest rate disadvantages and reduced investment, financial markets have thus become a fourth power (we can call it 'monetative'—besides legislative, executive, judiciary powers[4]), a creditor of last resort.

Fifth. All this gives rise to a double dilemma. According to the prevailing dogma, economic growth can be financed by low interest rates and cheap money (this has been the ECB's strategy, also the Fed's, for years; zero-interest rate policy (ZIRP), quantitative easing). But this very policy leads to the accumulation of future risk potentials: cheap money is less likely to be invested in industry and infrastructures, and more likely to flow into capital and real estate markets. The symptoms are already on the horizon: stock market booms, explosive real estate prices. So the very effort to generate economic growth summons the next financial crisis. But there is also the shadow of a political dilemma; a dilemma concerning the scope available for political decision-making. The depolitization of monetary politics (now dominated by the financial markets) is accompanied by the privilege of the financial industry, which may determine the distribution of wealth by money creation and the very special structures of financing. The anticipation of market preferences dictates the direction of political decisions. The concern of the democratic voting public is limited by the concern of a powerful minority, the financial public. This political and social cleavage will undoubtedly continue to occupy and afflict us. One might say, in fact, that the financial public today is pitted in class struggle against the entire rest of the population.

This inevitably raises older questions of sovereignty. Although we must come to terms with a global situation in which sovereign authority today can be exercised only in a restricted, distributed and fragmented way, some questions persist. In such a situation, we should first of all be wary of false friends, who offer answers to questions which they are not able to pose. One figure is posed by liberalism, which, by pointing out the blessings of a market order, systematically overlooks the concrete power relations of the financial regime. The other false hope is that placed in the old nation-state. For in addition to the essential role this entity has played in the creation of the current financial order, it is already in the process of concluding the most aggressive of alliances, one currently being tested in the USA: the alliance of the financial industry and plutocratic lobbies with a politics of national *ressentiment*.

How can the persistent deformation of democratic principles in the financial regime be prevented? On the one hand, for a moment, good prospects had emerged in Europe after 2008: Big banks were voluntarily nationalized, solidarity movements were founded, and sound proposals were amassed concerning the long overdue coordination of monetary, fiscal and economic policy. But all that is a thing of the past: the separation of retail and investment banking demanded by all experts is only the most recent casualty. On the other hand, the financial regime has asserted its supremacy as an even more efficient combination of private value creation and the use of sovereign reserves of power. Therefore our pessimism today can hardly be great enough, that is to say: what is at stake is the intensification of a pessimist realism which mistrusts attempts at appeasement, which does not consider financial capitalism to be the best of all possible worlds, and which makes the power of the financial regime appear so illegitimate and unacceptable that it becomes accessible to interventions, contestations and struggles. This is not how we wish to be governed.

For the rule of the financial regime is: the sovereign is he, who can transform his risks into other's dangers and position himself as the creditor of last resort.

1 Yanis Varoufakis, *Adults in the Room: My Battle with the European and American Deep Establishment* (New York: Farrar Straus and Giroux, 2017), 447.

2 See David Levi-Faur, “The Global Diffusion of Regulatory Capitalism,” *The Annals of the American Academy of Political and Social Science* 598, no. 1 (2016): 12-32; Fabrizio Gilardi, “The Institutional Foundations of Regulatory Capitalism: The Diffusion of Independent Regulatory Agencies in Western Europe,” *The Annals of the American Academy of Political and Social Science* 598, no. 1 (2016): 84-101.

3 Thomas Piketty, *Le capital au XXIe siècle* (Paris: Éditions du Seuil, 2013).

4 See Aaron Sahr, *Keystroke-Kapitalismus. Ungleichheit auf Knopfdruck* (Hamburg: Hamburger Edition, 2017), 154.