REVIEWS

Joseph Vogl, *The Ascendancy of Finance*, trans. Simon Garnett
Polity Press: Cambridge 2017, £16.99, paperback
220 pp, 978 1 5095 0930 0

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THE FOURTH POWER?

Like blood in Goethe's *Faust*, money 'is a very special fluid'. It circulates in the body political-economic, whose sustenance depends on its liquidity. And it is surrounded by mystery. In fact, money is easily the most unpredictable and least governable human institution we have ever known. Allegedly invented as a general equivalent, to serve as an accounting unit, means of exchange and store of value, it has over time penetrated into the remotest corners of social life, constantly assuming new forms and springing fresh surprises. Even Keynes had to admit that his attempt at *A Treatise on Money* (1930) ran into 'many problems and perplexities'. How money came to be what it is today, in capitalist modernity, may perhaps with the benefit of hindsight be reconstructed as a process of progressive dematerialization and abstraction, accompanied by growing commodification and state sponsorship. But how money *functions* in its present historical form is more difficult to say; where it is going from here, harder still. This social construction has always been beset with, and driven by, unanticipated consequences—caused by human action, but not controlled by it.

Money, the product of finance, is an enigma and always has been. Even the chief engineers of the revitalization of global capitalism by way of its financialization in the late twentieth century, the Alan Greenspans and Gordon Browns, did not know what was growing under their hands. To reassure themselves—and everyone else—they resolved that 'market participants' would, if left to pursue their own interests, build the most stable of all possible financial worlds. Public regulators merely had to clean up the mess whenever a bubble burst, as it inevitably would. Debates about the causes and consequences of the 2008 collapse have so far had little effect on the direction of long-term underlying trends. The global money supply continues to expand considerably faster than the world economy, as it has since the 1970s. Broad money was 59 per cent of global GDP in 1970, 104 per cent in 2000 and 125 per cent in 2015; and yet there has been almost no inflation in the leading capitalist economies since the 1980s, even though interest rates are at record lows—close to zero, sometimes even negative. Nobody can really explain this. Indeed, discussions are still ongoing about what caused the high inflation of the 1920s and—less dramatic—the 1970s. What *is* growing, alongside money, is debt: up from 246 per cent of global GDP in 2000 to 321 per cent in 2016. This includes both public and private debt. Public debt increased markedly after 2008, while private household debt in the United States now exceeds the GDP of China, itself one of the most indebted countries in the world. Debt is a promise of future repayment with interest: a promise that one must believe. While it is clear that there must be a limit to debt—the point at which the promise of repayment becomes unrealistic—nobody knows exactly where this limit is, nor what would happen if it was exceeded.

Joseph Vogl's *The Ascendancy of Finance* does not try to settle these questions. What it does do, however, is to lead us into the heart of darkness of today's financialized capitalism, the place where money is made and whence it spreads. A professor of German literature at Humboldt University, Berlin, Vogl was a translator of Foucault, Deleuze and Lyotard in the 1990s, and has since focused on the inter-relations of political philosophy, literature and economic theory. *Kalkul und Leidenschaft* (2008) analysed the marriage of Enlightenment-era 'calculus and passion' in *Leviathan*, *Wilhelm Meister* and Lillo's *London Merchant*. Two years later, *Das Gespenst des Kapitals* (published in English as *Spectre of Capital*) detected a strain of secularized theodicy within liberal economic thought which Vogl dubbed *Oikodizee*. Now, in *The Ascendancy of Finance*, Vogl skips over money's long prehistory and social anthropology—on cowry shells and camels, see, *inter alia*, David Graeber, *Debt: The First 5,000 Years* (2011)—to transport the reader to the early modern period, which saw the rise of both the modern state and large-scale finance. That their births coincided, Vogl argues, is no accident. State power and finance are, in fact, Siamese twins, sometimes at odds with one another but always interdependent. Money is, as it were, the oldest public–private partnership: at one and the same time private property and public good; tradeable commodity and central-bank monopoly; credit and debt; a creature of the market and of the 'grey area' between market and state. The relationship undergoes continuous permutation. Yet despite its ever-changing and often downright bizarre forms, money can be traced to just two sources, both located in the force-field between states and markets. One is the creativity of all sorts of traders seeking new devices—in the modern jargon—to cut transaction costs, from promissory notes to bitcoin, assisted and exploited in equal measure by a growing financial sector which buys and sells, for profit, the commercial paper used by traders to extend credit to one another. The second is the need of states to finance their activities through debt or taxes—usually both—and to keep their economies in good health by providing businesses with safe means of exchange and abundant opportunities for 'plus-making'. How these processes work together to create modern money is impressively described by Vogl over two chapters.

Money speaks, it is said, and its first words are always: trust me. Given the obscure circumstances of its production, this seems to be asking a lot. As economic exchange became more extended and opportunities for confidence tricks—from John Law to Standard and Poor's—proliferated, so trust in money, essential for the capitalist economy, had to be safeguarded by state authority. States, or their rulers, have since time immemorial made money trustworthy by certifying it with their stamp of approval. This afforded them an opening to appropriate a fraction of its value in the form of what is called seigniorage, as well as providing manifold occasions for abuse, such as debasing the currency. An important contribution to the credibility of states as stewards of money was the seventeenth-century invention of permanent public debt, in parallel with the transition from personal to parliamentary rule and the introduction of regular taxation. These developments guaranteed the state's creditors the reliable servicing of outstanding balances. Public debt could now be subdivided into low-denomination debt certificates, and these could circulate as means of payment, because the state could be trusted to accept them in payment of taxes, or in exchange for whatever it had promised to deliver when issuing its debt as currency. Moreover, private credit as extended by banks to trustworthy debtors could be denominated in public debt, making the sovereign state the economy's debtor of last resort.

Today's money of paper notes and electronic ledgers represents a complex pyramid of private and public promises of future settlement of present accounts, secured and securitized in virtually unending chains of formal contracts and informal understandings. How could people—and peoples—have entrusted their lives to this dubious co-production of banks and states, this accident-prone social construction, despite the long history of financial scandals and crises extending from the seventeenth century to our own times? In elegant historical-institutionalist fashion, Vogl recounts the long story of modern money's development, tracing the co-evolution of sovereign states and financial markets—each needing the other in defence of its own credit and credibility. Drawing on impressive historical and philosophical erudition, Vogl sets out from early modern theorists of the state and state sovereignty—we encounter *inter alia* Montchrétien, Naudé, Malebranche, Leibniz, Rousseau, Smith. They are read in the light of the heavy dependence of public finance and national-economic prosperity on the goodwill of private capitalists—the latter, in turn, reliant on the state's readiness to use its monopoly of legitimate violence in support of enterprising financial adventurers who, like alchemists, transmute the dirt of debt into the gold of legal tender.

A critical manoeuvre in Vogl's conceptual strategy is that he radically breaks with the liberal antinomy of states and markets, or politics and the economy, insisting instead on their historical and systemic interdependence: no state sovereignty without credit; no credible finance without sovereign reinsurance. This is why he pays no attention to utopian projects of reform aimed at terminating money's public–private dualism: either by privatizing it *à la* Hayek or, as it were, 'statizing' it along the lines proposed by Irving Fisher in *100% Money* (1935) or the current *Vollgeld* (sovereign money) movement. Money lives and grows and becomes profitable by what Vogl—in the title of the German original—calls the *Souveränitätseffekt*, which radiates from the sovereign state onto the wheeling and dealing of the financial marketplace, backing up these contractual transactions with coercive public authority. In this way, Vogl more or less explicitly writes off the good old orthodox Marxist distinction between base and superstructure (indeed, following Foucault, the base—in the sense of the overall organization of production and consumption, is absent from Vogl's picture). Finance can only be what it is if it partakes in the state, and the state develops into a value-creating economic agent as it extracts seigniorage from its money production and invites the financial industry to cash in. In fact, according to Vogl, states became sovereign by co-opting finance into their emerging sovereignty and parcelling out part of that sovereignty to the markets, thereby creating a private enclave within public authority endowed with a sovereignty of its own. Just as modern society could not have been monetized without state authority, so the state could only become society's executive committee by making finance the executive committee of the state.

Money, then, emerges in what Vogl calls 'zones of indeterminacy', where private and public interests are reconciled by assigning public status to the former and privatizing the latter. The result is a complex interlocking of conflict and cooperation generative of, and benefiting from, what Vogl calls 'seigniorial power'—a relationship in which the state and finance undertake to govern one another and, together, society at large. Zones of indeterminacy, Vogl writes, 'have an ambiguous relation to both sides, they are encouraged and restricted by state authority, they can either boost or inhibit the exercise of political power, and they can stimulate or obstruct (for example through monopolization) market mechanisms'. Financial systems need state regulation to remain responsible and trustworthy, but too much regulation drives money away and thereby undermines the viability of the state. States, in turn, don't just need robust banking systems for the economy but also credit for themselves, for which they must be in a credible position to promise conscientious repayment, with interest. If they default, they may lose access to financial markets, and their financial industry—and perhaps that of allied countries too—may have to default as well.

It is in crisis situations, when banks are about to collapse or states teeter on the edge of insolvency, that the liberal notion of a clear distinction between markets and the state is exposed as a myth. On such occasions, as financial and political elites join forces in a virtual boardroom, functional differentiation—the pet category of functionalist sociology—loses its meaning and sovereignty reveals a Schmittian face, declaring a state of emergency and *die Stunde der Exekutive*. As Vogl shows in his account of the Wall Street 'rescue operation' of autumn 2008, in the hour of the executive, huge public funds suddenly become available to exclusive circles of bankers and their presumptive overseers. Working together as the clock ticks, they take command decisions whose consequences nobody can predict, in an effort to maintain at least the appearance of control over events, and to prevent the pyramid of promises that is financialized capitalism from collapsing under the weight of mounting suspicion that it might have become unmanageable.

In calmer times, the two poles of seigniorial power—the state and the market—meet and merge in the central bank, the hybrid institutional core of capitalism's 'zone of indeterminacy'. Vogl offers concise, but for that reason all the more impressive, comparative histories of the Bank of England, the Federal Reserve, the Bundesbank, the Banco Central de Chile under Pinochet and the European Central Bank. Such bodies mediate between the financial market's need for state backing and the state's reliance on capitalist assistance in the form of a healthy financial industry that can serve as a conduit for the administration of monetary policy and the delivery of capital to all sectors of the economy. Private outposts in the state and public outposts in finance, central banks have historically moved back and forth between very different institutional forms: private, public and various combinations of the two. Far from constituting a rational-functionalist formation, they have performed widely diverse and often barely related functions—from the administration of state debt to the issuing of currency and the supervision of private banks—cobbled together more or less ad hoc according to political expediency, just as one would expect in a world of 'indeterminacy'. What distinguishes them as a type is that they exist to protect finance from the fickleness of political rulers—absolutist or democratic—while providing the latter with at least the illusion of control over the fickleness of financial markets. Institutional independence is crucial, nowadays meaning above all insulation from electoral politics. Monetary questions must be de-politicized—which is to say, de-democratized. Central banks, Vogl argues, constitute a fourth power, overshadowing legislature, executive and judiciary, and integrating financial-market mechanisms into the practice of government.

Central banks' claim to autonomous authority is based on their assumed, and asserted, technical competence. As they and their *aficionados* in the media and in economics departments are fond of telling us, central bankers know things about the economy that normal people, inevitably overwhelmed by such complexity, cannot even begin to fathom. They command theories with which to make the economy do what is in society's best interest—in the long run at least, when regrettably we will all be dead. Central bankers themselves have always been aware, although they hide it as best they can from the unwashed, that central banking is 'not a science but an art'. This means that what they sell to the public as a quasi-natural science is in fact nothing more than intuitive empathy, an ability acquired by long having moved in the right circles to sense how capital will feel, good or bad, about what a government is planning to do in relation to financial markets. (Economic theory is best understood as an ontological reification of capitalist sensitivities represented as natural laws of a construct called 'the economy'.) At critical moments, such as when the Bank of England went off the gold standard in 1931, rather than deploying road-tested knowledge of the 'if, then' kind, central banking relies on the trained intuition of great men and their capacity to make others believe that they know what they're doing, even when they don't. At a university event in London almost a decade after the 2008 crash, Alan Greenspan was remembered by an enthusiastic admirer as having had 'a complete model of the American economy in his body'. Presumably this enabled him always to make the right call, and meant that it was completely unnecessary for him to share his in-the-flesh database-cum-structural equations with the outside world.

Today, central banking's peculiar mix of scientism, intuition, faith healing and showmanship is losing its magic. For years now, central bankers have tried to turn quantitative easing into common sense, even as their friends from finance tell them that 'it cannot go on forever'. But hopes that QE together with zero interest rates would stimulate inflation, insure against deflation, devalue debt and as a result, restore growth, have been dashed.

The new key term is 'radical uncertainty', introduced by none other than Mervyn King, former governor of the Bank of England. In his book *The End of Alchemy* (2016), King lets his readers know that, 'in a world of radical uncertainty there is no way of identifying the probabilities of future events and no set of equations that describes people's attempts to cope with, rather than optimize against, that uncertainty'. He adds: 'the economic relationships between money, income, saving and interest rates are unpredictable, although they are the outcome of attempts by rational people to cope with an uncertain world.' Operating by scientific or legal rules makes no sense if the real organizing principles of the economy are no longer understood, or if things refuse to be ruled. In such circumstances, even the pretence of control becomes difficult to maintain. According to an email from global investment house PIMCO to its customers in July 2016, most forecasting has become futile because 'the real world is far from stationary'—meaning that, to quote again, 'stuff happens'. 'Structural breaks', the investment house advises, have made it necessary to 'think the unthinkable'. And 'if the future is radically uncertain, the modern central-bank practice of giving markets "forward guidance" may be, well, misguided', since it 'creates the illusion that the future is predictable'.

Rising political-economic volatility implies a loss of power for Vogl's central banks, and a loss of respect as well. In July 2017, a year after its embrace of radical uncertainty, the same investment house explained to its clients why interest rates were, and would remain, so low. *Central banks do not figure in the story at all*. Instead the culprit is the 'superstar firm', its rise made possible by new technology and globalized markets. To quote: 'superstar firms make higher profits, save more than they invest and pay out a smaller share of their value-added to labour.' This explains 'key macro phenomena such as the global *ex ante* excess of saving over investment, rising income and wealth inequality, and low wage inflation despite falling unemployment, all of which has contributed to the current environment of low natural and actual interest rates, which in turn supports high valuations for the superstars.' In this 'winner takes most' world, economic concentration is increasing. Large firms sit on huge cash hoards while labour's income share declines. High wages for the privileged few employed by superstar firms, combined with weak wage pressure in an increasingly fragmented low-wage sector, make for worsening inequality, adding to the global savings glut as 'high-income, wealthy individuals have a higher propensity to save than low-income, less wealthy ones'—an account remarkable for its similarity with standard 'radical' explanations of the crisis of contemporary capitalism. Together, these dynamics keep inflation down even if central banks want prices to go up. Therefore, the experts say, 'the investment strategy of choice' must be one calibrated to a 'long-term low interest-rate environment'. PIMCO mentions three potential risks for such a strategy: (1) 'A surge in protectionism that leads to accelerating de-globalization', (2) 'Aggressive anti-trust policies that curb superstar firms' quasi-monopoly profits and benefit potential competitors' and (3) 'A sudden surge in labour's bargaining power'. None of these possibilities the investment house considers likely. But as Greenspan himself noted at an American Enterprise Institute conference in February this year, under present conditions rates can only move in one direction, upwards, and when they do, they will have devastating consequences for stock prices. The organizer of the event, Desmond Lachman, a former economist at the IMF, predicts a catastrophic economic and financial crisis in the near future as a result of rising interest rates.

In a final chapter titled 'Reserves of Sovereignty', Vogl deals with the submersion of nationally organized financial sectors—rendered politically unmanageable by financial innovation and the internationalization of capital—into an emerging global regime. Here again, Vogl's command of his conceptual apparatus enables him to make sense of a highly complex process, conceived as yet another permutation of the relationship between the public and the private, and amounting to the conversion of 'regulation' into 'governance'—in particular, 'global governance'. Financialization for Vogl essentially involves the transfer of financial oversight to the financial markets themselves, ultimately establishing oversight of states by markets. Subjected to the dictates of capital accumulation, the relations that make up the infrastructure of social life are financialized, depoliticized and indeed de-socialized. Responsibility for economic order shifts from constitutional, potentially democratic, governments to 'a patchwork of public entities, international organizations, treaties and private actors which superintends the privatization of regulation and, as a consequence, the marketization and informalization of law and legal institutions'. As governance is privatized, finance becomes the sole remaining sovereign. 'Global governance', Vogl writes,

> is neither a straightforward liberation of market freedoms nor a suppression of state institutions, nor is it a rigid dichotomization of market and state. Since the 1990s, a mutual embedding has taken place; permeability has been created, allowing credit conditions to dictate the rules of political restructuring. In this process, state institutions function as bodies for the anchoring of market mechanisms.

Vogl's critics, many of them from the 'public choice' crowd, have argued that central bank autonomy-cum-supremacy constitutes the only effective precaution against frivolous democratic politicians recklessly spending their way into office and thereby emptying the public purse. Democratic governments paying for schools and roads are equated with absolutist rulers combating personal boredom by making war. Vogl wastes no time arguing with this. Still, it might have been worth his while to place the evolving relationship between public spending, public debt, taxation and interest, and the public-choice rhetoric surrounding this, in a larger political-economic context transcending institutional analysis proper. What if the pressure for ever-higher public spending was a reflection, not of democratic 'irresponsibility', but of what in Marxian language would be described as a secular tendency toward the 'socialization of production', giving rise to a functional need for private profit-making to be supported by an increasingly elaborate, and correspondingly more expensive, public infrastructure? It is here that Vogl's institutional analysis of the bipolar world of his zone of indeterminacy might have benefitted from being embedded in a political economy of contemporary capitalism, a context in which it would greatly contribute to our understanding of a, shall we say, dialectical 'contradiction' between the limited supply of tax revenue on the one hand—caused by capital's reluctance to be taxed—and on the other, the growing demands, including capitalist demands, for public prepare-and-repair work, from education to environmental clean-up; for public security, from citizen surveillance in the centre to anti-insurgency on the periphery; and for public compensation of citizens for loss of income and status due to capitalist creative destruction. Too little public spending might keep capital away, but too much taxation might have the same effect, while too much public spending would unacceptably narrow the corridor for private profit-making.

Privatization of public provision can, of course, be of help, and has been for some time. But there are limits to it, not least those set by citizen resistance. The remaining option is to finance the growing demands on the state by swelling the public debt—and indeed, if capital must decide between a debt-free tax state and a low-tax debt state, it doesn't find the choice difficult. For under-taxed capital, public debt is a convenient opportunity to lend to the state as private investment what would otherwise be confiscated by the state through taxation. Money lent to the state remains private property, yields interest—at least in normal times—and can be passed on within the family to the next generation. For this to occur, of course, states must be willing and able to service and repay their debt reliably, and it is here that central banks still seem to play an important role in the management of 'financialized' capitalism. Not only can they mediate between states and the financial industry—bankrolling the former and allowing the latter to trade government debt for profit—they also help to keep public debt at a level where states can still be trusted by their private creditors. They do this, for example, by warning the public, with all the authority of their pseudo-scientific theories, about the dangers of excessive government debt—inflation and other maladies—and by advocating a move to balanced budgets through 'austerity' on everything except debt service. Whether this will be enough to close the gap between the maximum taxability of a globally embedded national-capitalist economy, and the rising demands for public infrastructures and services under advanced capitalism, is an open question. It probably falls some distance short, and like privatization, simply postpones the coming clash between private profit-making and its public underwriters.