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THE END OF FINANCE

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Introduction

Far more than a temporary setback in an economic system with no practicable alternatives, the financial crisis that broke out in 2007 is also the crisis of a way of understanding and engaging in finance. The innovations that appeared in previous decades to promise indefinite economic growth by increasing the financial leverage and liquidity of the markets have suddenly become factors of fragility, recession and contagion.

If we take the trouble to examine it, history shows that this reversal is not only a recurrent event, but also a *permanent possibility* of the financial markets as they have built up throughout the modern era. It can, however, also show us something more. The crisis can be seen as heralding the end, not of finance, but of *one* form of it, finance based on financial *markets*, and hence the end of the idea of money *as commodity*.

On this view, the crisis is not only an event to be described or a problem to be solved, but also – and far more deeply – an *opportunity* for raising the question of reforming the system of finance and credit forcefully and for reopening discussion of the principles and ends to be taken as our starting points and goals if a truly healthy relationship between economy and finance is to prove thinkable and practicable.

The crisis affecting all of the world's financial markets during the last year, with results that are still largely unpredictable today, is accompanied by an equally disturbing loss of bearings at the theoretical level. Paraphrasing Marx, we could say that the 'practical panic' gripping the system's public and private actors for some time now has been accompanied by 'theoretical bewilderment' of a no less serious and widespread nature. Perhaps the most alarming aspect of the crisis is in fact the general and disconcerting incapacity to explain it, or indeed even to understand what form its explanation could take. This incapacity is shared by economists, bankers, politicians and journalists, the most honest of whom have acknowledged it explicitly. As the economist Axel Leijonhufvud writes: ‘There are two aspects of the wreckage from the current crisis that have not attracted much attention so far. One is the wreck of what was until a year ago the widely accepted central banking doctrine. The other is the damage to the macroeconomic theory that underpinned that doctrine.’[1]

For the most part, however, we are still left with vague assertions, which are very sketchy in their *pars destruens* and, above all, completely devoid of a *pars construens*.

In any case, the crisis has been accentuated by the difficulty, which is practical no less than theoretical, of understanding its nature. There are at least two reasons for this, the first being an almost total lack of clarity as regards the relationship that must be possible between creditors and debtors. The most recent financial innovations, for instance the securitized subprime mortgages, initially fostered *indiscriminate confidence* in debtors – who should by definition have been denied access to credit within the framework of traditional fiduciary relations – from creditors who were disposed to grant it because they were freed from the attendant risk precisely by the possibility of shifting it immediately onto a liquid market. A simple reversal of expectations was thus capable of generating, in creditors, a *general lack of confidence* towards debtors. When it is not clear where confidence is to be placed, there is rudderless oscillation between two extremes. During some periods, those with money to invest are willing to lend it to anyone at all, regardless of risk, as happened over the last ten years on a global scale. During others, they will lend only to governments regarded as reliable, or at very high interest rates, or indeed not at all, preferring to hold the cash. The ‘crisis of confidence’ is a crisis of the deep structures of confidence and tends to be accompanied by an indiscriminate contraction of credit, which in turn depresses investments and the economic system’s prospects of growth, with obvious repercussions on expectations and confidence. In the *cyclone* of this vicious circle, a financial crisis therefore becomes real due to a structural lack of clarity about the relationship that should obtain between creditors and debtors; to be more precise and concrete, between those who must lend money and those who must spend the money lent, that is, in the final analysis, between finance and what is commonly known as ‘the real economy.’

The second reason why the lack of understanding worsens the crisis is the fact that, as a result of the policymakers’ incapacity to grasp its nature, the measures taken to find a way out of this crisis may instead simply pave the way for the next. By relying almost exclusively on unprecedented injections of liquidity, the central banks and governments have revealed their failure to understand that *liquidity is not simply an amount of money*, regardless of whether it is generated by the market, as happened during the boom, or made available by monetary authorities, as in the present crunch. What robs every intervention of its power and clarity is the failure to take into account a concept so simple that it is overlooked – first of all in economic theory. This concept can be expressed as follows: *money is not money if its circulation cannot be ensured.*

If this is how things stand, the basic problem is not the lack of money, but the possibility that all the money potentially available today is neither spent nor lent, but simply kept out of circulation, and in this sense accumulated. This is why we claim that the last resort measures adopted are to be seen, first and foremost, as paving the way for a probable crisis – a new and bigger one – rather than judged in terms of their immediate effectiveness. The monetary expansion with which the Fed, under Alan Greenspan, engineered a way out of the crisis of the new economy has in any case been recognized, albeit only retrospectively, as a fundamental contribution to the indiscriminate optimism from which the present crisis was to stem. This precedent is hardly encouraging.

If the present theoretical bewilderment is on such a scale, it might be thought that history could provide some clues, or even lessons. Our incapacity to decipher the crisis on the basis of current practical and theoretical knowledge has indeed prompted many to turn to the past. Since the beginning of the crisis, the need has been felt to find a precedent every time the economic indicators have registered a drop. This crisis thus started to be described as the worst in recent years, following the bubble of the new economy or the Wall Street crash of 1987. As the situation plummeted still further, the spectre of 1929 and the ensuing decade of depression was inevitably raised. We may in fact have something to learn from the comparison of this crisis with its most probable precedents, *but only if we ask the right questions*. The customary exercises of collective memory tend instead to assign history the task of comforting us, which is too easy and too demanding at the same time. The established retrospective readings suggest that, if we have already experienced crises, then we have also survived them. And we therefore feel authorized to conclude that all crises come to an end sooner or later. *But no one bothers to ask how and at what cost.*

If we are instead determined to respond adequately to this task of comparing, we must ask about the nature of finance. What does finance mean? What is the proper function of the financial system? What forms of the relationship between debtors and creditors are consistent with this function? How are the instruments developed by financial innovation, and the very principle of a self-styled 'democratization of finance', to be judged with respect to this function? What does it mean to say that finance must be 'at the service' of the real economy? What relationship must obtain between finance and trade? What is the role of international capital movements?

These simple questions run up against a widespread and more or less conscious tendency to avoid them. This is why we decided to make all the necessary preparations in order to pose them with all the necessary rigour.

The first part of the book is therefore devoted to a *phenomenology of finance*, through which we endeavour to show in what sense the structural characteristic of finance, in accordance with the latter's original meaning, is connected with a loan agreed upon *with a view to payment*, with a relationship between creditor and debtor constituted *with a view to a set term of maturity*, with the opening of an account *with a view to its closure* – in short, with a beginning *with a view to an end*.

Despite its apparent ambiguity, the title of this book is designed to make a precise point: the end *as purpose* [*il fine*] and the end as conclusion [*la fine*] coincide in the case of finance. It is not a question of imposing 'sound' ends on finance, but rather of recognizing that the purpose of finance as a set of economic operations regarding loans coincides with the end of such operations, which must be able to conclude with the agreed payment. In this sense, finance is designed to foster economic relations, or what Jacques Rueff aptly called 'the meeting of all debtors and all creditors'.[2]

This meeting is precisely what the financial system as we know it tends to make increasingly impossible and, above all, to prevent from taking place in accordance with due and agreed forms. The meeting does not take place in periods of crisis due to the manifest impossibility to pay debts – that is, due to the insolvency of debtors, whose bankruptcy makes their creditors insolvent too, with the risk of spreading the contagion. But it does not take place in periods of growth either, because the moment of payment can then be constantly delayed. Growth itself and the optimistic expectations it arouses have the effect of generating an expansion of credit, and hence of loans, with no regard to the effective possibility of payment, in a constant raising of the stakes.

'Delaying payments or reimbursements and causing such delays to overlap perpetually with one another: this was in short the great secret of the modern capitalist system, which could perhaps be most precisely defined as a system that would perish if all the accounts were settled at the same time.' This definition formulated by Marc Bloch, to which we will return in due course,[3] casts a piercing light on the modern history of the global financial system up to the current denouement, by suggesting that, at the root of the dangerous oscillation between euphoria and crisis, there lies a radical incapacity to perform the *exquisitely financial* function of settling accounts.

It is possible and useful to examine history on the basis of this insight. The second part of the book puts forward a thesis that makes Bloch's definition still more radical: the modern financial system not only prevents the closing of accounts, but also takes the shape of a system dispensing with any need for closure from the very outset, one in which it is possible for accounts not to be settled and for debts never to be paid. Striking evidence of this, to which we shall return at various points in the book, is the fact that our financial system rests on an *unredeemable debt* consisting of the banknotes of the central banks and, at the international level, of the dollars stockpiled in the currency reserves of the Middle and Far East.

This observation suggests another possible reading of the title, namely that the present crisis marks the end of a conception and practice of finance grounded in the systematic suppression of the end, understood as maturity and closure: here comes to its end a financial system that wants nothing to do with any end. We must therefore try to understand how it was possible for such a system to begin.

The objective pursued by the book in working its way back through the history of the western monetary and financial system is not to find comforting precedents, but to identify the key watersheds that have led up to the present situation step by step; to show that they were watersheds not through the pressure of the necessities of an evolutionary process with no alternatives, but precisely by virtue of decisions taken *and not taken* at the institutional level; and, finally, to show that the watersheds of this history are mostly connected with the overruling requirements of *war finance*.

On the one hand, therefore, the historical path winds back through the changes in the international monetary regime: from Nixon's cancellation, in 1971, of the convertibility between the dollar and gold – which in fact replaced the international currency, gold, with an unredeemable debt, the dollar – to the initial identification of gold as the international currency – which took place at the exchange fairs of Bisenzone in order to make possible, on this basis, the emission of an unredeemable debt by the dominant military power of the time: the Spain of Philip II.

On the other hand, and in parallel with this process, our examination traces the course of financial innovation, in other words of a *securitization* that ends with ABS (Asset-Backed Securities) and CDOs (Collateralized Debt Obligations), but begins with the first forms of unredeemable paper securities: the notes issued by the Bank of England, the British government's consols, and the Spanish *asientos*.

On both sides, the history is not one of natural and progressive evolution; it is rather one of decisions taken with greater or lesser awareness, but never by chance.

Clear knowledge of the decisions behind us may help to improve our understanding of those before us and, above all, of what is at stake in this crisis and can no longer be ignored. The more strictly *political* third part of the book therefore asks how we can think of finding a way out of the crisis.

As readers will see, the focus of our considerations is on the thinkability of reform, and therefore on *reformability*, even before the individual provisions that can and must be adopted.

We will distinguish between expedient and reform in the light of the fundamental political question raised by the crisis – namely how to find a way out of the present financial system, which is based on disowning both its purpose and its conclusion, and into a financial system that may be in harmony with its truest functions. The question about reformability asks how we can inaugurate a form of finance turned upon the end/conclusion – the settlement of accounts – as its only properly economic end/purpose.

If it is to be established, such a form of finance must be thought out. Thinking finance today entails distinguishing things that are too often confused: money and credit, money and merchandise, the market economy and capitalism. And it is with respect to these distinctions that we shall put forward not only, and not so much, specific reforms but also, and rather, indications as regards what is to be reformed as well as the criteria and principles that any truly new system must be able to meet and take as its cornerstones.

Even though the need to get to grips with the financial system and its structural deficits is now commonly acknowledged, both the repeated slogans and the suggested remedies tend to remain on the surface of things. Calling for a 'new Bretton Woods' without saying what Bretton Woods represented in monetary and financial history, or proclaiming the need for 'new rules' without asking what a rule for finance can and must be – more than anything else, these seem to be ways of concealing a basic difficulty, which concerns the apparently self-evident meaning of the term 'finance'. Everyone knows what finance is. Or at least so it seems. Nonetheless, perhaps for this very reason, nobody states clearly what it is, or what exactly in the system really needs reforming, or what exactly the rules should apply to.

This is why we set off from the simple question of what finance really is. The book's approach is therefore not evaluative. The point is not to pass judgement on the soundness or unsoundness of finance, but to ask what it is that makes a financial act economically important.

While Keynes's work has constituted an indispensable point of reference for us in this connection, it should be stressed that his theoretical and institutional project stretches far beyond its currently established interpretations. Our basic thesis is that all of Keynes's work as an economist and reformer is grounded on an idea of money differing radically from 'money as we know it' – to use an expression recurrent in the *General Theory* – in other words, as we shall see, from capitalist money. Well, the key feature of capitalist money is to be a commodity whose price – that is, interest – is determined on the money and financial markets. Therefore what distinguishes capitalism is, first of all, the fact of regarding money as merchandise.

It was against this idea of money and in favour of its radical reform that Keynes devoted all his intellectual energies throughout his entire life – and certainly not with a view to a revolutionary overturning of capitalism.

The age we are living in leads us to think that this is by no means a flaw. In fact we do not need a revolution, but something simpler and more subversive. The way out of this crisis is, first and foremost, by *thinking*; and what can make a concrete difference in the mode of thinking about finance is the ability to notice, above all, those differences that usually tend to be taken for mere variations.

The first of these radical differences masked as variations is between capitalism and the market economy. They are *not* the same thing. The market economy will always be understood in this book as the institutional place where markets are *constructed* for the *sole* purpose of making possible the exchange of economic goods and services – and where effort and inventive creativity can therefore be rewarded, labour can be recognized and recompensed in accordance with its dignity, and responsibilities can and must be assumed. Conversely, we shall endeavour to show that, in spite of any form of economicism, capitalism is the *aneconomic* non-place where even what is not a commodity can be traded, and it is therefore possible to reap without having sown and to suffer without being guilty.

In capitalism financial crises are inevitable; in the market economy they are inadmissible. Being truly in favour of the market means starting to depart from capitalism. Departing from capitalism does not, however, mean abolishing finance. What comes to an end in this crisis is the idea of finance grounded in the representation of money and credit as commodities. We have attempted to draw all the conclusions deriving from the end of this representation, with a view to establishing a radically different institutional and theoretical perspective. The basic insight taken as our starting point is that the existence and sound functioning of a credit system capable of supporting real economic activity not only do not depend on, but are also hampered by, the idea of money as merchandise.

This insight also underpins the possibility of imagining an alternative financial system, in which money and credit are not traded and the relations between debtors and creditors are constructed so as to come to an end in payment and to give way to the production and circulation of goods; in short, a form of finance that can truly operate at the service of the market economy, or perhaps of the economy *tout court* – given that a system that can allow itself not to distinguish between what is a commodity and what is not is, quite simply, not an economy but a dangerous surrogate for one.

To conclude, a note about method and an invitation to readers. The fundamental nature of the questions addressed makes it impossible for this book to provide an exhaustive picture of the reforms that any adequate response to the crisis today would require. It has, however, enabled its authors to submit to the judgment of its readers a unifying perspective, both as regards studies already embarked upon by other scholars and with respect to further works intended to address the functioning of the financial system from a critical standpoint. In this sense, our work seeks to provide a seminal contribution, which not only can, but in a certain sense must, be followed up by more detailed studies.

A final note: all the translations of original sources are ours, unless otherwise specified, and all the quotations from works originally written in English are reproduced in their original form.

Massimo Amato and Luca Fantacci

Milan, 6 June 2009

PART I

Phenomenology

1

Do we know what the financial markets are?

The growth of a *doxa* or general opinion increasingly favourable to financial markets and to their unrestricted liberalization appeared to have encountered no obstacles for years, if not indeed for decades. The objections had died down and the number of conversions increased, also and above all on the left. While subtle distinctions were certainly possible as regards allegiance to the new paradigm of financial globalization, that is all they were. The new order reigned triumphant, and any doubt or opposition could easily be branded as failure to keep up with the times.

In any case, the primary virtue of an ideology is to make things awkward not only for its adversaries, who may be numerous but remain captive to a counter-ideology, but also for the few dissidents. Rather than proponents of critical views, these are made to appear as no more than the advocates of a vanquished and outmoded ideology, who should be left to 'gnash their teeth' in silence. If an ideology is to aspire to 'hegemony', it is first of all essential that everything should be presented in the light of ideological juxtaposition. So it was that the collapse of an ideology so opposed to 'the market' as to feel no obligation even to think about it paved the way for a *doxa* so favourable to 'the market' as to feel no obligation to define it. It is within this self-referential dimension that the financial markets were able to find justification in ideological far sooner than in practical terms.

The outbreak of the crisis *momentarily* interrupted this self-referentiality. The ability to say something concrete about finance and its economic meaning suddenly became crucial. Was there any advantage taken of this opportunity to think? Has the crisis helped us to know a little bit more today about what finance is? Can we now claim a better understanding of that particular configuration of finance known as the *financial markets*? In other words, can we, today, base our judgements in this field on more solid knowledge? Nearly two years after the crisis broke out, the answer is no. Why was the opportunity missed? A short chronological history of the predominant attitudes towards the financial crisis can help to find the answer.

The most widespread tendency at first was simply to deny that it was legitimate to talk about a crisis. It was, people said, a 'temporary setback' or a 'technical adjustment' on the part of the markets. 'Come on, let's not get worked up over nothing.' This was the response. There were indeed explicit warnings not to say *too much* about the possibility of a crisis in order to avoid lowering the expectations of financial agents.

In time, this approach gave way under the weight of evidence, but not to the point of complete surrender. The crisis was interpreted as a cyclical phenomenon that was bound to pass, and, above all, as nothing so serious as to call for any rethinking of the ruling model. The crisis was the price to be paid for prosperity, a sort of wildly astronomical telephone bill that *someone* had to pay every so often. But, since there was no certainty that *everyone* would have to pay, the survivors could still hope to start operating again in the best of all possible worlds.

Then came the Black October of 2008. The apologists maintained a sometimes deafening silence, and 'posthumous prophets' made their appearance. It suddenly transpired that everyone had already known that the system was untenable. This is not to say that no authoritative figures had spoken out before the fat was in the fire, to warn against the danger of financial trends that seemed to justify all the trust put in them solely by their apparent capacity for indefinite self-perpetuation.[1] The sudden glut of sages did, however, appear strange, to say the least.

This is, of course, nothing to be too surprised about in a disproportionately media-dominated society like ours, where the moulding of public opinion is no longer even connected with mechanisms of production, but rather with the constant and mobile management of widespread uncertainty – which stems in turn from a growing incapacity to master information that now affects all and sundry, from the simple 'man in the street' to the most sophisticated analyst or policymaker. In this society of pure information and widespread expectations, where what is 'true' tends to be what is regarded as such, there is a real risk of people reinventing their past in a way that becomes all the more dangerous the less it is recognized.

Thus it is that an article of faith can become an object of ridicule overnight and that swings in opinion can suddenly swing back. This is indeed what happened around the spring of 2009, when the G-20 proclamations and the bailing out of banks and of the market prompted a number of observers, sometimes the very ones who were seeing 'the dark side' in the autumn, to glimpse 'signs of recovery' or, more prudently, 'signs that the collapse is slowing down'. Nor did it take long for these signs to become 'green shoots'. Such is the power of springtime. . .

And the media were thus able to take up the visions of the 'springtime prophets' with the same unreflecting thoughtlessness as they had taken up in the autumn the press releases of the posthumous prophets.

In the autumn the much lauded 'financial innovation' had come to be known by the more traditional and sinister name of 'speculation'. Unswerving faith in the 'evident' capacity for self-regulation of the 'market' had given way to an equally 'evident' need for regulation. It was, we were told, necessary to curb speculation, to restrict the endeavours of the financial system to 'make money out of money'. Now the tune changed again in the spring. The voices of those who had undauntedly defended the financial markets even during the stormy weather were to be heard again, not least because what they had to say was extremely reassuring. The crisis could only be short-lived. It was just a question of waiting for the negative trend to reverse, possibly with the 'help' of some public buffering and further financial innovation. There was nothing fundamental to be reformed. The Anglo-Saxon system of capitalism based on financial markets was in any case the best, and therefore not to be relinquished.[2] And, while the need for a revision of the rules was admitted in this context, it was immediately added that there was no need to clamp the innovative potential of finance in the straitjacket of public control, the tendency of which to degenerate into a subordination of the economy to politics had in any case provided the basic justification for the deregulation of previous years. Simultaneously passivist and activist, like all laissez-faire attitudes, this one has a very solid basis, not perhaps in theory but at least in rhetoric. Nor is it at all easy to refute it until the deep roots of its apparent plausibility have been discerned.

It is, however, precisely because of this difficulty that it is worth observing the pendulum of expert and public opinion and to investigate the laws of its motion. The question that arises here in fact is whether all the views that have so far competed for the media limelight have anything in common. One thing they certainly do share is the fact of being ideological stances distinguished by the 'logic' typical of every ideology: either for me or against me. The financial markets have been judged en bloc, and we have thus missed a possibility that is subtler, but not any less crucial as a consequence of that – quite the contrary. We have been so busy taking sides that we have forgotten to ask ourselves what it actually is that we are for or against.

Regardless of whether it proves to be definitive or temporary, the crisis is not in fact only a setback. It is also an opportunity to ask ourselves, at the very point where every opinion enters a state of potential suspension, *whether we really know what we are talking about when we talk about markets and finance, and hence also about financial markets*. There is no need to be foresighted in order to recognize the necessity of the present crisis and of its end. If we are to understand its innermost nature and hence also its rationale, we must instead know how to see, and above all *where* to look.

This is why the book begins with a phenomenology. We need a phenomenology of finance precisely because its underlying features tend not to manifest themselves. Those involved in the general economic discourse – staunch supporters or stubborn opponents, posthumous or springtime prophets – tend in fact not to see what turns finance into something it really should not be. Above all, they are so caught up in the present-day dogma that they cannot even see it *as such*. They are thus doubly blind. This alone is enough to explain why prophets are two-a-penny, not least because their coats are quickly turned, but explanations are still hard to come by.

If what we are seeking is not a new *doxa* but some understanding of a phenomenon that closely affects us, our starting point must indeed be a fact that is as simple as it escapes notice. Financial deregulation has been able to elevate itself, in the past few decades, to the status of a tenet that does not admit refutation and is not even open to being questioned, primarily because the very idea of regulation in the financial field has become so hazy that it no longer has anything relevant and essential to say to anyone, not even to those who believed for an instant that the time for rules had returned with the new crisis.

An example may serve to clarify this specific point, namely the phenomenon whereby the concept of rules has become hazy both for the advocates and for the opponents of regulation. Given that our purpose is not doxography but the detection of dogma, it will not be necessary to report extreme views, but indeed far more useful to refer to those of an avowedly moderate character. This is why we have chosen a book written not under the influence of the present crisis, but with a view to answering the question of the nature of crises in general, and hence also the extent to which they can be avoided or managed. The author, Barry Eichengreen, is recognized as one of the greatest experts on financial systems, and not only as an economist but also as a historian. Entitled *Financial Crises and What to Do about Them* and published in 2002, the book provides documentation, impeccable in its own way, of the dogmatism running right through contemporary economic discourse. What it puts forward with respect to the financial markets is in fact neither a theory susceptible of verification or confutation nor a simple ideology to be espoused or attacked, but a dogma – in other words, something the truth of which cannot be questioned and that is therefore placed above and beyond any ideological endorsement or theoretical proof.

Some months after the end of the Argentinean crisis, at a time when the forecasts admitted the possibility of further crises in peripheral or emerging economies but did not even consider the possibility of the central economies of the world system being affected, Eichengreen wrote as follows:

> The prevailing system may be widely criticized but it is not discredited. The dominant view, to paraphrase Sir Winston Churchill on democracy, is that it is the worst way of organizing the allocation of financial resources, except for the available alternatives.[3]

Since we are not dealing with something said for effect but with the assertion of a dogma, it will be necessary to subject it to precise exegesis, not least with the help of what the author goes on to say.

It is no coincidence that Eichengreen begins with an analogy between finance and democracy. The basic idea is that, just as the last word has been said in politics, the same has now happened also in economics. As Mrs Thatcher said at the beginning of the era of deregulation, there is no alternative to the market.

This reference to Churchill's historical argument is, however, not unattended by dangers today. His remark seemed extremely clear in the context in which it was made. When the West was in the middle of a lethal fight for hegemony between fascism, communism and the nascent mass democracy, it may have made sense, within certain limits, to be blunt about the latter's shortcomings. For Churchill more than anyone else, it was indeed the worst system, but only apart from its available alternatives; and that had to suffice. Those alternatives have now been swept away, however, and all that remains of his comment is 'the worst form of government' – a 'worst form' that nevertheless has the Darwinian merit of being the only one to have survived in the West, and therefore appears capable of making up for any shortcomings of principle with efficiency of fact.[4]

This is not a particularly contorted way of surreptitiously avowing a distrust of democracy.[5] If there is one thing for which fanatical support makes no sense, it is precisely democracy, which exists through criticism. This is the very least that can be said. A democracy that justifies itself simply on the grounds that there are no known alternatives is already on the point of turning into something unnamed and dangerous. The observation we have put forward here is simply necessary to an understanding of the general ideological context in which it was possible for deregulation to be produced.

Under the influence of a Darwinian image of politics that led to talk about the 'end of history', the collapse of communism and of its attendant apparatus of economic planning seemed sufficient grounds in the early 1990s (and indeed from the early 1980s on) to claim that a historical process had come to an end. Capitalism and democracy ceased to appear even remotely antagonistic or incompatible in the West, and it was possible for the spread of capitalism to be presented as the royal road to democratization of the economic and political spheres. The idea that the economic and political development, both of the West and (above all) of the 'emerging countries', had to be accompanied by the rapid opening up of local financial markets to the movements of international capital, including short-term flows, was espoused not only by Margaret Thatcher and Ronald Reagan but also by left-wing reformers, not only by the 'Washington consensus' but also by the European countries, which accelerated the process of the primarily economic and secondarily political unification of Europe in the 1990s. Financial protectionism, to be understood as limitations on the movements of capital, was quickly and rashly equated with commercial protectionism and, ultimately, with 'political protectionism', understood as the efforts of the ruling classes of emerging countries to defend their privileges against any process of democratization. Refusing, or even simply resisting to open up financial markets was *flatly* interpreted as proof of an obscurantist determination to preserve political systems actually constituting the basis of systems of privilege for castes or bureaucracies. Capitalism, and specifically the movement of capital on open financial markets, was regarded and dogmatically imposed as paving the way for democracy.

In other words, the 'financial revolution' of the 1980s and 1990s presented itself as the best and most efficient concentrate of the doctrine of modernization, which was in turn the more or less unwitting heir to the concept of 'permanent revolution'. Financial deregulation was therefore not simply presented in negative terms, as a process designed to eliminate a suffocating system of control, but also as a way of making it possible to establish a 'new world order' based on the indefinite growth of transparency and power, the latter to be understood first and foremost as the constantly increased capacity to improve the performative efficiency of the economic system. This is the basic idea underpinning the construction of the role of finance in the economic discourse of the last few years. Consider, for example, the following extract from a long pamphlet that has enjoyed very broad circulation:

> Because of their role in financing new ideas, financial markets keep alive the process of 'creative destruction' – whereby old ideas and organizations are constantly challenged and replaced by new, better ones. Without vibrant, innovative financial markets, economies would invariably ossify and decline.[6]

Now, despite the apparent disproportion between the vast scale of this project and the apparent sobriety of Eichengreen's text, that text is an expression of this dogma. Let us examine it point by point.

The 'prevailing system' is justified by the very fact of being the only alternative left. While Eichengreen acknowledges that it can of course be 'widely criticized', it is not thereby 'discredited'. The 'system' is above attack in principle by virtue of being irreplaceable in fact. The opposite inference also holds, however: the system is irreplaceable in fact as long as it appears to be above attack in principle. The real is rational. This is how the thinking goes.

It is in any case very important to realize the fact that, in this way, the justification of the system is not required to refer to any of its 'natural' characteristics. The self-regulating capacities of post-Bretton Woods finance have been increasingly understood as being based on its capacity for constant transformation rather than on any presumed 'natural propensity' of the system to converge on equilibrium positions. The permanent revolution has been reworked in terms of 'permanent evolution' or *permanent reform*: 'reform of the international financial architecture is an ongoing process',[7] the nature of which cannot be fitted into the classical categories in which the juxtaposition of state and market is couched. In other words, it is not a matter of seeing the market, and the financial market in particular, as something to be regulated by the state or, on the contrary, as something absolutely not amenable to regulation. From this perspective, the first concept to have changed in meaning is precisely that of 'financial architecture'. What has established itself is something that Eichengreen summarizes very well, and we could sum it up in turn with the expression 'architecture with no architect': 'the system evolves gradually through tinkering at the margins, not discontinuously in response to the radical visions of some financial Frank Lloyd Wright'.[8]

One of the reasons why it proves difficult to discern the peculiar dogmatic structure of finance born out of deregulation lies precisely in its avowedly acephalous condition, which is wholly compatible not only with the permanence, but also with the strengthening of the relations between public and private elements – relations that can, however, never be brought into being in the name of *rules*.

How does Eichengreen actually depict the system?

> The international financial system is a dense network of social, economic, and financial institutions. As with any complex mechanism, there are limits on the feasible changes to any one component so long as the others remain in place. It makes no sense to install a jet engine on a Cessna Piper Cub. The same is true of the international financial system, whose structure is lent inertia by the interaction of its components.[9]

What does the last sentence mean? That the international financial system, made up of elements perpetually adjusting to each other, has no stability other than that deriving from the friction between its components. There is no keystone in this 'system', and hence no architectural principle that can be represented as such, and therefore no *constructive* rule, and therefore no *regulative* rule. Regulation is deregulation in this system.

This proposition is to be understood in the strict sense of dialectical–speculative logic: every thesis is its antithesis, since nothing determined and finite can aspire to full and stable existence but can only foster progress towards the absolute. The phrase 'regulation is deregulation' does not mean therefore that finance is like the Wild West, teeming with outlaws and gunslingers and in need of upright and fearless sheriffs, but that the *operative* rule of the financial system is that every rule, insofar as it is *laid down*, tends to generate its own replacement by its *opposite*.[10]

From this perspective, the present-day irreplaceability of a system that cannot be identified with any of its states actually becomes the way of accounting retrospectively for its historical emergence. The *doxa* that Eichengreen most remarkably illustrates says essentially that the financial systems have been networks of institutions from the very outset and have always evolved 'incrementally',[11] in a process where new elements are piled up on those already existing, thus bringing about an increase in complexity, in the combinations of interactions, and in the evolutionary inertia of the structure: 'The international monetary and financial system has evolved incrementally from the gold standard to the gold-exchange standard, to the Bretton Woods gold-dollar system, and now to the post-Bretton Woods "nonsystem".'[12]

Even the collapse of the Bretton Woods system – the only one established as the result of a pondered decision, as Eichengreen himself acknowledges – is thus absorbed in its acephalous and non-systematic continuation, with no break in continuity. The system 'evolves gradually through tinkering at the margins'.

The only rule of financial deregulation is therefore not so much the absence of rules as the *readiness* of the rules to change in accordance with an *absolute* evolutionary trend. We are reminded of the definition of democracy given in an article in the 1960s, which was significantly reprinted in 1990 by the *Harvard Business Review*: unlike any other political regime, democracy 'attempts to upset nothing, but only to facilitate the potential upset of anything'.[13] There is no better *technical* and *technocratic* definition of the permanent revolution or – as some put it with a not always correct reference to Schumpeter – the 'creative destruction' peculiar to the market as *dogmatic construction*.[14]

In any case, the fact that precisely this is the perspective adopted by Eichengreen – and, moreover, in a book expressly devoted to the problem of 'what to do' about financial crises – emerges clearly from the passage following the one quoted at the beginning:

> How then are we to evaluate what must be done, what has been done, and what remains to be done? My evaluation is predicated on the assumption that crises are an unavoidable concomitant of the operation of financial markets.[15]

That crises are an inevitable concomitant of the functioning of the system does not simply mean that the system sometimes works and sometimes breaks down, that if you want the years of plenty you have to put up with the years of famine. It also means that there is absolutely no way to *distinguish* when it is working and when it is not. It is precisely because the current financial dogma, as deduced from Eichengreen's book, regards the financial system as performing no specific task that it regards the crisis as having no specific meaning, and therefore it also tends to discount any possibility of the crisis acting as an alarm signal and catalyst of reform.

But, even if we do assume that this crisis can be seen as indicative of a need for reform and regulation that cannot be delayed, the question still remains, however, of what the new rules should be like. And, even before this, what is the object to which they will need to be applied? How can we think about a rule and its *adequacy* if we have no idea of what is to be regulated? In other words, the dogma underpinning the representation of the system as architecture with no architect also obscures our vision of the object of the financial market in its specific and possibly problematic nature. Eichengreen attributes the genesis of crises to no concrete and structural element, but rather to the *variability immanent* in the very process through which the system operates:

> Financial markets are markets in information, and information by its nature is asymmetric and incomplete. It arrives on an unpredictable schedule, and when it arrives the markets react. Inevitably, then, sharp changes in asset prices – sometimes so sharp as to threaten the stability of the financial system and the economy – will occur from time to time. They are likely to be especially pervasive in the international sphere, where the transmission of information between borrowers and lenders is complicated by physical and cultural distance and where writing and enforcing contracts that anticipate the relevant contingencies is particularly difficult.[16]

'Financial markets are markets in information.' This is an assertion whose importance should not be underestimated. Nobody could in fact deny that information plays a crucial role in the financial markets, as well as in markets in general – and perhaps even in areas other than markets. Of course it does. It is, however, quite a different thing to assert as an incontrovertible truth that 'information' is the *precise object* of negotiation and trade in the particular market known as the financial market. Moreover, this is information that is 'by its nature [. . .] asymmetric and incomplete' and hence, as we stated at the outset, information that by its very nature makes it difficult not only for the man in the street, but also for the professionally involved to form opinions that may serve as a basis for responsible action.

We should perhaps realize the *extremely hazy* nature of this apparently crystal-clear definition of the financial market as a market of information and seek to formulate a hypothesis that makes it possible not only to understand the reasons for this haziness, but also to begin to dispel it, so as to attain a clearer grasp of our subject.

The hypothesis is this: what 'information' denotes is not so much the *object* of financial contracts as the *measure* of that object and the *guarantee* of those contracts. (As we shall see shortly, this holds also for 'expectations' and for 'trust'.)

If this were so, a market of information would be essentially a *market of the measure that serves to guarantee the market*. If this were so, crises would really be, 'inevitably', the moments in which this institutional impossibility suddenly resurfaces 'from time to time', opening up a void in which it becomes increasingly difficult to ensure a regulated and contractual transmission of information between 'lenders and borrowers' – that is, between debtors and creditors – one that is truly able to 'anticipate the relevant contingencies'. And a void in which the widespread incapacity to *understand* the object of finance returns like a ghost to haunt us.

2

At the root of the possibility of crisis: Liquidity and risk

> Bluffing lies at the heart of the game and dominates it due to the very fact of being permitted. If it dominates, however, it is only *as the shadow of someone absent*. Its actual use *must* be kept negligible. [. . .] Bad players see bluffing everywhere and keep it in mind. Good players believe it to be negligible and primarily follow their knowledge of the means they have at any moment.
>
> Guy Debord, *Notes sur le Poker*

It is not at all necessary to set yourself up as a prophet in order to understand something of what is going on. It is enough to act as a *historian* and start asking whether there were by chance any signs of anxiety present on a large scale, albeit not necessarily understood, even before the outbreak of the crisis. This is in itself enough to provide an *embarras de choix*.

We shall consider three, once again with the proviso that we are not extrapolating from a doxography but endeavouring to highlight the structure of a dogma.

It is early 2007 and the subprime crisis has yet to begin. Moreover, the system of globalized finance has enjoyed fifteen years of comparative calm and a high degree of 'confidence' after twenty years of almost uninterrupted local crises, ending with Argentina's default. The result, to use the relevant jargon, is a market sentiment characterized by high propensity for risk. The basis of this attitude is the liquidity that the Fed has been pumping into the market for five years – since the manoeuvre through which Alan Greenspan successfully engineered a way out of the bubble of the new economy – to the point where it is now over-saturated. The amount of liquidity, *in the sense of readily available money*, is growing all the time. Contrary to