The Financial Regime[1]

JOSEPH VOGL

HU Berlin, Germany

In his “Postscript on Control Societies,” Deleuze notably refers to a “mutation of capitalism” as one of the key characteristics of the post-disciplinary regime he terms *control society*. “The operation of markets,” he writes, “is now the instrument of social control and forms the impudent breed of our masters” (1992: 6). In the following essay, I will focus on a section of the economy in which this mutation is especially visible: the realm of finance, which in recent years has assumed an increasingly political and governmental function.

This development should concern us – if we are not indifferent to how we are governed now and in the future. Indeed, we have reached a critical point where it will be decided whether current democracies will turn into ‘demonocracies.’ I am not just referring to such boisterous attempts that link the dismantling of the constitutional state with the mobilization of nationalist or ethnic resentment. Rather, we are in a situation in which the financial regime has taken on the character of a ‘fourth power’ and in which the formation of a power of capital (*Kapitalmacht*) is directly linked to the operations of capitals of power (*Machtkapitalien*). Insofar as crises represent intellectual strokes of luck driving forces out of their latency that remain inconspicuous under normal conditions, the last financial and economic crisis provided an appropriate diagram: here one could observe a style of government that deserves the title of a subtle coup d’état.

This means two things. On the one hand, from 2008 to the current euro policy, we are dealing with decision-making entities made up of government representatives, international organizations, and private companies (major banks, rating agencies) that have come together in informal bodies, represent the interests of creditors, and operate outside legal ties.[2] A particular example was provided by the so-called Eurogroup, which directly dictates the fate of European debtor countries. When asked on what legal basis decisions are to be enforced against the opposition of individual members, the chair of the Eurogroup replied very straightforwardly: “The Eurogroup does not exist in Europe-

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[1] The following essay is based on a podcast that was recorded for the Wiener Festwochen 2018 as part of the series “Pod Save Austria.”
[2] For more on this, see my book *The Ascendancy of Finance* (Vogl 2017).

an law. It is an informal group and, therefore, there are no written rules to constrain its President." (Varoufakis 2015)

On the other hand, measures were taken that manifested themselves as quasi-sovereign actions. With the Eurogroup, but also with the European Stability Mechanism or the Fiscal Compact, legislative procedures were circumvented and a legally non-formalized secondary structure was created, which functions as a transnational executive authority: with the suspension of budgetary rights, with interventions in tax law, social policy, labor law, etc. The effects 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 almost a quarter.

What happened here? How could this ostentatious alliance between finance capital and government come about? How did this fusion of informal consortia, sovereign powers, and transnational executive authority take place? And what are the components of which the current financial regime is made up?

Initially, it was formed as part of a process called, for quite some time now, 'financialization.' The beginnings go back to the 1970s and are characterized by a confluence of different events and measures. A first condition was the collapse of the Bretton Woods system (in the early 1970s), which led to "floating rates of exchange" (Deleuze 1992: 5), new financial instruments (such as currency derivatives), and expanding financial markets. Then came the so-called 'Volcker shock,' when the Federal Reserve (under Paul Volcker) drastically raised its benchmark interest rate in order to divert the profits of surplus countries (like Japan or Germany) to Wall Street, while simultaneously forcing down labor costs. This was supplemented by the (neo-)liberal economic reforms under Thatcher and Reagan – with the deregulation of financial markets, tax privileges for interest-bearing assets, and the privatization of social security systems. Next to other interventions that enabled financial capital to break out of its welfare state containment (e.g. the reduction of corporate taxes, the reform of labor markets, or the passing of Financial Market Promotion Laws), two further components were added.

On the one hand, a new and dominant role of international organizations and agreements in the realm of finance – perhaps most evident in the role of the IMF. Since the 1970s, it has been given a special assignment, namely, to monitor compliance with 'stability criteria' in the face of floating exchange rates. Now the great era of 'structural adjustment programs' began: the granting of loans to developing and emerging nations under strict requirements – including budgetary discipline, tax reforms, privatization of state-owned enterprises, protection of investors, the liberalization of the capital market, and the facilitation of foreign investments.

On the other hand, a reorientation of central banks was pushed, something which is best illustrated by the establishment of the ECB: It sees itself as the guarantor of the financial and monetary system, functions as service provider for banks and financial markets, operates as an independent governmental enclave, and is impervious to other organs of government. Hence, it is characterized by a one-sided orientation: While it is not accountable to European parliaments and governments, its responsibility is to the financial community. In order to secure currency and monetary value, it is committed to those investors and players who dictate the dynamics of the financial markets. In other words, the ECB provides a kind of 'minority protection' for the representatives of finance. Through central banks, then, financial markets have become an integral part of government practice and manifest themselves as para-democratic political agents.

This certainly does not cover all the elements of the current financial regime (for instance, one must not forget electronic commerce, shadow banking, or the dominant economic doctrines). But it does of course raise the question: What can we expect from all this? What can we hope for? Or more precisely: Of what must we despair? What are "the new forces knocking at the door"? (Deleuze 1992: 4)

First, when we speak of financial economics today, we do not refer to an economic state of affairs or to a special market system. Rather, the current financial regime is a conglomerate of state organs, central banks, international organizations, treaties, and privileged private companies, an ensemble of public, semi-private, and private actors. One should not speak of free markets here, but of a 'regulatory capitalism.' With its own transnational legal power, it has gained the status of a global executive authority, which directly intervenes in national economies and the government policies of the old nation states. As a special form of power, the financial regime structures a transnational space in which sovereign authorities, business, and market mechanisms merge. Thus, we witness the transition from a geo-political to a geo-economic order, in which accumulation and exploitation zones are distributed differently and a new class antagonism is established: a confrontation between mobile groups of investors or supercitizens, on the one hand, and the more earthbound citizens or subcitizens, on the other.

Second, major turning points in the history of the financial regime are not marked by the 'resounding' events of the recent crises. Rather, the historical rupture took place in the 1980s, which saw a reversal of long-term trends. Until then, progressive taxes, social security systems, and strong trade unions had ensured a continuous reduction of inequalities in the distribution of income and wealth. The processes of financialization have inverted this dynamic and have led to a situation in which a peak in private wealth stands in stark contrast to a record level of private (and public) debt, with both – assets and debts – being increasingly unequally distributed (I will spare you the well-known data; see, for example, Piketty 2014). Two moments are particularly noteworthy. On the one hand, since the 1990s an increasing proportion of profits and credit has been invested in financial products; this has initiated an aggressive deindustrialization driven by the financial economy (especially in the US and in the UK) which is continued in today's 'platform capitalism' (see Srnicek 2017), whose high profits and stock market values are due to policies that released companies from their responsibilities to fixed capital and labor. On the other hand, the financial regime thus functions as a bottom to top transfer system which turns the lower half of the population into net interest payers for the owners of financial assets. This has been accompanied by the passive inclusion of wage earners into the financial economy: through the expansion of consumer credit and mortgages, through pension funds supported by the financial market, and through the privatization of health and retirement provisions. The upward redistribution of interest payments corresponds to a downward redistribution of financial risks. One result could be observed in the wake of the euro crisis: The weakest countries and groups bore the costs of the crisis – a kind of internal colonization of European populations was organized. The dynamics of the financial regime thus not only unleashed political and economic centrifugal forces in Europe (a process that is open-ended), but also attacked one of the most important resources of democratic politics and led to an overall erosion of solidarity.

Third, this is linked to a problem that is already intensely examined by economists: namely, the migration of the liquidity monopoly from governments and central banks to the financial markets. We are dealing with the transition from a 'government-driven' to a 'market-driven' financial system, which has become detached from the central bank/commercial banks axis. This in turn has two consequences. On the one hand, central banks have lost the overview of systemic risks, but also the control over circulating money supplies. Money creation takes place in the markets, recent financial instruments have erased the difference between money and financial assets, and the idea of a definite and determinable quantity of money must now appear as a historical curiosity. The structural instability of financial markets is complemented by the waning of control mechanisms. On the other hand, financial markets have become a 'prison' for governments, national economies, and societies. This is particularly evident in the policy of the ECB, which is bound to a 'blocking rule' for the purchase of bonds of the European member states; also, an enrichment automatism was installed: The ECB provides private banks with cheap money, which the latter lend more profitably for public finance, while conversely buying public debt previously purchased by private banks. The independent central bank has financed the dependence of public budgets on the financial sector; and with the threat of capital flight, interest rate penalties, and a decrease of investments, the financial markets themselves have become a 'fourth power,' that is, a creditor of last resort.

Fourth, a double dilemma has arisen from this. According to prevailing dogma, economic growth is financed by low interest rates and cheap money (as has been attempted for a decade). However, this is precisely what leads to the accumulation of future risks: Investments flow less into industry, infrastructure, or labor, but rather seek out capital and real estate markets. The symptoms are already apparent: from the stock market boom of recent years to the devastation of the inner cities due to exploding property prices. The attempt to generate economic growth is thus simultaneously financing the next financial crisis. This is accompanied by the shadow of a political dilemma. The depoliticization of monetary policy, which has migrated from central banks to financial markets, went hand in hand with a political privileging of the financial industry, which, via money creation and financing structures, can decide major distribution issues for itself. Political decisions are thus dictated by the anticipation of market preferences; and the interests of a voting public are limited by the moods of an investing financial public. This, if you will, is a class struggle waged by the agents of finance against the rest of the population.

Inevitably, older issues of sovereignty thus reappear. Even if one must accept a global situation in which sovereign authority can today only be exercised in a limited, disseminated and fragmented way, some questions remain (with which I will conclude). In such a situation, one should first of all beware of false friends offering answers to questions they are unable to ask. A case in point is liberalism, which, by referring to the blessings of the market system, consistently ignores the concrete power structure of the financial regime. The other false hope is placed on the old nation state. For besides the fact that this entity has played a major role in the creation of the current financial order, it is already in the process of forming what is perhaps the most aggressive alliance, as is currently being tested in the US: the alliance between the financial industry and plutocratic lobbies with a policy of nationalist resentment.[3]

How, then, can the financial regime's consistent deformation of democratic principles be stopped? On the one hand, after 2008 – and for a moment – the prospects in Europe looked good: Major banks had voluntarily socialized themselves, solidarity movements arose, and sound proposals piled up that addressed the long overdue coordination between monetary, fiscal, and economic policy. But all that is long gone; most recently, the separate banking system (the necessary separation between commercial and investment banks) demanded by all experts has died. On the other hand, the financial regime has asserted itself as a superior power combining the private creation of value with the use of the instruments of a sovereign authority in an even more efficient manner. Therefore, our pessimism today cannot be great enough. And this means: it is a question of sharpening a pessimistic realism that distrusts attempts at appeasement,

[3] In his Postscript, Deleuze seems to predict this trend: "It may be that older methods, borrowed from the former societies of sovereignty, will return to the fore, but with the necessary modifications." (1992: 7)

refuses to consider financial capitalism to be the best of all worlds, and renders the power of the financial regime as so illegitimate and unacceptable that it becomes the target of interventions, disputes, and struggles: This is not how one wants to be governed.

For in the financial regime the following applies: Sovereign is he who is able to turn his own risks into dangers for others and manifests himself as a creditor of last resort. Or with a quote from Samuel Beckett: “To him who has nothing it is forbidden not to relish filth.” (2009: 19-20)

translated from German by Simon Schleusener and Florian Cord

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