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On the terrorism of money and national policy-making in emerging capitalist economies

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ABSTRACT

Is national state policy-making more constrained by capitalist value-disciplines in emerging capitalist economies (ECEs) than it is in advanced capitalist countries? In order to explore this question, this article offers a spatialised form-analysis of the imperative that the capital relation imposes upon the form of the state in ECEs. The approach, grounded in the Marxian critique of political economy, integrates crucial insights from radical economic geography and Post-Keynesian/Minskian economics. I show that despite growing integration into the financial world market, ECEs have retained a subordinate positionality in what I call the *relational geographies of money-power*, and which are constituted by two overlapping sets of geographies: the geographies of the global monetary system, and the geographies of the global financial system. As a result, the contradiction between capital, money and the state takes a more *acute* form of realisation in ECEs than in advanced capitalist countries, making the management of monetary and financial affairs more difficult for the capitalist state. This, I argue, constitutes *an additional layer of social determination on national policy-making in ECEs*. More concretely, this manifests itself as a systematic volatility of exchange rates and a tendency to high real interest rates, enhanced scrutiny of national policy-making by international investors, rapidly shifting financial reputation and high pro-cyclicality of money-capital inflows, the build-up of specific forms of external vulnerability, brutal money-capital flight during financial distress, and heavy dependence on monetary policy in advanced capitalist countries. I conclude by discussing theoretical and political-strategic implications for labour-centred development.

1. Introduction

In 2011, IMF Managing Director Christine Lagarde praised Brazil for finding the 'enviable sweet spot' between sustained growth and reduced external vulnerability, allowing it to become 'one of the world's leading emerging markets' (2011). This statement reflected the enthusiasm of the international financial community at the time: Brazil and other emerging capitalist economies (ECEs)[1] had weathered the 2008 global financial crisis relatively well, the post-crisis economic recovery had been swift, growth prospects looked much better than in advanced capitalist countries, and primary commodities and asset prices were booming. There was much talk that ECEs had become the new engine of global growth, and some went as far to argue that they had 'decoupled' from advanced capitalist economies and were now following a more autonomous growth path (e.g. The Economist, 2009; Kose & Prasad, 2011). ECE's sovereign credit ratings and funding conditions improved, and large volumes of money-capital flows poured in. ECEs' state managers were also more self-confident and emboldened: thanks to policy efforts to limit the build-up of various forms of financial vulnerability, the type of external crises that had plagued the development of ECEs in the 1990s early 2000s, characterised by external debt problems and long recessions, was a thing of the past. Or so *it seemed.*

But things quickly changed. A combination of factors, including the end of the commodity boom, the worsening of the Euro crisis, the US Fed 'taper tantrum', and a looming crisis in China, led to a deterioration in global economic conditions and rapidly changing global risk aversion from 2013 onwards. ECEs were badly hit, and the tragically familiar sequence of 'manias, panics, and crashes' returned (Kindleberger, 1978). Money-capital inflows sharply slowed down or reversed, in a context of sovereign credit downgrades, falling currencies, and financial distress. The international financial community drastically revised down its evaluation of the present conditions (and future prospects) of labour exploitation and domination in ECEs: the boom in money-capital flows had led to 'plenty of disappointment' (The

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[1] There is no single definition of 'emerging' markets. The expression usually designates a specific type of large developing economies with developed and sophisticated financial systems, and which concentrate the bulk of money-capital inflows to the Global South. Over the period 2005–2014, these include: China, Brazil, Mexico, Turkey, India, South Africa, Indonesia, Malaysia, Poland, Indonesia, Thailand, and Russia (IMF, 2014).

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Economist, 2014), and ECEs would no longer drive global growth (World Bank, 2016). After all, ECEs had not ‘decoupled’. State authorities implemented violent bouts of austerity, in desperate attempts to restore international investor confidence, often dramatically worsening domestic socio-political crises (for instance in Brazil, Turkey, South Africa, Ukraine).

This raises the following question: despite extensive – and to a large extent, successful – policy efforts which aimed at building large foreign reserve accumulation as a ‘war chest’ against financial instability, developing deep, liquid and sophisticated financial markets, enforcing tight banking supervision and regulation, and overcoming the ‘original sin’[2] (Wade, 2011; Helleiner, 2010; Grabel, 2015), why do ECEs still remain so highly financially vulnerable to changing global conditions and global patterns of volatile money-capital flows? In other words, why does the ‘terrorism of money’ (Marazzi, 1996), that is, the abstract and impersonal power of capitalist discipline under the form of money over national state policy-making, take such an *acute* form in ECEs?

While the extent to which global financial integration and enhanced capital mobility on a world scale have eroded the policy autonomy of national states has been widely discussed in academic circles (e.g. Strange, 1996; Weiss, 1998; Cerny, 1999, Deeg & O’Sullivan, 2009), this extremely vast literature has been mainly concerned with advanced capitalist countries. Much fewer contributions have focussed on ECEs (important exceptions include Grabel, 1996, 2015; Mosley, 2003, 2015; Gallagher, 2015; Kaltenbrunner, 2015; Paula et al., 2017). As Mosley notes, this is partly because the literature has been pervaded by the view that ‘the constraining effect of financial market orthodoxy is most easily observed in developing nations, but is “*equally at work*” in industrialized countries’ (Germain, 1997: 135, quoted in Mosley, 2003: 8, emphasis added). I want to argue in this article that this theoretical postulate is highly problematic, notably because it underplays the contemporary geographies of money and finance, and how those *unevenly shape constraints on national policy-making*.

In fact, at least two recent bodies of scholarship suggest that this is the case. One the one hand, scholars have argued that patterns of financialisation in ECEs have been shaped by their particular form of financial integration into the global economy and by the build-up of specific forms of external vulnerability (Kaltenbrunner and Painceira, 2015, 2017; Akyüz, 2017). Consequently, it is claimed, financialisation in ECEs takes a ‘peripheral’/‘subordinate’ character (Becker et al., 2010; Lapavistas, 2013; Powell, 2013). On the other hand, scholars have showed that this ‘peripheral’/‘subordinate’ character has been ‘internalized’ in various forms of state power (policies, institutions, instruments) in ECEs, often involving high social costs shifted unto workers, peasants and the poor (Soederberg, 2005, 2014; Marois, 2011, 2012).[3] Despite the pivotal role played by the notions ‘peripheral’/‘subordinate’ in their arguments, those bodies of scholarship dedicate little effort to discuss the *geographical assumptions* that underpin them. Consequently, a series of questions remain unanswered: What are the *relations of space and power* that characterise peripheral/subordinate financial integration? Why have ECEs remained in a subordinate position, despite being increasingly integrated into the financial world market, despite attracting growing volumes of money-capital, and despite the growing role of regional financial centres such as São Paulo, Johannesburg, Hong-Kong, Shanghai, Singapore, Mexico City, Istanbul, Beijing and so on? What are the implications in terms of how the ‘terrorism’ of money shapes national policy-making in ECEs?

Recent Post-Keynesian/Minskian contributions have provided extremely valuable arguments regarding some of the above questions using the concept of ‘international currency hierarchy’ (e.g. Andrade & Prates, 2013; Kaltenbrunner, 2015; Paula et al., 2017).[4] The key claim put forward in this literature, as explained in depth below, is that the currencies of ECEs have remained at the bottom of this hierarchy, which makes the management of monetary and financial affairs particularly difficult in ECEs, creating severe constraints on national policy-making. In my view, this argument is crucial – especially because it draws attention to the monetary basis of the global financial system and its peculiar implications for ECEs – however it tends to reduce the particularly acute form of the ‘terrorism’ of money in ECEs to a *single logic*, that of having currencies located at the bottom of the currency hierarchy.[5] Importantly, this single logic does not allow grasping the complexity of the material, cultural and symbolic geographies in which money-capital flows, and the myriad forms of power relations that underpin them (such as class, empire, coloniality, race and gender). As the present article shows, paying attention to those distinct and concrete geographies of money and finance, is essential to understanding global patterns of money-capital flows and how they unevenly constrain national state policy-making across the capitalist economy, at the expense of ECEs.

The purpose of this article is therefore to offer a more nuanced appreciation of the relations of space and power that characterise peripheral/subordinate financial integration, with the objective of understanding how the terrorism of money operates in ECEs. I suggest doing so by developing a *spatialised* understanding of the relationship between the state, money and private money-capital. My approach is based on Marxism conceived as the critique of political economy,[6] enriched by insights from radical economic geography and Post-Keynesian/Minskian economics. I proceed in two steps. In the first section, I conduct an analysis of how the form and class character of the capitalist state imposes a series of constraints on national policy-making. Those form-determined constraints, I argue, are constituted by the mutually dependent yet contradictory relationship between the disciplinary power of capital, the reproduction of the money-form and the reproduction of the state-form: while the national state is central to reproducing the money-power of capital, the global movement of capital under the form of money, flowing across space to appropriate living labour and extra-human natures, also shapes the modalities through which the state politically contains and integrates labour within its national space of valorisation (Bonefeld & Holloway, 1996; Alami, 2018). In the second section of the article, I investigate the spatial logic of the money-power of capital, how command over space is constitutive of it, and I examine its concrete and distinct geographies of expression. I

[2] The inability to borrow in local currency, which proved so problematic in the 1990s and early 2000s.

[3] For instance, ECEs have accumulated large reserves in US dollars since the late 1990s. Those resources, instead of being used to finance development and poverty alleviation policies, are invested in low-interest US public debt securities (considered the safest assets in the world), effectively socializing the risks and costs associated with financial openness, and at the same time ‘subsidizing’ the US.

[4] As rightly underlined by Reviewer 1, this body of literature builds upon a large tradition of critical scholarship on the perils of financial integration in ECEs, many of them emanating from Latin American Dependency theory and Structuralist tradition (e.g. Tavares & Fiori, 1998; Biancarelli, 2008; see Vernengo, 2006 and Kaltenbrunner and Painceira, 2017 for overviews in English).

[5] In Structuralist fashion, this itself is the direct corollary of the ‘peripheral condition’ that characterise ECEs, in the context of the ‘core-periphery’ relations of the global economy (e.g. Andrade & Prates, 2013: 400; Paula et al., 2017: 183).

[6] The purpose of Marxism understood as the critique of political economy is the critique of the (fetishised) bourgeois social relations, and the historically specific *forms* that they take (Bonefeld, 2001). Capitalist forms of social life (the forms of the relationship between humans, and between humans and extra-human natures), Marx argued, are ‘perverted’ forms (Marx, 1867/1991; Bonefeld, 2001: 57). The categorical critique of capitalist social forms such as value, the commodity, the state, capital, and money thus consists in revealing their social constitution, that is, the ‘human basis of their existence’ (Bonefeld, 2001: 54–6).