Making of a Banksta's Paradise

The story of Idle Money

"Merchant of Venice"

- European Feudal Era where social wealth rooted in land – activities of money lending and merchant trade highly corrosive
- Merchant activity intervening between producers + consumers fostering indebtedness and expropriation of land as it corrupted ruling classes
- Usury or "loan capital" – little socially redeeming value as disconnected from substantive economic life
- Money lenders *indifferent* to use of funds as they are to how loan plus interest repaid
- Loan repayment may be arbitrarily set to exact such an exorbitant cost that debtor is ruined or must strive for ruin of others

“Money makes Money”

- “Capital” or “capitalism” often conceived in terms of “money making money”
- Throughout history money lenders have charged interest for money loaned as merchants who were often borrowers made money by buying things at one price and selling them for a higher price
- In capitalist economies money makes more money through unique circuitous “shape shifting”

Shape Shifting of Capitalism

- Capital successively assumes + sheds forms of liquid *money* capital, *productive* capital as means of production and labor process, and capital as goods or *commodities* emerging from production
- Capital is none of these considered separately
- Exists in part as money, in part as commodities, though found primarily in form of productive capital

Efficiency of Capitalism

1. Capitalism internalizes its own fount of regeneration and augmentation as it subsumes the labor and production process of society
2. Capitalism conscripts the activities of money lending or “loan capital” + merchant buying and selling under conditions where IT calls the shots
3. Both the business of money lending + buying and selling commodities are operated to ensure perpetual motion of capital as it shape shifts to augment mercantile wealth

Capitalist Role of Idle M

- In the course of business cycles monies drawn from profits set aside for future investment, contingency or depreciation funds rendered temporarily idle and deposited in banking system
- Such funds “socialized” in banking systems “traded” in money market at rate of interest
- Redeeming economic value in use of such idle M – whether directly for productive investment or indirectly to more rapidly discount bills in sale of commodities – is that credit offered in anticipation of income created by funds determinate use
- In all instances accumulation of idle M to be kept within bounds as time funds remain idle minimized

Fetishism of Interest

- Banks do not lend their *own* money
- Their role is one of intermediation
- Idle funds banks “trade” are not *capital* but funds assuming form of a commodity or “asset” with a price
- No certainty such funds will become capital yet their “trading” in money markets fosters perceptions of actual capital as automatically an income generating force

“Fictitious” Capital

- Unlike idle M – stock markets develop *outside* the circuit of industrial capital under auspices of financier class
- While “capital” or equity markets grow in conjunction with money markets, prices at which shares/securities traded are *not* rates of interest
- Stocks “traded” in “capital” markets according to *fictitious* values in that the equity market activities occur independently of motion of *real* capital

Idle M Rising

- Post WWII "golden age" ever expanding mass consumption + abundant savings *combined* – thus US savings outstripped domestic investment requirements
- Idle M fuelled US acquisition of overseas assets + excess liquidity mopped up by Keynesian welfare/warfare state
- Waning of golden age – ability of business and government to mobilize monetary savings for productive ends increasingly constrained

International Pooling of Idle M

- US machinations to support dollar as hub currency following demise of Bretton Woods and Nixon’s closing of gold window saw supply of money + credit increase much quicker than growth of real economy
- Recycling of “petrodollars” through international banks rather than *real* investment of those funds swelled pools of idle M globally
- Explosion of Eurodollar holdings from $3 billion in 1960 to over $1 trillion by 1984
- Money market funds swell from $3 billion in 1976 to $230 billion by 1982

Domestic Pooling of Idle M

- Rise of coterie of so-called institutional investors pension/mutual/insurance and later hedge funds drives casino-like search for short term arbitrage “investment” opportunities
- US pension fund assets grew from $977 billion in 1980 to $6.4 trillion in early 1990s
- 1995 assets held by OECD institutional players already = 110% of OECD GDP
- Such holdings dwarfed those of central banks

Retreat of Capital to its Antediluvian Form

- Idle M bloating without limits reverts to a form of money lending capital that had thrived in the pre-capitalist epoch
- It begins to seek out speculative activities on its own account
- Late 1980s through 1990s into current century we see industrial cycles based on fixed capital investment, construction, inventory utilization, etc. **replaced** by cycles of asset bubbles and bursts

Idle M + Domestic Banking

- As the US abdicated its production centered economy the banking model that had supported US economic growth also morphed
- So-called *relationship banking* which marks the capitalist era involved banks taking money from various classes of depositor
- These were paid less for their deposits than banks charged borrowers.
- “Relationship”, of course, is the operative word here because with banks bearing the risks, knowing the borrower and what they will do with the borrowed money is de rigueur.

“Merchant of Venice” Banking

- The new banking model catering to idle money is *originate-to-distribute* (OTD) model
- In the OTD model banks engage in financial disintermediation – originating loans only to package them as marketable securities and sell them off, collecting fat fees as the moves are endlessly repeated
- Under OTD banks have little concern for the creditworthiness of borrowers or to what purpose the loans will be applied given that interest payments along with the principal are paid to end buyers of securities, *not* banks