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Gentrification

the economy of the land and the role of politics

1. The economy of the land

Who displaces whom and why?

The term “gentrification” is used to describe a process whereby higher earners displace low earners from inner cities or certain neighbourhoods. It is a very poor description of what is happening in terms of housing policy in Berlin, London or other cities.¹ But many activists even take it to explain the whole thing: the rich, who are moving into the area, drive up the rents. Some activists’ practical resistance takes its form according to this theory.

Among other people, Andrej Holm opposes this explanation of city development.² Firstly, he points to the fact that rising rents still have an important basis in the calculations of profitability by owners of land and houses. Secondly, he states that these calculations have changed considerably over the last two decades because of the emergence of new agents of real estate capital, which he presents as the economic reason for the change.

We will counter this with the following points.

First: the freedom of real estate owners is a matter of principle in a capitalist society, and this includes their interest in raising rents through the peculiar methodology of land valuation. The phenomenon is not something that only arises when real estate funds arrive.

Second: the success of the owners’ calculation is dependent not simply on rich people moving somewhere, but on the overall development of capitalism in an area.

What determines the rent?

Owners of land (and as the case may be of the buildings already existing on the land) can demand a lease or rent from prospective users of the land.



An ancient term is used for this: ground rent. Generally, owners have no interest in using the land themselves to plough, produce or live on. Other members of society want to do this. But in order to be able to do this they require the agreement of the owner. As with everything owned exclusively by someone as private property and desired by others, this is the start of a friendly relationship known as “give me money”. If the land is not directly sold, permission is granted for its use in return for a regular tribute variously called lease or rent.

A landowner usually has an interest in obtaining the highest rent possible. But “as high as possible” finds its limit in competition between landowners.

On the other side, there is the user, i.e., a private or commercial tenant. Does she seek the lowest possible rent? As such this is not true, given that Burnley is clearly not the new hot spot for all kinds of tenants.³ Lets go through it in terms of the potentially interested parties, starting with commercial tenants.

Every kind of capital needs land in order to do its business. But different kinds of land have different qualities and locations. Each capitalist has a different interest in that land. What matters for agricultural capital is fertility. For mining it is obviously the sub-surface content of the land. What matters for industrial capital in the narrow sense is transport links, proximity of suppliers, perhaps proximity to universities for skilled labour etc. What matters for trade is a good infrastructure and often proximity to customers.

Land is not just an important requirement for all kinds of capital, it is a requirement for competitive advantage. Paying a relatively high rent may influence profit favourably: to banks for instance it is important to represent their wealth by having their offices in ostentatious buildings in thriving areas in order to show their own creditworthiness.

Tenants are absolutely dependent on landowners, i.e., that they get *some* piece of land from some landowner. Because unlike many other products, land cannot be multiplied through production if needed. Yet, high rents do not simply follow from sheer scarcity of land, as

¹This text is a translation and sometimes adaptation of a German text with the same title, available at <http://bit.ly/sk10t2>, which in turn is based on a presentation given in Berlin. We tried to replace examples taken from the German context with examples from the UK where possible. While there are significant differences between Germany and the UK with respect to gentrification (such as the rates of renting households vs. home ownership and the political power of councils in both countries), the more general arguments presented in this article hold in both countries.

²Andrej Holm is a relatively well-known social scientist in Germany who researches and critiques gentrification. He blogs about gentrification at: <https://gentrificationblog.wordpress.com/> (available in German only).

³For those not that familiar with the lay of the land in the UK: Burnley here simply serves as an example where house prices are very low compared to, say, London.

not too few activists like to believe. Rather, rents develop in line with capitalist development at a given location – as this produces demand.

For the time being we may note that owners need not become active in any way in order to get a higher rental income. As long as the business world is interested in their land in particular, their title to the land is automatically a lasting source of money. For successful landowners, simply owning the land is a cash cow without the need for any intermediate steps of the kind required as, e.g., with the production of goods.

Formation of land prices

Before we talk of the non-commercial users, such as those looking for a flat, we will trace the creation of the price of land as it develops from the conditions set out above.

We described the particular interaction of supply and demand, but that is not the whole story to how the price of land develops. The rent or lease is capitalised, resulting in the valuation of the land according to what is broadly known as the Income Approach.⁴

A fictive example: someone holds £1,000,000 and could put it in a bank at 1% annual interest. Let us assume that 1% is the currently prevailing interest rate for money investments. So this person would receive £10,000 interest per year. She may as well buy a piece of land, say, which also earns £10,000 in income per year. This land would also cost about £1,000,000. How is that?

In a functioning capitalist society, where everything is subordinated to making money and everything needed to make a profit can and has to be bought for money, a banking system develops in which a sum of money is more than itself. The million just mentioned is capital and quasi a licence to receive £10,000. Inversely, a flow of regular money income is treated as the offspring of an underlying original capital. In this case the land itself is capital, so to speak. Not only the rent but also the prevailing interest rate determine the value of this capital. The land brings in £10,000 per year and this amount is treated as equivalent to 1% interest on an underlying sum, hence the value of the land is £1,000,000. The price at which the land is eventually sold fluctuates around this land value.

Clearly, the value of land rises according to the prevailing interest rate as the rent rises. If the owner can push through a rent of £20,000 per year and capitalises this amount at 1%, then a

land value of £2,000,000 is the result. In order to make this clear we can compare again: if someone has £2,000,000 and puts this into the bank at 1% interest, she will receive £20,000 per year.

If the rent decreases by half, so will the value of the land.

But land value can also change purely through a change in the prevailing interest rate. If the interest rate falls to 0.5% then the land value will double. Again, the comparison: to get £20,000 per year you would have to take £4,000,000 to a bank at an interest rate of 0.5%. The freeholder makes £20,000 per year. This being treated as the offspring of an underlying capital at an interest rate of 0.5%, the underlying capital is £4,000,000.

If the prevailing interest rate increases, the land value decreases accordingly.

In summary, land value may fluctuate according to changing rental income and interest rates. Apart from the actual rent, this is how development in land value becomes an additional source of income – or even the main source – for land owners.

When it comes to this development of land value there is one vital difference between real estate funds and simple house owners: real estate funds have more money. Someone who is just the owner of a house cannot as easily afford to modernise it in order to raise the rent to a level that prospective tenants may refuse to pay when there are still cheaper flats to be had next door.

Real estate funds on the other hand have enough money to influence their own land value assessment positively. They can buy flats in massive numbers, modernise them and ask higher rents. Thus, there will be fewer cheap flats in certain areas, and the tenants will not be able to simply say “oh well, then we’ll just go to another landlord”. Real estate funds can design their impact in such a way that they can make flats and their neighbourhoods more attractive to tenants of a new, more affluent milieu, who will be courted directly.⁵

Hence, both groups only differ in means and not necessarily ends.

Tenants and their calculations

If a capitalist business life develops in an area, landowners will be able to count on growing demand for living space as well. Everyone wants to have a place to live, from managers to unskilled workers. If the city in question also has a university, students will be looking for a

place, too. In the case of a capital city, state employees will also be flat hunting.⁶

With their spending power, prospective tenants compete, firstly, against business interests in the narrower sense (demand for office space etc., as described above) and, secondly, against each other.

They are free to make the following calculation in relation to what is offered on the rental market: what percentage of my income am I willing to pay for what amount of space of what quality? For the highest earners this may not compromise fulfilment of other needs. Others, however, must consider their rent against restaurant visits, cinema, travel or simply the pub and ask themselves: what can I do without?

A cutback in the quality of a flat can be made with regard to such things as size, brightness, noise, quality of air, transport connections in general and proximity to the place of work, infrastructure in the area (from shopping to entertainment to kindergartens and schools), social environment, etc.

In this muddle of bad decisions that have to be made, many trends are possible. In one Berlin district named Kreuzberg, for instance, more tenants than in another called Prenzlauer Berg seem to have decided to stay albeit rising rents, even though it means rent will eat up on average 40% of their income.⁷

Some people will move from one hole to another before modernisation takes place, until the next hole is also modernised and so on until no holes are left. Thus, the availability of holes is gradually reduced.

Some families may want to move away from the suburbs and their “green spaces”, for example, because both parents want or must work; they may want to feel “young” for longer and enjoy a recently adjusted inner city atmosphere. Some people are willing to endure commuting to work for an hour and a half because it saves rent. Others put up with the same journey time because they work in Nottingham but want to live in London. Some academics may decide to keep a flat in two or even three major cities in Europe and the US because they care about quality of life in relation to their job, in which it seems sensible to hold two or three different chairs.

To sum up: urban changes in terms of rent and surroundings usually have a number of visible or tangible effects, e.g., more tourists and hotels, a changing social composition in the neighbourhood, different shops, etc. But it is important to realise that these things are only the expression of a much broader principle. The

⁴For those familiar with volume 1 of Marx’ Capital: the term “capitalised” should not be confused with the same term in said book. There it means to reinvest profits, here it is meant to determine the value of something based on the revenue it provides. This latter meaning is also used in volume 3 of Capital.

⁵As free riders in this revaluation, simple house owners are increasingly willing to sell in order to cash in on the development of land value.

⁶In the UK many of these groups buy instead of rent whereas in Germany it is much more common to rent. Yet, the calculations listed in the following do also apply to home owners who live in their own flat. The only difference to tenants is that home owners also have to take into account if and how much their flat will appreciate in value. That is, they relate to their flat both as their means of living and an investment.

⁷Both Kreuzberg and Prenzlauer Berg are gentrified areas in Berlin. For comparison, Shelter reports: “The majority of London boroughs [22 out of 32, the authors] have median rents that cost more than 50% of median local full-time earnings” (<http://bit.ly/pcp91h>, access 15.3.212).

⁸Andrej Holm argues that some things stated in political and academic articles on gentrification are correct, but that on their own these do not explain the matter. Theories of supply – there is something to it, but... Theories of demand – there is something to it, but... In this way he challenges every explanation but does not criticise any of them in principle. With Holm, then, gentrification appears as an interaction of many conditions. But when it comes to explaining rent development he names “central causes”, implying that there are also other less decisive causes. “Critical housing market research thus sees the transformation of city-owned properties into purely financial assets and the weakening of traditional structures of land ownership as

whole process depends on the relation of business interests to land and on the development of capitalist business life.⁸

A particularity of the real estate market during the sovereign debt crisis

Before we turn to discussing the role of politics, some comments regarding the particular part played by the real estate market during a credit crisis. At the moment it might be tempting to get the impression that real estate market development has less to do with overall capitalist development in general than we claim. The Western world has been on the edge of or in crisis for years, yet, housing prices in some inner cities continue to rise sharply.

During the financial crisis, financial institutions have come to distrust their own standard practice of capitalising outstanding debt and treating it as actually existing assets. Under these circumstances the debt owed, like state bonds or company equity, is no longer actual wealth but only a precarious future promise. Inasmuch as the financial institutions treat it this way, this becomes a reality.

The consequence is flight to so-called material assets. Instead of investing in state bonds, investors favour gold and push its value up to new highs. And instead of investing in equity, investors and even bank funds tend to buy up real estate. The purpose of investing changes: during crisis it is no longer about multiplying private property by buying the rights to future payments. Instead, private property now seeks to retain its value in preference to disappearing through the devaluation of debt instruments and the currencies tied to them. Investment in the narrow sense, i.e., buying in order to multiply value, is replaced by the attempt to buy things assumed to be of stable value.

This kind of investment, a consequence of the crisis, is currently being played out in Berlin, according to newspaper articles featuring interviews with real estate agents. This serves as a preliminary explanation of the currently strong demand for inner city housing among potential owners. But that this leads not only to rising housing prices but also to rising rents can only be found in the causes that also hold for 'normal times', as described above.

Of course, investors are also keeping an eye on places with the potential for economic development after the crisis. In their prognosis Berlin's inner city seems to offer this potential, allowing in turn for speculation on the regular investment flow implied by the prognosis.⁹

2. The role of politics

Municipal zoning policy – economic promotion, regulation and the legal recognition of property

In discussion of city development it is often said that, for instance, Berlin's municipal government has abandoned housing policy altogether.

For example: "Any practical housing policy would constitute a turning point compared with the current situation where housing policy simply does not exist. Under the 'red-red' administration and previously with the CDU-SPD senate we have experienced massive cutbacks: the elimination of all subsidies for new social housing and urban-social renewal and the sell-off of more than 200,000 publicly owned flats. 'Red-red' has liberalised building legislation to such an extent that it has become possible to build more densely in the inner city than during the Wilhelminian period."¹⁰

The urban sociologist Andrej Holm here expresses a prevailing activist idea: once upon a time, the state or the city authorities mitigated social suffering with policies such as building public housing, imposing rent control, etc. Today, on the contrary, poor people are let down and the doors are opened wide to capital. The state or the city used to have a neutral, balancing effect, but not any more.

However, some things do point to political plans and actions on the part of the city administration. For instance, in Berlin "Projekt Mediaspree" was initiated, subsidised and partly implemented by the city of Berlin: an attempt to establish a new commercial site in the inner city on formerly economically lesser used area. There is evidence that not only Berlin but also other cities and districts are setting their hopes on real estate capital, seeking to attract particular companies and high-spending tenants. This process entails the direct or indirect displacement of people with financially less useful attributes such as benefit claimant status, skateboarding prowess, homelessness etc.¹¹

Furthermore, this idea misconstrues housing policy and wider municipal policy in ways pertaining to three distinct levels of state activity. Lets look at those aspects one by one.

Economic promotion. The city's interest is quite evident in the case of "Mediaspree" in Berlin or the "Tech City" initiative in London. With the help of planning decisions, financial support from a consortium of companies and eventually the sale of land, a part of the city is prepared explicitly for maximum economic

growth. Companies are supposed to move in and successfully multiply their money. The interest of the state body becomes clear when looking at its relation to the economy: while no part of the state is in itself an economic subject, state, city, etc. depend on money for their various projects. They do not earn it directly, but by deducting taxes from all economic undertakings (and by going into debt). The more the merrier: economic growth means a well-working economy with lots of opportunities for the state to help this economy grow even more. The city wants to create good and appealing conditions for future businesses. It takes various measures for that, among them municipal zoning policies. Because these measures are made for a world of competitiveness, they are necessarily speculative: whether businesses will take up the offer depends on their own competitive development and on the possibility of more appealing proposals from other cities. Therefore, it is wrong to claim that "surely they should have known this was coming", when a project does not work out.

This economic development is measured as an aggregate of the business success of all citizens and is successful if that amount has increased. But it must be understood that what is added up – namely wealth measured in money – is obtained through competition. And competition necessarily includes losers. This affects dealings between companies but it mostly affects those who, as wage workers, are either forced to submit to the companies or are not needed in the first place, i.e., unemployed.

Why, then, when there are already so many empty offices, are business areas still being developed continuously? We have mentioned already that supporting the settlement of business in a certain area can be of great interest to the city. But no planning in a generally competitive economy can be sure to meet the needs of capital. Hence, there must always be enough free space available for a sudden expansion of capital. An expansion should not fail because space is scarce. In turn, individual real estate capitals compete against one another in the building of business towers as they try to entice companies away from rival developers. The companies, of course, are happy to take up the better offer, even if they were already making money at the old location.

Regulation. Critics of Berlin's economic policy accuse it of one-sided attention to capital (or put more crudely, the rich). But a different kind of attention is acknowledged in other policy areas. Here, it seems, the city does something for ordinary people, tenants or the poor.

central causes of the process of gentrification in the cities." (Andrej Holm, *Wir Bleiben Alle!*, Münster 2010, p.27, our translation) But there is a difference between, on one hand, examining the market-oriented use of land and the development of land value speculation from the underlying drive for rental income – an examination which may entail looking more closely at one particular development – and, on the other, ignoring these wider connections and concentrating only on one particular development. In the latter case the particular is turned into the cause. Therefore we strongly suspect that "critical housing market research" does not go beyond our explanation, but begins and ends somewhere completely different. The question of conditions, reasons and causes is not just a philosophical exercise in logic. Those who grasp the management of the housing market by financial capital as a particular instance of the general subordination of housing to capitalist criteria will not be content to cause some kind of nuisance to financial capital. Whereas those who do not understand this will complain about financial capital, will protest against it with banners saying "Greedification" and will maybe launch some kind of action, but will continue to sign up to the general capitalist order.

⁹For more on the sovereign debt crisis see "Sovereign Debt and the Crisis in the Eurozone" in this issue.

¹⁰Andrej Holm in an interview with the daily, left-wing newspaper *Junge Welt*, 30. April 2011, our translation. "Red-red" refers to the coalition between the Social Democrats (SPD) and the Left Party (die Linke). The CDU is the conservative party.

¹¹An example for such policies in the UK – although on a national level – is David Cameron's "Tech City" initiative in London: <http://www.wired.co.uk/magazine/archive/2011/02/start/silicon-roundabout> (accessed 15.3.2012)

Examples include public housing construction projects, rent control applied in areas of urban renovation, or limits on rent rises in ongoing tenancies. While the critics examine these things sceptically, asking whether capital gets too good a deal nevertheless, still, here the city is said to have a balancing effect, acting for everyone somehow.

The error lies in a wrong assumption about the city's starting point, i.e., the reason why it sometimes limits pursuit of capitalist interests and helps the poor. The starting point was never that of a city confronted with two opposing interests, simply and only seeking to limit both somewhere in the middle. Rather, the city government always was and is pursuing its own ends. These often align with business interests, but also can stand in contrast to it.

One example: in Berlin, rent rises in existing tenancies are restricted to 20% every three years. A rent index is also compiled every two years, measuring the average rent for each class of flats using all sorts of omissions and ruses. Landlords are not allowed to raise the rents for existing tenancies beyond this average amount except in cases of modernisation and special contracts that allow for rent rises in advance.

The interest of landlords in increasing rent is approved here and rent increases are duly permitted, but a limit is applied at the same time.

The interest of tenants in rent reduction, meanwhile, is not approved as such. All that is approved is the tenant's interest in the predictability of rising rents. With the help of this kind of regulation the tenant can ask herself in advance: should I expect a rent rise? If so, how much will it be? Furthermore: am I willing and able to pay this amount, leaving less for other consumption, or should I get ready to move? And if I move, it might make it harder or impossible to keep my job for which I now need to spend more money on my commute (which I might not be able to afford either).

Other countries, such as the UK, do not (or no longer) have rent control laws. In the UK a similar purpose was served for a long time by council housing; then gradually since the 1980s mortgaged home ownership expanded to include much of the waged working class, with a housing benefit system and outsourced 'social' housing more or less sheltering the rest of the population.

The economy needs a local workforce and the municipal government attempts to ensure its availability by means of appropriate regulations. Not only when it promotes economic growth but already when it is dealing with the mentioned collisions of interest of tenants and

landlords, the city regards its territory as a cash machine.

Thus, it comes as no surprise that the city at some point tests the viability of doing without local public housing. The cynical part here is the way the decision-makers then wait to see whether the people affected will make a fuss. Any protest is an indication of whether the plans were overdone and whether some softening measures will be necessary. If some of the protests are accommodated and concessions are made, this does by no means prove that the city is a free space where a balance of power shifts back and forth. As mentioned above, the city administration has its own interests and it relates to other existing interests on this basis, sometimes conceding more to them and sometimes less.¹²

Legal recognition of property. But what do these "other existing interests" actually mean? Does the state or the city just 'discover' them and then react with regulations?

For landed property as a source of income it is obvious that it is something licensed exclusively by the state. The freedom to decide on the use of the land in question, to the exclusion of everyone else, begins with an entry in the land registry. The state records which parts of its territory fall under the authority of which private individual. In the same process the state creates the inverse figure of the tenant, who does not own land and must pay a tribute to the owners for its use: the rent.

Thus, in summary, the policies outlined above hint at the following: the city does not simply depend on money which it does not earn itself but which others must earn. The state and the city make themselves dependent on a society in which everything revolves around the multiplication of money. That is the intended political programme.¹³

The role of the creative milieu in municipal zoning policy

Art itself is an advertisement for the city as a location. "Ich-AG" projects¹⁴, bars and shops are supported by "Quartiersmanagement"¹⁵ so that something at least gets underway and unused buildings do not decay, but also to attract tenants who can pay more, etc. The fact that these subsidies are granted only to kick-start an independent business life is explicitly stated.¹⁶ It is also no secret that these small entrepreneurs will have to give way later on.¹⁷

The creative milieu contributes a small piece to the municipal zoning policy puzzle, whatever the 'creatives' may intend. But to look for

the reason for rising rents here is stretching it: those who embark on this kind of self-criticism overestimate their own importance.

The popular but wrong explanation is: the rich and the creative scene are driving rents up. The right explanation would be: successful municipal zoning policy boosts business, as a result of which landowners are able to raise rents.

Who owns the city? – The city of course!

With this analysis of the reasons for the state's or city's housing and zoning policy in mind, one can criticise a main slogan of the German anti-gentrification movement: "Who owns the city?" Obviously, it is a municipal body within the state that regulates the city and watches over ownership of land. So in that sense the city – as the state's project – is 'owned' by the state.

But this is not the question the activists mean to ask. Instead, the question is meant as an implicit demand, namely to re-think municipal ownership as commons. The movement opposes "our" property to private property. But this identification of that what belongs to the city and that what belongs to everyone is mistaken. "Our" property under the current conditions means state ownership and that has nothing to do with common ownership in the sense of land being available to everyone under the conditions collectively decided. Rather, this current "common" property is subject to the state's calculation.

Hence, those who talk of "our hood" and "our Berlin" are harbouring an illusion about their own living conditions. The daily grind of competitive conflict is mentally transformed into a communal project. Secondly, they idealistically make themselves part of the rule they are subjected to – just as in nationalism.¹⁸

One might want to counter that the notion of a city's purpose presupposes a degree of local or municipal autonomy that does not exist in this way. Indeed, the city is part of the state. So it is possible to say that there are certain limits imposed on the city's policies because of this embedding. Or inversely: the city, including every politician working for it, is an active executive body of the overall purpose of the state. And within this order the city is endowed with an autonomy of a lower order.

Another counter-argument might be that the city depends on local economic development, i.e., what it can make in business taxes, and is therefore not autonomous. However, this relation of dependence was politically decided and is desired, whether at local or national level. Berlin and London are parts of political power

¹²In the 1990s, when Berlin announced urban renewal areas and real estate owners signed up to rent controls in order to get the city's generous financial support, it was also clear that expulsions would occur. The aim was a 'soft' transformation of the population structure. This was in the municipality's own interest, not just a good deed for the wretched.

¹³We are aware that this is rather sketchy. We plan to expand on the relation of the democratic state to the capitalist economy in the future.

¹⁴Literally "I-PLC" or "I-Inc.": self-employment through a scheme funded by the German government to encourage the unemployed to start businesses

¹⁵Federally funded, locally administered 'regeneration' bodies.

¹⁶In response to the crisis similar policies – sometimes referred to as "Berlification" – are discussed for several British cities, towns and areas. See <http://www.guardian.co.uk/business/2009/apr/14/government-high-street-shops-grants> (accessed 25.3.2012)

¹⁷Of course this also happens without direct municipal involvement. Landlords allow small projects to use ground floor spaces in order to earn some rent and to keep the building in use and maintained. Contracts are designed in such a way that increased rent or renegotiation in a few years' time is already written into place. Thus, it is clear that in this case, too, the users are treated as temporary placeholders.

¹⁸See "Why anti-national?" in Kittens #1 available at <http://www.junge-linke.org/en/why-anti-national>.

structures, a structure that stands above business, wants something from business and accordingly does something for business. Political power is not the expression of an economic power relation: rather, it institutes and maintains it – and makes itself dependent on the results of business.

A cynical consequence of the daily struggle against city development: glorification of poverty

In Berlin, apart from the 20% rent increase allowed every three years under the terms of rent control, modernisation is another way of raising the rents in existing contracts. The landlord can add to the annual rent 11% of whatever expenses go beyond simple maintenance of the flat. Thus, a new balcony in a flat of 100 square metres can easily push the rent up by €1 per square metre.

Faced with empty pockets, the tenants come up with the following seemingly absurd activity: they try to prevent the improvement of the flat they live in, for example, by trying to prevent the addition of balconies to their flats. Tenants' associations support tenants in their legal

fight against an improvement of the quality of housing – to avoid the costs attached to it.¹⁹ Such irrationalism is not simply a mistake, but an imposed “mistake”, one that is necessary in this society. Acting against one's own immediate interests (e.g., a balcony) does not speak against these actions. But it does indeed militate against the conditions that make such actions necessary.

It is different with this next point: if a borough attempts to ‘prettify’ the area for the solvent classes then, for example, homeless people will be expelled from a park. These people are only treated as a problem, the poor basis of their existence is not done away with once and for all. Instead, they are pushed out and have to move on to another place where the same thing will happen to them sooner or later. Initiatives that take exception to this, often organise their protests using slogans such as: “The park is for everyone!” Those who reduce their protest to this demand are acting cynically, because the poverty of the homeless is in no way attacked. This position might come across as sympathetic because it does not patronise or harass the poor in their poverty. However, the thought accompanying this position – that poverty simply ex-

ists and that there should be room for everyone, rich and poor – is not at all sympathetic. This is accepting poverty, not criticising it. Those initiatives demanding that the poor should not be expelled from their neighbourhoods fall into this trap. Their goal is the preservation of already existing poverty, like, for a family with five children to be able to continue living in a two-bedroom ground floor flat.

At this point some people will accuse us of cynicism, that it is easy to talk but that talk will not change things for the better either and that at least a protest might soften the deterioration of the situation. In fact, we are not at all proposing that there should be no self-defence against deteriorations within the system. That would be a ridiculous proposition simply because we are not left with a choice. One has to defend oneself so as not to be crushed. That is also what we are doing, on our own in our everyday lives, or organised in tenants' associations, at work, etc. But we want to warn against mentally taking part in the cynical consequences of the system – because then nothing fundamental will ever change and that means an everlasting fight for one's own or others' existence as poor people.



¹⁹There may be people who simply prefer not to have a balcony or who simply dislike the idea of having “improvements” – which may or may not represent actual improvements imposed upon them. Here, we focus on people who fight against these measures for financial reasons.

Sovereign Debt and the Crisis in the Eurozone

What this text wants¹

In our text “Financial Crisis 2008ff.” we tried to explain how a financial crisis such as that of summer 2008 results from the normal course of business and not from mistakes or mismanagement. Towards the end of the text we briefly touched on how states attempted to rescue the financial markets and that – as a result – sovereign debt itself becomes subject to the practical critique of these markets.² In the last two years these policies seem to have been successful, insofar as the financial markets have, again, started to make a profit; however, as a result of the measures taken many states have now become lodged in a debt crisis of their own, which, again, is affecting the financial industry.

In our later text “Public debt makes the state go round” we then tried to explain how modern credit money and sovereign debt are related. However, there too, questions such as how states contract debt and why, who their creditors are and why, what the relation is between the GDP (gross domestic product) and sovereign debt and what the particularities of the Eurozone are, were only very briefly touched upon or not discussed at all. In this text we attempt to fill this gap. First, we want to explain the *standard* and *common* practice of sovereign debt in general, as well as providing a critique of the most prevalent explanations for the current crisis. And secondly, we would like to consider the particularities of the crisis in the Eurozone.

Too much sovereign debt as reason for the crisis?

One way to explain the Greek problems is to remark that Greece simply took on too much debt. In fact, sometimes newspaper articles claim that Greece has the largest amount of debt in the EU. This is de facto wrong.³ Table 2.1 demonstrates rather vividly that Greece’s gross debt is comparatively small. Moreover, sovereign debt is not the exception but the rule in capitalist states. As a tendency, the more economically successful a state is, the bigger its sovereign debt (converted into Euros the US’ sovereign gross debt in 2010 amounted to about €10.000 bn.). Debt is not reduced but constantly increased. Sweden has been included in Table 2.1 as an example because it ac-

tually reduced its sovereign debt for some time (similar to Finland and Denmark).

Somehow the current sovereign debt crisis is related to high amounts of debt – to clarify *how* will be the aim of this article. Pointing to huge amounts of debt does not suffice, i.e., “This could not have possibly worked out long term anyway.” The fact that almost every state in the world is in debt – and the more powerful it is the bigger the debt – first of all begs the following questions: why have these states permanently contracted debt? Why is it that most of the states in the world were able to pile up their debt over such a long time without any problems? Who are the creditors and why have they readily and increasingly accommodated loans / lent money to states? As usual it makes sense before asking why this “it” does not work to do exactly the opposite: what is this “it” anyway that does not work, and how did “it” work before?

Why sovereign debt?

If a state’s debt becomes problematic, as is currently the case in Greece, public opinion often holds that current and former politicians have failed. They have supposedly poured money down the drain, or given out nothing but presents to the people. In short, they have not managed the state for the sake of the national economy but conducted political mismanagement. This kind of explanation for the crisis is most striking for often having been arrived at only when the state’s financial difficulties already exist. It seems that the outrageous profligacy of the government, or consecutive governments, has conducted itself quietly until such a point is reached. In opposition to this way of explaining the crisis, we will provide an outline as to why the democratic state always has good reasons to draw on debt as a means of making policy. For those who are wondering who “the state” is supposed to be, perhaps the following proposition: it does not matter who is in power, be it the Tories, the Labour Party, the Liberal Democrats, ... or even the Fascists — all politicians always refer back to sovereign debt as the adequate means of funding.⁴

Sparing tax sources, such that they are more yielding in the future

The democratic state does not organise its tasks on the basis of the means of production and

workers directly at its disposal. In earlier feudal states, for comparison, this was the case: feudal lords owned serfs working for them on their land which enabled them to fund knights and castles. By contrast, the democratic state allows its own as well as foreign citizens to produce on its territory – an activity whereby they earn their money. If the democratic state wants to accomplish something it simply takes money away from its citizens via taxes and buys whatever it wants from the citizens (disregarding sovereign debt for the moment). Democratic states also own (parts of) companies, e.g., in the UK there are many private-public partnerships. In such cases, however, the state does not intend to earn money but usually keeps ploughing money into this business to keep it running in such a fashion that the products and services of this business are available for the national economy on a safe and affordable basis. If the production is viable and has the same output, the state usually privatises the business – as long as there are no concerns regarding national security. In principle a democratic state’s income shall be based on taxes rather than the state acting as an economic subject itself.

A democratic state does not have to earn its revenue but can decide it. A wage labourer is required to earn her money, and if she has run out of it before the end of the month she is forced to confine herself.⁵ A business lacking money for its next push against competitors is required to make more money or ask for credit, whereas a state has the option to simply increase taxes. To avoid a misunderstanding: the state is not free to dictate its own wealth, which is to say it is in no way the arbiter of how much wealth a society has produced; it is free only to dictate how much it will expropriate of the wealth first created by the producers in that society – the point here being that the money the state wants to collect through tax revenues must actually exist. This is in some ways analogous to how anyone makes money, insofar as she too may only earn that money which has already been earned elsewhere. But there is a difference: earning is different from expropriating.

Still, many hold the belief that taxes mean some kind of exchange. They give money to the state and expect – are entitled, even – to get something in return. Hence, if, according to this point of view, the state’s actions are disagreeable, this is a scandal, since it is the tax payer who is the state’s rightful client. Politicians tend to support this perspective. If they intro-

¹This text is a translation and in some places adaptation of our text “Staatsverschuldung und die Krise im Euroraum” published in November 2011 at <http://junge-linke.org/staatsverschuldung-und-die-krise-im-euroraum-alle-teile>.

²Common synonyms for sovereign debt are government debt, national debt or public debt. Yet, it is not the government, the nation, or the public which is the debtor but the state. Hence, we opted for “sovereign debt” and avoided these synonyms.

³What newspapers actually mean is that Greece has the highest debt level compared to its national economic output measured in a state’s GDP, i.e., it has the highest relative debt. Nevertheless, it is often written that Greece’s sovereign debt is the largest, and people who are less knowledgeable in respect of state finances may well often hold the view that Greece indeed is indebted the most in absolute terms.

⁴By “democratic state” we simply mean successful capitalist, “Western” states such as those in the Eurozone, the UK or the USA. When we write about *the* democratic state we simply mean features that these states have in common, i.e., those features which are an integral part of them being democratic states.

⁵Of course, private persons too can apply for credit up to some limit. This limit is especially low if a loan is solely for such unproductive expenditures as food and rent.

| | 1999 | 2003 | 2007 | 2009 | 2010 | | 1999 | 2003 | 2007 | 2009 | 2010 |
|-----------|------|------|------|------|------|--------|------|------|------|------|------|
| Germany | 1225 | 1384 | 1579 | 1761 | 2080 | UK | 653 | 631 | 852 | 1093 | 1351 |
| France | 804 | 1003 | 1212 | 1493 | 1591 | Greece | 122 | 168 | 239 | 299 | 329 |
| Italy | 1282 | 1395 | 1602 | 1764 | 1843 | Sweden | 161 | 145 | 133 | 129 | 146 |
| Euro area | 4618 | 5218 | 5985 | 7116 | 7837 | | | | | | |

Table 2.1: Time series of gross debt in bn. Euros – rounded. Source: Eurostat <http://bit.ly/Ac6ME>

duce a new tax they call it e.g. “green tax” whereby the claim is made that tax collection and the state’s splendid use of the taxes are directly connected. Such a connection does not exist, as was perhaps most notably expressed by Winston Churchill in 1925: “Entertainments may be taxed; public houses may be taxed; racehorses may be taxed... and the yield devoted to the general revenue. But motorists are to be privileged for all time to have the whole yield of the tax on motors devoted to roads. Obviously this is all nonsense... Such contentions are absurd, and constitute... an outrage upon the sovereignty of Parliament and upon common sense.”⁶ The taxes the state collects belong to the state — it is that simple. Accordingly, it is up to the state alone what taxes are used for. Moreover, no-one but the state itself — i.e., Parliament when deciding on the state’s national budget — has the right to appropriate and direct taxes (e.g., to dedicate tobacco taxes to health care or to building roads).

A capitalist state obtains its power from its citizens’ private activities and collects money from whatever income they generate. No-one knows better than the state itself that it can only take what has been produced in society, i.e., money earned by the state’s residents. Hence, the more successful they are in making money, the more (financially) potent the state.

This presents a comfortable dilemma to the state: on the one hand, the more the state takes from its citizens by taxation the more it is able to accomplish, whether that be in terms of procuring advanced weaponry/technology for the military, building better infrastructure, or opening more preschools and child care facilities. On the other hand, the more taxes the state collects from its capitalists the less money they have in their pockets to be able to invest in new projects and thereby further increase society’s wealth. Private business is supposed to flourish — this is, after all, what makes up the state’s power. Furthermore, the more taxes the state collects from wage labourers, the more it contributes to their impoverishment, which may also affect the economy negatively as a whole.⁷

Debt seems to offer a direct way out of this dilemma: the state obtains financial means without burdening the businesses of its citizens. These businesses are then able to invest money to increase society’s wealth. It is certainly not

true that citizens are not affected by sovereign debt (see the passage on inflation later). But what is true is that the dilemma of “as little taxes as possible as the basis for as much taxes as possible” functions as a founding motive for contracting sovereign debt. No surprise this option comes to politicians’ minds consistently whenever it is time for preparing the next national budget.

Creating new tax sources, such that they yield in the future

The second important reason for sovereign debt is perhaps best explained by comparison with a company. If, for example, Shell wants to exploit a new oil field, then it needs to invest, say, £1 bn to build the necessary infrastructure. Now, Shell does not wait until it has earned this money from the annual profits of its already existing oil fields. Instead Shell takes out a loan and starts exploring the new oil field immediately. With that credit Shell establishes its independence from the already existing sources of revenue and even creates new ones. With these sources of revenue Shell can then pay back its loan and, on top of that, make new lasting profits — at least this is the calculation.

Politicians see it quite similarly. For them credit is not the exception to the rule; it is not a one-off which follows from an inadequate source of tax revenue in the face of necessary expenditure, or from a desire to preserve (potential) tax sources. With credit they are concerned with creating the optimal conditions under which tax sources can develop.

To facilitate economic growth throughout the country, extensive and well maintained road networks are required for the transport of workers, materials, and goods; universities are needed for technical progress and the production of specialised knowledge in the workforce; child care services are also necessary so that mum and dad can go to work etc. If successful states had waited until the already existing companies on their territories were successful enough to allow the funding of a new university based on tax revenue alone, the development of the means of production and the GDP would be perhaps that of 100 years ago.

It is important to understand that this logic is a *logic of speculation*. Credit is used to pro-

duce future national success in competition. Whether this success shows itself or whether competing national economies are more successful, or a worldwide crisis strikes through all calculations by all states, is impossible to say a priori. So when somebody ingeniously remarks, “we lived beyond our means,” then three counterpoints can be made. First, it was not “we” who took on credit but the government. Second, it was not “we” either who spent the money, but the state. And third, what about this “beyond our means”? The whole point of the investment by the state was to produce the conditions which could justify the debt and some further economic growth on top of it.

Less tax revenue and more responsibilities: crisis

There remains a third reason for the democratic state incurring debt, and this concerns its utility in an economic crisis. Revenue from tax breaks away as companies no longer turn a profit and subsequently lay off their staff; this causes massive reductions in income, commercial, and VAT tax revenue. At the same time state spending is increased because there are more welfare cases in the working class, and the economy must be subsidised to prevent the destruction of entire industries. In this sense, the banking system was indeed ‘saved’ during the financial crisis with extensive new loans. For this particular dilemma, credit, of course, presents itself as a veritable option for the beleaguered state capable of securing it.

We might conclude this point with the observation that *borrowing always assumes too little money*. But the question one must ask is: from what conditions and for what purposes has this lack of money arisen? We discussed three fundamental aspects of the debt of the capitalist state:

- Fall in tax revenue.
- Protection/sparing of tax revenue sources for the purposes of making them stronger in the future.
- The desire to create sources of tax revenue in the first place.⁸

In each economic situation — growth, stagnation, and crisis — there are good reasons for

⁶<http://ipayroadtax.com/no-such-thing-as-road-tax/bring-back-the-road-fund/> accessed 31.12.2011

⁷The difference how its policies affect the two classes constitutes the reason why budgetary policies repeatedly and resolutely turn to social welfare whenever austerity is on the menu. Politicians call this saving and the truism that one cannot spend more than what is there to make this all plausible. This platitude holds true for every wage labourer but certainly not for the state. Since the state generates its income by enacting resolutions, its only limit is the amount of money actually available in society. Up to this limit the state may spend as much as it wants. If the state abstains from collecting income it must have its economic reasons. The reason for the cutbacks in social benefits is thus simple: the state deems money in the hands of businesses much more useful than in those of hardship cases. The latter do nothing else but spend it on consumption while the former accumulate it.

⁸A last fundamental reason for loans is war. For the production and security of their own political position in the world states are willing to take on large amounts of credit — just have a look at the war against terror of the United States. However, why states wage and prepare for wars is not the subject of this text.



politicians to rely on sovereign debt. It is, as such, true that sovereign debt is no exception but the constant companion of bourgeois politics. The rule is an ever-growing mountain of debt.

Greece's debt

The immense and ever-growing mountains of debt of nation states result from normal economic calculation and not from the absence of the same by spending-addicted politicians. Nothing unusual happened in Greece before the crisis; rather the country has taken out loans in order to create the conditions for better national economic growth.

This speculation has not worked out. Greece was not one of the winners of the EU common market, but a loser. Where there is competition, there are necessarily losers. The shelves in Greece are full of German and French products. It was not Greece, or Greek entrepreneurs, but Germany and France that made those gains which Greece had hoped for in joining the EC and EU. This is one reason behind the Greek sovereign debt crisis, but it is not the principal one, as shall be discussed later.

Here we want to point out that it is too easy to disregard all economic and political calculations and to say instead that Greek politicians have simply thrown money out the window. The same pattern of behaviour would be observed in any other nation faced with similar difficulties. Were Germany, to take the strongest EU economy as an example, to slide

into a debt crisis, and the public would — instead of asking for reasons — call for the blood of its politicians in the same manner as has been witnessed in Greece then democracy provides enough material for those who want to find someone to blame.

First, one would find material in (almost) any budget debate. There, the government always says it has considered all aspects carefully and found the right mix of necessary expenses, savings, tax increases and cuts, plus borrowing. The opposition, on the other hand, insists that tax money would be wasted, where it does not agree with a certain decision.

It is striking, however, that in any budgetary debate the government is also accused of saving at the wrong end — i.e., where the opposition would deem measures appropriate. In every debate the opposition accuses the government of both: wasting money and saving at the wrong end.

Second, in Germany there also exists something called the “Bundesrechnungshof,” which every year publishes a book documenting where the state has supposedly wasted money or where construction projects, for example, ran over budget (once again). Furthermore, the fact that Germany hosted a World Cup would appear about as absurd as the 2004 Olympics in Greece in light of a debt crisis.

These hypothetical considerations are meant to emphasise that it is easy to blame politicians for failing by disregarding their considerations and justifications of the specific policy measures. It is easy to blame politicians for failing, in retrospect, if one ignores that every measure of eco-

nomics policy is a speculation which inherently carries the possibility of failure in it.

How the mountain of debt grows and why the tax payer does not have to settle the debt

The state borrows money by issuing bonds. For example, the British state receives £1 million and promises to pay back this amount plus interest after 5, 10 or 30 years depending on the kind of bond. Greece does the same and so does Germany.

However, when these two countries are discussed some people claim that contrary to Greece, Germany could pay back its debt — all of it. Similarly, pundits warn about the burden of sovereign debt the tax payers are confronted with because they would have to pay it back.

These statements are incorrect: in 2010 Germany had an absolute level of debt — gross debt — of around €2,080 bn. Greece had €329 bn of debt. Each year, a part of this debt is redeemed. Because there are “government bonds” — i.e., state bonds — with longer maturities (durations), not all outstanding debt has to be repaid every year. Greece's current problems lie in its inability to repay those debts which are currently due. As for the claim that Germany could pay its annual debt bill from tax revenue alone: this would be impossible, as a simple comparison shows. The total tax including all extra revenues for 2009 totalled at €260 bn in Germany. In the year 2010 Germany had

to spend €276 bn just to repay its outstanding debt.

Greece, Germany, and the U.S. would all be unable to settle their debts through taxes. The burden on the taxpayers is definitely not that they have to pay back the debt. Sovereign debt only works so long as states can find new investors who will lend them money that can be used to pay off previous investors. This happens in one of two ways: either, a creditor gets his money back, plus interest, and subsequently reinvests immediately in new state bonds; or, if she does not want to reinvest new creditors in her place are needed to grant the state credit. This procedure is called “follow-up financing”.

This is not a debt trap in which states accidentally step into. This relation to the financial markets is actively sought – simply because their purpose is not to be debt free, but commercially successful.

The whole process depends on the on-going re-purchase of debt. Therefore, a closer look at what makes sovereign debt so attractive for the main creditors (the financial industry and other states) is in order. And to answer the question about debt crisis specifically, we must inquire as to the conditions in which sovereign debt becomes unattractive to these creditors.

Before that, one more point. So far this text has only discussed debt which was taken on in the past and how this debt is repaid. However, in almost perfect regularity the mountain of debt is growing each year, which means that new debt is added to the existing. Those debts which are contracted in addition to the follow-up financing debts are called “new net debt”. And to clear up a few common confusions that stem from fiscal jargon: if politicians talk about a balanced budget, then this only means that this year no new net debt shall be added to the existing gross debt. The state still has to take on new loans to pay off the old that are now due to be paid. When politicians say that they want to save or adopt an “austerity budget” then this sometimes only means that they want to spend less money than planned last year. This may include that they spend more money than last year and that they take on more debt than last year. Sometimes “austerity” simply means to contract less new debt than last year. The total gross debt still increases. These remarks are intended to counter the confusion that arises from the usage of terms such as “saving” in government finance. For individuals “saving” indeed implies spending less money – not so for states. Calling taking on less new debt than last year “saving” highlights with peculiar force how self-evident the course of debt is for politicians.

Who are the lenders and what makes state bonds so interesting for them?

The main lenders come from the financial industry. Banks, insurance companies and mutual

funds buy the bonds of their own state or other states. The second major creditor group consists of other states or their central banks. The German state, Japan and China, for instance, have considerable holdings of U.S. Treasury bonds. Thirdly, states attempt to harness their own population to finance sovereign debt. With bonds tailored towards this clientèle states encourage the people to grant the state credit for interest in return.

In the German budget debates of the '60s and '70s there were concerns that sovereign debt would lead to a “crowding-out effect”. Banks would only have limited credit available and the money they lent to the state could not be lent to companies. Sovereign debt would therefore have a negative effect on the ‘supply’ of cheap credit to companies. But this worry was never too severe and governments always arrived at the conclusion that they had carefully considered the extent of new net debt and that it was so modest that companies would not feel the burden.

This concern at that point was already ideological. In the following, we want to explain that when banks grant states credit, this does not displace other investments. On the contrary, state bonds spur on the business of banks so that they can grant even larger volumes of credit to companies. The thesis is that banks need state bonds so that their business can properly flourish elsewhere. This is important to understand so as not to conceive the idea that banks fucked up when they allegedly invested so carelessly in state securities. Furthermore, when states contract debt, it is always also an economic policy to support their financial sectors. This again is important to understand so as not to simply accuse politicians of mistaken policy by providing the banking industry with state bonds.

The financial industry as creditor

One reason to invest in state bonds is simply to make money. The money spent comes back in a few years, plus interest. To that extent, state bonds are compared with all other bonds, stocks and other debt obligations offered by companies. From this perspective, state bonds are attractive to the lender when they promise – compared with other investment opportunities – higher interest rates.

The second point of comparison of the many money-making opportunities lies in the relative certainty that the debt plus interest will be repaid. An absolute security does not exist, but as a rule of thumb one can say that the safer an investment the lower the interest. A loan to a small business might earn more interest than a loan to BMW but in case of the small company it may be much more uncertain the loan will be repaid. And in this regard sovereign debt has a special feature.

The state, as the monopolist on violence, is always the last solvent subject in its society: firstly, when in doubt, it may decide to raise as

much taxes as required to pay the debt. Before the state defaults it could, due to its taxing authority, tax all citizens, businesses, banks, etc. in its society so that they default first. Secondly, the state itself is the issuer of that money, in which it contracted debt. The U.S. and the UK, for instance, may, in the last resort, simply issue the money they owe others. For Germany and Greece, in contrast, this is no longer as easy due to their participation in the Euro. This aspect will be relevant later on in connection with the explanation of the European sovereign debt crisis – but for now we want to leave this special case aside.

As the master over money and as the monopolist on violence, the state usually enjoys the highest solvency in comparison to companies, banks, etc., in its society. With solvency we mean the relative safety of a debtor to be able to pay back its loans and interest.

State bonds offer less interest than corporate bonds but, compared to the latter, they are relatively safer. This relative safety is necessary to the banking industry as a base for its more insecure investments. Before we go into this, an interim step is required.

The trade and valuation of bonds

If an issuer of a debt instrument, i.e., an issuer of a bond or the debtor, has shown for some time that she is a reliable money-making machine by servicing debt and interest on time then these debt instruments are traded. Organised via the stock exchange or via telephone between financial institutions, debt is bought and sold prior to maturity.

Due to the possibility to be sold at any time, a debt is assigned a value. Without this possibility it would simply be like this: a bank has £1 million and gives it to the state. Now the state has that £1 million and spends it. The bank in return has a debt obligation, i.e., a promise of future payment, say, in 5 years. During these 5 years the bank does not have the £1 million any more, but just a piece of paper with a promise. After 5 years the bank gets its money back plus interest – if the state is solvent.

However, if there is a trade of state bonds then this transaction presents itself differently in practice. A bank which gives away £1 million does not have the money but the promissory note. If this is traded the bank has the option to transfer this note into money at any time. The financial sector treats this option as an asset. The bank’s balance sheet does not simply state: “We are poorer by £1 million – in 5 years this will change again” but instead it is more like “We have the promissory note now worth XXX”.

This capitalisation – to turn promises of payment into an asset – of debt obligations turns these promises into “fictitious capital”. Here we do not want to go into detail along which criteria these promissory notes – bonds – are evaluated, they can be found elsewhere.⁹

⁹For example, see Karl Marx’s *Capital*: Volume 3, pages 594-600 of the Penguin edition. Also, our text “Gentrification” in this issue discusses capitalisation of land.



However, here we want to highlight three conditions for the trading of debt instruments.

First, the debtor must be known to be a money-maker. Bonds or shares of small companies are not traded because no one can size them up. Daimler Benz, on the other hand, is known to be a big, even a global player; its economic performance figures are continuously published and continuously robust. In case of states, too, it is known how potent the national economy is over which they reign.

Second, the debtor must have shown that it always pays debt plus interest on time. Not only is it necessary to prove to be a money-making machine, but also to show (potential) creditors that this machine works reliably for them. For example, in 2002 Argentina announced that it does not intend to repay its debt in full. Following this, the creditors grudgingly accepted a negotiation with Argentina over the diminished redemption of their bonds. With this step, which is now discussed under the name “hair-cut” for Greece, Argentina has freed itself from its debt burden. The consequence was that Argentina did not get any more credit from the financial industry. Argentina is considered an unreliable debtor since and there is no (large) trade of its bonds.

Third, the debtor must contract large quantities of debt for its bonds to be traded. This sounds paradoxical at first since the more one is in debt, one might think, the less likely it is to be able to service all debts. But if there are only a few bonds on the market then there are high fluctuations of their value. These fluctuations, however, have neither to do with the bonds’ interest nor the assumed (in)security that payment of interest occurs nor with the changing assessment of the quality of the debtor. Instead changes in supply and demand have strong effects on the bonds due to the scarcity of the traded debt instrument. If the absolute amount is highly limited, a slight increase in supply might cause a big drop in price. In the business of speculation on changes in value such notes are extremely profitable, but also loss-prone. They are so risky that not many companies want to build their business based on them. This in turn has an effect on their trading volume.

Only when many bonds are bought and sold every day will a bond holder have some assurance that changes in value are based on the estimated quality of the debtor. This certainty is not only relevant to current buyers and sellers. If debt acts as an asset for the banks, then the daily changes in value even affect those banks that simply want to hold these bonds at present and do not want to sell them just now. Only when

the bonds are bought and sold daily en mass, is it worthwhile for the bulk of banks to invest in them and to hold on to them. This way, trading volume is created in circles – demand for bonds is created by the demand for bonds – that makes random fluctuations due to tight supply and demand negligible. But for that the debtor must issue enough promissory notes first.

The particular significance of sovereign debt to the banking business

In order to understand sovereign debt (and thus also to grasp the crisis) it is important to comprehend the function that safe and therefore much-traded securities have in the banking business as well as their role in banks’ balance sheets.

First of all, one has to give up the idea that banks would only lend their own money out. The money Barclays or HSBC lend to companies, invest in equities or state bonds they borrow from society themselves. Banks are characterised by the fact that they are always both borrowers and lenders. That this is the case with all banks, and hence is the norm, can be deduced from the obligation for them to hold 9% of their investments as their own property or own capital. This means that 91% of the money

they lent or invested they themselves borrowed from elsewhere.¹⁰

Banks, for instance, issue bonds themselves, i.e., they go into debt with other investors in order to lend this money to others. An easy way to get money is to offer citizens to set up current accounts with them. Using this example we want to explain the important role sovereign debt plays for banks.

Every worker, every civil servant, every company has an account with some private bank. At, e.g., Barclays there is a constant flow of wages, salaries and earnings of companies into various accounts. To some extent Barclays lends out this collected money. The cost of these accounts, such as interest or administrative expenses, are lower than the interest rate Barclays may charge when lending that money out. This way they are, as they say, in business. However, somewhat annoyingly to Barclays is the fact that customers withdraw or transfer money from time to time. For that the bank always has to keep money as a reserve that it cannot lend out, i.e., a minimum amount of money must be present at all times. Sometimes more money is withdrawn by the customers, sometimes less. In theory, Barclays would have to keep enough money for the maximum case, i.e., the amount of money all the bank's customers have in their accounts. Yet again, this would be even more annoying if subsequently only the minimum is withdrawn. In retrospect, this money would have lain idle – money the bank could have lent out to make money. Good bonds, which can be sold any time and, thus, can be converted into new money, offer an excellent solution for this distress. Hence, in practice, Barclays holds back only a minimum of money as a reserve, invests a portion in good, marketable bonds and the remaining money it lends out to companies for higher interest rates. Yet, if account holders do withdraw the maximum of money, the bank simply sells the good bonds, it is liquid immediately and, thus, it is able to pay out its customers. And in case the maximum is *not* needed (i.e., withdrawn) the money is not fallow but Barclays has lent the money out and, hence, can reap interest.

Good, i.e., at any time marketable, bonds give the above mentioned contradiction a passable form of development: banks can enter into interest-bearing transactions, thereby increase their money as capital, and at the same time have quasi-money as a reserve in case of claims against them.

This function reinforces itself: if bonds are treated as bank capital and bought because of it, one can be more certain that one can sell at any time. Thus, the better they serve this function.

Because sovereign debt is considered to be particularly safe and traded as such, one can find it

in the balance sheet of every bank. Sovereign debt is particularly compelling for banks due to the special safety of the debtor as the monopolist on violence and master of money. Sovereign debt, thus, is both investment and liquidity.

This way, the banking business is de-limited and freed through good, solid debt instruments. They are a good basis to take on extended credit and to grant credit and, thereby, to remain constantly liquid. This way the economically desirable 'supply' of companies with credit becomes looser and interest rates do not necessarily skyrocket because of a tight money supply (even though they might still do that for other reasons).

The question why states contract debt instead of simply printing the money they need derives a different answer than the usual one in this light: through its sovereign debt the state supports the national banking industry. Not in the way that it simply wants to pay for its interest, as many leftist critics of unjust redistribution assume. Instead, the state adjusts its financing to the requirements of the banking industry and this way contributes to de-limited lending by banks to businesses.

Furthermore, the state engages with the private interest of banks in quasi-cash, which also bears interest for economic reasons and supports the banks through its economic policy, when it endows its debt with another feature: the central bank always accepts sovereign debt and returns fresh, new, real money to the banks. So the banks do not have to trade the debt securities among themselves to get money. They can go directly to the central bank and receive real money for these bonds there.¹¹ This way the state supports the financial sector in its interest to lend money and to have liquidity at the same time and this way the state supports itself in its accumulation of debt. Here, too, the Euro construction has some particularities to which we will return when explaining the crisis.

Other states as creditors

The reason why states buy sovereign debt of other states is similar to the above discussed interest of banks. But here the first concern is not interest. States want to hold foreign currency to hedge their own currency. Germany, Japan and China have always had an interest in Dollar reserves in order to tell the world: "When in doubt, we have more than our own currency in which we can pay. If for whatever reason there is doubt on our currency, we are still able to pay in another currency." Yet, this is intended as a sort of alibi so as no one actually ever questions their currencies. Every modern currency needs its own bank hoard. Now in a second step, considerations about the rate of return come into

play: "If we have to hold Dollars as a reserve then we can also take United States treasury bonds which also promise interest. Should we then need to tap the reserve, we can exchange these bonds into Dollars quickly – either on the market, or with the Federal Reserve." This way then, these states also have both: a reserve that at the same time functions as capital, i.e., for the accumulation of money.

The population as creditor

The third group of creditors for states is their own population. In Germany a special bond was specifically created for this group, the Federal Treasury note. The conditions of this note very clearly show Germany's interest with this. First, one can buy it even for small amounts of about €100. This way every wage earner is invited to invest her savings in the state. Second, "Type A Federal Treasury" note interest increases the longer one holds on to it. These notes have a maturity of six years but they can be returned early; one then, however, collects the low interest rates of the initial phase only. If one holds on to these notes until they mature then one collects the higher interest rates of the final phase. "Type B Federal Treasury" notes only earn interest at the end of their seven-year term anyway. This ought to encourage citizens – unlike the banks – to hold on to these notes until they mature. If one then, thirdly, reinvests the principal sum plus the interest back into Federal Treasury notes then the whole thing is tax-exempt. Federal Treasury bonds may, fourth, be bought by citizens and non-profit organizations only, not by banks. Fifth, they may not be traded on the stock exchange. This way these notes are excluded from the evaluation as fictitious capital.

These Federal Treasury notes hence produce proceeds for the German state which are removed from the speculations of the banking industry. This contributes to trust in sovereign debt by banks and other states as creditors.

Credit replaces money – credit cannot be replaced by money

In almost all economically successful states the accumulated debt has reached a level where it is unthinkable for it to be repaid through taxes – this would be, and has been for several decades now, impossible.

This situation has come about on the back of the financial industry's certainty that debt and interest would be serviced on time; which is to say, through credit they themselves will have granted at a future date. This propitious circle must be continuous if the symbiosis of state and financial capital is to be carried out success-

¹⁰On 27 October 2011 the Euro countries introduced new regulation for all European banks which raised the limit to these numbers. Before, banks only had to own 4% of the money they lent or invested – apart from a few exceptions.

¹¹Technically, this can work in two ways. Before the introduction of the Euro private banks in Germany could sell state bonds to the German central bank (discount rate) or temporarily deposit them with it (Lombard rate). Since the introduction of the Euro, banks have only been allowed to temporarily deposit the sovereign debt to get fresh money. They must take these state bonds back after some time and return the money. But because private banks can do this over and over again, this procedure effects the same, namely, that the European Central Bank permanently holds state bonds and that the banks permanently have fresh money. In the current crisis, however, the ECB too has begun to directly buy state bonds.

fully. A bank that has invested in state securities, and which is now waiting for its money, should immediately reinvest in new state securities so that it can then be paid with this (here: its own) newly invested money. In this fashion banks are able to hold on to a permanent stock of, say, British state bonds despite the maturation of given bonds after a few years. If a bank wants to reduce its holdings of state securities, then it demands payment without granting any new credit to the state. For this to work, other banks must be willing to increase their engagement in these securities.

For its own speculations on state bonds to be successful each bank depends on the speculations of its competitors. If a bank, for whatever reason, believes that other banks will reduce their commitment, it has good reason to reduce its own involvement as well. Such an action is of course likely to have a domino effect, arousing the fears of other investors and initiating a movement of divestment or withdrawal. But how do banks gauge the intentions of their competitors? Here they are reliant not only on information from their own creditors' cycle but also from the economic development of the debtor – the intended recipient of any potential investment. Does the national economy ruled over by the state have a positive economic outlook? And, when there is a crisis, will this economy be one of those to come out of the crisis as winners?

Hence, the circular system of credit refers to the productive sphere where money is spent and earned in a different way than in the financial cycle.¹² The national economy which is subject to the indebted states must permanently show to be a large and sustainable money-making machine. If this is the case, and the creditors have no doubt about it, then they trust that they will each want to invest over and over again in the long term. In order to gain this trust the state then makes policy. The state does not take care of economic growth so as to pay back debt, but the state provides for economic growth so that it does not have to settle the debt but can always contract new loans.

What follows for the states? Their purpose of capitalist economic growth becomes an objective constraint

What are the responsibilities of the capitalist state in securing the availability of sovereign debt? Most importantly, past debts and interest must be paid on time. Any question of reliability here is detrimental. Should a state default on a payment to a creditor, not only is that creditor deprived of its returns and subsequently less likely to buy new state bonds in the future, but

equally damaged is the capacity for those state bonds to be treated as quasi money.

The state is thus concerned both with ensuring an adequate line of credit and with the health of its domestic banking industry. Keeping the financial markets happy is central to both and so, understandably, a pressing concern for the state at all times. The credit made available to the state is used, on the one hand, to pay back old loans, and, on the other, to pay for new projects. Central to this availability, and the cheery up-keep of the financial markets, are "signals" from the state, i.e., "Here, on my territory, everyone and everything is concerned with one goal: making more money." In this way the state is fortuitously compelled to ensure optimum conditions for what it wants in any case: capitalist growth. To this end it subjects everything and everybody. To avoid a possible misunderstanding: the following points on how the state guarantees capitalist growth are valid in general and are not due to sovereign debt. However, if growth is demanded, one needs to understand how the state facilitates it – with or without compulsion from the financial markets.

Firstly, the state meets its responsibilities to general capitalist growth by upholding itself and its law (politicians, judges, police, other civil servants plus other infrastructure). This is the absolute prerequisite for private business.

Secondly, the state must make sure that the classes can play their role in capitalism. Social provisions will be necessary for the workers – not so that they can live a carefree life, but so that they are merely mentally and physically fit enough to be able to offer themselves to and work for companies. The state must also have done a good deal of preparation before capital is in a position to begin investing: infrastructure, universities etc.

If all this is given the state, thirdly, considers how to accelerate economic growth. Here, some of the services and social provisions that seemed necessary in step two (e.g., labour protection laws) now become more problematic. These are necessary only to the extent that they will prevent the collapse of workers under the stress of hire and fire rules, thus rendering them unavailable to capital. But such measures can also be seen as an impediment to increased economic growth. This keeps politicians busy with the continuous experiment: how much can one do without some social services and labour protection laws?

A fourth necessary provision of the state is a diplomatic team so that capital's interests may be represented, and that it is able to invest, abroad. Furthermore, it needs the whole war machinery so that this diplomatic staff can negotiate properly with other foreign sovereigns; that is, such that other countries pay the appropriate respect.

All of the above costs money. And, of course, in the effort to establish and promote economic growth as just described, but also in the attempt to make its creditors feel secure, the state is in need of more credit. The state wants to facilitate the logic of capital, and for that it goes into debt.

If it is indebted and permanently dependent on credit, the state has in fact created an objective constraint which merely compels it towards what it had initially wanted. Perhaps this difference of "want to" and "need to" is indistinct when everything goes well, but the opposition between the two asserts itself in an economic crisis. No one wants it, no one works towards the crisis, neither the state, the banks, companies, nor wage earners; but every few years "it" happens, and everybody knows it.¹³ In this phase, the state, as shown above, has to rely on credit even more. In this phase the state wants national economic growth, but it does not have the means to bring this to pass. But the claims against the state in the form of sovereign debt are in the world and require positive evidence.

With this in mind, one can distinguish between two types of austerity programmes. The first type is implemented when a state suspects that financial markets are not quite convinced of its quality as a money-making machine. In these cases, less money is spent on social programmes, but more is spent for the support of certain industries. For these stimulus programmes even additional loans are taken out and tax cuts for businesses are introduced to attract additional capital. The signal is: "Look, we have cut everything that is economically superfluous and we also have given impetus to increased economic growth."

The second type of austerity can be seen in Greece. The EU and the IMF make their 'support' dependent on broad tax increases and austerity measures. The Greek government is forbidden to contract more credit, and thus it is unable to provide new impetus. In this way the recession is exacerbated and there is no trace of development – a signal which is understood accordingly on the financial markets: a state that actually scales back all its expenses is a project in liquidation and is certainly undeserving of trust.

The ideology of objective constraints

The objective constraint of economic growth, imposed by sovereign debt, is real and not an ideology. How this fact is presented in political debates, however, is often ideological and provides the basis for more nonsense.

When a politician claims that social benefits and wages had to be cut to satisfy the financial markets, the claim comes couched in the appeasing tones of sympathy and regret: he

¹²See also our text "Financial crisis 2008ff" available at <http://www.junge-linke.org/en/financial-crisis-2008ff>.

¹³Here we do not want to pursue the issue of economic crisis further. But from the fact that it appears in all regularity, one can conclude that it is somehow related to the normal pursuit of success of everybody involved. Especially when there is a worldwide economic crisis, one cannot even specify which state had done something wrong now. All countries had their national efforts to promote economic growth, all companies have tried to generate tidy profits, the result is a period in which there is no gain to be accounted for across the board. A crisis does not "come" from heaven, and not because of failure of the actors, but because everybody did everything "right" according to the logic of capitalism. To explain how this works exactly is beyond the scope here.

| Year | 1980 | 1995 | 2005 | 2009 | 2010 | 2011 |
|----------------------|------|------|------|------|------|------|
| Interest in bn € | 7.1 | 25.4 | 37.4 | 38.1 | 33.1 | 35.3 |
| New net debt in bn € | 13.9 | 25.6 | 31.2 | 34.1 | 48.4 | 48.4 |

Table 2.2: Time series of interest payments and new net borrowing in the federal budget, FRG. Source: German Federal Ministry of Finance.

would indeed like to see better provisions for wage labourers, but, unfortunately, at this point, hands are tied, and needs must, etc. Any such argument fails to acknowledge that the state in fact approached the financial sector, and made itself dependent on it precisely in order to foster national economic growth. The state makes the life of wage earners dependent on profit and this also applies if special measures are required because of sovereign debt. The state is not compelled by a matter with which it would otherwise have no involvement but by an effect which follows from its national project of capitalist growth.

Unfortunately, this argument is not only popular among politicians but is widespread in the general public as well. During a more successful phase of the national economy, there is already enough evidence to put to question capabilities of capitalism to provide for material needs. In this regard, a crisis provides an even clearer demonstration of this. However, many people do not take this as a reason to question capitalism but as a reason to hope for or demand its better functioning: for that, many are willing to accept cruel policies. However, in the logic that the state now has to be cruel because of the financial markets, the public goes one step further: it is thought to be because of the financial markets, as opposed to the state's project of national economic growth – which the people themselves want – that these austerity measures are now needed. This difference in emphasis is what politicians are after when they speak of economic constraints; it is not the own project that causes inconvenience but it is the financial markets.

A good part of the protest which recently spread across Europe and the U.S. is based on this idea. It targets the financial sector as the culprit and calls for its regulation or sometimes even nationalisation. Governments fuel these kinds of explanations for the crisis by complaining the banking industry has 'forgotten' its supposed purpose as a servant of the whole economy.

This way, the contradiction which is contained in capital as an economic principle is distributed across different actors. In railing against some of the actors (the banks) other actors are longed for (strong politicians who dare to take on the banking industry), and so the whole mess keeps going on.

The problem is not injustice in distribution but capital's end in itself

A common critique of sovereign debt is its alleged redistributive effect on incomes; some

would collect interest on sovereign debt, while others would have to guarantee it via the taxes they pay. Since tax laws have been changed in recent years so that, for example, now two-thirds of the taxes in Germany are paid by wage earners, it is clear for many: through sovereign debt some get richer and others poorer.

This critique of sovereign debt, firstly, is wrong and, secondly, it is far too harmless. For the principal sum we have already discussed that it is usually repaid through follow-up financing on the financial markets instead of taxes. The focus on the relationships that arise solely from dealing with old debts was meant to emphasise that the necessities of sovereign debt are more far reaching than interest payments. But not only is it wrong to assume the the principle sum of sovereign debt to be paid by taxes. Even the idea that at least the interest from that debt is paid by 'the people' in form of taxes is doubtful.

Every year interest payments are due for the total debt. These are listed in the German federal budget as a separate item. In the years 2005 and 2009 the new net debt (i.e., debt that is added in addition to the old) was slightly lower than the interest that was due in those years (cf. Table 2.2). Here it was indeed the case that at least part of the obligations growing out of sovereign debt were met by taxes – but not the predominant part. As shown in the table, in the other years, new net borrowing was higher than the interest owed. Regarding this, it may be said that the federal government not only paid its debts with new debts but also the interest. Hence, the taxpayers are not or only slightly burdened with debt. The lenders have earned money through sovereign debt, but this is only by virtue of the fact that they have credited not only the old debt but also the interest. That the gap between rich and poor would be widened due to the redistribution of taxes into interest payments is only correct to a minor degree, or not at all, depending on the fiscal year.¹⁴

The attack on the living conditions of workers resulting from sovereign debt is to be found elsewhere and it is much more extensive. In order that the state permanently does not have to meet its debt obligations from its economic performance alone but is always able to take out new loans, the whole of society must be aligned without exception as a money-making machine. This signal to the financial markets includes measures such as establishing a low-wage sector, cuts in social welfare, promotion of already successful businesses, etc. The normal functioning of capitalism then provides the dazzling juxtaposition of poverty and wealth.

In relation to those who earn from sovereign debt we need to make one more point regarding their 'greed': their wealth exists and proliferates only so long as their private consumption, which may well turn out to be lavish, remains a sideshow of their money-making. Their wealth sustains and reproduces itself only when they reinvest their earned money again and again. If they do not – and this happens now during the sovereign debt crisis – their wealth vanishes. Banks must write off their wealth in large quantities. The immiseration of workers does not result from wine and cheese for bank shareholders but for the recurring reinvestment of profits for more profits. This end in itself of capital produces misery, and even more so during a period of crisis when this end in itself is not being realised.

Sovereign debt and economic performance

At the beginning of this text we offered a critique of the idea that the European sovereign debt crisis had its basis in too much debt. However, what is mainly referred to in explanations of the crisis is the ratio of gross domestic product (GDP) and gross debt. Here people do not simply talk about too much but about a ratio – an excess of debt in relation to economic performance.

The usual explanation of crisis then goes something like this: "Greece has fallen into the debt crisis because it has contracted too much debt in relation to its economic performance. While Germany had a ratio of about 73% at the beginning of the crisis in late 2009, Greece was at a ratio of 127%. Greece lived beyond its means." A ratio of 100% would mean that the economic performance of a country, as measured in a year's GDP, would be as high as the absolute level of debt. If Germany has a ratio of 73% then the GDP in Germany is greater than the gross debt. Greece, however, in 2009 had more debt than its GDP in that year.

So, does this ratio offer a cause for the crisis? When financial capital is looking for positive evidence in the national economy to decide whether a loan is worth it, then one could say that the economic performance indeed plays a role. This is true but not in the rigid sense implied here.

First of all, every contraction of credit is an attempt to become independent of current economic performance – "living beyond your means" is invariably the starting point. States want to take on credit to develop their own national economy. Hence, it is clear that, when

¹⁴The British campaign "Move your Money" <http://www.moveyourmoney.org.uk/> makes a similarly erroneous assertion when it claims "UK taxpayers have given up to £500 bn to the banks in the form of bailout and guarantee schemes." (<http://www.moveyourmoney.org.uk/the-problem-with-the-banks>, accessed 18.2.2012) This money was not collected through taxes but borrowed from the financial markets.

| | 1999 | 2003 | 2007 | 2009 | 2010 | | 1999 | 2003 | 2007 | 2009 | 2010 |
|-----------|--------|--------|--------|--------|--------|--------|-------|-------|--------|--------|--------|
| Germany | 60.9% | 63.9% | 64.9% | 73.5% | 83.2% | UK | 43.7% | 39.0% | 44.5% | 69.6% | 79.9% |
| France | 58.9% | 62.9% | 63.9% | 78.3% | 81.7% | Greece | 94.0% | 97.4% | 105.4% | 127.1% | 142.8% |
| Italy | 113.7% | 104.4% | 103.6% | 116.1% | 119.0% | Spain | 62.3% | 48.7% | 36.1% | 53.3% | 60.1% |
| Euro area | 71.6% | 69.0% | 66.2% | 79.3% | 85.1% | | | | | | |

Table 2.3: Time series of gross debt as % of GDP. Source: Eurostat

borrowing the ratio of debt to economic performance increases. However, another question is whether the economy then develops in such a way that it proves itself worthy of the sovereign debt. If debt was a contribution to faster capitalist growth then the relationship between debt and economic performance would fall again. But why should a state only contract debt temporarily and then wait to see whether this works out? At any time there are opportunities and ideas on how to develop the national economy. Therefore increased economic output might ensue, but at the same time the start of the next “period of development on credit” may be heralded – in this case, the ratio does not decrease. Table 2.3 lists the temporal development of the ratio of absolute debt and gross domestic product of some countries and the whole Euro area.

None of the numbers *by themselves* indicate that a state has overdone it. A country like Germany which had 60% in 1999 is dependent on follow-up financing via the financial market just like Greece. The 60% could express stagnation and may indicate to the financial markets that Germany deserved no confidence. Spain is currently one of the main loose candidates in the Eurozone at 60%. The 113% of Italy in 1999 could have meant that Italy has taken on a lot of credit for its development. For this reason the number itself could be interpreted as absolutely ‘healthy’. Germany’s ratio has continuously increased until 2007 to nearly 65%. This could be interpreted against Germany’s favour, so as to say that the economic development was positive, but not as positive as it might first appear, owing to the growth of its debts at the same time. But why should 65% not express that Germany got to work on accomplishing more, and that success will be seen in the future? When Italy’s ratio decreased to 103.6% by 2007, this might have been seen as an expression of the successful outcome of Italy’s ‘calculation’ – i.e., the high debt pays off gradually. But the financial markets could then also have asked whether Italy has not become uninspired after its successful period of development: does it not have any more future-oriented projects for which an expansion of sovereign debt would be justified? Is Italy not, therefore, yet again a questionable candidate for investment? One can see that the ways of finance capital are not unfathomable, but nor are they definite. This is not the fault of financial capital but is due to the nature of capital.

Whether it is in the case of states or companies, there is an effort to become independent from traditional sources of revenue (taxes or profits). They constantly live beyond their means: contracting credit and thereby trying to cre-

ate new sources of revenue. Credit is a claim against them, it stipulates that they will have to pay an increased amount of money at a later date; and insofar as this is the case, credit is in principle an entitlement to the economic future. When and if this economic future becomes the present cannot be properly identified. As such, the banking industry has the thankless task of deciding when a borrower has become so heavily indebted that the economic future no longer meets the growing demands. This is the political-economic basis for the hatred which confronts the financial sector in crisis. Because they trigger the crisis with their verdict, they are held responsible for the crisis. Here we emphasise that the crisis is anticipated from the beginning. The normal credit relation contains the possibility of crisis from the very outset.

The sovereign debt crisis in the Eurozone

Since late 2009, Greece has been facing a debt crisis. It has not been able to find enough investors willing to lend it money to service old debt – under the previous conditions that is. Therefore, in order to get money at all, Greece has been forced to offer higher interest rates to its creditors. The financial markets did not greet this news with joy and queue to collect higher returns, but rather as a result they became even more cautious about Greek debt. For if Greece already had problems, then how would it be able to repay even higher obligations in the future. This raised interest rates on Greek debt even further which Greece would have had to offer on new loans – if the Euro Community and the IMF had not intervened in early 2010. Figure 2.1 shows interest rates that various countries of the Eurozone had to pay in the past. What is striking about it is that with the introduction of the Euro, interest rates began to align (Greece joined the Euro in 2001) and then with the financial crisis in 2007 interest rates diverge again.

Before the fixing of exchange rates of the respective currencies to the Euro (1998) and the introduction of the Euro (2002) the financial markets obviously rated the respective state bonds differently. German state bonds were rated as more secure in comparison to Italian bonds. In Europe Germany had always been the state which paid the least interest. Greece, Italy and Portugal had to promise much more in interest in order to secure their loans. This first of all expresses that German bonds were more in demand than others. Sure, one might think, Germany indeed was and is the

strongest economy. However, since the departure of the Deutschmark, the Lira and the Drachma, in short with the introduction of the Euro, financial markets have treated the respective sovereign debts the same. As these countries still had different economic strengths and still developed differently, the reason for this equal treatment must then lie in the single currency. In retrospect, one can say that the different treatment must also be explained by the different currencies. The quality of their sovereign debt was apparently equal to the quality of their national currencies. With the onset of the financial crisis in 2007 this equal treatment stopped again. The financial markets treated the various countries differently, notwithstanding them having the same currency. In what follows we want to show, by analysing the Euro construction, that this “notwithstanding” is incorrect. The thesis, which is yet to be established, is that the Euro has a contradictory design, such that it allows two opposed assessments: because of the Euro all sovereign debts are equal and because of the Euro all sovereign debts are different.

First, however, the connection between the financial crisis and the sovereign debt crisis ought to be explored.

The financial industry distrusts its saviours

In 2007 the worldwide trade of a particular type of securities (securitised loans) broke down. Gradually, it turned out that pretty much all the major financial institutions worldwide were involved in one way or another in this trade and were in trouble. Already in 2007/early 2008 the first institutions started to falter and governments began to support the financial sector with extensive financial aid packages – based on credit. These funds did not stop the downward spiral. In summer / autumn 2008 one respected bank after another faced collapse and the largest financial crisis in 80 years unfolded – even more credit was now needed to rescue the financial system. A general economic crisis, especially in the automotive sector was added to the mix which in turn again required more sovereign debt as an intervention.

As in the US, Japan and Great Britain, countries in the Euro area took on massive amounts of new debt to rescue the banks. This was meant to prevent a “meltdown”. For some time this meltdown was indeed stopped. Back then, rating agencies were attacked by governments for rating what in retrospect turned out to be bad assets as fairly safe. They were accused of not

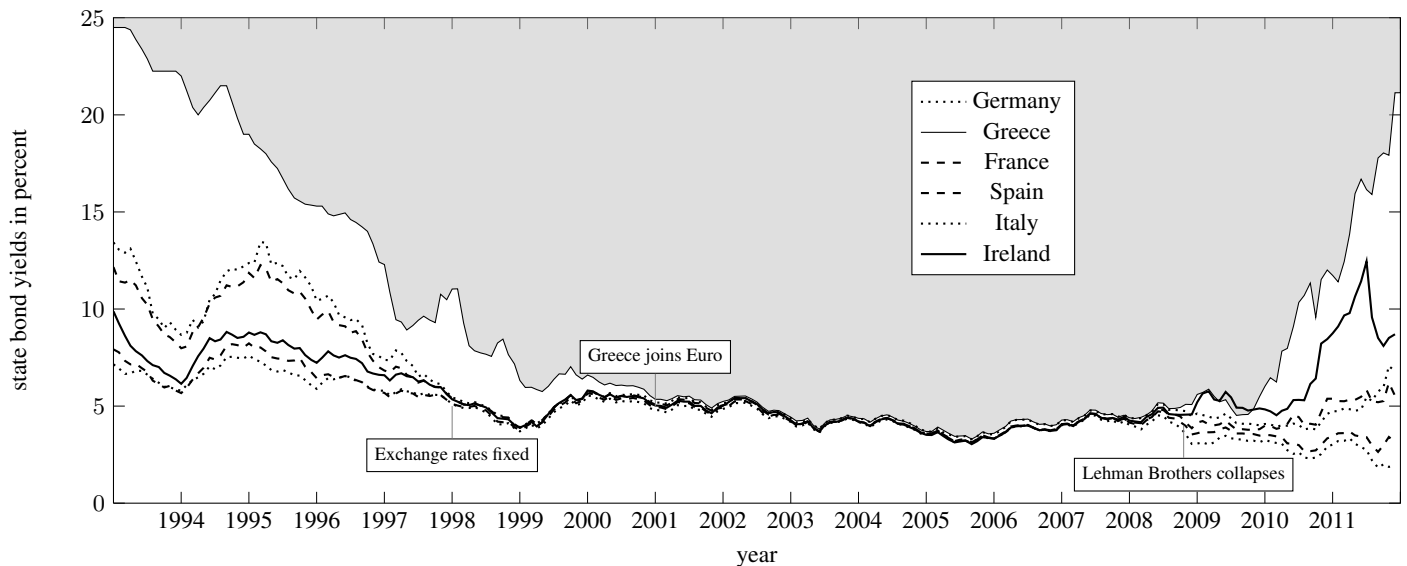


Figure 2.1: Yields for ten year state bonds from the Eurozone (Source: ECB Data Warehouse)

properly assessing the risks attached to debt investments, whilst banks were accused of engaging in risky speculation without assessing the safety of their investments properly. To encourage them to be more cautious, new laws were passed (e.g., Basel III).

In the aftermath the financial industry and the rating agencies indeed reconsidered the safety of businesses which were previously considered risk-free and found some problematic ones: sovereign debt itself.

From the point of view of investors, states deserve trust when they use their debts to promote economic growth. In this respect the bailout of the banks by European states was a big minus. The ratio of gross debt to GDP in the Eurozone was increased from 66% in 2007 to 85% in 2010. That might have been acceptable if all the money had been used for the development of the respective national economies. However, the bank bailout was only an attempt to maintain the status quo, not to further economic growth. Hence, banks became more cautious towards all sovereign debt. Rating agencies also learned their lesson and took a harder look at sovereign debt. This is half the explanation why currently almost all successful capitalist nations are confronted with or threatened by a debt crisis.

However, in the Eurozone this crisis took on a special form. The first suspicion was directed mainly against Greece, and later against Spain, Italy and Portugal. In October 2011, France was already under pressure. Hence, the question on the table is why the financial markets came to such different conclusions when they re-assessed sovereign debt in the Eurozone and why they continue to do so. This is due to the nature of the Euro.

The Euro: a common currency of rivals

The Euro Stability and Growth Pact imposes the rule on member states of the Euro that their gross debt must not rise above 60% of their gross domestic product. Additionally, their new net borrowing, i.e., those debts which are added each year, must not exceed 3% of the gross domestic product. To monitor these rules member states are required to write reports on how they are going to comply with them in the current as well as the next few years. If a state exceeds these requirements it receives a blue letter and if things still do not change penalty fares are due – this is what the member states agreed on.¹⁵

This agreement expresses both a common purpose and mutual mistrust. The member states knew that the Euro was a good basis for each country to take on debt. Indeed, this was the plan for each country, to borrow as cheap and easily as Germany could when it had the Deutschmark. Thus, in the first step, going into debt is permitted. However, in the second step, the freedom to borrow is limited. An unlimited use of the freedom to take on debt, it is assumed, would damage the new joint currency. How is this potential damage to be understood? As discussed above, states support the quasi-money quality of their bonds by offering banks the right to exchange state bonds at any time for real money via their central bank. This also applies to the Euro. The fiscal policy of the European Central Bank (ECB) declares that it accepts bonds with a top-rating by rating agencies and offers fresh money in return. These top rated bonds include above all sovereign debts of Eurozone member states. In this way the Euro Community declares its sovereign debt to be the

same as the Euro (sovereign debt = Euro). Conversely, they declare that the Euro is equal to their debt (Euro = sovereign debt). The quality of the Euro now depends on how well this debt contributes to capitalist economic growth.

The extent to which sovereign debt does not facilitate capitalist growth in the Euro area can be observed in the inflation of the Euro.¹⁶ Inflation refers to the situation in which money devalues itself and prices rise; everything brings in more money than before, but everything is more expensive. Companies and banks earn more money but realise that this brings no benefit because everything is more expensive.

Strong inflation shakes up a national economy. A capitalist invests money, gets more money back and then has to worry whether he can afford all the raw materials needed for further production, because they are now more expensive. But inflation is especially crucial for the banking industry. A loan which earns 3% interest is an actual loss if, during the same time, money was devalued by 4%. Therefore, states have an interest in avoiding excessive inflation, because it prompts financial capital to invest somewhere else in equities, state bonds, corporate bonds, etc. On the other hand, no state wants to completely avoid inflation. Every state knows that inflation is a necessary side effect of their sovereign debt. Thus, the ECB sets the self-imposed goal of 2% inflation.

By mutually restricting each other's debt the Eurozone member states collectively worry about the quality of their money. Above all, they want to prevent the respective other states from harming the shared currency.

They have a common money, but the nation states still compete against each other as before, when they pursue economic growth in their respective domestic contexts. The power

¹⁵From the beginning almost no country obeyed these rules, not even Germany. Despite agreeing on the rules the incentives for member states to take on more debt than agreed did not go away. Furthermore, until the bank bailout the financial markets did not seem to mind this.

¹⁶The fact that sovereign debt has an inflationary effect on the currency is recognised in bourgeois economics and politicians are aware of it, too. However, we explain this relationship quite differently than bourgeois theories. That said, we have not understood the issue of inflation well enough so far to be able to present it here clearly. We still have open questions. Therefore, here we simply content ourselves with citing inflation as one reason for the mutual distrust amongst the Euro states.

of Germany, Italy or Greece still depends on the strength of their respective national economies. And it remains the duty of the respective states to seek to achieve that success through national economic policy. The extensive use of debt by one country might not only damage the Euro but also allow this country a competitive advantage at the expense of other nations. If Greece could have taken on much more debt and there-with set up superior infrastructure, perhaps then capital would have flown to Greece. Then maybe supermarkets in Germany would be full of Greek products and not the other way around as it is now: German producers are superior to Greek producers, defeat them through competition and do not allow them to develop. Now, Germany profits from the fact that supermarkets in Greece are full of German products.

The justice that the Euro countries have agreed on is that whoever is successful is right. With the freedom to take on 60% debt relative to its GDP Germany may – with a GDP of around €2,500 bn (2011 estimate) – take on €1,500 bn in debt. Greece with a GDP of around €226 bn may only take on €135 bn. On the one hand, this means that successful countries such as Germany and France dictate to the other states the conditions of their community. On the other hand, this condition has an internal rationality; if the adverse effect of sovereign debt on the quality of money can be balanced out by capitalist growth, then it is logical that states can contract more debt if capitalist growth accumulates more on their territory. If they contribute less in this respect, then they should also borrow less. This is a signal to financial markets which says: look, the entire economic output of all Euro countries underwrites the Euro. We only take on debt in accordance with a fixed relation to economic performance. Therefore, you can trust us as the Euro Community.

The financial industry had trust in the Euro construction ...

At first, the financial sector had confidence in this construction, when, since the introduction of the Euro, it did not discriminate between state bonds of different Euro countries. They were all equally good because they could all be exchanged, if in doubt, for fresh Euros at the ECB. That these countries maintained their joint money as competitors the financial markets also did not take as an argument against the quality of the Euro. After all, all countries gain an advantage from the Euro, hence, they have a common concern for their currency. Indeed, because they are competitors they monitor each other more vigilantly with respect to their debt policies than they would do on their

own. Behind the Euro stands an economic power which is the sum of the individual national economies – another argument in favour of the currency. The Euro also managed to replace the Deutschmark adequately as foreign exchange hoard outside the Eurozone. Central banks around the globe are interested in holding the Euro alongside the Dollar as a currency reserve. As discussed above, this does not take the form of suitcases full of Euro banknotes but rather the form of state bonds. The best hoard is one which increases itself.

...and wonders now, whether this was justified

In light of the bank bailout the financial markets see this somewhat differently now. Due to the large amounts of new debt taken on merely for the preservation of the status quo, there are good reasons to be wary with respect to any European state. But suspicion is not just suspicion, because this wariness engenders a hypothetical question which reinforces the suspicion: if the financial markets actually were less happy to accept a specific state bond, making that state's follow-up financing come under pressure, what options would such a state have at its disposal? If a state has options, this may be enough to calm the markets such that they do not even test out whether these options would work.¹⁷ The hypothetical answer to this question differs from one Euro state to another. Also, with respect to this question the Euro construction itself proves to be a disadvantage.

Before the start of the Greek crisis in late 2009 the situation was like this: in the event that a Euro country had issues with refinancing its sovereign debt on the capital markets, that it had to pay higher interest rates because of this, and therefore that its chances of getting fresh credit were reduced further, it was not intended that the other Euro countries would intervene to help the troubled nation out. On the contrary, the Euro states explicitly agreed on a “non-assistance clause” (Article 125 of the Treaty on the Functioning of the European Union). If then rating agencies downgraded the state bonds in question, then the ECB, in accordance with its own rules, should not accept these bonds any more in exchange for fresh money.

A sovereign state, as the sole master of its money, always has the option of exchanging its bonds for fresh money. This might cause inflation (which alleviates sovereign debt) which can lead to a devaluation of its currency so that domestic companies can export more (but imports become more expensive). This way the national economy may regain momentum. These are by no means certain but still possi-

ble ways to get out of the dilemma. However, a single Euro country cannot decide the monetary policy of the ECB alone. Why should the competition agree to a Eurozone wide inflationary programme that would harm their own national economies? According to the regulations, until 2009 a single country in a debt crisis could rely only on its own national economic strength and was in just as bad a situation as a country that had contracted debt in a foreign currency.¹⁸

The test of financial markets and the response of the Euro Community

The financial markets picked Greece as the weakest link in the chain of the Eurozone and became more cautious. Therewith they presented the following questions to the rest of the Euro countries.

Firstly, will you really allow Greece to default in accordance with your treaty, or will you leave it to the IMF to take care of it? If so, then we made a mistake in the past when we speculated that the strength of the Euro stands behind Greece. We then need to rethink our involvement in all other Eurozone countries. That is, we will have to exercise more caution in the future for all countries except perhaps Germany.

Or secondly, does the Euro or the Euro Community now support Greece in violation of the treaty? If so, then we would refrain from treating Greece only as Greece since the Euro would still stand behind Greek sovereign debt and it would be as good as any other debt. But that does now mean that the Euro and the rest of the sovereign debt are a little bit as bad as Greek sovereign debt is itself. Similar to the bank bailout, new credit was contracted for an unprofitable piece of land: not to develop it but simply to preserve it in its miserable condition. The Euro would then be burdened by an unprofitable area and bad debts. Thus a more cautious approach would be in order with respect to the Euro and the sovereign debt of all countries – including Germany.

Along these two alternative lines, each carrying bad consequences, a dispute broke out within the Eurozone. Germany wanted to answer the first question with “yes”: no help for the sovereign debt problems of individual countries. The Euro Community shall not become a “transfer union”. If a country has a fiscal problem it is its own problem. Germany insisted that its own national achievements are not to be used to make up for the failures of other states. France, however, did answer the second question with “yes”: we have to help other Euro countries, otherwise there will be an unpredictable chain reaction and the whole Euro will collapse.

¹⁷When in this text or in newspapers one reads that the financial markets “test out”, “cherry pick” or “put pressure”, then one should not imagine that the heads of major financial institutions meet and devise a common strategy. Financial institutions are competitors, they usually do not coordinate. But they are dependent on each other with regard to the development of the value of their assets, and, hence, they pay attention to each other. If an institution is becoming more cautious about the purchase of Greek bonds, then it may be appropriate for competing institutions to become more cautious as well. The result is a uniform investment strategy that is inappropriately called “herd instinct” not only in newspapers but also in bourgeois economics.

¹⁸Third World countries, in which the financial markets have little trust economically, hardly get any credit in their own currency. They need to offer state bonds denoted in Dollars to the financial markets. They receive Dollars but must also repay the debt and the interest in Dollars. If there is inflation in their own currency, then the lenders do not lose money – as long as the state pays, which, ultimately, the IMF ought to guarantee.



This argument ultimately made sense to Germany. After all, its successes depend on the Euro and the Eurozone. This does not mean however that the first argument is off the table. Hence, Germany has a conflicting interest: because of its national interest it does not want to stand by and assist other countries and because of its national interest it must stand by other countries.

With a little resistance from Germany, the Eurozone member states and the ECB agreed on option number two. In April 2010 the Eurozone countries agreed on an initial bailout for Greece. It would run for three years and the IMF would be involved. In an emergency Greece could access assistance totalling €45 bn in the first year.

As with the bank bailouts, the Euro states mobilised large sums of money, such that the Greek state had the necessary funds to pay back its due debt. If Greece had to access these funds on the capital markets, according to the valuation of its bonds on these markets, it would have had to pay 20% interest rate for its state bonds¹⁹ – a rate that makes funding in the future so unlikely that no investor would grant the Greek state credit. Now it gets this credit from the rescue funds, which ‘only’ demand an interest rate of 5%, or since July 2011 of 3.5%.

For these funds, the Euro countries themselves borrow on the credit market and thereby further increase their sovereign debt. This money is then invested in new Greek state bonds, the quality of which of course is not much better than the old ones.

That did not impress the financial markets. The Euro states responded with increasingly higher masses of money to support those countries that are under pressure. Already in May 2010, the package for Greece was raised to €110 bn. At the same time the EU and IMF agreed on a rescue fund for the whole Euro area – the EFSF (European Financial Stability Facility). Additional €750 bn were mobilised to assist those Eurozone countries having problems contracting credit on the credit market to pay back old loans. For this the ECB also decided to temporarily accept poorly rated bonds in exchange for fresh Euros. This “temporary” still holds true today (November 2011). This, unsurprisingly, did not impress the financial markets.

First, this is because these rescue measures carry the above-mentioned disadvantage in them – that more debt is issued just for the preservation of the current state and not for capitalist development. The larger the rescue packages, the more claims on accumula-

tion of money are collected relative to a non-development.

Second, perhaps a common announcement would have impressed the financial markets a little bit – an announcement that the Euro area would absolutely and unquestionably stand behind sovereign debts and was ready to step in no matter what size of credit was required would have impressed the financial markets a little bit. However, the German point of view is also present the whole time: to grudgingly accept rescue packages but always to jam on the brakes. Rescue packages, at a pinch, but limited please. The financial markets take note of this and this is an argument against these rescue attempts.

Third, imperialist competition thrives in times of crisis. The weakness of the other states is the best opportunity to extort political concessions from them. In this way, Germany strong-armed all the other states into surrendering their national fiscal sovereignty. What one can observe in Greece shall be extended step by step to other states. In addition to the Parliament, an international troika is now also allowed to intervene with a government’s budget. To wring such concessions – that is the nature of extortion – Germany must threaten over and over again to not agree to the rescue packages. The

¹⁹When a state issues a bond of €1 million at 5% interest, then it promises that it will pay €1.05 million when the bond ‘matures’. On the stock market these bonds are bought and sold daily. If suspicion develops and more and more institutions want to sell but less want to buy then the price on the stock exchange falls – say to €900,000. Now, if the debtor can ultimately pay, then the yield for the buyer has risen. For €900,000 he has the right to €1,050,000. This would be a gain of €150,000 and therefore a return of 11.67%. A state that now issues new bonds must offer the financial markets at least 11.67% interest rate, otherwise nobody would buy them as there is a better deal to be had on the stock exchange. Greece’s state bonds have fallen so much that it would theoretically have to offer 20% or more of interest to attract investors.

German chancellor Angela Merkel has accomplished this repeatedly in the last two years. She has over and over again risked everything in order to extort the next concession from other countries. All this jeopardising, of course, is not a calming influence on the financial markets.

Fourth, in this way more and more countries get into trouble. The trend is that fewer and fewer states are using their credit to support a growing number of states. If Spain or Italy would have to be supported as a large debtor, then France and Germany could no longer manage this.

However, in order to give the impression that this could work and that the financial markets would therefore not need to test it, it was decided that the rescue package would be increased to €2,000 bn in October 2011.²⁰

However, the Euro states note that their previous rescue principle, by which no European debtor could admit that it was unable to meet its payment obligations, hit a dead end for the reasons given above. Therefore, what has long been discussed as insanity is now proposed as a new solution.

Greece's creditors should take a "haircut". This would mean all creditors, namely financial institutions, states and the rescue fund of the Euro states itself should give up around 50% of their claims. In this way, not only would Greece lose a bit of its burden, but the rescue fund itself would also be relieved. It does not have to spend as much additional money when only 50% of Greek debt has to be re-financed. This however begs the question again whether the banks could withstand this haircut and what chain reactions this could cause, if, for example, credit default swaps (CDS) – basically insurance against default – which also still exist, are due. If the haircut is voluntary then these CDS might not be due. Then all of the institutions which hold these derivatives must depreciate these assets which they list in their balance sheets. This way the game returns to its starting point: the banks must be rescued by state loans. To that effect the EFSF rescue fund is allowed to grant credit to member states to support their banks.

Austerity and mass impoverishment – for what?

As of November 2011, the logic of the rescue packages was as follows: more and larger masses of debt would be mobilised to ensure that no state bond ruptured. Each state bond should, at the end of its term, fulfil its promise: to return the principal sum plus the promised interest rate. In countries facing a sovereign debt crisis the program accompanying these rescue attempts has been austerity and government policies which reduce the salaries of state employees or dismiss them directly; in addition, pensions and social benefits have been cut. This, first of all, ought to reduce government spending. Second, the state's revenue ought to be increased independently of credit by increasing or more thoroughly collecting taxes and by privatising state property. Third, economic growth ought to be boosted, pensions reduced and "barriers to competition" removed, i.e., wages cut.

To think of these measures those countries do not need guidance, they come up with them on their own. The Euro Community's role is to encourage them to try even harder. Greece, however, which was the first nation in need of support from the Euro Community, has been forced to commit itself to these measures.

These measures are a radical programme of impoverishment. This can be illustrated briefly in Greece. A state employee earns on average €1,000 per month. A worker in the private sector earns on average €800. While the unemployment rate in Greece was at 10% before the crisis, it has now reached 19%. In addition, in Greece a salary must usually suffice for an entire family. This family often includes youths old enough to work but who, with a youth unemployment rate of over 40%, cannot cut the cord from the family and cannot contribute anything to its income.

All this occurs, with food prices that are on average not lower than in the UK or Germany. That it is necessary for survival under such conditions to evade the tax claims of the state is obvious. Against this widespread behaviour the Greek state now acts fanciful and collects taxes with electricity. Anyone who does not

pay taxes gets their power shut off. If the state is the largest economic player in a country because it has nothing to offer but tourism, shipyards, fields and banks, then an austerity program does not end an economic crisis but exacerbates it. Because people are made dependent on capital's success, this results also in accelerated impoverishment. In the 21st century people are turning their backs on cities and returning to the land. They are learning agriculture, not to make money but to survive somehow by this kind of subsistence economy.

This dazzling new poverty is due to a specific cause: the doubt that is produced by the Euro construction and still present in the rescue efforts, is fought against by extending the financial control of the Euro Community over the national budgets. Ideally, and to some extent actually, Greece degenerates to a basket case which has had taken from it a core aspect of its sovereignty, namely its fiscal policy. Greece has become a piece of trash that shall continue to exist in such a way that the Euro is not doubted. All debts are settled, this the Euro guarantees. The vital needs of the people are irrelevant, for those no new loans are taken on. The harshness with which this happens is at the same time a demonstration intended to boost the financial markets' confidence in the Euro. The message is this: although the new loans are not being used for the development of capitalist progress, but only to save the status quo, no money is wasted on the mere necessities of the people.

As a tendency it can be said: the larger the size of the rescue package, the less financial markets see it as a solution; so, the more countries gradually come under pressure, the more radical and cruel become the impoverishment programmes. What force is behind this development can perhaps be shown by the example of a strike of air traffic controllers in Spain in December 2010. The government declared a state of emergency, sent the military out and threatened strikers to put them in front of military courts for insubordination which would have resulted in prison sentences of several years. Tourism is an important economic sector in Spain, and it is too important for the government to take any risk. That also was a signal to the financial markets.

²⁰It works like this: before, the money from the bailout fund was used simply to pay off old creditors. The states that have given money to the bailout fund in turn received new promises of payment from Greece. With €500 bn one can buy €500 bn worth of state bonds. Now, the money will be used differently, that is, as insurance. Potential investors in Italian state bonds are promised that they get up to, for example, 30% from the bailout fund, if Italy would actually default. This is supposed to animate investors to grant Italy new credit so that it can use it to pay off old debt. Thus, with €500 bn one could hedge state bonds worth €1,666 bn up to 30% ($500 \cdot \frac{10}{3} \approx 1,666$). However, should it actually come to a default, which would mean that Italy negotiated to pay only 70% of its debt, those €500 bn from the bailout would simply be gone. In the old variant the bailout fund would still have claims against Italy worth €350 bn (i.e., 70% of €500 bn).

Bitcoin – Finally, Fair Money?

In 2009 Satoshi Nakamoto invented a new electronic or virtual currency called Bitcoin, the design goal of which is to provide an equivalent of cash on the Internet.¹ Rather than using banks or credit cards to buy stuff online, a Bitcoin user will install a piece of software, the Bitcoin client, on her computer and send Bitcoin directly to other users under a pseudonym.² One simply enters into the software the pseudonym of the person one wishes to send Bitcoin and the amount to send and the transaction will be transmitted through a peer-to-peer network.³ What specifically one can get with Bitcoin is somewhat limited to the few hundred websites which accept them, but includes other currencies, web hosting, server hosting, web design, DVDs, coffee in some coffee shops, and classified adverts, as well as the ability to use online gambling sites despite being a US citizen and to donate to Wikileaks.⁴ However, what allowed Bitcoin to break into the mainstream – if only for a short period of time – is the Craigslist-style website “Silk Road” which allows anyone to trade Bitcoin for prohibited drugs.⁵

On February 11th, 1 BTC exchanged for 5.85 USD. So far 8.31M BTC were issued, 0.3 Million BTC were used in 8,600 transactions in the last 24 hours and about 800 Bitcoin clients were connected to the network. Thus, it is not only some idea or proposal of a new payment system but an idea put into practice, although its volume is still somewhat short of the New York Stock Exchange.

The three features of cash which Bitcoin tries to emulate are anonymity, directness and lack of transaction costs, all of which are wanting in the dominant way of going about e-commerce using credit or debit cards or bank transfers. It is purely peer-to-peer just like cash is peer-to-peer. So far, so general.

But what makes the project so ambitious is its attempt to provide a new currency. Bitcoin are not a way to move Euros, Pounds or Dollars around, they are meant as a new money in itself; they are denominated as BTC not GBP. In fact, Bitcoin are even meant as a money based on different principles than modern credit monies. Most prominently, there is no “trusted third party”, no central bank in the Bitcoin economy and there is a limited supply of 21 million ever. As a result, Bitcoin appeals to libertarians who

appreciate the free market but are sceptical of the state and in particular state intervention in the market.

Because Bitcoin attempts to accomplish something well-known – money – using a different approach, it allows for a fresh perspective of this ordinary thing, money. Since the Bitcoin project chose to avoid a trusted third-party in its construction, it needs to solve several ‘technical’ problems or issues to make it viable as money. Hence, it points to the social requirements and properties which money has to have.

In the first part of this text we want to both explain how Bitcoin works using as little technical jargon as possible and also show what Bitcoin teaches about a society where free and equal exchange is the dominant form of economic interaction. In the second part we then want to criticise Bitcoin’s implicit position on credit money. From this also follows a critique of central tenets of the libertarian ideology.

The first thing one can learn from Bitcoin is that the characterisation of the free market economy by the (libertarian) Bitcoin adherents (and most other people) is incorrect; namely, that exchange implies:

Mutual benefit, cooperation and harmony.

Indeed, at first sight, an economy based on free and equal exchange might seem like a rather harmonious endeavour. People produce stuff in a division of labour such that both the coffee producer and the shoemaker get both shoes and coffee; and this coffee and those shoes reach their consumers by ways of money. The activity of producers is to their mutual benefit or even to the benefit of all members of society. In the words of one Bitcoin partisan:

“If we’re both self-interested rational creatures and if I offer you my X for your Y and you accept the trade then, necessarily, I value your Y more than my X and you value my X more than your Y. By voluntarily trading we each come away with something we find more valuable, at that time, than what we originally had. We are both better off. That’s not exploitative. That’s cooperative.”⁶

In fact, it is consensus in the economic mainstream that cooperation requires money and the Bitcoin community does not deviate from this position: “A community is defined by the cooperation of its participants, and efficient cooperation requires a medium of exchange (money) ...”⁷ Hence, with their perspective on markets, the Bitcoin community agrees with the consensus among modern economists: free and equal exchange is cooperation and money is a means to facilitate mutual accommodation. They paint an idyllic picture of the ‘free market’ whose ills should be attributed to misguided state intervention and sometimes misguided interventions of banks and their monopolies.⁸

Cash

One such state intervention is the provision of money and here lies one of Bitcoin’s main features: its function does not rely on a trusted third-party or even a state to issue and maintain it. Instead, Bitcoin is directly peer-to-peer not only in its handling of money – like cash – but also in the creation and maintenance of it, as if there was no Bank of England but there was a protocol by which all people engaged in the British economy collectively printed Sterling and watched over its distribution. For such a system to accomplish this, some ‘technical’ challenges have to be resolved, some of which are trivial, some of which are not. For example, money needs to be divisible, e.g., two five pound notes must be the same as one ten pound note, and each token of money must be as good as another, e.g., it must not make a difference which ten pound note one holds. These features are trivial to accomplish when dealing with a bunch of numbers on computers, however, two qualities of money present themselves as non-trivial.

Digital signatures: guarantors of mutual harm

Transfer of ownership of money is so obvious when dealing with cash that it is almost not worth mentioning or thinking about. If Alice hands a tenner to Bob, then Bob has the tenner and not Alice. After an exchange (or rob-

¹This text is a slightly revised version of a text which first appeared on <http://metamute.org>.

²The central white paper on Bitcoin is *Bitcoin: A Peer-to-Peer Electronic Cash System* by Satoshi Nakamoto, the Bitcoin creator. However, some details of the network are not explicitly described anywhere in the literature but only implemented in the official Bitcoin client. As far as we know, there is no official specification except for https://en.bitcoin.it/wiki/Protocol_specification.

³A peer-to-peer network is a network where nodes connect directly, without the need of central servers (although some functions might be reserved to servers). Famous examples include Napster, BitTorrent and Skype.

⁴Probably due to pressure from the US government all major online payment services stopped processing donations to the Wikileaks project (<http://www.bbc.co.uk/news/business-11938320>). Also, most US credit card providers prohibit the use of their cards for online gambling.

⁵After Gawker media published an article about Silk Road (<http://gawker.com/5805928/the-underground-website-where-you-can-buy-any-drug-imaginable>) two US senators became aware of it and asked congress to destroy it. So far, law enforcement operations against Silk Road seem to have been unsuccessful.

⁶<https://forum.bitcoin.org/index.php?topic=5643.0;all>

⁷Wei Dai, *bmoney.txt*, <http://www.weidai.com/bmoney.txt>. This text outlines the general idea on which Satoshi Nakamoto based his Bitcoin protocol.

⁸“The Real Problem with Bitcoin is not that it will enable people to avoid taxes or launder money, but that it threatens the elites’ stranglehold on the creation and distribution of money. If people start using Bitcoin, it will become obvious to them how much their wage is going down every year and how much of their savings is being stolen from them to line the pockets of bankers and politicians and keep them in power by paying off with bread and circuses those who would otherwise take to the streets.” – <http://undergroundeconomist.com/post/6112579823>

bery, for that matter) it is evident who holds the money and who does not. After payment there is no way for Alice to claim she did not pay Bob, because she did. Neither can Bob transfer the tenner to his wallet without Alice's consent except by force. When dealing with bank transfers etc., it is the banks who enforce this relationship, and in the last instance it is the police. One cannot take this for granted online. A banknote is now represented by nothing but a number or a string of bits. For example, let us say 0xABCD represents 1 BTC (Bitcoin).⁹ One can copy it easily and it is impossible to prove that one does not have this string stored anywhere, i.e., that one does not have it any more. Furthermore, once Bob has seen Alice's note he can simply copy it. Transfer is tricky: how do I make sure you really give your Bitcoin to me?¹⁰ This is the first issue virtual currencies have to address and indeed it is addressed in the Bitcoin network.

To prove that Alice really gave 0xABCD to Bob, she digitally signs a contract stating that this string now belongs to Bob and not herself. A digital signature is also nothing more than a string or big number. However, this string/number has special cryptographic/mathematical properties which make it – as far as we can ascertain – impossible to forge. Hence, just as people normally transfer ownership, say a title to a piece of land, money in the Bitcoin network has its ownership transferred by digitally signing contracts. It is not the note that counts but a contract stating who owns the note. This problem and its solution – digital signatures – is by now so well established that it hardly receives any attention, even in the Bitcoin design document.¹¹

Yet, the question of who owns which Bitcoin in itself starts to problematise the idea of harmonic cooperation held by people about economy and Bitcoin. It indicates that in a Bitcoin transaction, or any act of exchange for that matter, it is not enough that Alice, who makes coffee, wants shoes made by Bob and vice versa. If things were as simple as that, they would discuss how many shoes and how much coffee was needed, produce it and hand it over. Everybody happy.

Instead, what Alice does is to exchange her stuff for Bob's stuff. She uses her coffee as a lever to get access to Bob's stuff. Bob, on the other hand, uses his shoes as a leverage against Alice. Their respective products are their means to get access to the products they actually want to consume. That is, they pro-

duce their products not to fulfil their own or somebody else's need, but to sell their products such that they can buy what they need. When Alice buys shoes off Bob, she uses her money as a leverage to make Bob give her his shoes; in other words, she uses his dependency on money to get his shoes. Vice versa, Bob uses Alice's dependence on shoes to make her give him money.¹² Hence, it only makes sense for each to want more of the other's for less of their own, which means deprive the other of her means: what I do not need immediately is still good for future trades. At the same time, the logic of exchange is that one wants to keep as much of one's own means as possible: buy cheap, sell dear. In other words, they are not expressing this harmonious division of labour for the mutual benefit at all, but seeking to gain an advantage in exchange, because they have to. It is not that one seeks an advantage for oneself but that one party's advantage is the other party's disadvantage: a low price for shoes means less money for Bob and more product for her money for Alice. This conflict of interest is not suspended in exchange but only mediated: they come to an agreement because they want to but that does not mean it would not be preferable to just take what they need.¹³ This relation they have with each other produces an incentive to cheat, rob, steal.¹⁴ Under these conditions – a systematic reason to cross each other – answering the question who holds the tenner is very important.

This systemic production of circumstances where one party's advantage is the other party's disadvantage also produces the need for a monopoly on violence of the state. Exchange as the dominant medium of economic interaction and on a mass scale is only possible if parties in general are limited to the realm of exchange and cannot simply take what they need and want. The libertarians behind Bitcoin might detest state intervention, but a market economy presupposes it. When Wei Dai describes the online community as “a community where the threat of violence is impotent because violence is impossible, and violence is impossible because its participants cannot be linked to their true names or physical locations.”¹⁵ he not only acknowledges that people in the virtual economy have good reasons to harm each other but also that this economy only works because people do not actually engage with each other. Protected by state violence in the physical world, they can engage in the limited realm of the Internet without the fear of violence.

The fact that ‘unbreakable’ digital signatures – or law enforced by the police – are needed to secure such simple transactions as goods being transferred from the producer to the consumer implies a fundamental enmity of interest of the involved parties. If the libertarian picture of the free market as a harmonic cooperation for the mutual benefit of all was true, they would not need these signatures to secure it. The Bitcoin construction – their own construction – shows their theory to be wrong.

Against this, one could object that while by and large trade was a harmonious endeavour, there would always be some black sheep in the flock. In that case, however, one would still have to inquire into the relationship between effort (the police, digital signatures, etc.) and the outcome. The amount of work spent on putting those black sheep in their place demonstrates rather vividly that it is expected there would be many more of them without these countermeasures. Some people go still further and object on the more principal level that it is all down to human nature, that it is just how humans are. However, by saying that, one first of all agrees that this society cannot be characterised as harmonic. Secondly, the statement “that's just how it is” is no explanation, though it claims to be one. At any rate, we have tried to give some arguments above as to why people have good reason to engage with each other the way they do.

Purchasing power

With digital signatures only those qualities of Bitcoin which affect the relation between Alice and Bob are treated, but when it comes to money the relation of Alice to the rest of society is of equal importance. That is, the question needs to be answered how much purchasing power Alice has. When dealing with physical money, Alice cannot use the same banknote to pay two different people. There is no double spending, her spending power is limited to what she owns.

When using virtual currencies with digital signatures, on the other hand, nothing prevents Alice from digitally signing many contracts transferring ownership to different people: it is an operation she does by herself.¹⁶ She would sign contracts stating that 0xABCD is now owned by Bob, Charley, Eve, etc.

The key technical innovation of the Bitcoin protocol is that it solves this double spending

⁹For those who know a few technical details of Bitcoin: we are aware that Bitcoin are not represented by anything but a history of transactions. However, for ease of presentation we assume there is some unique representation – like the serial number on a five pound note.

¹⁰“Commerce on the Internet has come to rely almost exclusively on financial institutions serving as trusted third parties to process electronic payments. [...] Completely non-reversible transactions are not really possible, since financial institutions cannot avoid mediating disputes. [...] With the possibility of reversal, the need for trust spreads. Merchants must be wary of their customers, hassling them for more information than they would otherwise need. A certain percentage of fraud is accepted as unavoidable. These costs and payment uncertainties can be avoided in person by using physical currency, but no mechanism exists to make payments over a communications channel without a trusted party.” – Satoshi Nakamoto, op. Cit.

¹¹For an overview of the academic state-of-the-art on digital cash see Burton Rosenberg (Ed.), *Handbook of Financial Cryptography and Security*, 2011.

¹²To avoid a possible misunderstanding. That money mediates this exchange is not the point here. What causes this relationship is that Alice and Bob engage in exchange on the basis of private property. Money is simply an expression of this particular social relation.

¹³Of course, people do shy away from stealing from each other. Yet, this does not mean that it would not be advantageous to do so.

¹⁴The Bitcoin designers were indeed aware of these activities of direct appropriation and the need to protect the possible victim. “Transactions that are computationally impractical to reverse would protect sellers from fraud, and routine escrow mechanisms could easily be implemented to protect buyers.” – Satoshi Nakamoto, op. Cit.

¹⁵Wei Dai, op. Cit.

¹⁶“The problem of course is the payee can't verify that one of the owners did not double-spend the coin.” – Satoshi Nakamoto, op. Cit.

problem without relying on a central authority. All previous attempts at digital money relied on some sort of central clearing house which would ensure that Alice cannot spend her money more than once. In the Bitcoin network this problem is addressed by making all transactions public.¹⁷ Thus, instead of handing the signed contract to Bob, it is published on the network by Alice's software. Then, the software of some other participant on the network signs that it has seen this contract certifying the transfer of Bitcoin from Alice to Bob. That is, someone acts as notary and signs Alice's signature and thereby witnesses Alice's signature. Honest witnesses will only sign the first spending of one Bitcoin but will refuse to sign later attempts to spend the same coin by the same person (unless the coin has arrived in that person's wallet again through the normal means). They verify that Alice owns the coin she spends. This witness' signature again is published (all this is handled automatically in the background by the client software).

Yet, Alice could simply collude with Charley and ask Charley to sign all her double spending contracts. She would get a false testimony from a crooked witness. In the Bitcoin network, this is prevented, however, by selecting one witness at random for all transactions at a given moment. Instead of Alice picking a witness, it is randomly assigned. This random choice is organised as a kind of lottery where participants attempt to win the ability to be witness for the current time interval. One can increase one's chances of being selected by investing more computer resources. But to have a decent chance one would need about as much computer resources as the rest of the network combined.¹⁸ In any case, for Alice and Charley to cheat they would have to win the lottery by investing considerable computational resources, too much to be worthwhile – at least that is the hope. Thus, cheating is considered improbable since honest random witnesses will reject forgeries.

But what is a forgery and why is it so bad that so much effort is spent, computational resources

wasted for solving the aforementioned mathematical puzzle, in order to prevent it? On an immediate, individual level a forged bank note behaves no different from a real one: it can be used to buy stuff and pay bills. In fact, the problem with a forgery is precisely that it is indistinguishable from real money, that it does not make a difference to its users: otherwise people would not accept it. Since it is indistinguishable from real money it functions just as normal money and more money confronts the same amount of commodities and the value of money might go down.¹⁹

So what is this value of money, then? What does it mean? Purchasing *power*. Recall, that Alice and Bob both insist on their right to their own stuff when they engage in exchange and refuse to give up their goods just because somebody needs them. They insist on their exclusive right to dispose over their stuff, on their private property. Under these conditions, money is the only way to get access to each other's stuff, because money convinces the other side to consent to the transaction. On the basis of private property, the only way to get access to somebody else's private property is to offer one's own in exchange. Hence, money counts how much wealth in society one can get access to. Money measures private property *as such*. Money expresses how much wealth as such one can make use of: not only coffee or shoes but coffee, shoes, buildings, services, labour-power, anything. On the other hand, money counts how much wealth as such my coffee is worth: coffee is not only coffee but a means to get access to all the other commodities on the market: it is exchanged for money such that one can buy stuff with this money. The price of coffee signifies how much thereof. All in all, numbers on my bank statement tell me how much I can afford, the limit of my purchasing power and hence – reversing the perspective – from how much wealth I am excluded.²⁰

Money is power one can carry in one's pockets; it expresses how much control over land, people, machines, products I have. Thus, a forgery defeats the purpose of money: it turns this limit,

this magnitude into an infinity of possibilities, anything is – in principle – up for grabs just because I want it. If everyone has infinity power, it loses all meaning. It would not be effective demand that counts, but simply the fact that there is demand, which is not to say that would be a bad thing, necessarily.

In summary, money is an expression of social conditions where private property separates means and need. For money to have this quality it is imperative that I can only spend what is mine. This quality, and hence, this separation of means and need, with all its ignorance and brutality towards need, must be violently enforced by the police and on the Bitcoin network – where what people can do to each other is limited – by an elaborate protocol of witnesses, randomness and hard mathematical problems.²¹

The value of money

Now, two problems remain: how is new currency introduced into the system (so far we only handled the transfer of money) and how are participants convinced to do all this hard computational work, i.e., to volunteer to be a witness. In Bitcoin the latter problem is solved using the former.

In order to motivate participants to spend computational resources on verifying transactions they are rewarded a certain amount of Bitcoin if they are chosen as a witness. Currently, each such win earns 50 BTC plus a small transaction fee for each transaction they witness. This also answers the question of how new coins are created: they are “mined” when verifying transactions. In the Bitcoin network money is created ‘out of thin air’, by solving a pretty pointless problem – that is, the puzzle whose solution allows one to be a witness. The only point of this puzzle is that it is hard, that is all.²² What counts is that other commodities/merchants relate to money as money and use it as such, not how it comes into the world.²³

¹⁷“We need a way for the payee to know that the previous owners did not sign any earlier transactions. For our purposes, the earliest transaction is the one that counts, so we don't care about later attempts to double-spend. The only way to confirm the absence of a transaction is to be aware of all transactions.” – Satoshi Nakamoto, op. Cit. Note that this also means that Bitcoin is far from anonymous. Anyone can see all transactions happening in the network. However, Bitcoin transactions are between pseudonyms which provides some weaker form of anonymity.

¹⁸On the Bitcoin network anyone can pretend to be arbitrary many people by creating many pseudonyms. Hence, this lottery is organised in such a way that any candidate has to solve a mathematical puzzle by trying random possible solutions which requires considerable computational resources (big computers). This way, being ‘more people’ on the network requires more financial investment in computer hardware and electricity. It is just as in the lottery: those who buy many tickets have a higher chance of winning. As a side effect, many nodes on the network waste computational resources solving some mathematical puzzle by trying random solutions to win this witness lottery.

¹⁹For many people, this is where they content themselves with knowing that the value goes down without ever asking what this “value” thing is. However, changes in value only make sense if one knows what it is that changes. Furthermore, the relationship of money supply and inflation is not as it might seem: increased money supply does not necessarily imply inflation; only if it is not accompanied by increased economic activity.

²⁰From this it is also clear that under these social conditions – free and equal exchange – those who have nothing will not get anything, aka the poor stay poor. Of course, free agents on a free market never have nothing, they always own themselves and can sell their skin – their labour-power – to others. Yet, their situation is not adequately characterised by pointing out that nature condemns us to work for the products we wish to consume, as the libertarians have it. Unemployed workers can only find work if somebody else offers them a job, if somebody else deems it profitable to employ them. Workers cannot change which product they offer, they only have one. That this situation is no pony farm can be verified by taking a look at the living conditions of workers and people out of work worldwide.

²¹The Bitcoin forum is – among other things – a remarkable source of ignorant and brutal statements about the free market, such as this: “If you want to live then you have to work. That's nature's fault (or God's fault if you're a Christian). Either way, you have to work to survive. Nobody is obligated to keep you alive. You have the right not to be murdered, you don't have the right to live. So, if I offer you a job, that's still a voluntary trade, my resources for your labor. If you don't like the trade then you can reject it and go survive through your own means or simply lay down and die. It's harsh but fair. Otherwise, I'd have to take care of myself and everyone else which is unfair. Requiring me to provide you a living is actual slavery, much worse than nonexistent wage slavery.” – <https://bitcointalk.org/index.php?topic=5643.0%3ball>

²²“The only conditions are that it must be easy to determine how much computing effort it took to solve the problem and the solution must otherwise have no value, either practical or intellectual” – Wei Dai, op. Cit.

²³Those who read Marx's Capital might now object that this implies that Bitcoin is based on a concept of value whose substance is not abstract human labour. Instead it would rely on value which is abstract computer labour or something else entirely. This objection is based on a misunderstanding: computing power earns, if one is lucky, 50 BTC but this is just a number, it is meaningless. What 50 BTC buy, how much purchasing power or command over social wealth they represent is an entirely different question. 50 BTC have value because they command social wealth not because a computer picked the right random number.



Thin air: Bitcoin, credit money and capitalism

However, the amount of Bitcoin one earns for being a witness will decrease in the future – the amount is cut in half every four years. From 2012 a witness will only earn 25 BTC instead of 50 BTC and so forth. Eventually there will be 21 million BTCs in total and no more.

There is no a priori technical reason for the hard limit of Bitcoin; neither for a limit in general nor the particular magnitude of 21 million. One could simply keep generating Bitcoin at the same rate, a rate that is based on recent economic activity in the Bitcoin network or the age of the lead developer or whatever. It is an arbitrary choice from a technical perspective. However, it is fair to assume that the choice made for Bitcoin is based on the assumption that a limited supply of money would allow for a better economy; where “better” means more fair, more stable and devoid of state intervention.²⁴ Libertarian Bitcoin adherents and developers claim that by ‘printing money’ states – via their central banks – devalue currencies and hence deprive their subjects of their assets.²⁵ They claim that the state’s (and sometimes the banks’) ability of creating money ‘out of thin air’ would violate the principles of free mar-

ket because they are based on monopoly instead of competition. Inspired by natural resources such as gold, Satoshi Nakamoto chose to fix a ceiling for the total amount of Bitcoin to some fixed magnitude.²⁶ From this fact most pundits quickly make the transition to the “deflationary spiral” and whether it is going to happen or not; i.e., whether this choice means doom for the currency by exponentially fast deflation – the value of the currency rising compared to all commodities – or not. Indeed, for these pundits the question why modern currencies are credit money hardly deserves attention. They do not ask why modern currencies do not have a limit built in, how credit money came about, if and how it is adequate for the capitalist economy and why the gold standard was departed from in the first place.²⁷ They are not interested in explaining why the world is set the way it is but instead to confront it with their ideal version. Consequently, they miss what would likely happen if Bitcoin or something like it were to become successful: a new credit system would develop.

Growth

Capitalist enterprises invest money to make more money, to make a profit. They buy stuff

such as goods and labour-power, put these ‘to work’ and sell the result for more money than they initially spent. They go through cycles of buying – production – selling.²⁸ The faster each of these steps, the faster the advanced investment returns, the faster the profit arrives and the faster new investments can be made. Capitalist success is measured by the difference between investment and yield and not by the amount of money someone owns in absolute terms. Of course, the absolute amount of wealth a company owns is a relevant magnitude, because more money is a better basis for augmentation. Yet, in order to decide whether a company did well or poorly in the last quarter, the surplus is usually what counts. For a capitalist enterprise, money is a means and *more* wealth – counted in money – the end: fast growth – that is the mantra.

Libertarian Bitcoin adherents have no problem with this. While currently Bitcoin are mainly used – if at all – to buy means of consumption or as a hoard, they hope that one day something like Bitcoin will replace the US dollar and other central bank controlled currencies: Bitcoin or its successor as the currency to do serious business in. This sets Bitcoin apart from other virtual currencies such as Linden Dollars or World of Warcraft Gold. They are purely

²⁴“The root problem with conventional currency is all the trust that’s required to make it work. The central bank must be trusted not to debase the currency, but the history of fiat currencies is full of breaches of that trust. Banks must be trusted to hold our money and transfer it electronically, but they lend it out in waves of credit bubbles with barely a fraction in reserve. We have to trust them with our privacy, trust them not to let identity thieves drain our accounts. Their massive overhead costs make micropayments impossible!” – Satoshi Nakamoto quoted in Joshua Davis, *The Crypto-Currency: Bitcoin and Its Mysterious Inventor*, The New Yorker, 10 October, 2011, p. 62.

²⁵We stress that opposing states increasing the ‘money supply’ at will and fixing the absolute amount of money that can ever be created are not the same thing. One could just as well keep generating 50 new BTC every 10 minutes until the end of time or the Bitcoin network – whichever comes first.

²⁶“The steady addition of a constant amount of new coins is analogous to gold miners expending resources to add gold to circulation. In our case, it is CPU [central processing unit] time and electricity that is expended.” – Satoshi Nakamoto, op. Cit. Furthermore, the distribution of how Bitcoin are generated is inspired by gold. In the beginning it is easy to mine but it becomes harder and harder over time. Bitcoin’s mining concept is an attempt to return to gold money but on the Internet.

²⁷cf. our text “Public debt makes the state go round” available at <http://www.junge-linke.org/en/public-debt-makes-the-state-go-round>. It should be noted that Bitcoin is not an equivalent to a return to the gold standard but a return to paying with gold coins. Even under the gold standard there were many more dollars than the gold they represented, based on the assumption that people would not claim the gold worth of their dollars from the FED.

²⁸Some companies such as supermarkets do not have a production phase, they simply buy and sell. This difference does not matter for the argument presented here though.

used to buy/sell in some limited realm of some virtual world, while Bitcoin are in principle usable for any purchase (on the Internet). Bitcoin want to be money, not just some means of circulation in a virtual reality.

Credit

If money is a means for growth and not the end, a lack of money is not sufficient a reason for the augmentation of money to fail to happen. With the availability of credit money, banks and fractional reserve banking it is evident that this is the case. Just because some company did not earn enough money yet to invest in a new plant, that does not mean it cannot – it would apply for a loan from a bank. That bank in the last instance may have borrowed that money from the central bank which created it ‘out of thin air’. However, assume, for the sake of argument, that these things did not exist. Even then, at any given moment, companies (or parts thereof) are necessarily in different stages of their accumulation cycles: some are just starting to sell a large stock of goods while others are looking to buy machines and hire workers. Some companies have money which they cannot spend yet while other companies need money to spend now. Hence, both the need and means for credit appear. If some company A expects to make, say, 110 BTC from a 100 BTC investment but only has 70 BTC in its accounts, it could take a loan of 30 BTC from some company B with 10% interest rate and still make $10 - 3 = 7$ BTC of profit. For the company B which lends A 30 BTC, this business – if successful – is also better than just sitting on those 30 BTC which earn exactly nothing. If growth is demanded, having money sitting idly in one’s vaults while someone else could invest and augment it is a poor business decision.²⁹ This simple form of credit hence develops spontaneously under free market conditions.³⁰ The consequences of this fact are not lost on Bitcoin adherents. As of writing, there are several attempts to form credit unions: attempts to bundle up the money people have in their wallets in order to lend it out to others – for interest, of course.

Furthermore, under the dictate of the free market, success itself is a question of how much money one can mobilise. The more money a company can invest the better its chances of success and the higher the yield on the market. Better technologies, production methods, distribution deals and training of workers, all these things are available – for a price. Now, with the possibility of credit the necessity for credit arises as well. If money is all that is needed for success and if the right to dispose over money is available for interest then any company has to anticipate its competitors borrowing money for the next round of investments, rolling up the market. The right choice under these conditions is to apply for credit and to start the next round

of investment oneself; which – again – pushes the competition towards doing the same. This way, the availability of money not only provides the possibility for credit but also the basis for a large scale credit business, since the demand for credit motivates further demand.

Even without fractional reserve banking or credit money, e.g., within the Bitcoin economy, two observations can be made about the relation of capital to money and the money supply. If some company A lends some other company B money, the supply of means of payment increases. Money that would otherwise be petrified to a hoard, kept away from the market, used for nothing, is activated and used in circulation. More money confronts the same amount of commodities, without printing a single new banknote or mining a single BTC. That is, the amount of money active in a given society is not fixed, even if Bitcoin was the standard substance of money.

Instead, capital itself regulates the money supply in accordance with its business needs. Businesses ‘activate’ more purchasing power if they expect a particular investment to be advantageous. For them, the right amount of money is that amount of money which is worth investing; to have available that money which can be used to make more money. This is capital’s demand for money.³¹

Growth guarantees money

When one puts money in a bank account or into some credit union, or simply lends it to some other business, to earn an interest, the value of that money is guaranteed by the success of the debtor to turn it into growth. If the debtor goes bankrupt that money is gone. No matter what the substance of money, credit is guaranteed by success.

In order to secure against such defaults creditors may demand securities, some sort of asset which has to be handed over in case of a default. On the other hand, if on average a credit relation means successful business, an IOU – i.e., a promise of payment – itself is such an asset. If Alice owes Bob and Bob is short on cash but wants to buy from Charley he can use the IOU issued by Alice as a means of payment: Charley gets whatever Alice owes Bob. If credit fulfils its purpose and stimulates growth then debt itself becomes an asset, almost as good as already earned money. After all, it should be earned in the future. Promises of payment get – and did get in the past – the quality of means of payment. Charley can then spend Alice’s IOU when buying from Eve, and so forth. Thus, the amount of means of payment in society may grow much larger than the official money, simply by exchanging promises of payment of this money. And this happens without fractional reserve banks or credit money issued by a central bank. Instead, this credit system develops spon-

aneously under free market conditions and the only way to prevent it from happening is to ban this practice: to regulate the market, which is what the libertarians do not want to do.

However, the replacement of cash by these securities remains temporary. In the most severe situation, in crisis, the means of payment available for the whole of society would be reduced back to hard cash again, which these credit tokens were meant to replace. Simply because people start distrusting the money quality of these promises of payment would lead to a collapse of trade which relies on these means of payment. In crisis, credit’s purpose to replace money is void.

Central banks

This is where the central banks step in, they replace the substance of money with something adequate for its purpose: a money whose value is guaranteed by the growth it stimulates. With the establishment of central banks, the economy is freed from the limitations of the total social hoard of hard cash. If there is a lucrative business then there is credit: money which is regulated according to the needs of capital. Credit money as issued by a central bank is not a promise of payment of money, it is itself money. The doubt whether these promises of payments are actually money ought to be put to rest by declaring them as money in the first place.

Now, the value of modern credit money is backed by its ability to bring about capitalist growth. When it facilitates this growth then – and only then – money fulfils its function.

Hence, something capital did to money before, is now ‘built in’. The central bank allows private banks to borrow (sometimes buy) additional funds – for interest – when needed. The money they borrow is created by the central bank ‘out of thin air’. Hence, all money in society comes into being not only with the purpose of stimulating growth but also with the explicit necessity: it is borrowed from the central bank which has to be paid back with interest. While clearly a state intervention, the central banks’ issuing of money is hardly a perversion of capitalism’s first purpose: growth. On the contrary, it is a contribution to it.

Systematic enmity of interests, exclusion from social wealth, subjection of everything to capitalist growth – that is what an economy looks like where exchange, money and private property determine production and consumption. This also does not change if the substance of money is gold or Bitcoin. This society produces poverty not because there is credit money but because this society is based on exchange, money and economic growth. The libertarians might not mind this poverty, but those on the Left who discovered Bitcoin as a new alternative to the status quo perhaps should.

²⁹Of course, there are also reasons keep a certain amount of money around, such as the uncertainties of the markets.

³⁰An even simpler form of credit exists between whole-sellers and producers. If, for example, the producer allows the whole-seller to pay later, he is effectively granting credit.

³¹On a side note, if businesses which take out loans are successful on average, they produce more commodities: more commodities that confront the increased supply of purchasing power. Hence, increases in the money supply, and hence purchasing power, does not necessarily mean inflation.

Islamism

consequence of, heir to, and rival of frustrated Arab nationalism

1 Islam has a bad press in the free West: followers of Islam still live in the Middle Ages, one hears, and Islamic clerics may conduct procedures their Christian colleagues have only been allowed to dream of for 150 years – to veil women, stone sinners, and burn heretics to death. Some even consider the Koran an early version of “Mein Kampf” – what a fitting anti-Fascist armament for the “clash of cultures” of which the ‘free West’ still is not sure if it wants it, and if so, to what extent.

2 Within Islam there have always been revival movements – just like in every other religion. A world in which people seek comfort in religion is not a pleasant place. If it was, people would not have to seek comfort. The kind of comfort religion conveys is paid for with humility and sacrifice and hence religion is far from a contribution to changing the world for the better. Consequently, time and again people have tried to receive more encouragement, more help from above by a yet ‘more correct’ belief. That way Islam has undergone a split (Shiites of Shia Islam and Sunnis of Sunni Islam), there have been a couple of smaller secessions (Ismailis, Alevi, Druze) or new religions have emerged from Islam (Sikhs, Bahá’i). While some stay within the framework of the Islamic religion (though worshippers of the traditional belief might sometimes disagree), there are and have been transitions to a quite different manner of praying to Allah and his mates. It has less to do with good arguments and convincing dogmas that such religious revival movements – or rather: religion in general – were and are able to spread and prevail. Rather, it is closely connected to two questions: whether political authorities attend to a particular deism and assert it by force and if classes or other social groups consider this kind of communication with the higher powers as a spiritual weapon for their other concerns.

3 There are also fundamentalists in Islam – just like in every other religion. Those are people who preach a ‘return’ to the true belief, and whose aim is, for fairly current reasons, to ‘re-store’ the moral rules of their ancestors. These have never existed as such, but always amount to the same thing: sacrifice, oppression of deviant positions, submission to the ‘right’ authority and readiness to fight for this nasty programme. Far from being satisfied with the existence as merely a blinkered private opinion such a programme becomes a political movement to oblige the state to ‘re’-raise all morality. With regard to Islam this is called Islamism. Such movements seem to astonish and worry

people in Europe, of all places, where almost every country has a large Christian-democratic party.

4 Initially, Islamism appeared as the pan-Islamic revival movement in the beginning of the 20th century. The various tendencies within the pan-Islamic movement aimed to restore the Umma, i.e., all worshippers of Islam united under one single political authority. Between 1815 and 1914 France, Spain, Great Britain, the Netherlands, Russia, and Italy had absorbed Islamic countries – from Morocco to Indonesia – taking possession of them as colonies, had turned them into “protectorates” and blown the Ottoman Empire, which continuously weakened, into separate spheres of interest. The anti-colonial struggles aimed to reverse this development.

5 The pan-Islamists were particularly popular in the Arabic-speaking countries¹, because the Ottoman Empire’s answer to the decline of its power was an intensified politics of homogenisation. After the “Young Turks” had taken over in Constantinople (now Istanbul) in 1908, they tried to turn the sultan’s subjects into modern citizens of a Turkish-dominated nation state. However, the “Ottoman Porte” did not endear itself to its Arabic subjects with this politics of “turkification”, besides, this way they became aware of their ‘Arabic-ness’. Hence, the same happened as in the British, French and Italian colonies: the interaction of national demands and racial exclusion created a diverging, in this case, Arabic nationalism. Under the prophet’s banner the aim was to gather either all Arabs or all Muslims (a clear distinction between the two was not always of concern). The alleged truth that the Arabic language alone, the language of the Koran, allows access to the divine truth emphasised the identity of Islamic revival and Arabic ‘re’-emergence according to Islamic insurgents. The British and French supported, armed and used such movements against the Ottoman Empire in World War I (that is the plot of “Lawrence of Arabia”), while German foreign politics also concentrated on the “Mohammedans”, without much success, though. Instead of gaining independence as promised, France and Great Britain after 1919 took on the heavy burden of mandates by the League of Nations and created Syria, Iraq, the Lebanon, Palestine, Yemen as dependent quasi-colonies, and moreover, they granted the foundation of Saudi Arabia.

6 The answer of the “Arabic movement” to the “Turks” and Christian “crusaders” (that is what

the colonialists were called in remembrance of other hard times) and later the Zionist movement was the dream of the ‘re’-erection of an Arabic and/or Islamic Empire of apparently ancient beauty and greatness. But in the 1920s this pan-Islamism paled into insignificance beside the rise of the new nationalistic movements that struggled for independence within the boundaries drawn by the colonial powers and which aimed at the foundation of modern nation states such as Egypt, Algeria, Morocco, Libya, Tunisia, Syria, Lebanon, Iraq, Jordan etc.

7 This did not mean, however, that those national liberation movements would have relinquished the cultural distinction of Islam toward the Christian colonialists. The statesmen-to-be indeed appreciated the belief in Allah as far as it was an integral part of the Arabic folk culture as well as a moral resource. However, as religion they did not want to take it too seriously. On the one hand, this was due to the fact that there still were many different Islamic sects as well as strong Christian minorities that ought to participate in the national projects; on the other hand Islam was often used to cement traditional feudal dependencies and thus was regarded as hindering modernisation by the nationalists.

8 After World War II, when the Arabic states had achieved their ideal of sovereignty – insofar as the world order allowed it that is – the various countries and movements all continued to praise the ideal of pan-Arabism. This implies they accepted the contradiction that their nationalism and national politics actually served to achieve the formation of an even higher Arabic unity. Nevertheless, they continuously frustrated those ideas with their politics as illustrated by the short life spans of the various “United” Arab Republics that were founded. The rivalry between Arabic states was constantly exercised by one’s own declaration of belief in the Arabic matter, the complaint about the lack of unity of the Arabic world, and the accusation of others to be solely interested in narrow-minded nationalism. Beyond all vicissitudes the mutual enmity towards Israel, which was blamed for Arabic weakness, stayed on. But even the mutual hatred of the “Jewish State” has never led the Arabic “sister states” to even implicitly support the fight of the PLO.² Not to mention a good treatment of those who were jammed into refugee camps to await their future use as material for the Palestine state.

9 Those countries where political authority laid down a Western course in politics – mainly

¹For those who do not know: Islam is anything but equivalent to Arabic. Turkish is a completely different language, as is the language spoken in Iran; in Bangladesh and Indonesia people speak entirely different yet again. The fact that these languages use/used Arabic script does not change the fact that they are all different.

²See the massacre of Palestinians by Jordanian security forces in the so-called “Black September” in 1970, which gave name to the group that attacked the Israeli team during the 1972 Olympic games in Munich.

royal dynasties like Morocco, Jordan, Saudi Arabia, the Gulf Emirates, and Iraq until 1958 – appreciated Islam as means to resist ideas of democratisation as well as to neutralise activities of a Socialist and Communist nature. This also held true for the non-Arabic states Afghanistan and Pakistan, whereas the Shah's regime in Persia (now Iran), until 1979, considered the Islamic clergy and population as nothing but a hindrance to modernisation. And even the Kemalist military in Turkey appreciated Islam as moral resource for the state. The idea of the religion being of service to the state was regarded as convenient by all of them, yet, not in terms of making the state's programme subservient to Islam.

10 Even the 'Arab Socialist countries' did not avoid making use of Islam (Nasser: "Mohammed was an imam of socialism", Baathists etc.), although "socialism", like in many other Asian and African states, did not involve much more than stating "the economic wealth belongs to the nation" (art. 26 Baath Party's constitution). The anti-capitalism of those countries always had an anti-materialist approach preaching national dedication and sacrifice to the people; capitalism was tantamount to egoism and an overemphasis on material interests instead of fighting for the "eternal mission of the Arabic nation" (third principle of the Baath Party). If Marxism-Leninism was an inspiration at all, it was Stalin's dictum that enemies of the people had to be smashed and Mao's appreciation of revolutionary heroism. Other than that the class struggle was opposed to "reactionary elements" and directed against those people who were not willing to give away their wealth as well as against minorities that seemed to disturb the nation's homogeneity with their own 'special' collective practices and identities. Furthermore, it obviously was directed against Israel, the "bridgehead of imperialism", whose Jewish residents by means of persistent propaganda for the last 40 years had become the personification of Western greed. When the Eastern bloc had ceased to exist, movements

that earlier had explicitly disapproved of Islam (PKK, PLO, etc.) now regarded it as a revolutionary power.

11 Islamism, which until late in the 1970s played a marginal role, today is a widely spread ideology – from Turkey to Sudan, from Morocco to Indonesia. This has happened, however, without its followers agreeing on who belongs to the Umma or how it should be comprised, whether Sunnis or Shiites should lead, which Islamic school and interpretation of Sharia is the correct one and whether it is about the whole of Islam or particularly the unity of all Arabs. Islamism is a nationalistic globalisation critique that rejects the nation state since it is unable to achieve pan-Arabic and pan-Islamic aims. In the fashion of almost every "pan"-movement, dissatisfied nationalism serves as starting point. The only way to rescue the fatherland is to transcend and substitute it by a higher and more powerful unit; yet certainly not without abandoning the chance of getting the hands on one's own nation, adjusting the nation's politics to the new goal and imposing a moral revival programme on the respective national society.

12 There is no lack of dissatisfied nationalism in Arabic and other Islamic countries. Since the 1980s nearly all of these states had to grapple with matching their own "mixed economy" of state isolation and certain guarantees for the population's survival with requirements by the IMF in order to stay creditworthy. Since the Eastern bloc's downfall, the global market as well as the competitiveness of the own production have become the determining political standards in all countries worldwide. The "programmes of structural adjustment" by the IMF imply new hardships to those masses who are not blessed with wealth anyway, with respect to food (bread subsidies), health care, education, etc. Islamism is growing not only because the Muslim Brotherhood establishes alternative networks (schools, Islamic hospitals, soup kitchens for the poor) but because the Islamist

explanations for the new situation and their proposed solutions match the existing wide-spread servile cast of mind and the regimes' official propaganda well. After all, Islamism is – from Morocco to Malaysia – accompanied by anti-Semitism. This has nothing to do with Israeli politics, except that those provide the occasion. Instead it is closely connected to nationalistic anti-capitalism: against greed, enrichment and materialism the anti-materialist virtues of Islam is set and an economy according to Islamic principles of fair sharing and prohibition of interest is promoted. Even those who apparently fight Islamism – Egypt, Turkey, some former Soviet republics with Islamic majorities – attempt to assert Islamic moral rules in society, thus, laying the ground for Islamism.

13 The new Islamism is therefore consequence and heir of and rival to Arab nationalism. Islamic fundamentalism results from a state of dissatisfaction with the outcomes of these politics. It inherits the nationalistic critique of capitalism which was popularised by Arab socialists; at the same time Islamism fights the remaining nationalists and Arab socialists as godless people and Western collaborators. Particularly in regard to women – emancipated by Arab socialists as a corollary to modernisation – modern Islamists hold out an ideal of moral renewal where morality and sexuality are the main topics. Three fears seem to be important: first, the idea that Allah is not on one's side in case one lacks proper moral, second, the idea that sexuality weakens male power to fight in the jihad, and, third, the apprehension that fulfilled sexuality and love, would generally result in rejecting jihad and thus may get in the way of politics. How exactly the interaction between these thoughts works is a subject for a further study.

Just like every other religious fundamentalism seeking national renewal, the transition from Islamism to Fascism is fluent. This has nothing to do with the Koran, but it has everything to do with the disappointed idealism of Arab and non-Arab Nationalists.

Insane my Arse, Muammar Gaddafi

a historical sketch of his national project

Already during his lifetime public opinion in the West had been in agreement about the deceased Libyan dictator: “insane” was the most frequent description of him. However, putting aside fashion faux-pas and focussing instead on his political career, the former ruler shows up in a rather different light. So who was Muammar Gaddafi?

A nation-builder with Western education

Gaddafi belonged to a generation of Arabic military officers much dissatisfied with the circumstances in which the newly established nation states found themselves at the end of colonial rule. Many of those military officers had been educated in former colonial powers (Gaddafi spent a few months in Great Britain to receive military training). There they were able to observe the way successful world powers work: i.e., as nation states, with a people interested in and devoted to the state. At home in the Middle East, however, monarchs who had been appointed by colonisers reigned over clans and tribal communities that were much more important to its members than the nation state as a whole. The monarchs contented themselves with the clan leaders’ loyalty and left the extraction of raw materials to the former colonisers for money that served their personal enrichment.

Those military officers who brought down the first and only King Idris I of Libya in September 1969 aimed at turning Libyan subjects into patriotic citizens. They closed Western military bases, disenfranchised Italian landowners and began to nationalise the oil production and its export. Having been the basis of foreign influence in Libya, oil was now to become the means of national independence.

For a start, the Libyan population had to learn that it now actually existed as a single body in which each and every clan was part of a whole: the nation. The success of state propaganda and government policy – aimed at establishing the new nation state – required a massive expansion of the educational system, as well as intensive literacy campaigns. Revenues from oil export were diverted to this end by the new powers in the country. Indeed, in comparison with other African states Libya showed up in a positively favourable light: it had the highest per capita income on the continent, and health care and education were available to a good deal of the population. This form of relation between a state and its citizens was something new in Africa. Elsewhere on the continent the various state apparatuses considered their people barely useful and did not bank on their loyalty.

An idealist of democracy *and* a dictator

Gaddafi assumed power together with other military officers but in the course of the 1970s he ousted other military leaders and became the de facto autocrat. At the same time he became detached from his earlier role model Nasser, the president of Egypt, and began to create his own “concept of socialism”. This included the idea of the immediate “people’s authority” which was to replace political parties (actually, there had been only one party before) and the military regime. These ideas resulted from his analysis of other forms of government: in the Colonel’s opinion parliamentary democracy was a scam and he criticised parties and parliaments for manipulating the “true will of the people”. The Soviet system, on the contrary, did not find his approval because of its “one-class-dictatorship”.

The Libyan alternative was the Jamahiriya, the authority of the masses. A “true” democracy could only be a direct one, was the new slogan. With his pompous indictments of parliamentary representatives, and their alleged ineptitude in divining the real desires of the people, Gaddafi was able to touch the hearts of a great many left-wingers. His idea that a truly unified people would have one uniform will that a determined leadership would simply have to put into practice pointed to the Fascist aspect of the nation state in the concept of Jamahiriya.

Left and right-wing pilgrims alike enthusiastically spread the word about the unity that existed between the people and the Leader of the Revolution. In practice, political decisions were still taken by delegates. But all decisions of the “people’s committees” (i.e., by Gaddafi) and were, on top of that, subject to the close scrutiny of “revolutionary committees” comprised of loyal subjects.

Gaddafi managed to paint any kind of politics that he did not agree with as “undemocratic” – similar to how the “free West” does it. As a critic of every form of representation and delegation, he claimed to perceive and channel the unified voice of the people. It was this voice that over the years was the mainstay and validation of his benevolent reign.

Despite all ideological ideas of “one people” however, political and economic conflicts of interest were continuously produced and reproduced among the Libyan population so that the state again and again felt compelled to enforce the purported interests of the people.

A butcher of communists *and* a partner of the Eastern Bloc

At first, Gaddafi was rather hostile to communism and the Eastern Bloc. As late as 1971 he lent Numairi, the Sudanese dictator, a hand with eliminating one of the biggest communist parties in Africa and the Middle East – the Sudanese Communist Party. However, from the late 1970s Libya and the USSR found common ground in a shared enmity towards the NATO and Israel. Since Ronald Reagan had become president of the US Gaddafi was considered a de-facto communist and named alongside Fidel Castro and Kim Il-Sung in the West.

For its foreign policy Libya was in constant need of new arms which the West refused to deliver. It thus came in handy that Libya had not only found a new buyer for its oil but also a new source for weapons: the East. Yet, Gaddafi continued to stress the independence of his “third way.” While other left-wing nationalists in the Arab world were from time to time in cahoots with communist parties in order to please Moscow, the author of the “Third Universal Theory” made sure no communist activities whatsoever could unfold. Libya banned Marx’ works and the USSR in turn prohibited every attempt to distribute the “Green Book” by the Leader of the Revolution.

An anti-imperialist *and* a partner of the West

Although Libya constantly emphasised its independence, business was flourishing with the West. As early as 1980 the American-Libyan trade volume reached its peak. Libya’s weapons which were bought in bulk from the Eastern Bloc protected it from possible potentially military interventions by its capitalist trading partners. At the same time Gaddafi had to compromise from the very beginning: e.g., expropriated western companies wanted to be compensated; and the close-down of the western military bases happened only because it was guaranteed that no Soviet military bases would come to be established in Libya. This indicates the constant contradiction intrinsic to Gaddafi’s national project, which depended on high oil prices and demand in precisely those countries from which Libya wanted to become independent.

This does not mean, however, that the Libyan state did not take its anti-imperialist ambitions seriously. The initial problem had been that the main Western powers – albeit from outside of an explicitly colonialist structure – were now pulling the strings more than ever on the African continent, and this problem remained. Furthermore, although Libya was now a nation



state, internationally it was a rather insignificant one. Yet Colonel Gaddafi had at least learned that this need not go unchallenged and, as such, he quickly adopted an eager interventionist policy, much after the manner of the greater world powers in the West and USSR. Regardless of whether he attempted to unite all Arabs, Muslims or African people under the Libyan roof; whether he supported Palestine factions, African dictators or British Trotskyists – sometimes more, sometimes less generously; never did he lose sight of his aim to behave just like those heads of state that were his opponents. Gaddafi's anti-imperialism was an attempt to imitate the foreign politics of his partners as well as of his opponents.

In the 1980s the USA, and later their allies, took revenge by establishing economic embargoes and conducting air strikes. Support for Gaddafi from the Eastern Bloc soon vanished, therefore he had to realign. At first he changed his image from being a terrorist supporter to becoming a peacemaker. Hence, sometimes Western hostages in Islamic countries were freed by means of Libyan mediation, sometimes Gaddafi instigated an African Union

(AU) action that very reasonably took care of observing conflicts on the continent and which was, hence, useful to the West.

From 2003 at the latest, the experiments of a socialist welfare state were put to an end for good and the establishment of the "people's capitalism" was announced. What followed was a tsunami of privatisation in Libya. But the leader of the Mediterranean state also came to fulfil a quite important role for the EU: becoming something of a turn-key dignitary, Gaddafi began to intercept African refugees before their Mediterranean voyage and to have them interned in camps. Moreover, post-9/11 the West was much more concerned with Islamism and Libya in turn was in such need of foreign capital that agreements were reached without problems.

The former "bad guy" had barely been rehabilitated before the "Arab spring" began, and Gaddafi, for whom surrender was not an option, was promptly dropped by his recently acquired friends. However much the media might romanticise peaceful revolutions in the region, Gaddafi demonstrated that protests in the street – however many people – can be perfectly inca-

pable of showing or allowing the state to see the logic of giving in. Gaddafi made use of those means foreseen by every state in the event of massive functional disruption: state of emergency decrees that allow for the reckless deployment of various means of violence in order that the state's monopoly on it may be restored. At this, the international outcry was deafening. Public opinion in the West and beyond, including those democratic countries in which "state of emergency" provisions are written into their constitutions, were filled with indignation that Gaddafi was gunning down his own people. This indicates that it is considered more reprehensible to kill one's own people, as opposed to foreign people.

Irrespective of the weak protest of some right-wing US-republicans (who considered the Colonel to be a smaller problem compared with that of Islamic radicals) and anti-imperialist leftists (partly still appreciating Gaddafi's earlier achievements, partly simply considering it unfair when stronger states intervene in affairs of weaker ones), Gaddafi's Jamahiriya was plastered with NATO bombs.

About this Journal

Critique's failure does not usually derive from peoples' inability to see the misery around them; work, unemployment, war, hunger, racism, toxic waste, sexism, drowning refugees, homophobia, stress, to name but a few. Everybody knows and almost everybody resents these facts. However, as quickly as most people offer pity, they offer wrong explanations why these facts keep surfacing in the "most human of all societies".

We claim that modern misery ultimately is the result of capitalism and the nation state. The purpose of this journal is to prove this claim by explaining manifestations such as those listed above. The ideological conclusions people draw from this world make matters worse. We therefore criticise especially those theories that blur or even idealise the conditions we are forced to live under – whatever the well-meaning intentions behind them. In other words, with this journal we aim to criticise those conditions which ensure that wine and cheese are not available to everyone and to criticise everyone who justifies this.

Since we refer to Marx quite a bit, a few clarifications. Capitalism does not vanish by itself. Its crises are nothing but crises of its valorisation. On the other hand, the fact that it causes people harm is an inevitable part of its package in crisis and in boom. Modern democracies, where politicians generally care about nothing except the well-being of the country, are the

adequate form of government for the capitalist mode of production. The emancipation of politics from individual capitalist enterprises is a necessary condition for the existence of general capitalist relations. Nation states are not capitalist players on the market – they rather make markets possible.

We have found not much help for making sense of this society in sociological Marxism with all its classes, strata and social groups, with its 'power relations' and 'objectively progressive interests', which allegedly give rise to the right strategy. We do not follow the wide-spread 'realism' which consists of doing stuff one does not want and to not talk about the stuff one actually does want. The lesser of two evils is still an evil. We do not want to be 'somehow' successful, but rather do we want a particular critique to succeed.

We do not understand the Soviet Union as 'state capitalism' nor do we think the 'experiment' unfortunately deviated from and betrayed its true course after a few years. We do not follow the cult of the working class nor any other Leninist-Stalinist-Maoist nonsense. We do not believe that insight follows from one's social position in a positive (Autonomia) or negative (Marxism-Leninism) way. Arguments do not have a standpoint, they are either correct or wrong, insufficient, incomplete. Declarations of love towards the workers, 'the people' and 'the little man' are absent from our texts since

this prevents a proper critique of their wrong consciousness. But this critique is necessary because we need them in order for anything to change. The kind of anti-capitalism, which suspects evil parasites behind everything and conspiracies everywhere, will not be found in our texts; however, arguments against this rubbish will be.

Though our published results and conclusions might be misinterpreted as dogmatic we do not claim at all to have monopolised the truth. On the contrary: this journal is an invitation to critique. Every verdict based on scientific criticism we welcome.

The Wine and Cheese Appreciation Society of Greater London is the rather small group behind this journal. We are not in the business of being the vanguard of the working class nor are we self-sufficient intellectuals writing about Marx behind closed doors. We want to criticise, discuss, engage, argue.

Our group is part of the network "Junge Linke gegen Kapital und Nation". This journal contains both articles produced by us and translations of texts by other groups in this network. If you want to discuss our articles, offer critique, ask questions or want to be informed about our upcoming public meetings get in touch at

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<http://www.junge-linke.org/en>.

