MONEY, MIND & MATTER

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Money is a kind of poetry.
Wallace Stevens, "Adagio."

Credit is money of the mind, as market analyst James Grant observed recently, but every now and then mind must face an unpleasant coming to terms with matter. In former times, this process was one of high social drama, giving rise to panics, crises, and depressions. In our administered times, the process increasingly takes the form of a government rescue. Spreading the wealth is anathema to our politics, but spreading losses is just fine.

Black Monday 1987, one of the worst crashes in the history of speculation, was successfully confined to the financial sector through the arm-twisting, sweet-talking, and money-pumping actions of the Federal Reserve. Before central banking, such a crash would have savaged the banking system, leading the productive economy into depression.

Two somewhat less frenetic credit rescues were unveiled by the Bush régime in its early days: the Brady plan for Third World debt and the savings and loan bailout. The Brady plan is meant to encourage the exchange of public credits for private ones; the cost to the treasuries of the United States and other creditor countries won't be known for years. Bush and Brady, of course, would be happiest if Japan quietly reached for the bill. But the granddaddy of all the bailouts is the S&L rescue. Unlike the Brady plan, the cost of the scheme is all too clear—$300 billion or more, or $1,250 per citizen. Unlike the stock market crash, whose trillion casualties were largely imaginary, the thrift mess involves real money.

(Though the scope of the S&L disaster shocks even the most jaded eye, the socialization of business losses has now become routine: Penn Central, Franklin National, Chrysler, Conrail, Penn Square, and Continental Illinois are names that come readily to mind. Less visibly, the tax code provides corporations convenient access to public subsidy without requiring an Act of Congress.)

The thrift debacle is an exemplum of modern credit: pathological optimists and outright criminals jointly produced a disaster of a magnitude that only Uncle Sam could resolve. Under the spell of free-market theology, campaign contributions, and relentless lobbying, Congress deregulated finance, assuming that unsupervised capital would safely find its most productive outlet. Having forsworn regulation, thrift regulators chose not even to audit their newly emancipated charges. At the first sign of trouble, Congress chose to deregulate the thrift industry even further; the author of this round of deregulation, M. Danny Wall, became the industry's chief supervisor. Anyone expressing worry was dismissed as a handwringer or worse—an *interventionist.* On the rare occasion when regulators showed any critical interest in the business practices of the inappropriately named thrift industry, legislators like then-House Speaker Jim Wright derailed the threat.

So deals were stoked with abandon. From 1982 to 1985, for example, one Western Savings—an exuberant thrift in Texas, where exuberance crackles in the air—cruised the nation's money markets for hot cash, skimmed off high up-front fees, and ran up the loan portfolio some 6,000% by floating no-money-down real estate loans, lending money against nonexistent buildings, and the like. Deals were closed at open-bar soirées. When borrowers couldn't pay interest, Western lent them the money. What the hell—*there was a federal guarantee.*

After three years of regulatory indifference, the government politely and ineffectually asked Western to clean up its act. Nothing happened until Western collapsed into the government's arms in late 1986; among its defaulting borrowers was John Connally. One customer told the *Wall Street Journal*, which reported the Western story: "I don't know anybody who borrowed money without intending to pay it back."

Western, of course, was a particularly egregious case in an industry where the egregious became the norm. But the modern credit culture lives on the assumption that the munificent river of liquidity will flow for all time. Some-one will always be willing to take a leveraged asset off your hands tomorrow at a price comfortably higher than today's. Two famous axioms from living apostles of credit illustrate this faith. In the late 1970s, Citibank chairman Walter Wriston, pioneer of Third World lending, rebutted skeptics with the argument that "Countries don't go bankrupt." Time has proven Wriston painfully wrong in all but the legalistic sense (though he hasn't suffered for his misjudgment). This decade's chief debtmonger, junk bond kingpin Michael Milken, used to argue as follows in the days before his indictment: Capital isn't a scarce resource, capital is abundant—it's vision that's scarce. Whether Milken was as wrong as Wriston will come clear in the next recession.

This credit culture is a long way from that described by a nineteenth-century Scottish banker, G. M. Bell, quoted by Karl Marx in *Capital.* Bell thought himself a finer moralist than a man of the cloth: "Banking establishments are moral and religious institutions. How often has the fear of being seen by the watchful and reproving eye of his banker deterred the young tradesman from joining the company of riotous and extravagant friends?... Has he not trembled to be supposed guilty of deceit or the slightest misstatement, lest it should give rise to suspicion, and his accommodation be in consequence restricted or discontinued [by his banker]? . . . And has not that friendly advice been of more value to him than that of priest?"

As laughable as this seems, Bell's use of religious imagery isn't all that inappropriate; the word credit, after all, derives from *credo,* "I believe." A credit agreement is a profession of faith by both parties: short of a swindle, both parties believe the debtor will be able to repay the loan with interest. It is a bet on the future.

Credit sprang from needs of both borrowers and lenders. Individual entrepreneurs could find only so many uses for their idle money. If they pooled it in banks, mere cash could be transformed into capital, a transformation that grants money the power to reproduce itself. But entrepreneurs also found themselves forced to expand; competition demanded a grander scale, so they turned to bankers to finance larger operations. Without banking, it would be impossible to match up borrower and lender. Besides borrowing, the sale of stock to bankers and other flush characters allowed capitalism to transcend the limited scale of family enterprise to colonize the world.

Such expansive powers are both wondrous and terrifying. As Marx once noted, "The credit system has a dual character immanent in it"—even as it expands the productive power of the economy, thus propelling us into the future, it is inseparable from a "most colossal system of gambling and swindling. . . . It is this dual character that gives the principal spokesmen for credit . . . their nicely mixed character of swindler and prophet."

Now even cash itself is based on faith—faith in the government's backing of the money, faith in the economy's capacity to continue to produce things fit for sale. A U.S. dollar, once backed by gold, is now simply an obligation of the Federal Reserve, a quasi-public institution whose assets are mainly U.S. Treasury bonds—debts of the highest caliber, but debts nonetheless.

For most of history, credit's dreamier excesses were limited by gold, a metal at once seen as both "natural money" and pure enough to touch the body of Christ. Marx, again: "The monetary system [i.e., gold-based] is essentially Catholic, the credit system essentially Protestant. . . . The monetary existence of commodities has a purely social existence. It is *faith* that brings salvation. Faith in money value as the immanent spirit of commodities, faith in the mode of production and its predestined disposition, faith in the individual agents of production as mere personifications of self-valorizing capital. But the credit system is no more emancipated from the monetary system as its basis than Protestantism is from the foundations of Catholicism." This conflation of the sacred and profane cries out for Dr. Freud.

By the lights of classic psychoanalysis, money is gold, and gold is transformed shit; exchange relations are sublimated rituals of the anus. Though this is by now a commonplace, readers found it a rather shocking thesis in 1908. Freud's essay on the anal character begins by noting the coexistence of a trio of features in such cases: orderliness, obstinacy, and thrift. Freud speculates that this unholy trinity—hallmarks of the Victorian bourgeois—

springs from an infantile interest in the anus and its products. Orderliness, says Freud, gives "the impression of a reaction-formation against an interest in what is unclean and disturbing and should not be part of the body." Obstinacy represents the baby's lingering reluctance to part with his or her stool on command.

And the infantile roots of thrift are perhaps the most interesting of all. Freud notes the rich associations between money and dirt found in folklore and everyday language. In English, there are expressions like "filthy rich" and "filthy lucre." In legends, "the gold which the devil gives his paramours turns into excrement after his departure. . . . We also know about the superstition which connects the finding of treasure with defaecation, and everyone is familiar with the figure of the 'shitter of ducats' [a German idiom for a wealthy spendthrift; we have our goose with its golden egg]. Indeed, even according to ancient Babylonian doctrine gold is 'the faeces of hell.'" (Modern dictionaries fail to confirm this; maybe Freud's philologists got caught up in some Germanic enthusiasms.) Finally, Freud suggests that "it is possible that the contrast between the most precious substance known to men and the most worthless . . . has led to the specific identification of gold with faeces."

Freud's early followers—notably Abraham, Ferenczi, and Jones—trod the anal path blazed by the master. The accumulation of money is a sublimated urge to retain feces for the very pleasure of it, and the production of commodities is the psychic derivative of the expulsion of feces. Money, in Ferenczi's phrase, is "nothing other than odourless, dehydrated filth that has been made to shine."

(The psychological equivalence of dirt and money is also suggested by the low social origins of bankers in premodern times. Using decidedly nonfecal reasoning, philosopher of money Georg Simmel speculates that "The importance of money as a means, independent of all specific ends, results in the fact that money becomes the center of interest and the proper domain of individuals and classes who, because of their social position, are excluded from many kinds of personal and specific goals." Simmel's examples include the emancipated Roman and Athenian slaves who became bankers, as did Armenians in

Turkey; Moors in Spain; and Huguenots, Quakers, and Jews elsewhere in Europe. Reading Simmel eighty years later, one thinks how the social prestige of banking increased along with the development of credit, that is, with its evolving liberation from gold.)

Norman O. Brown, not the most fashionable of writers these days, found this psychoanalytic orthodoxy wanting. In his book *Life Against Death* (1985), Brown returned the sacred to the analysis of money and demeaned both equally. For Brown, money and the sacred are both sublimated products of a revulsion from the body. And such sublimation, whether aimed at God or Mammon, is "the denial of life and the body. . . . The more the life of the body passes into things, the less life there is in the body, and at the same time the increasing accumulation of things represents an ever fuller articulation of the lost life of the body."

To Brown, the exchange relation is imbued with guilt, and the debtor-creditor relation with sadomasochism. In this, Brown follows Nietzsche, for whom all religions are "systems of cruelties" and for whom all creditors enjoy "a warrant for and a title to cruelty." (Modern usage confirms the link of debt with both sadomasochism and the sacred: "bonds" impose conditions known as "covenants" on debtors.) For both Nietzsche and Brown, debt is a sickly tribute paid by the present to the past. (Of course, we postmoderns see—consciously or not—credit as a way to steal from the future.)

But for a partisan of the body, Brown is nonetheless guilty of the ancient psychoanalytic habit of dematerializing its needs. As the early analyst Paul Schilder—who rightly laments the absence of a psychoanalysis of work—noted, "When one looks over large parts of the psychoanalytic literature one would not conceive the idea that one eats because one is hungry and wants food for sustaining one's life but one would rather suppose that eating is a sly way of satisfying oral libido. . . . Silberer once said . . . [that] according to psychoanalytic conceptions . . . the Danube . . . is merely a projection of urine and birth-water."

Similarly, Brown's gold is a fetishized projection of intrapsychic drama, not an alienated embodiment of real social power. His moneyed subjects lack class, race, nationality, and gender. For Marx, what made gold valuable was that it embodied human labor and served as the universal exchange equivalent for all other commodities, whose value also arises from the labor that made them. But the nature of market relations—anonymous, mathematical—is to hide the social nature of production and exchange behind the veil of money. As psychoanalysis lacks a theory of work, so does Marxism lack an understanding of the passions that sustain the disguise. With credit comes a set of passions entirely different from those of gold.

Money, Brown says, is but part of the "commitment to mathematize the world, intrinsic to modern science." But modern science has now mathematized money. Aside from doomsayers, survivalists, and other goldbugs, the monetary functions of the yellow metal are all but forgotten. Even paper money is getting scarce. The bulk of society's money now lives a ghostly electronic life.

At the end of 1988, the U.S. money supply totaled just over $3 trillion. Of this, only $212 billion, or seven percent, was currency. If such "near-money" instruments as Treasury bills and commercial paper are added, the currency total shrinks to under five percent.

With this dematerialization of money has come at least a partial banishment of the guilty sadomasochism of the anus. Whether this represents a manic flight from guilt or a new guiltless passion remains to be seen. But capitalism, having undermined the authoritarian-patriarchal family, now produces fewer guilt-ridden obsessives and more hungry narcissists than it did in the days when gold and Daddy reigned as the harsh taskmasters from whom there was no appeal. Like the narcissist, today's consumer seems less interested in the accumulation of possessions than in the (novelty-rich, credit-financed) act of purchase itself. Rather than the guilty obstinacy of the anus, one detects a more primitive, fickle, and eternally dissatisfied orality. Can capitalism adapt itself to this new personality type?

Since 1973, the world has been on a pure paper-money standard. Credit is elastic without apparent limit. Unlike gold, which seems fixed and immortal, credit is created and destroyed continuously. In the 1980s, we are experiencing the freest movement of capital across borders since before the First World War. Some $700 billion a day or more passes through the New York bank wire, most of it speculative trading in foreign exchange, little of it connected with production, none of it with gold. A dollar, once worth 25.8 grains of gold, is now worth what these wires last said it's worth—and governments regularly carry on expensive arguments with the wires. Debt continues to flourish, growing at a rate eclipsing both money and production. Neither borrowers nor lenders are chastened by persistently usurious interest rates and relatively weak income growth at all levels: wages, profits, even government revenues. Why cut back on spending when you can borrow the difference?

There has certainly been no recurrence of the Depression, at least in the Northern Hemisphere. (In the Southern Hemisphere, three- and five-digit inflation rates have accompanied economic collapse—a novel form of depression.) Can our luck hold forever? In the past, credit bubbles were regularly punctured, bringing paper values back in line with gold. Such panics and crashes, which frequently culminated in wars, purged the economy of marginal capitals, laying the groundwork for the next stage of growth. Though it's unpleasant to point this out, the great boom of the 1950s and 1960s was prepared by almost two decades of depression and war.

The eagerness to avoid a second Depression brought the state deeply into the economy to act as buyer and lender of last resort. The free marketeers of the Reagan-Bush years further deepened the state's involvement, as the $300 billion socialization of the thrift industry's losses proves. But every bailout almost assures a fresh disaster as borrowers and lenders get more reckless. *These's nothing to investigate, there's a federal guarantee*, was the comment of a Securities and Exchange official when recently informed of some dubious credit judgments by the Federal Home Loan Mortgage Corporation.

Finance may need the discipline of capital punishment to keep it honest—but without gold or something like it, it operates under a régime of perpetual clemency. David Harvey, one of the finest Marxian analysts of credit, quotes approvingly in *The Limits to Capital* (1982) the following observation of J. Niehans, on the matter of what Keynes called that "barbarous relic," gold:

> Commodity money is the only type of money that, at the present time, can be said to have passed the test of history in market economies. Except for short interludes of war, revolution, and financial crisis, Western economies have been on commodity money systems from the dawn of their history almost up to the present time. More precisely, it is only since 1973 that the absence of any link to the commodity world is claimed to be a normal feature of the monetary system. It will take several more decades before we can tell whether the Western world has finally embarked . . . on a new era of non-commodity money or whether the present period will turn out to be just another interlude.

Harvey cheerily suspects that it is just another interlude, "presumably characterized by financial crises, war and perhaps even revolution."

It is, of course, considered quaint, almost loony, to argue this, but Niehans and Harvey may be right. Harvey argues that inflation has now replaced deflation as the mechanism of capital devaluation. Money wealth is devalued, but not fully. Rather than accepting a harsh but complete purge, indulgent central banking substitutes disguised and partial devaluations, where losses to capital are socialized (thus shifting much of the burden to labor) and money is continuously debased. It doesn't have the ring of a long-term strategy about it.

This argument sounds suspiciously like hard-money crankery. Brown would dismiss it as masochistically yielding to a fetish—which, of course, it is. But the fetish isn't merely a figment of imaginations twisted by the fetish itself; it is a logic immanent in capitalism itself, a system which demands austerity as the price of abundance. The attempt to evade this logic produces only a *bizzarria* of hollow prosperity and speculative bubbles. The attempt to conform to it provokes depression. There must be a better way.

As Claus Offe put it, capital's challenge is to "politically regulate the economic system without materially politicizing it." The gradual nationalization of credit—not only through dramatic bailouts but through routine bailouts financed by an indulgent central bank—should make this challenge tougher than ever. If the public is going to bail out ruined swindlers and prophets, then the public should get something in return. More and more, credit is money of the state. Too bad the state still belongs to the swindlers.