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Sovereignty Effects

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With my remarks today on financial markets and the financial crisis, I do not make any claims to originality. Rather, they are intended as a reminder of certain circumstances that are already familiar to us, in one form or another. First of all, I would like us to remember that since 2007 and 2008, the crisis has undergone various phases that document an escalation of the situation as a whole. It began as a crisis of private debt, as a collapse of the American home mortgage market; then, it became a dramatic problem of global liquidity that led, by necessity, to a crisis of public budgets, to a crisis of sovereign debt. And now, in the most recent turn, we have arrived at a situation, which one could describe as a paralysis or sclerosis in political decision-making. We are faced with a "crisis of governance" with an unclear distribution of responsibilities among instances of political power, economic actors, democratic procedures and the role of civil society. The turbulence of the financial markets has become a crisis of the entire capitalist system, including its political institutions and legal foundations. This political sclerosis is even more remarkable considering that the final decision, the restoration of the system, is foreseeable: the financial markets were or are being refinanced through bailout packages, cheap money and deficit-brakes. Despite all appearances, the recent collapse of the finance economy does not represent the end of an era: the crisis has proved itself as a way to solidify the existing economic order. Nevertheless, between the collapse and the restart, certain mechanisms, malfunctions, and flaws, which belong to the basic functions of the global finance economy and which will continue to determine its instability, have become visible. Europe, with its tensions between elected governments, national sovereignties, European institutions and transnational networks, is probably the ideal setting for this situation. Here we may realize the distortions and predetermined breaking points that will determine future political fights. Against this backdrop, I would like to take a look at the changes in the power relations in the economic regime. I will also try to give some historical context to the current situation. To this end, allow me to formulate three brief theses:

First. From the hectic negotiations over a bailout of Lehmann Brothers in September 2008 to the current choreography of European crisis politics, one can recognize that political decision-making is becoming informal – informal in its procedures, instances and authorities. Improvised meetings, committees of experts, government panels, "Troikas" or "Merkozys" have taken over government business and are legitimated solely by extraordinary events and exceptional circumstances. Obscure decision-making paths are thus combined with actual decisions through which the welfare of one group or another is sacrificed to some idea of the "public welfare". One can recognize here a classic type of political action that not only has its roots in the old field of "state reason," *raison d'État*, but also corresponds to Gabriel Naudé's canonical definition of a "*coup d'État*." In his *Considérations politiques sur les Coups d'États* from 1639, Naudé was concerned with particular situations of high political pressure, with dangers that demand immediate, singular, and bold action by the ruler. This intervention is urgent because of the *casus extremis necessitatae*, a state of emergency in which the "particular circumstances" dictate the actions to be taken, as Carl Schmitt writes. Such *coup d'États* do not intend to overthrow the existing rule of order, but rather to conserve it when faced with a situation in which "legal considerations are no longer called-for, but only the appropriate means in a particular case to achieve a particular goal."

In consideration of the current situation, one can thus argue that the financial and economic state of emergency in recent years has given rise to a form of government action that resembles a continuous *coup d'État*. This emergency or provisional politics has four main characteristics. First of all, it operates in a rule-free space in which political action, justified by the situation, draws on a range of possibilities that are legally undefined, and produces results that are neither controllable nor revisable. Second, time pressure dictates this politics in such a way that a fundamental difference in mobility becomes apparent: on the one side stands the dictate of the short-term that corresponds to the dynamics of the financial world; on the other, the slow deliberations of democracy or civil society. Third, a dilemma emerges from this difference: the goal-setting of extraordinary measures collides with the norms of the political system itself. This dilemma leaves it mark on Chancellor Merkel's notion of a "market-conform democracy" and touches on fundamental questions of legitimacy. Fourth, and finally: this practice of governance is defined by informal, politico-economic consortia. They operate as "welfare committees" or "finance soviets" and become increasingly sovereign in their executive power.

Second thesis. Under such circumstances, it makes little sense to conceive of the state and the market, politics and economics as opposites or antipodes. On the contrary, to claim such oppositions would distort our view of both the practice of governance and economic mechanisms. The opposition of the state and the market system blocks insights into the history of capitalism and does not do justice to the anatomy of the current crisis. One recalls the rise of the market idols and the installation of contemporary financial markets, which only succeeded because of vehement political interventions since the Thatcher and Reagan era. One may also think of September 11, 1973, that day when a military putsch in Chile brought forth the exemplary two-sided figure of authoritarian government and market liberalism. Above all, however, one must understand that modern technologies of governance emerged as the introduction of economics into the sphere of politics. Since the formation of European territorial states, economy defined the modes of government. The concept of economy, which once meant the order of divine rule over the world (hence a kind of theological business management), has encompassed since the early modern period the totality of government action. Good governance is now economic governance; it is concerned with construction of a continuous space in which the transitions from sovereign power to the concrete practice of ruling and to the regulation of social dynamics can be organized. Questions about the strength of a political entity have become directly linked to questions of wealth – to the questions of wealth in terms of populations, goods, infrastructure, and production.

What is needed is a stereoscopic perspective that can follow the co-evolution of states and markets and, thus, a (co-)dependency that is also documented in the genesis of political economy and liberal doctrines. What we call today "economic liberalism" and what has determined economic policy in recent decades has never limited itself to the protection of market mechanisms and mere economic processes. Since the 18th century, the goal has been, rather, to govern the entire social field with the help of economic principles. A transformation of control and command structures was called-for: a call to transfer the responsibilities of "indirect governance" to the market. External, legal limits needed to be replaced by internal regulations. Liberalism – with its many "invisible hands" – cannot be separated from a type of government that hopes, through the establishment of markets, to realize figures of social order and to optimize the practice of governance. It should come as no surprise, then, that since the 1980s, when the format of today's global finance economy was established, some, like Gary S. Becker, have demanded an "economic imperialism." Which means: the extension of the economic approach to all areas of social life – to education, health, family, friendship, criminality. The intent was the elimination of the difference between society and economy, the dispersion of micromarkets and competition over and across the flesh of society. And finally, in the sprit of a "New Public Management," the market was presupposed even as a model for the political being. The question of governance is thus related to the functioning of a bi-polar machine, in which economic dynamics and state structures operate upon and influence each other.

Third thesis. In reaction to this linkage, political power relations have undergone a drastic reorganization since the 1970s. This did not only yield an increase in the power of transnational institutions such as the WTO, the IMF, or the OECD that guaranteed the implementation of economic reforms across national borders. The liberalization of financial markets has also intensified the mutual dependence of nation-states and global market systems and has resulted in a financialization of government structures. This can be seen, above all, in the role of central banks, which, since their establishment in the 17^{th} and 18^{th} centuries, have created a structural coupling between the economy and politics and have performed an essential function in the dynamics of finance-capitalist modernizations. Like the Bank of England (1694) or the Federal Reserve (1913), central banks were often founded as private institutions that received a monopoly over the creation of money, the issue of bank notes, and the generation of liquidity. Despite their legal independence, they function as public-private hybrids, which, by selling state debt, perform the systematic transformation of money into capital. One can call this the birth of western national economies from the spirit of the credit economy: administered by central banks, sovereign debt became the basis for the financing of colonial and imperial projects. And because of this, contemporary observers already saw the central banks as a substitution for sovereign power. For example, commentators around 1800 writing about the Bank of England saw that at the heart of the state there stood neither a king nor a parliament nor a government, but rather, a *bank*: as the "the center of the state," the "palladium of state welfare," and the "personality of all persons." Such comments articulate a prescient sense that modern state power would less define itself through sovereign *potestas* than it would measure itself according to its regulation of credit and capital flows. This transfer of power to central banks is characteristic of modern finance capitalism. As the "lenders of last resort," central banks advanced a new social contract which installs, through the circulation of debit and credit, durable liability structures. In Europe, this shift of power was marked with its most recent and significant historical date by the founding and the endowment of the European Central Bank (ECB).

Certainly, here, as well, a radical change can be registered that began with the end of the Bretton Woods Agreement and applies to the interaction of states and markets. Floating exchange rates, the deregulation of financial markets, and the so-called "derivative revolution" have created a situation that is characterized by the migration of the monopoly on liquidity from central banks to the financial markets. New resources for money-creation have been discovered in the form of finance derivatives and securitizations. These financial instruments do not just make all possible types of capital – such as trade, production, and credit capital – comparable; they have become, as money surrogates, a form of second-order currency. As part of the money supply in circulation, they guarantee the highest levels of liquidity and perfect the logic of the modern capital and credit economy. The new foundation of money and currencies is based on the trading of financial products.

This means, first of all, that the border dividing money and financial capital has disappeared, that the money supply is no longer limited by the amount of existing money and no longer definable by the quantities from M_1 to M_3. Since every financial asset can be used directly for transactional purposes, the baseline of determinable money supplies has become an illusion. The monetarist policies of the central banks – that still today hold to stochastic equilibrium models – have reached their limit. The uncontrollability of circulating money supplies goes hand in hand with the privatization of liquidity generation. At the same time, the role of central banks has been fundamentally transformed. This became obvious during the most recent crises. Committed to a "rescue culture," central banks and states have monetized the liabilities of capital markets; once "lenders of last resort," they have become "investors" or "borrowers of last resort." The debts of private banks were financed by raising loans from private banks. Contrary processes have been installed, in which the socialization of private debts corresponds with the privatization of national debts. Financial markets became integral to the administration of public debts, accompanied by an expansion of their logic, their rules, their imperatives and interests. This implies, finally, the shifting of the reserves of sovereignty. The financialization of government structures, the mediation between public and private debts have mechanized political decisions as market-driven decisions; the markets themselves have become a sort of creditor-god, whose final authority decides the fate of currencies, social systems, public infrastructures, private savings, etc.

To summarize: the analysis of contemporary financial markets and financial crises demands a perspective that takes into account the change in power relations and hence the entanglement of political and economic operations. Neither the state nor the market nor the opposition of the two can lay claim to a theoretical privilege. Rather, what is needed is the reconstruction of a diagram in which sovereign state power, institutions, concrete practices of governance and market systems all interact. This would make visible a development that is characterized by a co-evolution of states and markets, a development that has lead, since the deregulation of financial markets, to the intensification of such mutual dependencies. I would like to speak here of the birth of a bi-polar machine whose dynamic produces uncontrollable sovereignty effects. This pertains to how political decisions have become informal, legitimated by the dictate of economic dangers and exceptional circumstances. With the changed characteristics of liquidity and debt circulation, moreover, the courses of political action have been delegated to financial markets, where they have become mechanized or automatic. If it is true that the instruments and the connectivity of the financial system continue to undermine its stability, then this potential for insecurity will be confirmed as a decisive power by the most recent measures – the Fiscal Pact and the deficit brake – and, indeed, transported to the center of government institutions. Especially since all other attempts at regulation have failed. Future policy will therefore have to be measured according to two simple questions. First: how can democratic procedures intervene in the imperatives of the politico-economic machine? And second: how can public goods (including liquidity) avoid being confiscated by the finance economy?