

# **A NOTE ON THE CREDIT CRISIS, TIME AND SOCIAL ORDER**

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The materialisation of space-time is a central project for capitalism. Within the finance sector, the relationship between the (exchange) value of money now and the (capital) value of money in the future is a central structuring principle, effecting interest rates and financial stability. This short note analyses the relationship of the two forms of modern money in the context of the 2008/9 global financial crisis. It argues that the state's socialisation of private toxic debt has meant the internalisation of 'negative time' within the public sector. The note concludes with some suggestions as to the effects of this new temporal dimension in the structure of the state and its social control.

## **Money and Time**

Marx first proposed a duality of modern money as a means of circulation and as a store of value (*cf.* Marx, 1976: 188 – 247). This dual nature of money in the capitalist economy is reflected in overnight inter-bank credit and treasury bills and is the starting point of this explanation of the current crisis.

At the height of the financial crisis the 'TED spread' was widely used in the popular media as a measure of the freeze in credit. In arithmetic terms the TED spread is the difference between the (positive) interest rate on overnight, inter-bank loans and the (negative) interest or discount rate on short-term, 3-month U.S. government securities ('T-bills'). These two interest or flow rates apply to different forms of money. Overnight inter-bank credit allows banks to manage the cash flow of large withdrawals and, more importantly, to meet (overnight) money-reserve obligations. Such credit creates money at the terminal point of market

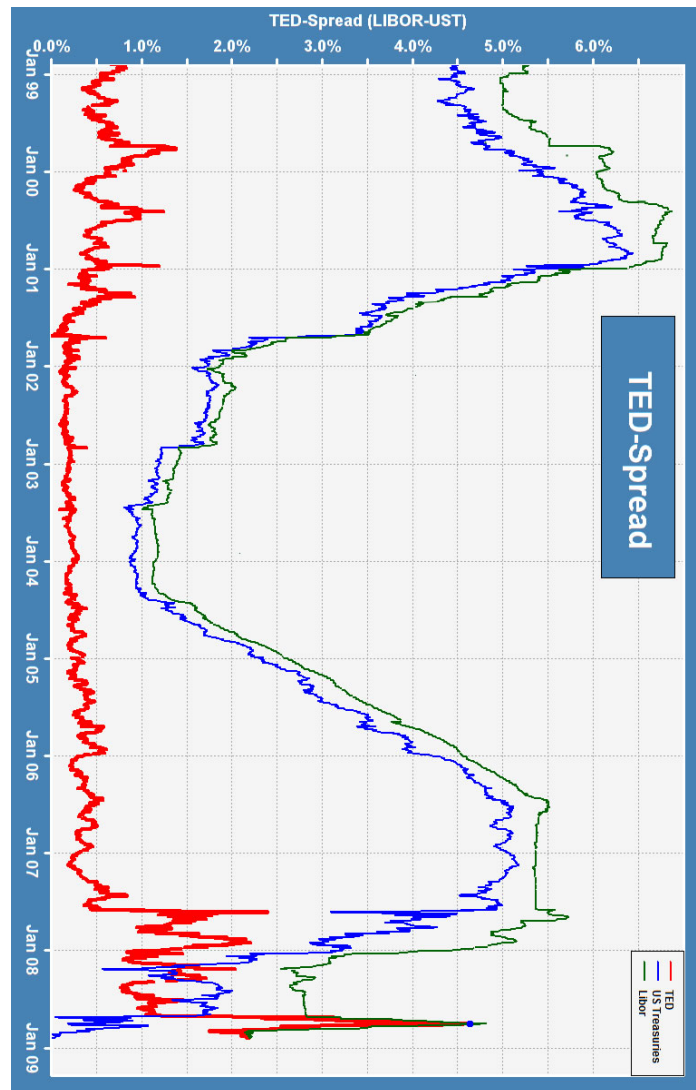
exchange: money-for-payment, the most ancient form of money. At the moment of payment, the nexus of circulation, money, passing from debtor to creditor, is suspended between propriety interests, and thus, momentarily, stilled-in-time. The frictional flow of materialised money – or money-flash-frozen, as it were, in the moment of pure exchange – is measured in the overnight, interbank credit rate.

The Treasury or T-Bill, in contrast, exchanges, or makes equivalent in a promissory note, less money now for more money in the future. It discounts the present to a (larger) future. In a frame of positive time, it proffers, for example, \$1,000 to be liquidated 3 months hence for \$998 (now). In so far the 3-month T-Bill backed by the full authority of the state is risk free, the interest/discount rate of the note reflects the most basic value of the passing of contemporary time. It is an index of the vitality of money, its capacity, at a particular historical juncture, to increase itself. It traces, in short, the life force of capital. As Marx noted: '[M]oney which begets money', such is the description of capital given by its first interpreters ...' (Marx, 1976: 256).

Substantively, the TED spread subtracts the dynamic force of capital, of money impregnated with time, from the inertia of money stilled in the immediate relation of payment. Figure 1 (shown in graphical form on the next page) traces the relation of the two money times over the last decade and their resolution in the TED spread. It shows movements in (a) LIBOR - the London Interbank Offered Rate – which is a measure of the interest rate on overnight interbank loans; (b) the interest rate on US T-Bills; and (c) the TED spread – that is, (a) minus (b).

The limit case of the relationship was precipitated by the U.S. state response to the bursting of the dot-com speculative bubble (when the technology rich NASDAQ stock index peaked in March 2000). As interest rates were rapidly reduced - the T-Bill rate falling from over 650 bps to 160 bps in December 2001 - the LIBOR rate, in face of rising financial optimism induced by the credit easing stimulus, fell in concert. In the third quarter of 2001 the two rates simultaneously reached approximately 200 basis points (bps) and the TED spread touched zero as money flowed indifferently between its two forms of expression.

**Figure 1: Interest Rates and the TED spread**



In more 'normal' times, the friction of money-as-a-medium-of-payment exceeds the force of money-which-begets-money by a marginal amount. There is, in short, a structural preference, when all is said and done, for the immediacy of money-in-the-hand.

Figure 1 (opposite) shows basic now-money and the fruitional value of 3-month capital closely tracking each other in all but the last period. These are the upper two lines in Figure 1. In the first seven years of Millennium plenty the two values – LIBOR and T-Bill – despite ranging between 100 and 670 basis points, differ by no more than 50 basis points and, for a long period, are within 30 bps of each other (100 bps  $\equiv$  1%). So the TED spread (the lowest of the three trend lines in Figure 1) remained small and quite stable until early 2007.

Then, in mid-2007, as 'sub-prime' credit problems became current, the frictional preference for money in the hand, as measured by the TED index, jumped 240 basis points. The US state responded with an aggressive cut in interest rates. The signal reduction of capital vitality induced, after a number of hesitations that pushed the TED index back up, a greater fall in the friction of money-as-payment. In early 2008 the TED index, the friction of money flow, stabilised at around 130 bps. In October, as the T-Bill trace of the vitality of capital declined to zero (for the first time since 1929) the LIBOR, far from mirroring the decline, spiked (with the TED spread) to 465 bps. As interest rates fell the LIBOR rose: a structural relation had been reversed.

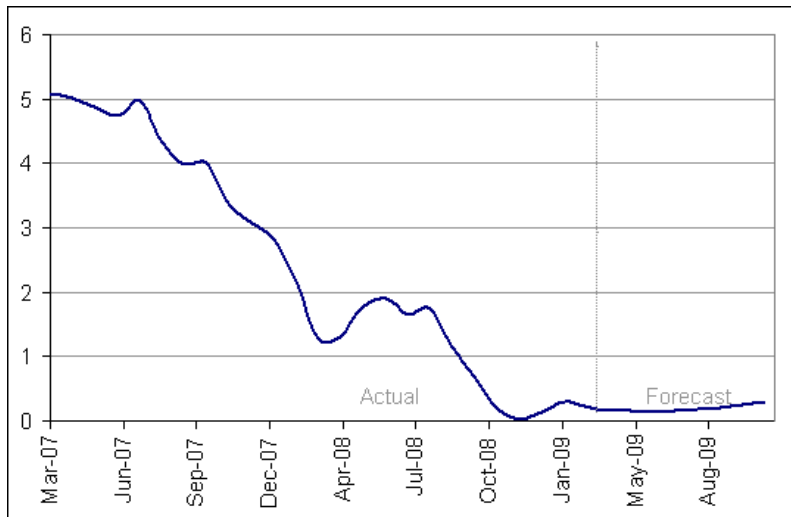
The disruption of the relationship between future-money and now-money may, immediately, be ascribed to a crisis in confidence. Bankers no longer expected money, even overnight money, to beget money: rather, they feared, money would be lost. Money, in short, acquired a negative temporal connotation. Loss producing debt is iconic negative money-time. In bad debt capital turns pathological and money destroys money. In a crisis the negative money time of toxic assets brings the positive thrust of capital money to a halt. The flow of money no longer divides in two forms but is brought to a halt in the inertia of a single preference: for money in the hand, 'now money'.

### State Response

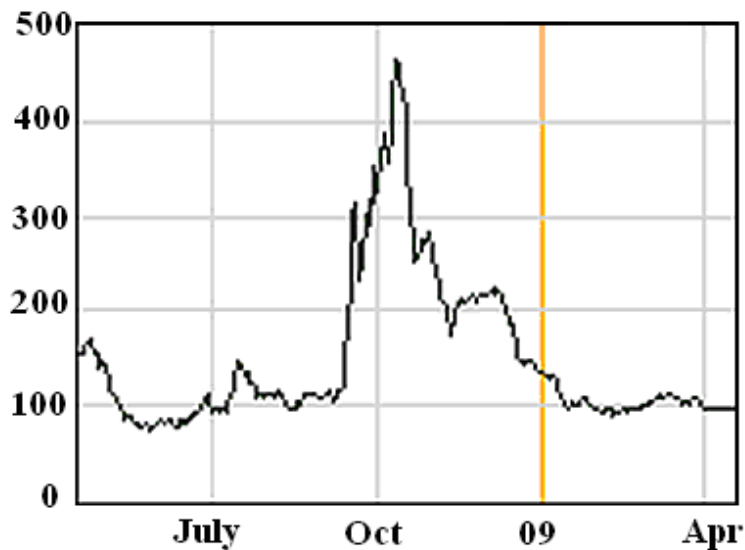
The October 2009 spike in the TED spread, a signal of clear and structural danger, forced the hand of the (neo-liberal) state. The global response, from the USA to China, was twofold. The most urgent initiatives exchanged good (public) money for bad (private) debt: the suggestion of ‘bad’ banks being symptomatic. In so doing the state transferred the negative time of money from the sphere of finance to its sphere of politically mediated social order.

The second major state initiative has been Keynesian stimulation of aggregate demand with infrastructural spending, tax cuts and, even, cash ‘gifts’ to individuals. The effects of this increase in the flow of money for payment and the transfer of negative time from the finance sector to the state are reflected in Figure 2 below.

**Figure 2: Three Month US Treasury Securities Yield**



Source: The Financial Forecast Center™ (<http://forecasts.org/3mT.htm>; accessed 18.4.2009).

**Figure 3: The TED spread 2008/09**

Source: Bloomberg Finance (<http://www.bloomberg.com.au>; accessed 18.4.2009).

Note: The TED spread, measured on the vertical axis in basis points, is defined on the first page of this article.

The state interventions have done little for the vitality of capital, with the T-Bill rate rising only marginally above zero. The LIBOR, on the other hand, in concert with widespread 'cash' stimulation, has fallen sharply, reducing the TED spread to approximately 100 bps. This remains 70 bps above the historic norm of 30 bps. It remains an open question as to whether, and, if so, by how much, state intervention can restore the vitality of capital. Beyond the political friction of intervention there is a definite financial limit to the amount of good money the state can create. The lingering 'lost decade' of Japanese capital has been widely used to suggest the possibility of chronic economic lassitude. The concern of this article, however, is not economic prognosis but some first suggestions of the consequences of the internalisation of negative money time in the state.

## State Time

The thesis is that the crisis accentuates the tendency towards an extended and intensified hyper-neoliberal state. Neo-liberal here denotes a core belief in the market economy, a firm assumption of social order and an often rhetorical commitment to representative democracy. The contemporary extension of social order is readily manifest in recurrent policy announcements and the expenditure of trillions of dollars of public money. It is, however, not only the scale of intervention that is novel, but also its content. As the US Administration forces Chrysler into bankruptcy, sets parameters for bank existence (*i.e.* stress tests) and pronounces on market privilege (*i.e.* executive salaries), an Australian newspaper, in a report headlined *King Kevin and the big end of town*, characterises the consequence of the past year as follows:

From Rudd Bank to broadband and mortgages, the Government is everywhere in corporate life. There is a new gorilla on Australia's corporate scene ... In the chaotic final months of last year when markets were dysfunctional, the Rudd Government's new hands-on role was accepted almost blindly (Murray, 2009).

The dependence of the modern (political) state on finance capital is well established. Former US President Bill Clinton infamously confessed he always monitored bond market reaction to a major policy announcement. Now, it is proposed, the state is being constituted beyond its traditional form as instrument, albeit it a politically contested one. The hyper neoliberal state is an emergent economic stakeholder. While the neo-liberal state had derivative interests in market profit, in contemporary crisis mode the state has acquired a property interest in money-which-begets-money. More immediately it has acquired a property interest in money-which-destroys-money; that is to say, negative time embodied in toxic debt. The state must, at the level of structure, account for this time.

Time is elemental to modernity. In 1964 'the first prophet of the electronic age', a seer of the globalised world of 24/7, declared: 'Today, after more than a century of electric technology, we have extended our central nervous system in a global embrace, abolishing both space and time as far as our planet is concerned' (McLuhan, 1964: 3). The state, in the perceived bureaucratic inefficiency of the nation state, has long been

seen as a partial exception to, or laggard of, this rule of modern time and space. Its interventions, both tardy and, in the global village, narrowly focussed, have also been, in neo-liberal times, limited by a belief in the *über*-efficiency of the hidden hand of the market.

Symptomatic of time in the neo-liberal state, it is pertinent to observe its use by political leaders. In 2005, for example, it was noted that ‘... no modern president was a more famous vacationer than Ronald Reagan ... Reagan spent all or part of 335 days in Santa Barbara – a total that [George W.] Bush will surpass this month in Crawford with three and a half years left in his second term’ (VandeHei and Baker, 2005). The President’s average annual leave, in excess of 2 months, is in contrast to down time in the private sector: ‘[t]he sum of the average paid vacation and paid holidays provided to U.S. workers in the private sector, 15 in total’ (Correspondents, 2007). In Australia workers are entitled to 28 days of annual paid leave, again miserly in the context of the neo-liberal Howard administration that the formidable Paul Keating described as, the ‘laziest, most indolent, unimaginative in our post-war history ... 10 years in a hammock’ (Australian Associated Press, 2007).

These are impressionistic accounts (or, in discourse analysis, signifiers to be interpreted) but in either case there are good reasons to think that, recently, much has changed. In the US and Australia current administrations find themselves in an expanded, executive role organising not only the conditions of finance capital but, increasingly, both the broad economy and wider society. Central banks in out of sequence meetings ‘slash’ interest rates; Australian bureaucrats complain of working hours and the Prime Minister curtails Christmas vacations. In its first weeks a new US Presidency distributes \$787 billion dollars to financial corporations, industry and consumers. ‘Never before in our history has a tax cut taken effect faster’, declares the President.

In the US and Australia the state is both extending its reach and quickening its pace. Its public officials, with few exceptions, are technically competent before they are politically ambitious (*e.g.* fiscal conservatives). The hyper neo-liberal state is extending its rational competence to increasing spheres of financial and social life. The contemporary medium of rational competence is information: the representation of social and spatial structures in data of time frozen in assemblage (*e.g.* the TED spread trace, base-lines, social indicators,



temporal mapping). In its control of cities the hyper modern state can be expected to extend and intensify the imperative of spatio-temporal rationality. Mental labour for the production and processing of data is essential to this task.

The vitality of capital sets a limit to the scope and intensity of state intervention. If the contemporary crisis proves to be something other than a 'normal', if extreme, economic/value correction, the 'rational imperative' of the state to control space and time as a total social structure will increase.

The Great Depression saw the emergence of a total state intimately associated with finance capital and marked by a distinct social division between organisers (associated with the state apparatus) and the organised. Built on the obsessive keeping of records and processing of data (and, it may be noted, also wedded to the production of images or spectacle – mass rallies, torchlight parades, filmed Olympics), it culminated in fascism. Named for a classic symbol of power (the *fasces*), it was characterised by a virulent need for control over both space and time. Individuals question its veracity and have yet to find an original source but of the first fascist state it is *socially* remembered that 'Mussolini made the trains run on time'.. The phenomenal forms of the contemporary crisis are different but the effect of the latest credit crisis is to accentuate the state imperative for informationally-based control over social space and time.

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