Capital

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The world economy, as it has developed since the late nineteenth century, is decidedly capitalist: capital is a major structuring element in global contexts and processes. This chapter argues that in terms of the spatiality of capital, rather abstract concepts were developed, which build on metaphors of capital as a liquid, moving from one place to another. This notion however, still formative today, reveals as much as it obscures: that capital can be dis:connective, taking the form of fragile interrelations between (potential) borrowers and lenders, investors and utilizers; creating obligations, expectations, control and risk; bridging and dividing at the same time, both when capital is plenty and when it is (actively) absent.

Circulation in the body economic / economic machine

In his 1890 novel *L'Argent* (Money), Emile Zola engaged with the ambivalence of capital as a transformative power in modern societies. The main character, Aristide Saccard, launches a joint-stock company (the *Banque universelle*) at the Paris exchange for his own gain, with the feigned purpose of restoring Christianity in the Levante, by developing it through public infrastructure (→ **Infrastructure**) projects. As a result of manipulative practices and a speculative craze that engulfs all of Paris, the stocks of the *Banque universelle* soar, until finally the bubble bursts, leaving everything in ruins. Halfway through the novel, the sister of Saccard's partner, Caroline Hamelin, 'acquired the sudden conviction that money was the dungheap in which grew the humanity of tomorrow. [. . .] If [. . .] in the [Middle] East buildings [..] were springing from the soil, it was because the passion for gambling was making money rain down and rot everything in Paris. Poisonous and destructive money became the ferment of all social vegetation, served as the necessary compost for the execution of the great works which would draw the nations nearer together and pacify the earth. [. . .] From this force, which was the root of all evil, there also sprang everything that was good' (Zola 1894, 232–3).

Likening the way of capital to the circle of life – death, fermentation, rebirth – is an unusual metaphor in nineteenth century thinking. But capital movement was indeed primarily conceived as circular, and the idea was expressed using biological metaphors: Capital circulated, in the way that blood circulates in organisms. In *L'Argent*, Saccard himself relied on the image in feverishly explaining himself to Caroline: 'And you will behold a complete resurrection over all those depopulated plains [. . .] life will return as it returns to a sick body, when we stimulate the system

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by injecting new blood into the exhausted veins. Yes! money will work these miracles!' (Zola 1894, 75).

Karl Marx, less feverishly, essentially defined capitalism through capital circulation: 'The simplest form of the circulation of commodities is C—M—C, the transformation of commodities into money, and the change of the money back again into commodities' (Marx 1887, part II, chap. 4). The purpose of this circulation is to satisfy a need (for a commodity that is not at hand at the outset); it ends when this purpose is met. In contrast, there is *capitalist circulation* (M—C—M), the transformation of money into commodities and then back into more money, i.e. the ever repeated, limitless circulation of money as capital, with the purpose of increasing the capital, endlessly.

In the late 19th and early 20th century, notions of capital movement shifted markedly. For a start, the field of political economy was remodelled into the science of economics. Following the role model of physics, economics adopted more abstract conceptions of 'the economy' and set out to uncover universal laws governing it: laws about how economic variables are related. The reverence for physics did away with biological metaphors, in favour of mechanical notions – as embodied by the MONIAC (Monetary National Income Analogue Computer), a hydraulic machine constructed by LSE student William Phillips in 1949 to simulate the British economy (Bissell 2007). Tinted water symbolizing money flowed through pipes between different tanks, depending on the settings of valves and pumping speeds that equalled different tax rates, interest rates, etc., essentially allowing the state of the economy to be computed depending on the choice of economic parameters, as predicted by macroeconomic theory.

Macroeconomics (the study of nationally aggregated demand, supply, income, savings, investment, etc.) had increasingly accompanied microeconomics (the study of company and household behaviour on markets) since the 1920s and especially the 1930s, with the publication of John Maynard Keynes' *General Theory* in 1936. The endeavour had both a decidedly practical and an empirical side. The practical side was provided by the increased level of political intervention in and management of economies since the beginning of the Great Depression, which called for theoretical underpinnings. The empirical side consisted of efforts that were developed to measure the gross national product and other macroeconomic variables; efforts that became ultimately institutionalized in the system of national accounting (Speich Chassé 2013).

Connecting economies

In national accounting, the national economy as a whole is taken as the unit of interest, yet it is clear that this unit is not a closed system, there is exchange and

interaction with other economies. Until the late nineteenth century, one aspect of that exchange stood out: foreign trade. Since in market economies every transaction of a good is accompanied by its payment, flows of goods from one country to another were mirrored by a flow of payments of equal size in the opposite direction. While foreign trade was tracked and tabulated at customs offices, payments across borders remained unobserved, and could only be seen indirectly, through an ensuing change in foreign exchange rates. If more money went from Britain to the United States than vice versa, more British pounds became changed into U.S. dollars than vice versa; dollars were then in higher, pounds in lesser demand, and the former became more valuable in relation to the latter.

In the later nineteenth century, it became clear that noticeable amounts of money that did not serve as payments for imported or exported goods were crossing borders: mostly public lending to foreign states through the financial markets for bonds, and companies investing in foreign concerns with the aim of direct and lasting control, i.e., foreign direct investment (FDI).

In other words, commodity imports and exports were increasingly joined by what became called *capital* imports and exports. In 2000/01, around twelve percent of all international investments were in less developed countries, while in 1913/14, as much as 40 to 50 percent of all capital that had crossed borders was invested in Latin America, Africa, Asia, and less developed European countries (Schularik 2006, 37–43). Great Britain (46 percent), France (21 percent), and Germany (14 percent) acted as the largest lenders. While such estimates were only made recently, the general development was already noted at the time.

From around 1900, the observation was integrated into theories of imperialism. In 1902, John A. Hobson argued that the British economy suffered from overproduction which the poor masses could not absorb, and an overabundance of capital among the elite which it could not employ in Britain itself. 'Thus we reach the conclusion that Imperialism is the endeavour of the great controllers of industry to broaden the channel for the flow of their surplus wealth by seeking foreign markets and foreign investments to take off the goods and capital they cannot sell or use at home' (Hobson 1902, 91). In 1910, Rudolf Hilferding extended the argument in neo-Marxist terms, proposing that the liberal, competitive, anti-state form of capitalism had transformed into a monopolistic finance capitalism associated with the state, especially in the global arena, with regard to colonialism and imperialism (Hilferding 1910). His arguments were taken up by other neo-Marxist writers of the 1910s such as Rosa Luxemburg, Nikolai Bukharin, and Lenin.

Accounting for flows

At that time, the metaphoric framework had clearly shifted from capital circulating to capital overflowing; or more broadly, to capital flowing in and out of countries (Niehans 1995, chap. V). As a bibliometric analysis of the Google Books corpus illustrates, the use of terms such as 'capital movement', 'capital export', and 'capital flow', as well as the German variants *Kapitalexport* and *Kapitalbewegung*, only really started and vastly increased in the 1920s and 1930s. 'Capital flow' became the most common of these expressions by the end of the 1950s. The context in which these terms were mostly used was that of international macroeconomics (studying the interrelation and interconnection of economies at the country level) and national accounting. The League of Nations, in its third assembly in 1922, adopted a resolution that called for states to prepare reports on their foreign trade balance and balance of payments, thus also on capital flows. Such statistics were compiled annually from 1924 onwards, with the format and methods of the different national reports slowly converging. The United Nations continued this from 1947 onwards, culminating in the publication of the 'U.N. System of National Accounts' as a norm in 1953.

As an item in national accounting, a 'capital flow' is usually construed as the aggregate of money and financial assets that move between two countries in a given period. It abstracts from individual transfers, and the individuals, firms, and other entities that are interrelated by it. It even often denotes only the *balance* of the inflow and outflow of capital: not gross, but net capital flows, i.e., the amount by which one country's capital stock has decreased and the other's has increased over a specific period.

In national accounting, net capital flows have peculiar characteristics:

1. They connect whole countries. As an abstract notion, they do so in the minds of politicians, economists, and other experts. As an aggregate number, they serve as a shorthand for real economic actions and their consequences, which makes them operable for national economic policy makers and supranational institutions such as the International Monetary Fund (IMF) and the World Bank.
2. With the national accounting mindset comes the implicit notion that capital flows can happen between any two countries. In this sense, any country is connected to any other country by an imaginary channel – to use Hobson's term – through which capital may or may not flow, but *potentially* always does.
3. A capital flow is a *directed* connection with a specific magnitude. It connects a source country with a destination country, yet the source and destination labels are not given ex ante, they are a result. The magnitude of capital flows may vary, and their direction reverse. Depending on the context, such a reversal of the flow can be economically damaging for a country.

4. Economic reasons can be given as to why a capital flow occurs between two countries and in the specific direction: there are seemingly magnetic forces – abstracted 'market forces' – in play. Capital is attracted to the country with higher interest rates and potential for profit, and concurrently repulsed by greater risks of loss.

Operating the floodgates

All aspects taken together means that for policy makers, it can be desirable to influence or even control the inflow or outflow of capital. On the one hand, they can, especially if the aim is to attract capital, enact policies to utilize 'market forces', by creating more attractive conditions for it. To some degree, 'the financial markets' – as a short-hand for the entirety of potential international lenders – gain disciplinary power over borrowing countries, by making them compete to attract investments. In certain circumstances, such policies can also be enforced from the outside, as by the structural adjustment programs in which the IMF and the World Bank condition their loans on policy reforms meant to stabilize the economy of the borrowing country and strengthen its competitiveness. This usually entails making outside investments more attractive and removing restrictions, i.e., liberalizing capital movements. On the other hand, there are policies that can be implemented which run against 'market forces' by establishing *capital controls*.

The 1920s, when the term 'capital flows' first gained wider currency, saw large yet somewhat unsteady capital flows from the United States to Europe, and especially Germany and Austria. After World War I, the need for reconstruction of the countries most involved in and impacted by the war clashed with the low availability of local investment capital. Germany also needed to pay reparations, which furthered borrowing abroad. New York City emerged as an international financial hub through which surplus capital from the thriving U.S. economy was lent to Europe. Yet with the onset of the Great Recession, capital flows reversed – first in 1929, and then in 1931, which ultimately led to a banking crisis (Ritschl 2002; Accominotti and Eichengreen 2016). To combat this crisis, Germany adopted capital controls. One such measure was the *Reichfluchtsteuer*, literally a tax on those 'fleeing' the country: wealthy individuals that decided to emigrate had to pay a wealth tax of 25 percent before they could even apply for the transfer of assets abroad. Initially meant to discourage the outflow of capital and highly taxable citizens, the instrument became a notorious tool in Nazi Germany to dispossess Jewish citizens who felt increasingly compelled to flee the country.

The main capital control measures introduced in 1931, however, concerned limitations on currency exchange. In the following years, this led to rigid government control and management of all foreign trade and foreign exchange in Germany –

and likewise, in Japan. Britain also introduced currency exchange controls late in 1931. Other countries such as the United States and France began considering them in earnest in the late 1930s, before they became the norm during World War II – and thereafter (Helleiner 1994). The Bretton Woods system, the global monetary order until the early 1970s, was very much constructed with capital controls as a core feature.

Should the decades from the 1930s to the 1970s be characterized as a period of deglobalisation (→ **Deglobalisation**), of undoing global connections, then? No. Capital controls and the public management of international payments and trade did not remove the interconnectedness of national economies. They just hindered the interconnectedness from playing out in the same way as before. The imaginary channels in which capital could flow between countries remained intact – as shown by the very fact that there had to be controls, for otherwise there would have been other and/or additional, substantial capital flows, conflicting with the aims of governments and central banks.

Conclusion

The metaphor of capital flowing imagines single loans and investments as trickles converging into streams; streams that can swell and abate, reverse, and dry up, that can be diverted and that can become – held back by dams – potential. This entails an interpretation of globalisation as ongoing, fluctuating, and shifting at the same time. Traditional accounts of the history of economic globalisation often illustrate two waves of globalisation, in the late nineteenth and the late twentieth century, by plotting the development of average trade-to-GDP ratios: How much of all real, non-financial economic activities, of all commodity transactions extended across borders at a given point in time? Such a notion of globalisation is narrow in at least two ways. First, it draws attention only to transactions that actually transpired, not those which were intended, imagined, for any reason never realized, yet because they were imagined and intended, they were still part of global economic interaction. Second, it focusses on flows between countries, not economic interdependencies.

But while commodities 'flowing' across borders usually change hands for good, a sizeable part of capital movements concerns processes of borrowing, with borrowers and lenders in a semi-permanent relationship. On the one hand, capital crossing borders can point to an investment, a new connection: either a portfolio investment, a connection of expectations (of a return on the capital extended) and possibilities (by employing the borrowed capital); or an FDI, a connection of businesses in a single multinational enterprise. Yet on the other hand, capital crossing borders can also signify a divestment, the dissolution of connections for capital

to return home, or be used for other investments elsewhere. In that sense, capital flows have dis:connective qualities, and their increase or decrease does not signify degrees of globalisation or deglobalisation as much as what, in the introduction to this volume, is tentatively called *Umglobalisierung*: a shift in the *Gestalt* of globalisation.

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