GROUPS AGAINST CAPITAL AND NATION AND CRITISTICUFFS

ECONOMIC CRISIS (FROM 2008 TO JUNE 2020)

DRAFT TRANSLATION

Contents

Introduction

Translators' note: This text is a translation and adaptation of "Die Wirtschaftskrise 2008 bis Juni 2020 und die staatlichen Maßnahmen – ein Seminarskript".[1] We will update it as we work through it.

[1] available at https://antinational.org/die-wirtschaftskrise-2008-bis-juni-2020-und-die-staatlichen-massnahmen-ein-seminarskript/

The motivation for this seminar is the economic crisis that developed from Spring 2020 and the Government's countermeasures. Initially, the idea was to look at the individual measures taken by governments and central banks and to explain what they intend to achieve, what they are reacting to objectively, how they are financed and what the consequences will be. This was meant to be quite accessible.

This project is complicated not only by the fact that there is a lack of technical expertise about the banking world, but also because the issues involve advanced considerations about capital and that we must always ask ourselves whether the purpose intended by the actor (e.g. lowering key interest rates promotes economic growth) is also the one that is objectively achieved by the measure.

For these two reasons, this text takes a different approach: It attempts to explain, as easy as possible, the interlocking of capitalist exploitation, finance capital, state budget policy and monetary policy both in the normal course of the economy and in times of crisis.

For this purpose, we will go back to the beginning of the Great Recession (2007-2009), because it is an excellent way to show step-by-step how the different layers build on each other, support each other or, if necessary, produce trouble for each other.[2] This has a didactic reason: the chronology of the Great Recession can be used to explain in a comprehensible way, as well as possible, the individual measures that are being used with increased force in the current crisis. Anyone who understands the actions of the states and their central banks during the Great Recession will find it easier to keep track in the current situation.

[2] This approach is nicked from a nice lecture by Peter Decker of GegenStandpunkt, who chose it in a talk on the book "Finance Capital" (see https://en.gegenstandpunkt.com/books/finance-capital), available (in German) at: https://youtu.be/btOh9T9q9CY

The other reason is that this lead-up time seems to be necessary to understand the current crisis. Not simply because it is always necessary to explain the past in order to understand the present (then one could also start in 1600); but because the crisis of 2008 never ended but has kept on taking on new forms. Against this backdrop, there is now an economic crisis due to a new impulse – the measures taken during the Corona pandemic, which are depressing business. The thesis: in 2020, new crisis mitigation measures are adopted on the basis of a crisis situation in the global financial system that has lasted for the last decade. Hence the structure of this text is:

- In Part I we give some general considerations about the market economy without considering credit. This is not intended to be a complete explanation, but to highlight aspects that are relevant to the matters that follow.

- In the large middle section (Part II), the years 2008 to the end of 2019 are used to explain what the various crisis events say about capitalist society and how states tried to stop or mitigate the crisis.
- In the last part, the new economic crisis since February/March 2020 is briefly described (Part III) and an overview is given of how states are responding (Part IV). This should then be understandable with the explanations in the middle section. Finally, a brief conclusion is given with reference to current forecasts in the financial press (Part V).
- This text contains two appendices, the meaning of which will become clear as it progresses.

Part I

Capitalist Production – Selected Provisions in Advance

The social metabolism in a capitalist society is fundamentally made dependent on the possession of money. Someone has to sell something – goods or services (i.e. something they do not need, but others do) to get money and can then buy something they can use.

These commodities must be produced by labour. On the one hand, labour must produce something useful for the owners of money. In this respect, it does not matter whether the work is done quickly or slowly; in the end, a use-value for others must emerge.[3] On the other hand, labour is measured and has to prevail over the efforts of all others with the same goal: to make money from their goods or services. The speed of producing a thing (productivity) becomes decisive. So does the art of fitting into a social division of labour, which is teeming with opposites and only becomes apparent afterwards. Compared labour creates monetary wealth in the form of commodities and services.

[3] "This property of a commodity is independent of the amount of labour required to appropriate its useful qualities." (Karl Marx, *Capital* Volume 1, p.126)

The formula by Marx of the simple circulation of commodities is:[4]

[4] Karl Marx, *Capital* Volume 1, p.200

$$\text{Commodity – Money – Commodity } (C - M - C).$$

Someone is a private proprietor of a commodity. They get money from the sale. With the money they can buy commodities.

- This formula applies to wage labourers when they sell their labour power (C) and with the wage (M) food (C).
- It also applies to the self-employed who make money by selling a handicraft product and then buy food with part of the money, but with another part also buy tools and raw materials, so that they can then complete the same cycle in the future.
- It further applies to capitalists when they sell the commodities they have had manufactured and then buy food with part of the money, tools and raw materials with another part of the money, and labour with yet another part of the money, so that the same cycle can be carried out in the future. See below.

But the formula also makes clear: In order to transform C into M, someone is already assumed to be the owner of money. So someone must have successfully turned C into M before, so that you can earn this money as a seller of commodities. All sellers in society are dependent on sellers having been successful before. Further, if everyone just wants to sell and then not spend the money on commodities after, nothing would ever happen.

The formula of capital is:

$$\text{Money – Commodity – More Money } (M - C - M').$$

Here money is spent so that in the end there is more money. That is why Marx calls the purchases at the beginning "the advance"[5] – because with it the purpose of the whole movement is already expressed at the beginning, it is about a return of the same thing that stands at the beginning – but in a larger amount.

[5] "The money therefore is not spent, it is merely advanced." (Karl Marx, *Capital* Volume 1, p.249)

Capital (i.e. wealth with the purpose of becoming more wealth) uses wage labour to augment itself.[6] Wage labour creates wealth that capital uses to access wage labour again. When capital uses workers then these workers create the value basis for capital, with which they can then be used again.[7] Workers then live just as well or as badly as capital needs them for its calculations.

[6] Karl Marx, *Capital* Volume 1, Chapter 6: The Sale and Purchase of Labour-Power

[7] Karl Marx, *Capital* Volume 1, Chapter 23: Simple Reproduction

Their livelihood is a by-product of the thing that actually matters: Workers are used, if and only if they serve to increase the wealth of capital. The separation of the product of labour from the workers is the point of the capitalist mode of production. The exploitation of the working class is the normal state of affairs. This is expressed in the fact that the wage on which the workers live is a cost in the process from which they live. As a consequence, the progress of productive force of labour is not translated into leisure time for workers.

Augmentation is only possible because the C in the middle does not only stand for means of production, but above all for a labour power. Of course, the C also stands for the fact that the capitalists organise a production process with the purchased goods, which then, through the exploitation of labour power, endows the produced commodities with a surplus. Thus, the complete formula is:[8]

[8] Karl Marx, *Capital* Volume 2, p.124

$$M - C < L/mp - P - C' - M'$$

Money (M) is used to purchase labour power (L) and means of production (mp). Then production (P) takes place. The result is commodities whose value is greater than the initially advanced money, hence C'. In the end the commodities are exchanged for money (M').

What matters here: The formula (or the movement) $C - M - C$ is built into the formula several times, as soon as the capital formula is considered in its repetition:[9]

[9] Karl Marx, *Capital* Volume 2, Chapter 1: The Circuit of Money Capital

- The capitalist sells goods (C') and gets money (M') for it. With this money they go shopping for commodities again: Part of it for their private life, part to renew the means of production, part to renew wages, so that workers will return. This movement is in this respect is simply $C - M - C$.

- Or: The worker sells their commodity labour power (C) and gets money (M) for it. With it they go shopping (C). Where do they get it? From the capitalists, who have produced food for the workers – i.e. the C', in the capital formula.

The formula for the metabolism of society ($C - M - C$), is an intermediate in the formula for capital. Only when $M - M'$ works consistently, wage labourers get M (wage) for their C (labour power).

Capital is also dependent on wages for realising the ever-reproduced heap of commodities. If $C - M - C$ is lower because of dismissed workers, this has an effect on the $M - M'$ of capital. Food-producing capitalists earn less. Their lower demand for the means of production then affects the other capitalists.[10]

One can and should say more about these peculiar relations[11], at this point the following verdicts must suffice: *Only when profit-making works then profit-making works.*

The livelihood of the working class is made dependent on this principle. If there is no profit, or if there is no prospect of profit, then the working class has no ability to provide for its livelihood.

If, as is now the case in the spring of 2020, wage laborers have less money and also trade is restricted, then this has an effect on the success of capitalist production, so that even more workers are laid off, etc.

This is said in advance, because in the following, with credit and the State, the formula $M - C - M'$ of the industrial capitalists (and also of commercial capital) itself becomes a middle link of completely new cycles.

[10] Karl Marx, *Capital* Volume 2, Chapter 20: Simple Reproduction

[11] Karl Marx' *Capital* Volume 1 to Volume 3 (until Chapter 15) deals with this.

Part II

A Peculiar Economic Cycle from 2008 to January 2020: A Banking Crisis (2008ff), A Sovereign Debt Crisis (2010ff), A Smouldering Crisis in the World Financial System with Weak Economic Activity in the Capitalist Centres (2013-January 2020)

1
The Basic Principles of Credit-Financed Economic Growth by Example of the the Great Recession

2008 saw a crisis in the global financial system.[1] Before 2008, finance capital created its own booming market with securitised loans, which it then distrusted. This resulted in a worldwide banking crisis. Nothing special happened in the rest of the economy, but with the banking crisis, the rest of the economy is also in crisis. This is worth explaining:

(a)

If capitalist exploitation of the working class functions then having a lot of money is the same as a assurance to make money.[2]

(b)

Money itself receives a price for the temporary transfer of the use-value "making profits": interest.[3] This is the basis for a banking system that collects all money in society that is lying idle at the moment (the banks promise interest as a lure) and makes that the foundation for its lending business against higher interest rates.

(c)

This will allow industrial and commercial companies to turn their growth and their competitive behaviour upside down:

It is no longer simply a matter of having your own money, i.e. of advancing money, selling commodities to make a surplus in money over the advance and then using this profit to increase the size of the advance, which is then used to expand production and trade, to make even bigger profits and to make even bigger advances.

[1] See *Financial Crisis 2008ff* available at `https://antinational.org/en/financial-crisis-2008ff/`

[2] "On the basis of capitalist production, money – taken here as the independent expression of a sum of value, whether this actually exists in money or in commodities – can be transformed into capital, and through this transformation it is turned from a given, fixed value into a self-valorizing value capable of increasing itself. […] In this way the money receives, besides the use-value which it possesses as money, an additional use-value, namely the ability to function as capital." (Karl Marx, *Capital* Volume 3, p.459)

[3] "What then is the use-value that the money capitalist alienates for the duration of the loan and makes over to the productive capitalist, the borrower? It is the use-value that money receives through the fact that it can be transformed into capital, that it can function as capital so as to produce in its movement a definite surplus-value, the average profit (anything more or less than this quantity appears here as merely accidental), besides conserving its original value." (Karl Marx, *Capital* Volume 3, p.472)

As a formula: $M - C ... P ... C' - M'$ - and then M' is the advance of the next round and again: $M - C ... P ... C' - M'$ (where the C at the beginning of the second movement has the same magnitude as M' at the end of the first movement).

With banks, companies are confronted with an almost unlimited amount of money for their growth, which is not theirs, but which is available for a promise of interest. The following reversal then takes place: Borrow money against interest, expand the business with this money and pay the interest with a part of the profit then made – and pocket the other part yourself.

Capital growth is then no longer be constrained by the profits already made, but only by the business outlook. This has a consequence for companies:

- Profits are no longer the basis for expansion.
- Debt is the basis for expansion and profits must justify the promises of payment.

In a developed capitalist society, this is not a one-off process, like this: a company takes out a loan, makes an extension that works and then the loan is repaid with interest. Now the company is bigger and continues to operate old-school mobilising only its own profits.

Credit remains a permanent instrument of capital growth for industrial and commercial capital. If the cycle – debt, business, debt has been justified – works, then this is the best argument for both banks and borrowers to continue the same on a larger scale.

This is why companies operate on a permanent basis with a high proportion of borrowed capital. They constantly pay interest, but the basic amount of the borrowed capital does not from the point of view of the company, have to be repaid, because old debts are paid with new debts: The loan is renewed.

As a consequence, the competition of the capitalists changes through the extensive use of outside capital:

Those who lose money are not immediately bankrupt if banks think that this is only temporary, there is further or even extended credit and the company stays in the market. Anyone who makes profits that appear comparatively low to finance capital or whose future seems shaky to banks must pay higher interest or will not be able to obtain a loan. If the latter happens, the company is bankrupt. The banks thus becomes the judge of the survival of the corporate world.

For companies, the results are:

1. The purpose of the company is to increase the private property of its owner or owners. This equity capital ought to accumulate faster

supported by outside capital.

2. The existence of the company is made absolutely dependent on continuous credit. If this does not happen, equity capital does not simply grow at a lower pace, but no longer grows and is destroyed – the company is bankrupt. This reason for existence is reflected into the company's purpose: a company must constantly pay attention to its creditworthiness. Debts (including interest) must always be serviced punctually. This is only possible if the company gets new loans to pay off the old loans.

As long as the company is creditworthy, it is creditworthy. In other words, as long as it is creditworthy for some banks, it is creditworthy for other banks.

The actual core business is reduced to a basis of trust to underpin this tautology: the exploitation of workers is given the function of continuously validating the creditworthiness of companies. Expressed as a capital formula, where K stands for the creditworthiness that the M obtains in the first place and the K at the end stands for the permanent creditworthiness that is justified by the M':

$$K-M-C\dots P\dots C'-M'-K-M-C\dots P\dots C'-M'-K-M-C\dots P\dots C'-M'-K$$

(d)

Banks are debtors and creditors at the same time.

1. They collect money against a promise of interest.

2. They create book money (e.g. an overdraft) for which they have to provide real money when requested.

3. They borrow money from other banks.

Their power to lend ever increasing funds on a permanent basis is itself based on the fact that their creditors extend the loan further and further (i.e. give new loans so that the old ones can be paid).

In this respect, here too – in analogy to the companies – we have:

1. The purpose of the bank is to increase the private wealth of its owners. Equity capital ought to increase more effectively, supported by borrowed capital.

2. The bank's existence is made absolutely dependent on ongoing credit. If this does not happen, the equity capital does not simply increase more slowly, but does not increase at all and is destroyed – the bank

is bankrupt. This reason for its existence is reflected into the bank's purpose: it must constantly pay attention to its creditworthiness. Debts (including interest) must always be serviced punctually. And this is only possible if the bank gets new loans in order to pay off the old loans:

As long as the bank is creditworthy, it is creditworthy. The actual core business (collecting interest from the corporate world) is reduced to a basis of trust to support this tautology. The quality of the promissory notes that it holds as a creditor certifies the bank's creditworthiness.

(e)

The previous points are summed up as an interim conclusion on the overall character of the capitalist economy: Debts drive businesses to expand and then the debts are expanded. The credit circle is validated by an independent principle that is separate from it: the production of wealth through command over the labour of others, i.e. exploitation of the proletariat.

(f)

Loan capital is further developed to the valuation of debt instruments/securities/IOUs. Finance capital compares existing IOUs and assigns them a value by buying them at a price on a market (stock exchanges, capital markets, money markets).

So instead of simply opening a new credit relationship by lending money to a company in order to earn interest, finance capital refers to existing debt relationships and gives them a price in comparison.

This creates a new money augmentation strategy. Instead of (only) collecting interest, the market price change of the debt instruments themselves is speculated on in order to earn money from this price movements. Anyone who buys a security more cheaply than they later sell it for is bound to make a profit.

Here again, the credit circle results in: If there are enough investors who continuously speculate on the valuation of securities, then the securities have a value. If they stop speculating then they have no value. The profitability of the companies to which these debt instruments relate provides the material for their circle.

(g)

If the markets for securities are developed, there are opportunities for large corporations to free themselves from the scrutiny of banks that lend capital. Two forms are particularly prominent: *bonds* and *shares*.[4]

Companies issue bonds of their own accord and collect money from the financial capitalist investor community. They do not beg for credit from the banks and have to fight for the conditions. They go out into the world with confidence and say: "I'm a big shot, here is a paper with a fixed interest rate promise and an expiry date. Give me money."

Another procedure is the transformation of the company into a joint stock corporation. The advantage of shares is: the money given to the company never has to be paid back. There is merely the promise of a variable interest rate, that is, a dividend; in exchange for part ownership.

This way the market for securities is enriched by two additional debt instruments which are continuously valued at stock exchanges or elsewhere: corporate bonds and stocks.

The banks also use both forms of financing. They themselves are usually public limited companies and issue bonds that are valued in the world's financial centres.

The freedom from the scrutiny of an individual bank has now been replaced by the scrutiny of the securities investor community, which critically compares every bond and share on the stock exchange. The end of a company is initiated in the same way as above (see (c)) when it is dependent on new money from the stock exchange (new issue of bonds or shares), but the price on the stock exchange has collapsed.

[4] See GegenStandpunkt, *II. The development of finance capital's credit power: The accumulation of "fictitious" capital*, Section 2 available at https://en.gegenstandpunkt.com/books/ii-development-finance-capital%E2%80%99s-credit-power-accumulation-%E2%80%9Cfictitious%E2%80%9D-capital

(h)

Then there are also derivatives.[5] They are a copy for the business in securities from a completely different sphere of business, which will be briefly mentioned here in an brief digression:

> Since raw materials are subject to large price fluctuations, there is a need for companies to buy a certain amount of raw materials at a fixed price at a certain date in the future. This ought to make their profit calculation more, well, calculable. A forward transaction satisfies this need. There are essentially two basic forms of forward transactions:
>
> *Futures* A legal title that promises the holder that they will receive a certain quantity of raw materials at a certain price on a certain date in the future. The holder must then buy and the "debtor" (i.e. the person who enters into the obligation) must then deliver. In the beginning, a fee must be paid for this legal title.

[5] You can skip the point (h), it is quite difficult but not necessary for understanding the principle of capitalist growth here.

Option Is the same as a future except that the holder has the option but does not have to realise it. In the latter case, the debtor does not have to deliver (or is stuck with the stuff). This legal title costs a fee, too, of course.

Exchanges for these rights developed along the raw materials business: oil, coffee beans, pork chops, etc…

The legal constructs of futures and options are now extended to all types of securities: for example, the right to buy a stock in a month at a certain price.

A future or option on a debt instrument is itself a debt instrument, but one with reference to other such debt instruments. Therefore, it is aptly called a "derivative".

There are separate marketplaces for derivatives (in and for Europe, London is the main centre) and the derivatives themselves are given a value there.

There now exists all kinds of creative developments in finance capital. The securitised loans that blew up in 2008 (i.e. whose value was virtually destroyed by the mere practice of no longer wanting to buy them) were also derivatives. They were promises of debt that were related to other promises of debt. But we do not want to explain them here.

(i)

The growth of a developed capitalist society now looks like this: Companies are getting bigger and are growing. On the one hand, for family businesses or corporations equity capital is growing. At the same time, outside capital held by companies is growing. Massive corporations are purely based on debt obligations, i.e. legal titles to payment. They are joint stock companies. The debts on banks' books are growing: (1) those they have taken on, (2) those that represent claims against others. Finance capital benefits the other types of capital, the other types of capital benefit finance capital.

The growth of debt is beneficial to the efficient exploitation of the proletariat if credit allows to arrange jobs that are set up in terms of means of production in such a way that they correspond to the level of competition and to get a lot of work out of the workers. This efficient exploitation of the proletariat is in turn beneficial to the growth of the debt relations.

This is the form in which the material reproduction process of capitalist society takes place, whose elementary principle – for all the wacky forms it takes – is the multiplication of private wealth measured in money.

At the same time, the two forms of accumulating wealth are not a cooperative relationship, but two ways of using each other to make your own accumulation work. Debt-making speculates on future returns on debt making and the development of the so-called "real economy". Whether then the speculation within the financial world confirms its own speculation is another question. It is moreover open whether the basis of trust that the exploitation of the proletariat is supposed to create is sufficient for the speculatively presented debt relationships.

So from 2008 onward, we had a crisis triggered in a higher level of finance capital itself, which then led to the interruption of the credit prolongation between banks and then spread to the rest of the economy, then also here credit chains broke.

Nothing had changed in the production, on the contrary, it was profitable. But it was only profitable on the basis of ever more extended chains of credit. When suddenly creditors do not want to extend the credit chains but want to be paid out (because their creditors do the same with them), then it becomes apparent:

Economic growth based on debt is suddenly supposed to function without debt. This is not possible and therefore everything is torn down. The banks are of systemic relevance and their failure produces the Great Rescission. Governments and central banks intervened and created a peculiar economic growth pattern for the coming years.

NB: As an anticipation of today's times, when business closures due to the Corona pandemic directly affect production and trade. It is clear that society's credit circle can be torn down from "below". Nothing special needs to happen in the financial world, but if – for whatever reason – profit making from the exploitation of the proletariat becomes more precarious, then the so-called real economy will fail in its service as a basis of trust for the all-round debt relationships. A crisis in capitalist production and/or capitalist trade immediately turns into a crisis of finance capital, which in turn has a repercussion on industrial and commercial capital.

2

The Basic Principles of Fiscal Policy (Budget Policy) by Example of the Sovereign Debt Crisis 2010 Onward

The big realisation came when the US Government let Lehman Brothers fail. This bank had approximately $600 billion of debt outstanding against it and, on the other hand, had debt claims against others on its books to the same extent.

The creditors had to write off their debt claims against Lehman and these creditors were banks from all over the world. It was also clear that Lehman would have to sell all its securities in the insolvency proceedings. This emergency sale has or would have torn down the securities markets.

First of all, after the experiment it was clear: This must not be allowed to happen again.[1] Governments themselves became shareholders in banks or set independent institutions where bad debts were outsourced (bad banks). They financed this with sovereign debt. They put their still creditworthy sovereign debt behind bad debts. In this way, they prevented the destruction of securities, prevented their devaluation and maintained their price.

[1] See *Sovereign Debt and the Crisis in the Eurozone* available at `https://antinational.org/en/sovereign-debt-and-crisis-eurozone-all-parts/`

This did not solve the financial crisis, but rather mitigated it and at the same time raised it to a higher level: What does this Government action mean for the sovereign debt itself? However, first, a step backwards: What is the quality of sovereign debt in “normal” times?

2.1 How is sovereign debt built into the functioning cycle of “debt, exploitation, debts confirmed, more debt, more exploitation …”?

The bourgeois state does not earn money, it takes it – taxes are not an exchange.[2] This is how it organises its activities. It obliges society to earn money when it collects the required tribute in money. And it respects money-making when it pays its subjects for their services to itself.

[2] See *“I pay my taxes” – so what?!* available at `https://critisticuffs.org/texts/taxes`

Thus it is already expressed in this form of the organisation of state activity that the State wants this private materialism as a principle of its society.

The State has learned from the reversal that has taken place in the capitalist economy. The rule there is: Do not wait until you can expand the business with the help of profits already made, but take out loans so that you can expand the business and justify the loans with the higher profits thus produced. The State does a similar thing:

It does not wait for citizens to earn more money for extended state activity and then for more money to flow into the treasury through taxation.

Rather, the State issues bonds, i.e. takes loans to set in motion an expanded state activity. The debts of the British state amounted to approximately £1.78 trillion at the beginning of 2018.[3] The development of economic growth can thus be promoted independently of the already existing tax income and the growing tax revenues are then to justify the debts.

[3] https://en.wikipedia.org/w/index.php?title=United_Kingdom_national_debt&oldid=969870683

On the one hand, sovereign debt has the peculiarity of being a consumer loan in economic terms. The State spends the money, but it is not a capitalist whose advance is later realised. On the other hand, the State has the power over all incomes in society and is therefore the best debtor in a society.

Once more, the rule here is that borrowing is not just a one-time special action, the debt is repaid and that's it. If the economy is growing, this is the best argument for taking on more debt to create even better conditions for economic growth. Thus, not only will sovereign debt not be reduced, but old debt will be paid off with new debt and, in addition, more debt will generally be taken on (new net debt).

Therefore, the following now also applies to the State: its ability to repeatedly resort to credit depends on the fact that there are financial actors who continuously give it credit. If these do not exist, any State will have a sovereign debt crisis. Then virtually no more business will go on in the country.

In this way, the national economy, over which the State has control and which it promotes with economic policy measures, is then also viewed in a new perspective: The national economic development must provide sufficient messages of success that send signals to finance capital so that it continues to provide the State with credit.

Here it is now getting tricky, if you want to express it as a cycle, because one part is bigger than the whole. We said earlier: The growth of debt relationships in companies and banks benefits the exploitation of the proletariat and the exploitation benefits the growth of debt relationships.

With sovereign debt, we must now say: Sovereign debt stimulates the whole chain by providing better conditions for growth:

- The growth of debt relationships (for banks and companies)
- benefits the exploitation of the proletariat and this
- benefits the growth of debt relationships (for banks and companies).

This chain in turn is supposed to justify the sovereign debt so that the cycle can be repeated with even more sovereign debt.

Here the activities of finance capital itself are part of the middle of the cycle of sovereign debt – economic growth – sovereign debt. Yet, although finance capital itself is the middle link, it is also the outer link of the cycle: Finance capital gives credit to the State

- which must use it to trim its economy so that it gives the financial world signals for future credit
- then the State can pay its debts to the financial world (with new loans)
- and the financial world is satisfied and can begin the cycle again and on a larger scale.

Sovereign debt and the management of debt as a source of finance by finance capital are thus mutually dependent on each other but are also mutually independent calculations. The State has thus made itself dependent on a functioning banking system and its management of debt as a source of money. If the capitalist economy functions as a whole, then the two intertwined cycles take a symbiotic course.

2.2 *Back to the Crisis and Sovereign Debt*

In the financial crisis, States tried to keep the securities that have become rotten by the practical judgement of the financial world in value with their public credit. The State (and in the Basel Accords[4] major states together) continue to impose stricter regulation on financial market players and oblige them to be more cautious in their debt operations.

Not only in the Eurozone, but especially there, finance capital then critically examined the cycle from this vantage point (states have obliged them to speculate more cautiously) and gave the states the verdict: they speculated against the value of sovereign debt and only hesitantly extended their loans to those states.

After all, these states have not expanded their credit in speculation on future growth and therewith sent signals to the financial world that

[4] When it was founded in 1974, the Basel Committee on Banking Supervision included the so-called G-10 countries, and now many more. The Basel Committee provides a forum for regular consultations on banking supervision and regulation. Basel I to Basel IV are understood to be recommendations of minimum standards under supervisory law.

they could interpret as “here ‘invest’ this state has a prosperous future”. States had expanded their sovereign debt to stop the crisis. Here the financial world became critical and said: “Then the certification of the entire sovereign debt will become precarious, because an enormously increased sovereign debt now represents at most the same, if not reduced future economic power.”

The financial markets were threatening not to prolong the sovereign debt as usual (i.e. to give new loans so that the old ones can be paid off). As a result, it was not only the State that gets into difficulties, but the financial world itself: sovereign debt is built into the bank balance sheets as an extensive component of the accumulation of securities. The devaluation of these securities was imminent and this would have then lead to another financial crisis and then economic crisis.

If debt chains break down, there is only one thing that helps: real money – but what does real mean here?

3

The Basic Principles of Currency Policy by Example of the Sovereign Debt Crisis 2010 Onward

3.1 Central Bank Actions in Relation to Sovereign Debt

Now the central banks stepped in to keep the sovereign debt in value. The US Federal Reserve did this immediately by buying new sovereign debt directly from the Government. The US Government had fresh money to pay off the old debts to the banks. The best thing that can then happen is that the banks are prepared to continue to give new loans to the Government under the same conditions, because it is then clear that the debt will not devalue.

In Japan, this procedure has been in use since the country's financial crisis in 1990 and has had to be continued on an ongoing basis. There, they have had an economic development which has been for 30 years similar to what is now beginning in Europe and the USA in 2010 and is continuing until today.

In the Eurozone, the situation is more complicated. Competing economies have a common money here, and a dispute is starting over whether and how the currency can help individual countries out in a sovereign debt crisis. Out of the dispute, two new instruments are created which are also relevant in today's crisis management:

The ESM (European Stability Mechanism): Euro states get credit from a pot that is filled by the sovereign debt of the other states. Practically an attempt to place the still creditworthy sovereign debt of other states behind precarious sovereign debt (e.g. Greece) (here above all Germany is important as a creditor).

This opens the equation: Greek sovereign debt equals German sovereign debt. This should inspire confidence. Of course, this is exactly the opposite interpretation of risk: in this case, that the German sovereign debt represents not only the economic activity in Germany, which the financial markets regard as good, but also the economic activity of the entire Greek society (State and Economy), which the financial markets regard as unsuitable. In addition, the German sovereign debt will in the future also represent the precarious social activity in other potential crisis states (Italy, Spain and perhaps even France). To the extent that Germany uses its good credit rating to support the precarious creditworthiness of other states, Germany's credit rating itself becomes precarious.

1. The lenders have therefore limited the credit fund for stumbling debtors to €600 billion. That is enough for the Greek debt, but the financial world had already started speculating against Italy and the pot is not enough for that if really all the debt is to be paid off. The fund thus has the contradiction that the limitation meant as a confidence measure can at the same time be interpreted as a risk factor (which is what the financial markets did initially).

2. The credit lines are subject to conditions (keywords: austerity programme for Greece and monitoring by the Troika). The Greek State should consider itself as something to be saved and thus bring confidence to the financial world. This can also be interpreted against Greece: there is no growth in Greece after all, because the economy will shrink as Government activity shrinks.

The valuation of Greek sovereign debt had already gotten out of hand to some extent, now the same was threatening to happen to Italian and Spanish sovereign debt. But for the time being, ECB President Draghi brought calm to the Euro sovereign debt crisis with the OTM (Outright Monetary Transactions) programme and the phrase "whatever it takes". The ECB decided independently (i.e. not in consultation with the heads of governments and with one vote against in the ECB Governing Council, attributed to the German representative Weidmann): The ECB buys unlimited government debt when financial markets speculate against a Euro member. The only condition: The country must submit to the ESM programme (austerity and surveillance).

The ECB thus declared the equation: *Precarious sovereign debts are equal to Euros, so they are valid money.*

This has calmed the financial markets and they have significantly reduced speculation against the precarious countries.

But it is also clear that this equation could have been read the other way round and can be read in the future: *The Euro is only as good as the precarious sovereign debt in the Eurozone.*

The important centers of capitalist accumulation in the world, therefore, have put their money behind

- precarious sovereign debt,
- which itself has become precarious because sovereign debt had been used to guarantee securities that have become precarious,
- which themselves have become precarious because the underlying economic life has not been able to validate the anticipations of finance capital,
- which, in turn, are crucial to economic life.

3.2 *A Step Back: What is Modern Money, What is a Modern Currency and What is its Basis when Economic Life is "normal"?*

Within society, the national currency is a product of state power in terms of quality. The State obliges the economic subjects on its territory to settle their payments in the national currency (between themselves, but also when paying the State itself – taxes).

When the economic subjects then conduct their trade in society via this currency, they continuously confirm the quality of the currency: through this practice, it is the valid economic power of access to social wealth.

The same happens when payments are processed via database entries by the banks and when their book money, which consists of debt obligations by the banks, is related to the banknotes as valid social wealth. Monies in a bank account are thus, on the one hand, money symbols – they stand for money and with a bank transfer one can pay rent or buy means of production. On the other hand, book money amounts are credit symbols. The banks are obliged to pay out the national money at any time, i.e. real banknotes.[1]

[1] If you are not familiar with the distinctions between cash, central bank money and banknote and book money, jump to Appendix 2 at this point.

The provision of fresh money, which society needs for its purposes – the increase of private wealth – is linked to the banks' business of speculating on growth: money is available to the commercial banks when they, in return, deliver existing well-rated securities to the central bank. The central bank charges an interest rate, which is taken as a discount on the security. Either the security is sold to the central bank in the discount procedure against a discount on interest, or it is only deposited as collateral in the Lombard procedure – but also with the obligation to waive a bit of interest when the security is returned (or to pay it to the central bank).

New money comes into the world by way of a credit procedure and each new monetary unit contains the demand to the banks to provide for the accumulation of money. In this way, the central bank makes it clear that money is not in the world to buy chewing gum, but has the mandate to multiply.

Obviously, with this method of providing money the central bank supports society, which is supposed to experience economic growth with more and more debt relationships. To be more precise, it supports the banks in their efforts to expand credit. To the extent that they receive fresh money, the basis on which they can then carry out the actual credit expansion increases. Basically, the central bank provides the banks with an unrestricted expansion of the basis for a credit expansion.

The barrier set by the central bank is simply that the banks should supply it with well-rated securities for more fresh money. Debt relationships that have already been entered into and whose fulfilment the financial sector (or its service providers – the rating agencies) regard as certain are supposed to be a measure of whether or not more money should be available for more loans. In the case of securities with particularly good ratings, there is a fiction that nothing can go wrong. The central bank's claim is clear: new money should only be born to the extent that business grows safely. Conversely, however, no really good business should fail because there is a lack of credit to get it started.

The central bank uses this procedure to construct the equation:[2]

Currency = good debt instruments.

This equation leads to some conclusions:

1. Good debt instruments are as good as money. This is interesting for the banks and the issuers of good securities (bonds of large companies). The banks need real money as a basis for their lending operations. They must always be solvent, either in the form of issuing the required cash or in the form that the central bank balance is sufficient to balance the balance sheet surpluses that arise from their customers' remittances. If good debt instruments are as good as money because of the central bank then they themselves serve as a good basis for lending to less good debtors.

2. If good debt instruments are as good as money then debt instruments are good if they are exchangeable for money.

   The central bank itself adopts a practical tautology: When it comes to the question of which promissory notes are good, it wants to rely on the judgment of the financial world, which is independent of it (rating agencies). At the same time, it interferes strongly with the judgment. After all, there is no better promissory note than one that can be converted into real money at any time at the central bank.

[2] See GegenStandpunkt, *III. The 'systemic' importance of finance, and the public power*, Section 1b available at https://en.gegenstandpunkt.com/books/iii-%E2%80%98systemic%E2%80%99-importance-finance-and-public-power

The circle then is: good promissory notes are as good as fresh central bank money and promissory notes are good if they can be converted into central bank money. Basically, the central bank used precisely this tautology when it announced that it would buy up badly rated sovereign debt indefinitely. This point also becomes important in the discussion of central bank policy 2015 to date.

3. National money is as good as good debt instruments. This is a quality judgement of money – at least it should be from the perspective of the central bank (and its owner, the State). The national money is a pretty sure promise of money multiplication.

The equation "the national money is equal to the promise of good economic development" is particularly important for the international comparison of currency values.

The State can, up to a certain limit, force national finance capital and national capitalists to use the domestic currency as money. However, the State cannot force the international investor community to do so by force, but can only impress them with business prospects. The value of a currency compared to another currency (exchange rate) is determined by supply and demand. However, imports and exports play only a minor role in quantitative terms ($\approx$ 2%). Decisive are the transactions of international finance capital, which determine the value of a currency in comparison to other currencies.

One may make profits in the Turkish Lira, e.g. earn high interest rates, which are not otherwise available in the world. But if the Lira is continuously losing value relative to the Euro then low interest rates in Euros are comparatively better than high interest rates in Lira.

Here you now have a circle on an even higher level: If international finance capital continuously goes out of one currency, then that is the best reason to go out of the currency.

The whole national society as developed above,

- exploiting the proletariat so that companies can make a profit,
- which maintains their creditworthiness
- and encourages finance capital to create new credit relationships,
- which also keeps debts in value
- and ultimately also sovereign debt
- and strengthens the inner monetary value

is reduced to an independent substructure for the decisions of international finance capital what currencies to go into or not.

If a state does not succeed in impressing the international financial world, in extreme cases the state can pretty much pack up (e.g. in May 2020: Argentina, Lebanon, South Africa).

If it succeeds in impressing the international financial world with its currency, then through the practice of international finance capital, this currency gains the quality to function as money beyond national borders, it then becomes world money (USA, partly Euro states, part Japan, partly Switzerland).

This then gives a state enormous power in the matter of making society fit for the future competition of national economies, and at the same time provides it with the military means of violence to force other states to comply with certain rules in international relations, which benefit the superior state.

It is only because of this rosy prospect that the powerful states allow, or rather promote, the fact that the international financial world can become the judge of the prosperity and misfortune of entire nations.

3.3 Returning to the Crisis Mode since 2012 – the World's Currencies Lending each other Unlimited Credit

As a reminder: The important centers of capitalist accumulation in the world have thus far put their money behind

- precarious sovereign debt,
- which itself has become precarious because the sovereign debt has been used to guarantee securities that have become precarious,
- which have themselves become precarious because the underlying economic life has not been able to validate the anticipations of finance capital
- and economic life lives on the continuously expanding credit, i.e. on the justification of the anticipations of finance capital.

This raises the anxious question of whether and when finance capital will pick one of the world's monies to speculate against it. Here the most important governments and central banks have decided to put a stop to this speculation for the time being.

They have given each other a mutual assurance in 2013 that they will grant each other unlimited credit (in the pre-crisis period there were also agreements in place, but they were limited in quantity). The ECB is allowed to indebt itself to the Fed in dollars without restriction, so in case of doubt it can intervene and take countermeasures against a sharp fall in the exchange rate of the Euro against the Dollar. Conversely, the

Fed may borrow as much Euro from the ECB as it wishes. All this also applies to Switzerland, Japan, UK and Canada.

With this they have declared the equation:

USD = EUR = YEN = CHF = GBP = CAD

Everything is equally good. Or simply, everything may be equally bad.

It is interesting to note that there was a discussion about this measure in the US Senate. The Republicans took the position: "Why should we share and burden the quality of our good Dollar with the troubled Euro?" This debate had the same broad lines as those of the German parliamentarians when they discussed "aid" to Greece. Only that from the American point of view, Germany (or the Eurozone) was Greece.

Added to this is the fact that the Euro project was conceived from the outset as a project competing for the world's money and has also had some successes to show. So why support a competitor in world money matters?

In the end, however, it was decided to go along with the crediting of the Euro on the basis of an argument similar to the one used in the Germany-Greece debate: yes, it is a risk and you have to be careful (threat to call it off), but letting the Euro hang out to dry would have much more fatal consequences for the Dollar. Thus, the important states of the world have stopped the devastating verdict of finance capital for the time being.

4
Central Bank Policy since 2013

The devaluation of securities that the financial world itself considered unsound has more or less been stopped. The devaluation of sovereign debt has been halted almost entirely (with the exception of the partial restructuring of Greek sovereign debt in 2011). The world's important monies have taken on all the load and keep themselves mutually in value through unlimited mutual credit lines.

This has had an impact on the rest of the economy in such a way that there have been crisis years where there has been an overall economic slump (2008/2009 and 2012). Now the economy ought to start through again, but it is not really doing so.[1]

The world's major central banks were concerned about the weak economic performance. They believed that economic growth was too low to underpin their currencies well and started to implement their own kind of stimulus programmes.

1. They had already massively reduced key interest rates during the crisis. They were not stopping there but they were continuing to cut them.

2. They not only continued to actively buy up sovereign debt on the market, but also bought up all kinds of securities with the purpose of bringing fresh money into society. This is known as "quantitative easing" (QE).

4.1 The Key Interest Rates

Three different interest rates are meant by "key interest rates", which are explained below using the example of the ECB:

[1] For the data and how differences between countries are emerging, see Appendix 1: Some Economic Data.

4.1.1 Interest Rate on the Main Refinancing Operation

This interest rate is the ECB's main key interest rate and is therefore often referred to as the key interest rate. At this interest rate, a limited amount of central bank money is made available to commercial banks in a weekly tender procedure (a kind of auction). Debt instruments are deposited and fresh money is made available in return.

4.1.2 Marginal Lending Facility

At this interest rate, banks can obtain liquidity from the ECB on an unlimited and "overnight" basis, if they have provided appropriate collateral. Since a commercial bank will not be prepared to pay a higher interest rate than the rate on the marginal lending facility in the event of short-term liquidity needs in interbank trading, the interest rate on the marginal lending facility effectively represents the upper limit to the interest rate that can be charged on overnight deposits in the open market.

With these key interest rates, the ECB can try to stimulate the lending business of the banks and in society in general. If it demands only low discounts when accepting good debt instruments – this is the idea – then it is economically viable for the banks to demand lower interest rates when granting loans, at least to good debtors.

That happens on the one hand. The interest rates on loans in society are falling sharply. Companies and consumers go into debt on a large scale. However, this does not translate into significantly expanded economic growth. GDP growth rates remain low. More on the reasons in a moment.

Above all, low interest rates do not create a new solid basis of trust between the banks, which in normal times allow each other the degree of liquidity they need for their expanded lending operations. The ECB can see this in the use of the third key interest rate principle:

4.1.3 Deposit Facility

At this interest rate, banks can deposit excess central bank funds in the ECB until the next business day. Since no commercial bank will settle for a lower interest rate when lending money in interbank trading, the deposit facility will normally constitute the floor of the overnight market interest rate.

The large deposits that the banks make here are disturbing the ECB. It wants the banks to borrow money from each other overnight, if they have any left over. It lowers the deposit facility into negative, that is the so-called penalty interest rate. Banks now lose money if they have money left over at the end of the day and park it at the central bank.

The ECB is still adhering to this to this day. The fact that it has to do so permanently shows that it is not in its power to use its interest rates to stimulate commercial banks to lend to each other without further ado.

4.1.4 General Conclusion on Key Interest Rates and Their Effect

By lowering interest rates, the central bank tries to give the banks *quantitative* incentives to solve a *qualitative* dilemma.

Companies do not want to go on the offensive by incurring large amounts of new debt, either because they are concerned about their own solidity as debtors or because they do not see the right opportunities. Basically, it is also possible to combine them in this way: Because the companies are worried about their creditworthiness and do not dare to take credit risks, there is no prospect of earning more money from each other in society, and that is the best reason not to take any more risks.

The accumulation of industrial and commercial capital, which is usually based on the general use of new credit, is not progressing because the individual capitals have no confidence that the other individual capitals want to expand with the help of credit and see this as a reason for not taking credit for the expansion of production and trade capacities. The confidence in their own progress is gone. The reason why this does not get into a continuous negative cycle is that world money has placed itself behind all credit chains
Loans are indeed used extensively, but for other purposes:

- Where potent companies earn money and thus gain creditworthiness for additional loans, this is also partly used. They draw credit lines or issue bonds and buy back their own shares. This is a kind of price maintenance, because with the reduced proportion of shares in the world, each individual share then stands for a higher share of the dividend cake. That's what makes each stock rise in price. One also hears of lavish dividend payments during this period – another instrument of price management. But all this is not a start of expanded production.

- Furthermore, takeovers of companies by powerful other companies are taking place – credit-financed. However, this is also only a centralisation, i.e. a growth in size of a company, without any overall growth.

- Not so potent companies take the cheap credit to stay alive. They use it to pay off their old debts and the interest on the old debts. Not

> because the business outlook is improving, but because those who would have been the casualties of the 2008-2012 crisis are still able to keep their heads above water at 2% interest (instead of 5% as in the pre-crisis period) and refinance their old debts despite poor business. Thus the new economic trend is accompanied by the worried reporting in the financial press about so-called zombie companies. Their business is going so badly that an interest rate hike by the central bank to 2% (which would still be below the pre-crisis level of 2007) would break their necks.

A similar dilemma arises with the banks. They have become cautious among themselves, the trust in the credit chains they grant each other is gone. Moreover, since 2008 they have been increasingly urged to be cautious by the regulators. The central bank can stop the settlement if mistrust persists, but it cannot inspire confidence in mutual credit relations.

In addition, the central bank's program has another catch for the banks. While companies are at least able to do better in terms of servicing interest with low interest rates and continued refinancing, the banks (insurers and all other financial market players) have to realise that the low interest rates are putting the banks' remaining business at a lower profit. A loan to a company with formerly 5% interest rates, which now expires and is refinanced with a new loan of 2% interest, is still profitable business for the banks, but with a worse return. For the same amount of profit, much more credit mass is needed now. This increased credit mass is also achieved to some extent while the creditworthiness of the debtors continues to deteriorate.

The State, for its part, does not provide any impetus for business life initiated with new credit – at least not in Europe (unlike in the US, where Trump is implementing major corporate tax cuts financed by debt). Germany is pursuing a programme of the black zero, i.e. it is not creating net new debt. This also reflects the fact that Germany is worried about its creditworthiness, has no ideas what to initiate and is relying on signalling to the financial world: We are very careful and cautious with our credit.

For Germany, the calculation works out to the extent that its bonds, as a safe haven in times of continuing mistrust in credit, are in such demand that their yields are also sliding into the red. This means that Germany can even reduce its gross debt to some extent without any austerity measures.

For the competing economies in the Eurozone, the trend is not quite as good. Although interest rates on sovereign debt are falling, the status quo with its lousy growth figures and, above all, horrendous unemployment figures calls for a credit-financed programme of departure. Germany and other countries in the northern hemisphere are preventing this by vetoing it. They insist that the Maastricht and Euro stability criteria should remain valid.

Thus, the Euro countries are not providing the impetus for an economic recovery plan in the form of increased sovereign debt.

The ECB analyses the situation differently. Instead of admitting to itself that it had the power to stop the settlement of the old credit relations, but that it does not have the power to create new confidence for an extension of the credit relations between the banks, but above all to control the way in which the increased credits are used in the corporate world, it recalls its mission: a healthy economic development is expressed in 2% inflation. However, inflation is virtually non-existent in the Eurozone, and a state of deflation is looming.

Instead of the prices of all goods rising slightly, prices in general threaten to fall. Thus, the value of a hoarder's money would constantly increase without further effort. Then, according to the logic of the central bank, consumers will not spend anything at all, because a delayed sale would increase the quantitative power of access of money, and the capitalists do not want to invest more because the money is later worth more by itself.

The objective state in which no one really trusts in credit, but the cancellation of the credit prolongation is stopped; where then companies lower the prices of goods in order to get something out of the market and/or delay their demise (which is also possible with low interest rates in the matter of credit prolongation), the central bank translates ideologically as a state of too little money mass in society.

The interest rate cuts do not seem to be enough for the necessary money mass and now the central bank is entering the financial market more directly. With newly created central bank money, it is buying up a lot of securities itself (i.e. without waiting for the banks to bring them to you).

4.2 Quantitative Easing ECB: Expanded Asset-Purchase Programme (EAPP)

Quantitative easing refers to central bank programmes that aim to actively buy up securities on the market. Thus, instead of waiting for banks to show up at the central bank with well-rated promissory notes to exchange them for fresh money at the key interest rate, the central bank itself actively enters the securities markets.

This has been practised in Japan since 2001 and serves as a practical model for the other central banks for this instrument, which was rather unconventional until the financial crisis of 2008.

Japan intensified this instrument already at the beginning of the financial crisis in 2008 and the USA, UK and the ECB started in 2009. in the crisis years, the instrument had more the function of stopping the threatening fall in the price of securities. Now the instrument is being expanded to stimulate the economy. The ECB started the EAPP (Expanded Asset-Purchase Programme) in 2015.

This means that the central bank itself determines how much fresh money it injects into society. This initially ends up with the owners of securities, from whom the central bank buys the securities.

Objectively, the central bank has no control over what they do with it. It seems that they immediately put the fresh money into new securities and thus triggered an astonishing stock market boom, which, however, was not accompanied by a clear economic upswing. Likewise, the fresh money seems to have fueled an astonishing real estate speculation.

To the extent that the desired effect (inflation and economic recovery) did not occur, central banks became more radical. Instead of buying up – as was initially the case – only halfway secure sovereign debt, they bought more and more bonds from banks and companies with a poorer credit rating.

Apparently, the same effect ensued: The stock markets and property prices are exploding, the economy is making only slow progress, inflation is not coming (at least in the Eurozone and in Japan).

In the US, in 2017, in view of slightly better US economic figures (evoked by Trump's radical tax cut with the help of enormous expansion of the sovereign debt), the Fed comes up with the idea of raising its key interest rates well above zero again and slowly scaling back the QE programme. Due to the negative impact on the economy as a whole (see the debate above on zombie companies), the Fed has repeatedly interrupted this attempted "return to normality" and left it alone for the time being at the end of 2019. In the summer of 2019, there were even distortions on the US repo market, where commercial banks lent each other overnight money and deposited US government bonds as collateral. Not even this business with the world's safest debt as a default guarantee was easily trusted by the commercial banks. The Fed had to intervene.

5

The Global Economy in Early 2020 – A Conclusion

In 2008, the global economy was on the brink of collapse because a banking crisis threatened to drag everything down with it. Some things were also torn down, but the settlement was held up with sovereign debt.

In 2010, the Eurozone was on the brink of an abyss because a sovereign debt crisis had broken out and threatened to drag everything down with it. Greece was clearly torn down, but with the help of the European central bank (and the help of the central banks among themselves) the general settlement was halted.

On this basis, a new economic growth emerged that is tentative. While central banks may be able to prevent the widespread mistrust in credit from turning into a general settlement, they cannot create new confidence in the business world to use the expanded credit to create significant new expanded economic growth, which then justifies the credit and, on this basis, expanded credit. There are too large outstanding claims by capital (in the form of debts and existing production facilities) in the world for the exploitation of the proletariat to promote such extended credit expansion, which then leads to even greater exploitation of the proletariat, which could then justify the old and new claims.

What is interesting here is the disintegration of different monetary functions: As a measure of value, it still works. Measured against the world of goods, no general devaluation can be detected. It continues to function as a commanding power over the labour of society, and profits are certainly made in production, at least in the more successful countries like Germany, the USA and China. Only its function as monetary capital is broken. If you take a very superficial look at this economy (at least until the end of 2018), there is not much to see of a crisis.

The return to normality, as it applied from 1945 to 2007, can only be achieved with a destruction of capital (to the extent that it existed in the period from 1928 to 1945). The claims would have to be decimated so that the economic growth created by new loans would then only have to justify the new loans – and not the old ones.

The states and central banks do not want to allow capital destruction. The question is how long the financial market players will somehow go along with this uncertain situation without turning their speculation against the level that is currently the holding line: targeting one of the world currencies.

There has been global economic growth since 2013, but it has been tentative. However, this was already slowing down in 2018. And then comes COVID-19.

Part III

The Corona Pandemic is Prompting the Major States to take Measures, including Comprehensive Business Restrictions

The majority of states are convinced that the new corona virus is not simply a new conventional type of flu. Most states can be convinced that a concept of herd immunity (i.e. letting it run) is not desired.[1]

Social distancing is intended to reduce infection rates, so that time can be gained to better understand the virus, develop antidotes and, in the meantime, not to overburden the health system.

Businesses are temporarily closed, and in some cases production is discontinued or significantly reduced, either directly or indirectly (through business closures).

Even if – as in every crisis – there are some crisis winners at first (food trade, pharmaceuticals, online services), a universal economic crisis has been initiated on a general scale. Suppliers for production are failing and sales of goods are stagnating.

Companies initiate a tremendous mass unemployment, which strongly affects the solvent demand on the consumer front. Companies cannot easily pay their old debts. Securities threaten to be worthless. Panic selling is taking place on the securities markets. The tax revenues for 2020 are falling. Investors are withdrawing their money from countries whose currencies are weak. This plunges the countries comprehensively into a crisis and the applications to the IMF skyrocket.

[1] See https://critisticuffs.org/texts/covid-19-and-crisis-20 and https://critisticuffs.org/texts/love-of-the-state-in-the-time-of-covid

Part IV

Countermeasures by Governments and Central Banks

The states, that are able to, are counteracting the breakdown of their economies with the help of extensive sovereign debt (taxes are collapsing for the time being anyway) and central banks, that are able to, do it with extensive fresh money.

All the previously listed instruments to halt a financial and sovereign debt crisis are now being used on an even larger scale. What is new is that the states now not only want to help the financial sector to maintain the system, but also to provide extensive support to companies and wage labourers.

In the following, we give overview of the important actors, origin of the money, measures and target groups.

6

The State

6.1 State – Sovereign Debt – Unemployment Benefits – Employees and Self-employed

In one way or another, extensive unemployment benefits (furloughing schemes and basic security are meant here too) are introduce. Assistance to self-employed persons is also partly covered here. These services are not a loan to the recipients, but simply payments.

The State pays for this aid directly through sovereign debt – supplementary budgets are adopted and these are financed purely by loans. In Germany, the reserves of the unemployment insurance will be sufficient for the furloughing scheme until the summer, but soon this will also have to be provided with loans or the contributions will have to be increased.

6.2 State – Sovereign Debt – Liquidity Assistance – Companies

The state grants loans to companies (in Germany, tiered according to size) so that they can continue to meet their payment obligations (old debts, rent, etc.) in the event of a collapse in income and, to some extent, maintain production on a smaller scale (buy new raw materials, pay wages, continue to pay rent).

These benefits are a credit for the recipient – they have to be repaid later, i.e. they have to be earned at some point, or replaced by new credit.

Ultimately, these loans are also financed by sovereign debt. But this is partly mediated here. For example, Germany: The Federal Government takes on new debts and deposits a certain amount as a default guarantee for its KfW bank (Kreditanstalt für Wiederaufbau). This bank in turn takes up a higher credit volume due to the additional funds, thus more contracting debt. This new total volume is in turn the default guarantee for the loans that the private banks are ultimately to pay to the companies. In some cases, loans are also granted directly by KfW to companies.

6.3 State – Sovereign Debt – (Partial) Nationalisation of Companies – Companies

Large companies that the State considers critical and for which the measures are not sufficient to avoid insolvency are partly bought up by the State. Especially in aviation this is done in many countries. With its money the State keeps the company alive, pays the old debts and keeps the production of the company going for the time being. The State finances this with sovereign debt. The hope is that in later years, when aviation is back to "normal", the State will be able to sell its shares again and thus pay off the debts it has taken on.

For example, Germany: The Federal Government becomes a shareholder in Lufthansa.

6.4 State – Sovereign Debt – Tax Relief – Companies

For example in Germany, the reduction of VAT or the advance crediting of losses in 2020 against the tax payment for 2019 is intended to relieve companies and stimulate domestic demand. This implies reduced tax revenues for 2020, which – unless government spending is cut, which is not currently planned – will have to be financed by a further debt-financed supplementary budget.

6.5 State – without Money – Deferral of Rent Payments – Workers and Companies

By decree, the State releases the tenants from the obligation to pay the rent on time. However, the obligation to pay rent remains, it must be paid up later, the money must be (re)earned in the future. This was done in Germany.

6.6 State – without Money – Changes in Financial Market Legislation – Banks/Financial Market Players

Some states prohibit short sales for a limited period of time by regulation.

In short sales, a financial market player borrows a block of shares for a fee. This is sold in speculation on falling prices, later bought again at a lower price and returned to the creditor. In normal times, this action is considered and allowed as a liquidity-providing action for the stock exchanges.

In times of falling prices, this action is prohibited as an additional contribution to a stock market crash. As of 16 April Spain, Italy, Belgium, Austria, Greece and France have implemented such measures.

By regulation, the states (or the financial supervisory authorities) allow the banks to take more risk in their lending. They have to deposit less money for the loans they grant as collateral for defaulting loans. This is intended to encourage the continued granting of credit in times of imminent cancellations of credit extensions.

For example, as of April 02 the US central bank, the Federal Reserve (Fed), relaxes the debt rules for major banks. US government bonds are now no longer considered assets of a bank, that need to be backed with capital. This should increase the liquidity of the banks. The rule will apply for one year for the time being.

7
States in “Cooperation”

7.1 EU States – Taxes – Grants – Individual EU countries

The EU Commission decides to allocate funds to weak states for additional health care expenditures. This is done simply by reallocating money from the EU budget, which was filled with taxes of the EU member states. The sums are not high. For the beneficiaries these are grants, not loans with a repayment obligation.

7.2 EU States - without Money - Flexibilisation of Stability Criteria – all EU States

The EU States release themselves from the obligation to adhere to certain budgetary principles, if they are an obstacle to the management of the state of emergency in the health sector.

So far, the following applies: The ratio of total debt to GDP must not exceed 60% (although many states do this, get letters of reprieve for it and have to justify how they are planning to remedy the situation, e.g. by incurring even less net new debt than normal permitted).

Furthermore, the ratio of net new debt to GDP must not exceed 3%. As a rule, more stringent attention is paid to this.

Now the rule is: for a limited period of time and in a flexible way they allow each other to incur more debt.

7.3 EU States – National Sovereign Debt Leveraged – Loans – Individual EU Member States

The EU States have the European Investment Bank (EIB). 200 billion Euros are available here for small and medium-sized enterprises. These loans must be repaid.

EIB funds are organised through loans on the capital market. The

EIB's creditworthiness is excellent because its owners are the EU States. They support the EIB in its borrowing activities on the capital market through paid-up deposits or guarantees. In this respect, the EU States enter into commitments here.

The EIB's Management Committee decides on the distribution of the funds, which must be justified to the EU Member States. The EIB's borrowers are states, regions and companies. The loans must be repaid.

In addition, the European Commission will support wage labourers with 100 billion Euros through the "Sure" short-time working programme. Here, too, national guarantees leverage an EU loan, which will then be passed on to the individual EU States as a loan.

In addition, there is to be an "EU Reconstruction Fund" from the EU for the EU States to the amount of EUR 750 billion. This money will be used to initiate or support research in the EU. The EU Commission is to be authorised to raise this money via bonds on the financial markets. In this respect, this fund contains a reflection on the possibility that mere national extended borrowing could trigger speculation against individual countries and their sovereign debt.

Details on the distribution of the funds and the long-term servicing of the loans by the EU are still under discussion. It could be that the details, or even the principle of the new type of debt, will break open the smouldering conflict in the EU over communal debt (as of 7 June 2020).

7.4 Euro States – National Sovereign Debt – Support for Medical Tasks – Euro Countries with Weak Credit Ratings on the Financial Markets

The ESM (European Stability Mechanism) – born in the Sovereign Debt Crisis in 2012 will be modified. The ESM currently has 410 billion euros at its disposal (it is 600 billion euros, but there are countries that have used it in the past: Greece, Ireland, Portugal, Spain and Cyprus)

Every Euro State undertakes to put money into the ESM pot in case of emergency. In this respect, no money needs to be mobilised now and the sovereign debt will not be increased in real terms. Nevertheless, this is a form of sovereign debt, because in case of doubt the money has to be paid and this can only be done by a real expansion of the sovereign debt.

On the basis of the national commitment entered into, the ESM has credit in the financial markets and permission from the national states to take this credit when it matters.

As of 10 April: The compromise provides for the ESM to provide loans of up to 240 billion Euros. Under the scheme, these loans must be used directly or indirectly for the health sector; see the following point.

7.5 *Euro States – National Sovereign Debt – Making it Possible to Fulfil one's Obligations to the Financial Market – Euro States with Impending Sovereign Debt Crisis*

ESM loans for other expenditures will continue to be subject to strict conditions (austerity programme and monitoring, known from Greece).

Any Euro State whose sovereign bonds come under pressure on the financial markets can fall back on the ESM pot and signal to the financial world: "I can pay you off if you want – so you don't need to speculate on the default of the debt".

Note: This procedure is close to transforming sovereign debts into communal debts. Nevertheless, the construction is such that it is clear that this is a situation where nation states, in agreement, help other nation states. The debts are not communal debts.

On this procedure, the AfD founders have precisely emphasised the communitisation of debts and rebelled against it.

Proponents of communitised debts wanted Eurobonds then as now. In addition to German sovereign bonds, Greek sovereign bonds, etc., the Euro group was to issue Euro sovereign bonds. Here initially Germany, the Netherlands and some other countries objected. However, the above-mentioned "EU reconstruction fund"x is now to be used to issue EU bonds.

7.6 *IMF States – National Sovereign Debt – Making it Possible to Fulfil Obligations to the Financial Market – States with Existing or Impending Sovereign Debt and Currency Crisis*

Investors from all over the world are currently withdrawing their investments in emerging markets and poorer countries. This is causing currency collapses. In the past, states and companies have contracted their debt in a foreign currency (usually dollars).

With the currency decline, it becomes even less likely that these debts can be paid in dollars (this is a terrible simplification here) and the State is threatened with a collapse of its economic life and the financing of its State activity.

The rich countries of the world take this as a problem for themselves:

1. When states collapse, they fail as a place of business and as an import and export market for the global players. In addition, regulatory problems arise (refugees, danger of epidemics, Islamist groups).

2. The defaulting debt payments affect the lenders (i.e. the banking world of the rich countries).

The world economic order since 1945 has thus afforded the IMF to prevent or mitigate such scenarios. Now a great many countries need the "help" of the IMF. The IMF grants loans with conditions (structural adjustment measures = austerity policies). This enables the faltering states to maintain their state activity, support currencies and pay off debt obligations. The money for this is mobilised by the rich countries themselves by increasing their sovereign debt.

Because this is currently mobilising unmanageable new masses of credit and the rich countries will at some point have to worry about their own creditworthiness, there is now a proposal that the poor countries should be able to suspend their debt payments (deferral with the obligation to pay later) or even allow partial debt relief.

Partial debt relief means that banks and states sit down together and decide: The debtor state, for example, is forgiven half of the debt. It can then continue to service the remaining debt from its own resources (or with the help of the IMF).

For creditors, this means that they can write off part of their claims which is bad, as it may cast doubt on the soundness of creditors' balance sheets and then again make additional rescue measures by the states necessary for the banks. The "advantage" of debt relief: Creditors can be sure that some part of their claims will be met. This is good compared to the threatening situation where a state decides to simply not service any more debt.

In general, debt relief or rescheduling has a precarious side: it makes it clear that sovereign debt is not a safe haven.

7.7 Interim Conclusion as of 07 June 2020

Depending on the method of calculation, one arrives at different sums of money which the states mobilised in terms of credit. In the case of guarantees, there is the possibility that they will not be drawn on at all; in the case of nationalisation or loans granted to companies, there is also the possibility that this money will flow back to the State, depending on the development of the economy.

It is, however, undisputed that the sovereign debt of all countries and especially of the capitalist centres is increasing at a "historic rate".

For example, for Germany Dobrindt (CDU/CSU) arrives at 1400 billion Euros at the end of March (i.e. before the second supplementary budget and the EU reconstruction fund) for all aid packages of the German government (guarantees, emergency aid, liquidity aid, loans, etc.). In contrast, the Federal Government reported the following amount in mid-May: "The total amount of measures affecting the budget is EUR

353.3 billion and the total amount of guarantees is EUR 819.7 billion."[1]

Including the second supplementary budget of the Federal Government and the economic forecasts in June, the Institut der Deutschen Wirtschaft Köln (Institute of the German Economy, Cologne) calculates for Germany:

	2019	2020	2021
Level of debt	2053B€	2667B€	2797B€
Debt / GDP	59,8%	81,4%	80,0%

Example USA: The US Senate, Congress and the White House agreed on the largest rescue package in American history. It's worth around $2 trillion.

[1] http://archive.today/2020.07.07-095604/https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/Corona-Schutzschild/2020-03-13-Milliarden-Schutzschild-fuer-Deutschland.html, our translation

8
Central Banks

8.1 Central Banks – Creating Money – Refinancing Aid through Interest Rate Cuts – Banks and Brokers, all Borrowers

From the central banks, private banks receive fresh money in "exchange" for securities with good credit ratings. The procedure varies from country to country: the securities are sold to the central bank or only deposited temporarily (in which case there is a "buy-back" obligation). In any case, this costs a fee in the form of a discount on the interest on the securities. This is one of the important key interest rates.

The reduction of the base rate (i.e. the fee) is intended to facilitate the supply of fresh money to banks. On the one hand, this should help them to meet their credit obligations. At the same time, it should encourage them to grant loans with low interest rates to others (states, other banks, companies).

Example USA, as of March 16: The Fed cuts its key interest rate almost to 0%.

8.2 Central Banks – Creating Money – Buying up Securities – States and Banks

The central banks create money and use it to buy securities of all kinds on the financial markets. This is to keep them in value and to signal this to other participants: You can sell securities if you feel that they are not as profitable as others in relative terms – you can use the money you make to buy other securities. However, you don't need to sell securities just because you believe that soon there will be no more buyers on the stock exchange, so everyone just wants to sell. Then it's all greasy. It's not because I, as a central bank, am now a buyer.

An example from the ECB, as of 19 March: The European Central Bank's (ECB) aid programme, the so-called *Pandemic Emergency Purchase*

Programme (PEPP), which it had presented the evening before, comes into force. According to this programme, bonds issued by companies, banks and governments can be purchased to the amount of 750 billion Euros. It is also the first bond programme that includes Greece. The aim of the central bankers: to nip in the bud any possible speculation on illiquidity of debtors and a consequent fall in the value of securities.

> "Although the real economic development looks very bleak as a result of the Corona crisis, the Dow rose again by up to almost 30% from its low on 23 March. What is the reason for this? (…) Once again, the confidence of financial market players is likely to be based primarily on the extraordinary measures taken by central banks. According to Jung, the G4 central banks – including the Federal Reserve, the European Central Bank, the Bank of England and the Bank of Japan – announced liquidity injections of $2.7 trillion between mid-March and mid-April, with two-thirds of the funds coming from the Fed. This was more liquidity than the G4 central banks had provided at the height of the financial crisis in 2008 and 2009. At that time it was $2.5 trillion – within 12 months."[1]

[1] http://archive.today/2020.04.28-115826/https://www.nzz.ch/finanzen/boerse-und-aktien-zentralbanken-schalten-marktpreise-aus-ld.1553500, our translation

8.3 *Central Banks – Creating Money – Negative Interest Rates for the Deposit Facility – All Those who Depend on Credit*

If banks have cash on hand at the end of the day, after all settlements of mutual debts with other banks, they park it as book money on the account at the central bank. In normal times (i.e. before the Great Recession) there is even an interest rate for this. In the abnormal times that have prevailed for the last 10 years, the central bank is charging an interest rate. In this way, it wants to encourage banks to grant more loans than to keep a liquidity surplus at the end of the day. This is intended to serve all those who are dependent on continuous credit from the banks (states, other banks, companies.)

8.4 *The Six Major Central Banks – Balance Sheet Expansion – SWAP Arrivals – The 6 Major Central Banks*

As in the times of the Sovereign Debt Crisis (but now more limited for the time being), the central banks are promising to support each other with favourable credit lines.

> "The US Federal Reserve, the European Central Bank, the Bank of England, the Bank of Japan, the Bank of Canada and the Swiss National Bank want to counteract the economic effects of the Corona crisis. As they announced on Sunday evening, they want to strengthen US dollar liquidity in the global capital markets. For example, starting Monday, the price terms of the existing US dollar swap agreements will be reduced by 25 basis

> points (0.25 percentage points). The new rate is the so-called Overnight Index Swap (OIS) for US dollars plus 25 basis points. The new conditions are intended to remain in force as long as is appropriate to ensure the functioning of the US dollar financing markets. As the SNB points out in its communication, swap lines are an important liquidity hedge to reduce tensions in the global financing markets. Negative consequences for the supply of credit to households and companies at home and abroad are to be cushioned with the measures that are coming into force."[2]

[2] http://archive.today/2020.04.28-121344/https://www.fuw.ch/article/corona-krise-notenbanken-spannen-zusammen/, our translation

> "In order to increase the effectiveness of swap lines in the provision of US dollars, the Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve and the Swiss National Bank (SNB) have agreed to increase the frequency of operations with a seven-day maturity from weekly to daily. These daily operations will start on Monday 23 March 2020 and will last at least until the end of April, as announced by the SNB on Friday. The central banks will continue to conduct weekly operations with a maturity of 84 days."[3]

[3] http://archive.today/2020.04.28-121607/https://investrends.ch/aktuell/news/zentralbanken-verstarken-versorgung-mit-us-dollar-liquiditat/, our translation

8.5 Central Banks' Balance Sheets

Immediately before the financial crisis, the balance sheet total of the ECB was about 1.5 trillion Euro and then rose sharply to approx. 2 trillion Euro. The year 2014 is then of interest: from that year onwards, there was a steep increase in the balance sheet total from 2 trillion Euros to about 4.8 trillion Euro in 2018. This level was then maintained until early 2020. In the course of the Corona crisis, a strong increase (up to now to 5.5 trillion Euros) has been recorded again. The increase between the end of 2014 and 2018 is practically only due to bond purchases. The total amount of bonds purchased rose from 0 to approximately 2.6 trillion Euros worth. Overall, the money supply created by the ECB has tripled within 9 years.

The development at the Fed was similar: before the crisis, 1 trillion USD, then a rapid rise to 2 trillion USD and a subsequent increase to 4.5 trillion at the end of 2014 when it reached a plateau. At the beginning of 2018, the Fed – in contrast to the ECB – began to reduce its balance sheet total, which reached a level of just under 4 trillion USD in mid-2019. It reached a temporary low in mid-2019, but rose again at the end of 2019. In the wake of the Corona crisis, total assets have been increased to (for the time being) 7 trillion USD. so since 2008 we have seen a sevenfold increase in total assets.

Part V

Conclusion

This debt-financed crisis mitigation programme will increase the mountains of debt on all sides. Future growth must then justify this.

Two possible development paths are currently being discussed in the business press.

1. There will be a V-shaped recovery. Now a quarter of significant economic collapse, then, if the pandemic measures are eased, first a slow and then a more significant upswing.

2. There will be a severe disaster for all sectors of the economy in all countries.

On the first: If this were to happen, it would escalate the hardship of the global economy from the period between 2012-2019. The upswing would anyway only express that the production capacities that have been cut back are increasingly being restarted. A new credit-financed global economy will not yet come about in this way. It remains to be seen what the planned reconstruction programme of the EU states will achieve. If it comes to that, sovereign debts will at least rise considerably, and only then will we see what economic growth this will bring.

On the second: If the financial markets speculate against one of the world's currencies, then the only thing that helps is the mutual assurance of the world money central banks to lend to each other without restriction. This may well not happen due to the competition between economies. This threatens produce a local slump, which is guaranteed to have an impact on the other regions. How strong, we will then see. Alternatively, the world money central banks give each other unlimited credit and then finance capital speculates against all world money. Then everything is fucked.

Either way, it is clear that the working class will be liable for the successful economic growth as well as for the crisis.

Money and private property are not clever mechanisms for the supply of goods in a society based on the division of labour, but the basic principles under which material life, work, the division of labour and the means of production are bent – within developed capitalism then in the complicated but appropriate way this text has explained.

Appendix 1: Some Economic Data

GDP Growth

Preliminary EU:

> "Overall, the growth rate of real GDP in the EU-27 countries rose from 1.8 to 3.9 percent annually between 1996 and 2000, then fell to 1.2 and 1.3 percent respectively until 2002/2003 (2000 was the crisis of the so-called growth stock markets, the crisis slowly spread to the entire economy until 2003; author) and rose again to a value of 3.3 percent until 2006. While growth in 2007 was also high at 3.0 percent, it was already influenced by the crisis in 2008".[4]

[4] `http://archive.today/2020.08.07-132410/https://www.bpb.de/nachschlagen/zahlen-und-fakten/europa/70549/entwicklung-des-bip`, our translation

EU and Eurozone

- 2008/2009: Collapse of economic growth
- 2010/2011: Slow rise in GDP
- 2012: Another slump
- 2013: Still falling, but less severe and the beginning of the economic recovery
- 2014-2017: Growth rates of 2%
- 2018: Slowdown in growth (last quarter: 1.2%)

Specificities of individual countries (2014 to 2017 only):

- Italy's economy developed below average: 2014 - 0.1%; 2015 - 0.9%; 2016 - 1.1%; 2017 - 1.7%.
- Greece is almost in a permanent recession.
- Germany's development is average, but in 2018 it will bypass a recession.
- Spain above average with 3% growth.
- France is below average with approx. 1% in 2014-2016, then 2.2% in 2017.

- UK on average, but there is already a definite drop to 1.4% in 2018.

The following applies to almost all countries: Hardly any country can match the high growth rates of 2007. All of them are significantly below this level. Poland and Slovenia, for example, which had growth rates of around 7% back then and will now continue to grow by around 3% in the period 2014-2017.

Global Economy

- 2010: 5.4%; 2011: 4.1%
- Thereafter relatively stable at 3.2-3.7% until 2018

USA

- Slump in 2008 and 2009
- 2010 to 2017 somewhat erratic between about 1.5% and 2.9%

Japan

- Slump in 2008 and 2009
- 2010: 4,2%
- 2011: -0,12%
- 2012 to 2016: Erratic growth between 0.4% and 2%

China

- It is never in a crisis, but high growth also gets a kink in the financial crisis.
- Otherwise continuously declining growth rates from 2010 - 10%; 2012 - 8%; 2017 - 6.9%.

Unemployment

Eurozone	7.3%
Greece	16.3%
Spain	13.6%
Italy	9.7%
France	8.1%
German	3.2%

Table 1: February 2020

Overall Decrease

- Eurozone peak in 2012: 12%
- Then each year, a little less than 1% decrease.
- The outlier here is France, which reached its peak in 2015.

Appendix 2: What is Central Bank Money, What is Book Money and What Happens in a Bank Transfer?

The Euro is the common currency in the Eurozone. Euro banknotes and coins are legal tender. Only the central banks – in Germany the Deutsche Bundesbank - are allowed to put it into circulation. They do this on behalf of the ECB. Even if this is not 100% correct in some fields, one can imagine in the following that the Deutsche Bundesbank is a kind of branch of the ECB.

Cash is put into circulation by the Deutsche Bundesbank via the commercial banks' business accounts. Every German commercial bank has an account at the Deutsche Bundesbank (the sort code is the account number of a commercial bank at the Deutsche Bundesbank) and can withdraw cash from its balance. This credit balance then decreases. Cash transport companies transport the Euro banknotes and coins in armoured vehicles from the Bundesbank to the commercial bank. If a commercial bank deposits cash at the central bank, its credit balance at the central bank increases. Balances at the central bank can therefore be converted into cash – and cash back into balances.

Balances with the central bank and cash are grouped together under the umbrella term "central bank money". This is in distinction to the book money of commercial banks, i.e. the money that all sorts of people or companies have in their account at a commercial bank. This money is called "fiat money". These database entries represent an obligation of commercial banks to their customers that these amounts can be converted into cash at any time. Furthermore, the commercial bank undertakes to ensure that an account holder can make payments by bank transfer. For these transfers between commercial banks, the commercial banks require central bank balances. Here are a few examples:

When Mr. Maier, a Commerzbank customer, transfers money to Mrs. Müller, a customer of a Deutsche Bank, his credit balance at Commerzbank decreases. At the central bank, the amount is transferred from the Commerzbank account to the account of the Deutsche Bank. The Deutsche Bank credits the amount to Mrs. Müller's account. Central bank balances are only ever transferred to accounts at the central bank. Customer balances at commercial banks are not central bank money.

If on one day the many customers of Commerzbank transfer one million euros to the customers of Deutsche Bank and at the same time the customers of Deutsche Bank transfer one million euros to the customers of Commerzbank, then this balances out on the balance sheet. The many individual accounts of the customers have changed. But the accounts of the two banks at the central bank are each as high as before. If on one day the many customers of Commerzbank transfer one million euros to the customers of Deutsche Bank and at the same time the customers of Deutsche Bank transfer two million euros to the customers of Commerzbank, this results in a balance sheet surplus of one million euros. Commerzbank's account at the central bank increases by one million euros, and this million euros is deducted from Deutsche Bank's account.

When Commerzbank customers transfer one million euros between themselves, these transactions are recorded within Commerzbank. Nothing happens with the central bank.

If a commercial bank grants a company a loan of over €1 million, then this is book money for the time being – it is created by the commercial bank. If the company then makes transfers and this only ends up in accounts that are themselves with the commercial bank, then it remains the same: this book money is a claim against the bank to convert it into cash at any time, only that the owner of the claim has changed. But as long as no cash is demanded and transfers only take place between accounts within the commercial bank, this does not affect the central bank balance of the commercial bank at any point. However, when book money moves back and forth between commercial banks, balance sheet surpluses are claimed as movements on the accounts of commercial banks with the central bank.

Commercial banks must therefore ensure that they only use book money in their lending operations to the extent that the use of this book money by capitalists or other customers does not cause their balances of central bank money to run out. The refinancing procedure, under which the commercial banks can obtain fresh central bank credit against the sale (discount procedure) or the deposit (Lombard procedure) of promissory notes with a good credit rating, thus secures the commercial banks' lending or, if necessary, encourages them to calculate at a higher risk. With the key interest rate of this refinancing, the central bank makes obtaining fresh central bank money "more expensive" or "cheaper".