Abstract

In *Financial Markets, Money and the Real World* Paul Davidson, a leading Post Keynesian economist, adds his voice to calls for reform of the 'international financial architecture'. Unlike other reformers, Davidson's proposals center on a new form of world money, designed to attain full employment and balanced industrial development throughout the global economy. These goals cannot be attained as long as the social relations of capitalism are in place. Since Davidson does not call these relations into question, his position is ultimately incoherent. Essential features of a Marxian concept of world money emerge in the course of this critique.

Chapter Z

TOWARDS A MARXIAN THEORY OF WORLD MONEY

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In *Financial Markets, Money and the Real World* Paul Davidson, a leading Post Keynesian economist, adds his voice to calls for reform of the 'international financial architecture' (IFA). Unlike almost all other reformers, however, Davidson's proposals center on a new form of world money. In this chapter I shall present a critical assessment of his position from a Marxian standpoint.

At present the dollar, the euro, and yen are the main forms of money serving as units of account, means of circulation, means of payment, and reserve funds in the world market. For the moment, at least, the dollar remains dominant. Relationships among these currencies, and between members of this group and other currencies, are a crucial dimension of the contemporary global order.

Neoliberal theorists hold that financial markets necessarily tend to be rationally efficient. While individual traders may err, over time the collective wisdom of the market processes relevant information far more accurately and quickly than government officials. Most countries (or currency unions) should therefore leave the determination of the relative value of their currency to the market (Friedman 1953). The longer the government maintains an inappropriate exchange rate, the sharper and more harmful the eventual revaluation, as the 1997 East Asian crisis demonstrated (DeRosa 2001).

Post Keynesians reject the rational efficiency hypothesis (Davidson 2002: Chapter 3). The future is radically uncertain; it is impossible to calculate even the probability that a particular path of development will be followed in capital asset markets. Given this uncertainty, successful investment is a matter of anticipating shifts in the 'bearish' and 'bullish' sentiments of fellow traders. Also, the motive for investing in financial assets is generally not to hold the fixed assets they represent for the long-term, but to profit from selling the former in the short-to-medium term. Unregulated financial markets are thus prone to instability. As investment sentiment shifts in a 'bullish' direction, investors who anticipated this shift win high profits, attracting further ‘bullish’ investments. A self-reinforcing boom may then occur. Even those who realize the boom cannot be sustained indefinitely join the bandwagon, hoping that a ‘bigger fool’ will be found to whom they can sell. When investor sentiment reverses at some contingent point for some contingent reason, a stampede out of the asset commences.

Freely floating or loosely pegged exchange rates generate other troubling tendencies as well, according to Post Keynesian analysis, beginning with the threat of greater volatility in currency markets. Potential foreign investors in long-term projects now face greater currency risks regarding the profits (measured in their home currency) that they can appropriate from foreign direct investment (FDI), while potential home investors face greater currency risks regarding the profits (measured in their home currency) that they can appropriate through exports. The rate of long-term investment tends to decrease in response. Lower rates of long-term productive investments lead to lower rates of growth, higher unemployment, and a higher level of unmet wants and needs. Government officials, realizing the harm a speculative run on their currency can inflict, attempt to reduce exchange rate volatility by accommodating to the market sentiment that government deficits and higher wages set off inflation. Policies designed to restrict government spending and hold down wages reinforce the depressionary bias in the operation of world money.

The institutionalization of neoliberal policies in recent decades is in fact associated with lower rates of growth, lower wages, and higher unemployment than the “golden age” of the quarter century after World War Two.[1] Post Keynesian theorists believe that this social regression is primarily explained by the potential volatility and depressionary biases introduced into the world market by the present

[1] In Western Europe, for example, per capital GDP growth declined from a 4.08 annual average compound growth rate in 1950-73 to 1.76 in the period 1973-98. In the Western Offshoots (U.S., Australia, etc.) there was a decline from 2.44 to 1.94; in Japan, the falling off was steeper (from 8.05 to 2.34). In Latin America the drop was from 2.52 to .99; in Africa, from 2.07 to .01. In the world economy as a whole there was a decline from 2.93 to 1.33, with Asia (excluding Japan) the only region where growth rates increased (Maddison 2001).

system of world money. Financial flows, which should serve the end of industrial development, now hamper it, at the cost of needless human suffering.[2]

The eight proposals for the reform of the IFA formulated by Davidson are intended to reverse this perverse state of affairs. The first four can be taken together:

> First, the unit of account and ultimate reserve asset for international liquidity is the International Monetary Clearing Unit (IMCU). All IMCUs can be held *only* by the central banks of nations that abide by the rules of the clearing union system …
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> Second, each nation's central bank or, in the case of a common currency (for example, the euro) a currency union's central bank, is committed to guarantee one-way convertibility from IMCU deposits at the clearing union to domestic money….
>
> Third … Contracts to be settled in terms of foreign currency will require some publicly announced commitment from the central bank (through private sector bankers) of the availability of foreign funds to meet such private contractual obligations.
>
> Fourth, the exchange rate between the domestic currency and the IMCU is set initially by each nation or currency union's central bank.
>
> (Davidson 2002: 232-3)

With only one form of world money, the IMCU, the horrific economic and social disruptions caused by abrupt and massive revaluations of the dollar, the mark, and yen - and of other currencies linked to them - that have beset the global economy in recent decades would be eliminated (Brenner 1998, 2002).

One-way convertibility permits each nation to control outflows of capital funds. One cause of the East Asian crisis was local bank borrowing (denominated in

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[2] '(I)n recent decades, the mainstream of the economics profession has promoted [a] persistent unemployment flaw to a positive virtue in its concept of a non-accelerating inflation rate of unemployment (NAIRU) instead of labeling unemployment for what it is – a social waste and public disgrace. Positive actions and innovative institutions can be developed to prevent any significant, persistent unemployment from occurring in an open multinational economic system' (Davidson 2002: 253).

dollars) from global capital markets, which was then used for speculative investments in capital assets such as real estate. The collapse of the resulting speculative bubbles set off a stampede of outflows. The local currency was then sharply devalued, exacerbating the difficulty of repaying foreign creditors in dollars. Post Keynesians insist that governments must have the tools to prevent this situation from arising.

The great success stories of economic development in the history of capitalism have been based on a 'developmental state' model, in which state planning agencies and banks allocate credit to local industrial enterprises. In contrast, in regions of the South where extensive borrowings from global capital markets have occurred, money inflows have generally not generated trade surpluses sufficient to repay principle and interest on foreign loans. Indebted countries have instead often required further loans to meet interest payments, imposing further debt service charges beyond what they could afford. As deficit countries then attempt to reduce their payments imbalance by reducing imports, another strong depressionary force is added to the global economy. The neoliberal international financial architecture of free flows of money capital thus dismantles the single most effective means of industrial development discovered in the history of capitalism, replacing it with the 'debt trap'. Davidson's first four proposals are intended to create a form of world money allowing space for developmental state policies. Domestic savings and endogenously created credit money can now be mobilized for domestic development.[3] Davidson's next proposal furthers this agenda as well:

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[3] However compelling the theory of endogenous money might be in general, problems arise when it is applied to so-called 'less developed countries' (LDCs), where wealth owners often prefer holding the debts of developed countries: '(E)ven at high interest rates, agents in the LDC will not be able to issue debt to finance spending because the liabilities of the DC are preferable. In this case, the money supply of the LDC cannot be endogenously increased because high "liquidity preference" (that is, preference for DC debts) prevents creation of LDC money' (Wray 1990: 63).

> Fifth, an overdraft system should be built into the clearing union rules. Overdrafts should make available short-term unused creditor balances at the clearing house to finance the productive international transactions of others who need short-term credit.
>
> (Davidson 2002: 233-4)

Full employment policies cannot be pursued throughout the global economy if some nations continually hoard a portion of their foreign export earnings and net unilateral transfers. Such behavior logically implies that other nations must remain in deficit. In the present international financial architecture the burden of this imbalance falls almost entirely on debtors, who must divert more and more resources to foreign creditors. From a Post Keynesian standpoint this situation is intolerable:

> Sixth, a trigger mechanism [is required] to encourage any creditor nation to spend what is deemed (in advance) by agreement of the international community to be 'excessive' credit balances accumulated by running current account surpluses. These excessive credits can be spent in three ways: (a) on the products of any other member of the clearing union, (b) on new direct foreign investment projects, and/or (c) to provide unilateral transfers (foreign aid) to deficit members.
>
> (Davidson 2002: 234)

Without excess oversavings in surplus nations, nations suffering payments deficits have greater opportunities to reverse these deficits by selling abroad.

Davidson's seventh recommendation is that exchange rates between local currencies and the IMCU be fixed, changing only when a change in efficiency wages occurs. This ensures that firms will not suffer a competitive disadvantage due to changes in nominal exchange rates apart from changes in the real costs of production. This removes the temptation for a nation to pursue growth through a real exchange rate devaluation that does not reflect its relative efficiency. The rule also assures each central bank that the long-term purchasing power of the IMCU in terms of foreign-produced goods remains stable. If inflation breaks out in a particular national economy, the exchange rate between its currency and the IMCU must be devalued. If productivity advances lead to declining production costs measured in local currency, then the country could choose to revalue the exchange rate so the IMCU buys fewer units of domestic currency without any loss of purchasing power. In this case all the benefits from the productivity advance are captured in the national economy. Or the nominal exchange rate could be kept constant, lowering the country's export prices and thus expanding its export markets. The benefits of the productivity advance would then be shared with nations importing its commodities at the lower prices.

International payments deficits may still persist even if no nation can accumulate excessive surpluses indefinitely. Davidson's final proposal addresses this problem. If a poor country falls into deficit, rich countries must transfer some of their excess credit balances to it, enabling it to develop its productive capacity and increase its exports to the point where it can maintain its standard of living. If the deficit nation is relatively wealthy, it must devalue its exchange rate by gradual increments until its lower export prices and higher import prices eliminate the export-import imbalance. If these measures attain a positive balance of trade in goods and services without eradicating the payment deficit, then the international debt service load is too high. Negotiations must then commence to lengthen the payments period, reduce interest charges, or forgive debts (Davidson 2002: 236-7).

The chances of these proposals being adopted are roughly comparable to the odds of my becoming Pope. But they are based on an accurate assessment of the weaknesses of neoliberal theory. And they powerfully express the deep utopian drive to imagine a form of capitalism capable of fulfilling its unmet promises. The limits of these imaginings must be carefully specified, for these limits are the limits of capital (Smith 2003).

Perhaps the most basic limit regards Davidson's methodological framework. He begins with the assumption that the capitalist world market ought to be designed to allow the greatest feasible satisfaction of human wants and needs. He then attempts to deduce what shape world money must take in order to achieve that goal. From a Marxian standpoint, if the goal is to comprehend a given set of social forms, we shouldn't assume that these forms are subordinate to a normative principle. The principle in question may turn out to be quite extrinsic to them. A materialist methodological framework would begin instead with an examination of the basic social relations defining capitalism, tracing their implications to the bitter end. The proper question is not, 'What must world money be, if human wants and needs are to be satisfied to the greatest extent feasible?' The question is instead, 'What must world money be, given the social relations defining capitalism?'

From a Marxian standpoint the social relations defining capitalism are value relations, capital/wage labor relations, inter-capital relations, interstate relations, and the relations constituting the world market. Each is relevant to our understanding of world money.

1. Value relations

Capitalism is a system of generalized commodity production in which privately undertaken labor may or may not prove to be socially necessary. Within this system any two successfully exchanged commodities share a "third thing" conceptually distinct from their relative exchange ratios and their particular use values: both were produced by labor that has proven to be socially necessary. We may term labor that fits this description 'abstract labor', for it produces an abstract and homogenous dimension of commodities, the value dimension, shared by all commodities contributing to the material reproduction of the capitalist system. The value dimension is a social dimension, arising from the historically specific way labor is organized in capitalism.

Generalized commodity exchange requires a socially objective measure of the value of commodities. In so far as value is abstract and homogeneous, any system of measurement must employ homogeneous and abstract units. Measurements in terms of units of time have this feature, and there is a sense in which time is indeed the immanent measure of abstract labor. But the only form of labor that can be measured directly with a stopwatch is the concrete and heterogeneous labor that produces concrete and heterogeneous use values, and that may or may not have been socially wasted. The abstract labor that is the source of value thus cannot be measured directly. It must be represented in an external form, the money form. Physical entities of a special sort - shells, precious commodities, slips of paper, electronic bits - must be organized in numerical relations representing value relations. They can only do this in so far as they have a special social property distinct from whatever concrete qualities they possess as physical entities, the abstract and homogeneous quality of universal exchangeability.

From the neoliberal standpoint there is no overall purpose to social life. Individuals seek to further their own goals, either alone or in groups, with money serving merely as a generalized means for their pursuit of particular ends (Hayek 1976). For Post Keynesians, in contrast, uncertainly about the future and inadequate regulation of financial activities can result in the accumulation of money becoming an end in itself, with perverse social consequences. In their view this outcome can only be avoided if appropriate government regulations are in place.

From a Marxian standpoint neither position adequately comprehends the ontological inversion introduced by the money form. To recognize that money is the only socially objective measure of value is to recognize that in capitalism there *is* an overall goal of social life conceptually and ontologically distinct – if inseparable - from the intentions of particular social agents and groups. The capitalist mode of production is directed towards accumulating a sum of money at the conclusion of a given period exceeding the sum initially invested (M-C-M'). The 'self-valorization of value' is thus the immanent end of capitalist society (Marx 1867: 255-6). The satisfaction of human wants and needs occurs only in so far as it is compatible with the valorization imperative, 'Money must beget money!'

Value, abstract labor, and money are all ultimately determined on the level of the world market:

> Abstract wealth, value, money, hence *abstract labour*, develop in the measure that concrete labour becomes a totality of different modes of labour embracing the world market. Capitalist production rests on the *value* or the transformation of the labour embodied in the product into social labour. But this is only [possible] on the basis of foreign trade and of the world market. This is at once the pre-condition and the result of capitalist production. (Marx 1971: 253)

The generalized insecurity resulting from the danger that concrete labor may be socially wasted occurs on the level of the world market; so too the need for a socially objective validation of privately undertaken labor. *The accumulation of world money, the sole socially objective measure of abstract labor on the level of the world market, is thus the immanent end of the capitalist world market.*

International Monetary Clearing Units are units of account, reserve assets, and means of purchase in international transactions. But they are not ends in themselves. They are supposed to circulate in a smooth and balanced fashion across the world economy, rather than being the objects of a mad drive to accumulate in a competitive war of all against all. Post Keynesians thus call for a form of world money that is in fundamental tension with the most basic determination of world money in the global capitalist order, its perverse ontological status as an end in itself over against human ends.

2. Capital/wage labor relations

Units of production in which concrete labor is privately undertaken are units of capital within which labor power is hired for wages. The accumulation of money capital is not merely the social validation of privately undertaken labor; it is simultaneously the reproduction of the capital/wage labor relation. In so far as accumulation ultimately occurs on the level of the world market, world money cannot be adequately comprehended in abstraction from this class dynamic.

Post Keynesians want a form of world money enabling states to pursue full employment policies in their national economy without being punished by financial markets. They fear, however, that full employment may set off a wage-price inflationary spiral. And so they call for an incomes policy, assuming that representatives of capital and wage labor should be able to agree to a fair distribution of income with the helpful guidance of the state (Davidson 2002: 254).

This analysis fails to recognize the inflationary tendencies inherent in monetary regimes based on credit money (de Brunhoff 1978: 128; Chapter 2). The extension of credit to the industrial sector can be seen as a 'private prevalidation' of the private and concrete labor undertaken in that sector. In Marxian terms, loans are made under the assumption that surplus value will eventually be produced and realized in the market, enabling industrial firms to repay the loans out of profits. If this does not occur on a sufficiently broad scale, however, the central bank may intervene, providing liquidity to banks and other financial institutions. If the latter use this liquidity to make further loans to industrial firms, these firms can roll over previous debt by taking on more debt. Crises can be temporally displaced in this manner, at least in certain regions and for certain periods. The sharp and abrupt slowdowns that occurred when credit money was subordinate to commodity money are then avoided. This 'pseudo-social validation' of private labor, however, comes at the cost of inflationary tendencies having little to do with 'excessive' wage demands.

The assumption that there is a 'fair' distribution of income between capital and labor waiting to be discovered also needs to be called into question. From the standpoint of Marx's theory of exploitation this claim is nonsense. Capital is nothing but a product of collective social labor that has taken an alien form over and against working men and women (Marx 1867: 755-6). No amount it appropriates could ever be 'fair', even in principle.

Talk of fairness is dubious in this context even apart from the theory of exploitation. Investors and top managers make the 'contributions' and bear the 'risks' that capitalist ideology, law, and practice proclaim merit the greatest reward. Further, the generalized insecurity of capitalism means that no amount of capital accumulation is ever sufficient; more is always better. What is 'fair' from the standpoint of capital will thus tend to be far different from what is 'fair' from the standpoint of wage laborers. And this is but one area of irresolvable conflict. Issues regarding the length and intensity of the work day, the appropriate level of skill and creative work for each job, and so on, necessarily tend to generate systematic antagonisms as well.

Full employment tends to shift the balance of power in labor's favor, profoundly threatening the self-valorization of value. Those who control money capital will attempt to reverse this state of affairs through investments in labor-saving (and deskilling) technologies, capital flight to regions where the work force is relatively docile/intimidated, and capital strikes (including shifts of investment from production to financial speculation). Maintaining full employment over time in these circumstances demands far more than an incomes policy. It demands expropriation of the holders of money capital (de Brunhoff 1978: Chapter 1).

Capitalist world money inevitably reflects the social antagonisms of the capital/wage labor relation. It is incoherent for Post Keynesians to accept the social relations defining capitalism, while simultaneously advocating a new form of world money designed to enable full employment in the capitalist world market. The former rules out the latter.

3. Inter-capital relations

The social relations of capital include various inter-capital relations. For present purposes it is sufficient to note the distinction between financial capital and industrial capital. It should go without saying that Post Keynesian proposals to subject cross-border flows of money capital to effective social regulation would be fiercely resisted by financial capital. Matters are more complex regarding industrial capital.

It is possible to assert that there was a 'Keynesian moment' after World War Two when the interests of industrial capital could be furthered through 'financial repression'. In this period the concentration and centralization of industrial capital had reached the point where production was organized primarily on the level of the national economy, however important imports of raw materials and exports of finished products. And the systematic cycle of accumulation was in its first phase of material expansion (Arrighi 1994). This moment has now passed. The concentration and centralization of industrial capital has proceeded apace. And material expansion has given way to a persistent global overaccumulation crisis.

At the present level of concentration and centralization, it is in the interests of leading industrial firms to have easy access to world money to fund cross-border production chains, joint ventures, and mergers and acquisitions (Moody 1997). They also need access to world money to respond to overcapacity difficulties in their home market by invading markets where they have a competitive edge. Last but not least, it is in their interest to have easy access to world money in order to respond to overcapacity difficulties by shifting more of the surplus value they have accumulated (and more of the credit money they have borrowed) into the more lucrative financial sector.

For a set of non-revolutionary yet serious reforms to be feasible in a capitalist order, a ruling block must be formed in which factions of capital and non-capitalist classes unite in pursuit of this agenda under the leadership of a dominant faction of capital. For the Post Keynesian form of world money to be remotely feasible, a coalition of industrial capital and non-capitalist classes would have to be formed to challenge the grouping led by financial capital. Such a block will not emerge in the present historical conjuncture. The block that has formed, and will surely stay in place for the foreseeable future, is a coalition of financial, merchant, and industrial capitals dedicated to maintaining and extending a form of world money allowing cross-border commodity flows, foreign direct investments, overseas portfolio investments, etc., to occur with minimum hindrance.

4. Inter-state relations

The increasing importance of cross-border joint ventures, mergers and acquisitions, portfolio flows, and so on, complicate the capital/state relationship immensely. At the present moment new transnational capitalist class identities are undoubtedly being forged (Robinson and Harris 2000). Nonetheless, it remains the case that the interests of the dominant sections of the hegemonic state and the interests of the dominant factions of capital in the world system remain intertwined (Wood 2003). In so far as it is against the interests of the dominant factions of capital to introduce a form of world money restricting cross-border money flows, this directly challenges the interests of the dominant state as well.

Further, the currency of the hegemonic state necessarily tends to play a privileged role in the world market as the main form of world money (Gowan 1999). As a direct result the hegemonic state does not face the limits on the ability to create credit money and borrow from global capital markets imposed on other nations. For extended periods of time, at least, it can fund massive trade deficits without significant declines in the value of its currency. As long as credit flows to the hegemonic state continue, that is, as long as loans are rolled over by new loans, trade deficits can balloon and deep recessions can be avoided, as more and more of the world's output is consumed in the domestic markets of the hegemonic state. The only costs of maintaining this state of affairs are the fees involved in the new loans (Guttmann 1994: 114-5). When levels of debt to foreign investors are finally deemed excessive, a devaluation of the currency can then erode the value of foreigners' claims. These privileges of "seigniorage" (in the broadest sense of the term) partially rest on the need of foreign economic agents to obtain world money to undertake international payments and investments. Foreign central banks also need to hold reserve funds of the hegemonic currency to reassure global capital markets. And central banks must often sell their domestic currencies and buy the hegemonic currency in order to prevent exports from being harmed by currency appreciations.

If IMUCs were to become the sole form of world money, there would be no space for the currency of the hegemonic state to play a special role in the world market. There are no good reasons to think that hegemonic states are about to disappear; they have played a central role in capitalist development from its inception, providing the indispensable public goods required for a region to serve as the center for global accumulation for an entire systematic cycle of accumulation (Arrighi 1994). To leave capitalist production relations in place is to leave in place this hierarchical interstate system. Is it really plausible that a hegemonic capitalist state (or any states imagining themselves playing this role in the future) will voluntarily renounce the immense benefits of seigniorage? The question answers itself.

5. The world market and uneven development

Post Keynesians share with Marxists an outrage regarding the indifference and obfuscation with which mainstream economics respond to global inequalities. What is the root cause of uneven development in the world market? The failure of surplus countries to accept any responsibility for monetary imbalances in the global economy, and their ability to place the greatest burdens of adjustment on weaker deficit countries, are absolutely crucial in Davidson's account. But in his view monetary imbalances are symptoms of a deeper problem, which he formulates in terms of an equation stating when growth in a nation's demand for imports exactly equals growth in demand for its exports ('Thirlwell's Law'):

(Ya/Yrw) = (Erw/Ea)

In words,

> (I)f nation A's international payments position is not to deteriorate, then the ratio of the growth of income in nation A to the income growth rate in the rest of the world must be equal to the ratio of rest of the world's income elasticity of demand for A's exports to A's income elasticity of demand for imports.
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> (Davidson 2002: 160; see Thirlwell 1979).

The systematic tendency towards uneven development can be explicated in terms of this equation:

> (I)f less-developed nations (LDCs) of the world have a comparative advantage in the exports of raw materials and other basic commodities that typically have a low income elasticity of demand, while the LDCs have a high income elasticity of demand (Eldc) for the manufactured products of the developed world, then, for these LDCs:
>
> (Erw/Eldc) < 1.
>
> Consequently, if LDCs follow the conventional advice of classical economists and continue to develop only their comparative advantage industries and simultaneously try to maintain a position where the market value of exports just equals the market value of imports, then the LDCs are condemned to relative poverty, and the global inequality of income will become larger over time.
>
> (Davidson 2002: 160)

Davidson advocates a capitalist world market in which flows of International Monetary Clearing Units enable states to pursue industrial development policies vigorously, without being punished by global capital markets. Successful industrial development presumably changes the product mix in poorer regions, thereby eradicating the tendency to uneven development.

In this context Davidson's seventh proposal warrants closer attention. It stated that exchange rates between the IMCU and local currencies are to be fixed, changing only when successful product or process innovations improve productivity.

The country in which the improvement occurs can then choose to revalue its domestic currency so that the IMCU buys fewer units of it without any loss of purchasing power. Or the nominal exchange rate can be kept constant, with the advance in productivity lowering the unit prices of the country's exports. *Either option generates its own systematic tendency for uneven development in the world market.*

Suppose the former option is taken, and the IMCU buys fewer units of the technically advanced nation’s currency. The productivity advance enables a more rapid rate of economic growth and a higher level of material output. A virtuous circle can then be established in this region; high levels of growth and output can fund a high level of future R&D funding, providing important preconditions for future advances in productivity. In contrast, lower levels of growth and output in other regions limit their ability to engage in advanced R&D, limiting opportunities for productivity advances in the succeeding period.

If the second option is selected, and nominal exchange rates are kept constant in the region enjoying the productivity gain, precisely the same virtuous and vicious circles necessarily tend to emerge. The nation enjoying the advance can lower the unit prices of its exports, gaining share in export markets while increasing profits. These profits can then fund the high levels of R&D that are preconditions for future productivity advances and high levels of growth. Other regions, unable to match that level of R&D funding, confront significantly fewer future opportunities. Global inequality tends to increase.

The drive to appropriate surplus profits through technological innovation is an inherent feature of inter-capital competition (Mandel 1975: Chapter 3; Smith 2002). This drive generates a systematic tendency towards uneven development in the world market. Davidson calls for an international financial architecture that retains inter-capital competition while removing the tendency to uneven development. But this is incoherent; the former excludes the latter.

6. Conclusion

Any adequate account of world money must be rooted in the essential determinations of the capitalist world market. Post Keynesian theorists such as

Davidson advocate a form of world money that is not itself an object of accumulation, allows full employment and industrial development, and fosters geopolitical balance among states and economic balance among national economies. But the system of capitalist property and production relations systematically requires a form of world money whose accumulation is an end in itself. And as long as these relations persist, flows of world money must reproduce the structural coercion lying at the heart of the capital/wage labor relation. At the present stage of concentration and centralization, industrial capital requires a form of world money that enables large-scale cross-border joint ventures, mergers and acquisitions, production chains, portfolio flows, loans, and so on. Ongoing overaccumulation difficulties in the world market also require a form of world money that flows easily into cross-border circuits of financial capital. The tendency for the interests of capitals in hegemonic regions to be intertwined with the interests of a hegemonic state in the inter-state system, and the compelling benefits of seigniorage to this hegemonic power, imply that capitalist world money is a geopolitical weapon, not a neutral instrument of trade. And the tendency to uneven development arising primarily (but hardly exclusively!) from the ability of leading capitals to appropriate surplus profits through innovations implies that capitalist world money necessarily tends to flow in a manner that allows surplus profits to be appropriated in relatively few privileged regions of the world market, whatever the cost to individuals and communities in other regions.

Neoliberal theories and policies ignore each and every one of these structural features of the world market. When all is said and done, the far more radical proposals of Post Keynesians leave these tendencies in place as well. The ideals underlying Post Keynesian calls for a new form of money are commendable. But no form of world money can fulfill the tasks Davidson assigns as long as the social relations of capitalism remain in place.

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