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MONETARY CONFORMATION OF THE CORPORATE GOVERNMENTALITY III DESCRIPTION OF THE MONETARY SYSTEM[1]

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Abstract

This paper describes the current monetary system, identifying different components and the relationship between them. It is part of the Foucaultian approach of power relations and forms part of a body of work on the monetary conformation of corporate governmentality. It also forms part of the theoretical framework: the general monetary theory and, in particular, the quantity theory of money and the theory of business cycles. It describes four major components such as international organizations with effects on the money supply, states from dominant or dominated economies, the economy of large financial and non-financial companies and the real economy, made up of families and small and medium size companies. Within these four main components, there are different levels of action and influence in the money supply. The relationships, that are addressed, are the relationships which occur within each one of the components and the relationships between the different components. In these relationships between components of the monetary system, the creation of excess money supply is explained which produced the economic crisis as a result of the structure of the monetary system and its historical conformation. This document also describes the conformation of rent appropriation and yields, together with the process of the concentration of wealth, where the monetary system acts as an essential tool for achieving these purposes by large companies.

Keywords: Monetary System, Rent Appropriation, Concentration of Wealth, Corporate Governmentality, Monetary Theory, Quantity Theory of Money, Money Supply and Crisis.

1. Introduction

The development of the monetary system is the product of a historical conformation and a set of power relations which were configured through enforcement, inter-relationships and resistance of these powers. In this way, the monetary system gave financial support and acted as a fundamental tool in the process of monetary creation of corporate governmentality.

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This paper discusses how the current monetary system works, establishing the general basis on which it acts, the description of the components conformed and the relationships generated between the different components of this system. This paper however, is also placed in the context of several previous papers on corporate governmentality and, therefore, forms an integral part of it.

This description is developed within the framework of the monetary theory of business cycles and the quantity theory of money and, at the same time, within a larger framework of the Foucaultian approach of relations of power and which incorporate in these power relations the theory of the dominant economy of François Perroux.

Regarding the different components of the monetary system the following aspects are considered: the international monetary and economic agencies which in one way or another affect decisions about the money supply, the dominant and dominated states, the economy of large financial and non-financial companies and, finally, the real economy where the families and small and medium size companies are found. In the particular case of the economy of large companies, despite the existence of a difference between financial and non-financial types, which could lead to a separation of components which they jointly address, given the concentration and linkage to between both types of companies. Similarly, this document discusses as a whole the relationship between dominant and dominated States and the different scales that can be defined within, with the exceptions of the monetary effects between them and other States.

It is also important to highlight the separation of dominant and dominated States, in function with the number of companies having a State with global economic importance, which in turn could generate the influence of one State from the rest. That is to say, it is the power of the companies, their financial capacity and their relevance in sectors such as energy, among others worldwide, given the relative weight of the dominant or dominated State. The strategic value of a State depends on the number of the largest companies worldwide that have their headquarters in this State and where the State is a mere observer and facilitator of the process of concentration of wealth, pending further benefits for the whole State, losing sight that the sole purpose of the company in maximizing their own profits. To this must be added the volatility in the composition of the largest companies worldwide, change of State or lose position, depending on the objectives of profit maximization, the emergence of new concentrations of wealth (fusions) or profound changes in the world's monetary structure, as has happened historically.

Finally, the description of the monetary system that is developed in this paper will be highlighted with the central objective of describing the state of affairs from the point of view of the monetary system, the concentration of wealth.

2. Theoretical Framework

The archaeological methods registered in general history deal with the regularity of statements that gave rise to different discourses and refer to a particular time, giving place to knowledge which the role of science takes; it could also be expressed as the method analysis of local discourses. Jointly and intertwined with the archaeological methodology is the genealogical methodology with the detailed monitoring of power relations and how the tactic set in motion the emerging knowledge which were now free from subjugation, from local discourse (Rivera Vicencio, 2012).

Starting from this methodological basis, and furthermore, as a way of going into more detail of what has been called “corporate governmentality and rent appropriation”, where the role of privatization has played a key role, they approach the historical and social development of multiple power relations that have shaped this corporate governmentality, where money plays a central role in the process of privatization; (Rivera Vicencio, 2014) and where the international monetary system has acted and acts as a tool of these privatization processes.

Together with the Foucaultian focus as a backdrop and the establishment of Corporate Governmentality appropriation of rents and yields and, in addition, as a tool to explain the creation of money and the IMS (International Monetary Systems), this paper will use the

Quantity Theory of Money attributed by Irving Fisher. Although the origins of the quantity theory of money correspond to the XVI century with Jean Bodin[3] (1530-1596) and later contributions from David Hume[4] (1711-1776) with critics such as John Law[5] (1671-1729), John Stuart Mill[6] (1806-1873), Knut Wicksell[7] (1851-1926) and Wesley Clair Mitchell[8] (1874-1948). However, its strong development in the 19th century, starting with David Ricardo[9] (1772-1823) and Karl Marx[10] (1818-1883), whose work make many references to money and which would be formulated by Irving Fisher[11] (1867-1947) as the quantity theory of money. But rigorous analysis of this theory lie in the studies of Fisher and Arthur Pigou[12] (1877-1959), among other authors who have subsequently made valuable contributions and criticisms of this theory, and which are cited in this paper.

The Quantity Theory of Money is postulated as the proportional behavior existing between money and the price level through two schools of economic thought which focus on the role of money as a medium of exchange. The first is the microeconomic approach, which concentrates on the components which motivate individuals or agents individually to hold money in their possession, the instant market equilibrium between the demand for money (Md) and money supply (Mo), that is to say, Md=Mo. This microeconomic approach is also known as the focus of Cambridge and is initiated by Alfred Marshall[13] (1842-1924) and, in more detail, by Pigou.

The second, the macroeconomic approach postulated by Fisher, with the emphasis on institutional factors that make up the means of payment, aggregate demand for money, where the money circulating in the economy (M), multiplied by the velocity or turnover of money (V) is equal to the price of goods exchanged (p) by the amount of goods exchanged (Q), that is to say, MV=pQ.

Now, if this formula is seen at the aggregate level in the economy, pQ could be expressed as ps (price level) and Qs, the sum of all transactions in a given period (one year), MV=psQs or to express the sum by "S", can be expressed as: MV= SpQ.

(1) In this way if V and Qs, remain unchanged and a variation of M occurs, the same proportion of ps must vary, some of these will have to vary more than others to compensate for variations between them and maintain the overall equality.

(2) If M and Qs remain unchanged and a variation of V is produced, the same thing will occur as in the previous case; that is to say, the same proportion of ps will have to vary, some of these will need to vary more than others to compensate for variations between them and maintain the overall equality.

(3) If M and V remain unchanged and a variation of Qs occurs, the same thing will happen again as in the two previous cases and will have to vary in proportion ps; but if the change occurs only in one of the ps, some of them will have to change more than others to compensate for variations between them and maintain the overall equality. These three relationships are what Fisher called the Quantity Theory of Money.

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[3] Jean Bodin (1568), Paradoxes of Mr. Malestroit touching the fact of currencies and the enrichment of all.
[4] David Hume (1752), Political Discourses.
[5] John Law (1934), Collected Works, published by Paul Harsin, Volume I.
[6] John Stuart Mill (1848), Principles of political economy.
[7] Knut Wicksell (1906), Lectures on political economy.
[8] Wesley Clair Mitchell (1927), The Present Status and Future Prospects of Quantitative Economics. American Economic Association. Mitchell shared the same methodology as Fisher.
[9] David Ricardo: (1817), On the Principles of Political Economy and Taxation.
[10] Karl Marx (1857), Grundrisse (1867), Capital Vol. I (1885), Capital Vol. II with Engel (posthumous) and (1894), Capital Vol. III with Engel (posthumous), amongst others.
[11] Irving Fisher (1896), Appreciation and interest.
[12] Arthur Pigou (1917), The Value of money.
[13] Alfred Marshall (1890), Principles of Economics.

One could also further simplify this side of equality (psQs), representing ps for P, as the weighted average of all prices and Qs by T, which represents the magnitude of the volume of trade, therefore, MV=PT. Fisher also makes economies extend these formulations incorporating foreign trade which specifies that there will not necessarily be equal because of their differences in the balance of payments from one country to another, but by adding inflows and outflows transfers of cash flows, this theory will also be applicable (Fisher, 1911) (Slahor, Majercakova and Mittelman, 2015).

Subsequently, the Quantity Theory of Money has had very valuable contributions, among which we can highlight the following:

1. Keynes identifies three reasons why individuals are induced to maintain cash balances held; (a) conducting transactions, covering gaps produced between revenues and expenses generated, (b) to deal with unpredictable situations or unplanned expenses, this case is linked to the next, unused surplus and (c) financial speculation which is the result of the uncertainty of macroeconomic variables and trends of money. This analysis is simplified with a single interest rate (Keynes, 1936).[14]

2. Friedrich A. von Hayek belongs to the third generation of the Austrian School, critic of the Quantity Theory and Wicksell's stance regarding monetary equilibrium. Hayek raised the neutrality of money which left out of its analysis the relationship between the money supply and the price level and its study focuses on the effect produced by currency fluctuations in relative prices and the structure of production and employment. His argument is based on a constant money supply being maintained, the neutrality of money and which, therefore, will not alter relative prices or production structures.

His argument was based on that a constant money supply must be maintained so that money would be neutral and therefore in this way would not alter relative prices or production structures (Hayek, 1931). Hayek was also a student of Mitchell and used certain of his elements in his later research on time series, with the help of Ludwig von Mises (Hayek, 1999).

3. Knut Wicksell, in his theoretical approach to the Quantity Theory of Money, refers to the involvement of three different agents or levels which are called consumers, producers and banks, where the monetary system is managed by the private sector and in turn is organized by a central bank, which in turn exerts the work of custodian of the country's reserves, ensuring the circulation of metallic money and paper money. His work is mainly aimed at explaining the mechanisms between money and prices (Wicksell, 1935).

4. William J. Baumol[15] and James Tobin[16] (1918-2002), using inventory models as the basis of their approach, developed a theoretical approach for optimizing the demand for money, as opposed to the original Keynesian model; this model showed that the demand for money transactions depended on the interest rate. The model considers that an individual receiving their income at the beginning of the month and where expenses have to be carried out during the month, the individual may choose not to levy any additional performance, keeping the money in a checking account or in the form of bonds with a positive return.

Tobin individually developed the theory of speculative demand for money or the portfolio selection theory, based on Keynes's theory of speculative money. The model refers to an agent assigning his wealth between risk-free assets and risk assets which, in the latter case, the return exceeds the first (possible positive return or potential loss). That is to say, to risk aversion they find it best to keep the money (performance and zero risk), although they do not get any additional return. On this basis, people or agents decided to diversify risk. Tobin, like Keynes,

[14] Keynes, J. (1936), Chapter 18.
[15] Baumol, W. (1952): The Transaction Demand for Cash: An Inventory Theoretic Approach. Quarterly Journal of Economics Vol. 66 p. 545-556.
[16] Tobin, J. (1956): The Interest-Elasticity of Transaction Demand for Cash. Review Economics and Statistics, Vol. 38, p. 241-247.

agreed that the speculative demand for money is a function of the decrease in the interest rate (Tobin, 1958).

5. Milton Friedman unlike Keynes, who claimed that money had few substitutes, affirmed that money had many substitutes but was imperfect. Regarding the Quantity Theory of Money, Friedman argued that the demand for money did not have to be justified by particular reasons, treating money as an asset more in the general theory of demand. The model of Friedman incorporated the budget constraint of the economy and, in this way, a monetary increase generating an excess demand in the bond market and/or goods, therefore the money supply through the interest rate on the purchase of durable goods (Friedman, 1956).

From the 1950s, formal models of demand for money began to be developed in an inter-temporal, dynamic and general equilibrium resulting from optimization processes in an economic agents' context. Among them we can point to models such as, money according to its function (Sidrauski 1967), transaction costs models based on the Baumol-Tobin model, highlighting Clower (1967), Niehans (1978), Jovanovic (1982) and D. Romer (1986), (Walsh 1998); the search models are used to explain the existence of fiduciary money, where it is emphasised that an individual will accept to keep this money, because the rest of society also accepts it. Jones (1976) and Diamond (1983), overlapping generations models, based on the coexistence of people of different ages and where decisions are adjusted according to their stage in the life cycle is based on Samuelson (1958) and, finally, the model of currency substitution and demand for money in open economies, refers to the demand for outside money in inflationary periods, both with individuals as well as with countries, but also once the inflationary period has passed, the persistence is further noted to keep outside money, as thought by Giovannini and Turtelboom (1992).

In developing the Quantity Theory of Money, one must bear in mind the historical moments in which certain contributions of the theory arise, considering the historical and prevailing power relations in context of that particular historical moment.

It will also be addressed in this paper, as it relates to the Quantity Theory of Money, the theory of the long economic cycles, in which Nikolai Kondratiev (1892-1938) - whose surname can also be written as Kondratieff and how it is found in many books of economic literature - who offers the most pertinent long movement analysis, which "establishes the existence of "successive waves" lasting approximately fifty years, and comprising a phase of rise and a phase of fall of prices and interest rates" (Niveau, 1971, p.128). But it was Clément Juglar (1862), who previously initiated the study of crises and their frequency as a process stage in the rise and fall of prices in 1862[17] and Arthur Spiethoff (1873-1957), in about 1920, who referred to the short cycle times and greater cycles, involving the expansion as a consequence of increased capital investment.

Joseph A. Schumpeter (1883-1950), referring to his work as a theory of crises, defined as an explanation the phenomenon of recurring economic fluctuations, explained by business activities, where "every boom is followed by a depression and a depression by a boom." (Schumpeter, 1957, p.214). Although Schumpeter, expressed that his "theory does not belong to the group of seeking the cause of the cycle in the monetary and credit system" and is included in this paper, for the tangential aspects relative to the Quantity Theory of Money. (Schumpeter, 1957, p.213-230).

Over time, several authors have referred to economic cycles, from different approaches, for example; the secular changes in production and prices, the economic development and the accumulation of infrastructure, the result of waves of technological innovation, based on changes in the functional distribution of income derived from the terms of bargaining power modified in periods of high growth rates, cycle in the short term and very long-term analysis of the stages of development of capitalism, and the Keynesian theories which express demand factors.(Bernard *et al.* 2013, p.13).

[17] Juglar, C. (1862), Commercial crises and their periodic return to England and the United States. Paris.

The link between the Quantity Theory of Money and theory of business cycles is the recognition that "a certain relationship between monetary expansion and economic growth has always existed. The relationship is not close and does not imply, in any way, a simple causal relationship. Monetary expansion does not ensure economic growth automatically. However, it can be stimulated" (Triffin, 1962, p.84).

Also from the theoretical point of view, this paper introduces the concept of the dominant economy of François Perroux, referring to the domination exercised by certain monopolistic or oligopolistic in other economies, supported the State in which they are embedded (Perroux, 1961).

With this theoretical framework, this paper discusses the current functioning of the IMS in order to establish the state of affairs from a critical perspective.

3. Description of the International Monetary System

If economists from the 1920s poorly understood monetary instability and played with "new", it is because they took as a reference something that happened in recent history. If they had evoked the 14th or the 17th centuries, they would have known what devaluation was (Vilar, 1974, p.6).

3.1. Debt-Money

To make a correct description of the IMS, the first thing to be said is that printing money is in the hands of private companies (financial institutions) (Rivera Vicencio, 2016), where approximately 97% of the money is virtual money or debt-money. In modern economies there are three limitations that restrict the amount of money banks which can create:

a) The banks themselves face limits on how much they can lend; firstly, by market forces that restrict loans because banks have to be able to lend profitably in a competitive market; secondly, loans are also limited because banks have to take steps to mitigate the risks associated with new additional loans; and thirdly, the acts of regulatory policy acts as a constraint on the activities of banks in order to mitigate the accumulation of risks that could threaten the stability of the financial system.

b) The creation of money is also limited by the behavior of holders of money - households and businesses. The households and companies receiving the money created could respond by making operations that are immediately destroyed, for example, by paying outstanding loans.

c) The final restriction on the creation of money is monetary policy. By influencing the level of interest rates in the economy, the Central Bank affects how households and companies are willing and able to borrow. This occurs both directly, through influencing the loan with interest rates charged by banks, but also indirectly through the overall effect of monetary policy on economic activity in the economy. As a result, the Central Bank is able to ensure that money growth is consistent with its goal of low and stable inflation (McLeay *et al.* 2014).

The article refers to the Bank England; however, this is the reality for any currency of international exchange. Part a) of the preceding paragraph refers to the forces of a competitive market but in reality there is no such competitive market, the financial system is clearly an oligopoly and its behavior at a global and national level is a poster sets its own conditions in all international and local financial aspects. With regards to the credit limitation associated risks, it is also questionable, as can be seen with loans to families who could not pay their mortgages and then transforming these bad credit derivatives that the cause of the huge crisis still persists. Regarding regulatory policy, described in the previous paragraph, it is clear that the regulation is almost nonexistent and the only regulation is perhaps the product of self-regulation of markets invasion between national and international financial institutions. Part b) of the preceding paragraph would be only real restriction produced with the renegotiation of credits or payments

made by companies and/or families from one institution to another. Finally, part c) refers to the product constraints of monetary policy, such as interest rate. But we must not forget that the hard currency interest rate at a world level and influential in other currencies is the dollar; whose interest rate is set by the FED and what defines FED policies are the same large private federal banks and that at present, with high levels of debt of countries, a rise in the interest rate would lead to even higher debt levels and a fall in the value of stocks worldwide, as will be explained in this paper. With respect to controlling inflation, this is more than a policy imposed by governments through monetary policy; it is a policy of large companies and the financial system which participate in large non-financial companies as a control mechanism and control salary of its cost structure.

3.2. The Theory of Dominant Economies

A second aspect of the IMS to be previously considered is the existence of dominant and dominated economies, which in turn are in different hierarchies within these two major classifications. In the theory of the dominant economy, Perroux (1961), through a text extracted from the USA Commerce Department (Lary, H. and Associates, 1943)[18] summarized the following:

> The economy of the USA is a group of companies that exert dominating effects regarding various key products. These groups are linked to banking and financial centers: a) Considering each one, one by one, they have huge dimensions and a contractual strength to put them in a favorable position with respect to similar foreign centers; b) Taken together, they have three exceptional factors which influence; the contractual strength of the United States, the size of the American investment offer in relation to the global supply of investment, investment that summarizes economic "zones" eminently active at all times and particularly in the reconstruction phase.

What Perroux called the "domination effect" and "dominant economic unit" as explained by the relationship that develops between two economic units, where A has an effect of domination over B, disregarding any particular intention to A, A exerts a certain influence on B, but B cannot exert the same influence on A. Where there is also an asymmetry or irreversibility of principle, both in terms of relationships planned intentionally or unintentionally. In the case of unintentional relationships, a decrease or an increase of A, caused for reasons totally beyond the control of A, produce the same effect on B, with no reverse effect or which does not exist to the same degree (Perroux, 1961).

"The historian and sociologist could lend a precious service showing how the world's economic growth has been carried out by the action of national economies -continental or maritime- successively dominant." (Perroux, 1961, p.40). Hence the historical effort of this document in relation to the IMS, which has described the formation of the latter, with historical details that show the existence of a dominance effect and a dominant economic unit is clear. Sociologically the manifestations of power relations have also been addressed and discourse, at the level of knowledge and power, from discipline, from ethics and the formation of governmentality and all these manifestations explained through the archaeological and genealogical methodology of Foucault's approach. Even though the Department of Commerce Document itself recognizes this and, as a lawyer would say; "Where there is a confession, you need no proof". Historical and sociological evidence is provided in documents being published on monetary shaping corporate governmentality.

These effects of domination and the clear existence of a dominant economy have determined the formation of the current IMS and also made the monetary economic theory that justified it.

[18] The United States in the world economy: The international transactions of the United States during the interwar period. Prepared in the International Economics and Statistics Unit by Hal B. Lary and associates with a foreword by Wayne C. Taylor, Washington. Sold by the Supt. of Docs., U.S. Govt. Print. Off., 1943.

3.3. The Economic Cycles Theory

The third descriptive component of the IMS is the theory of business cycles. These cycles or fluctuations are caused by fluctuations in economic activity and generate booms and busts. According to Hayek (1936), these economic cycles can be explained by monetary theories and non-monetary theories (endogenous cycle theories of exogenous cycle theories). With regard to the latter, Hayek says, "It cannot have any way to analyze the theories that seek to interpret cyclical fluctuations by matching cyclical variations in certain external circumstances, merely to use indisputable methods of the equilibrium theory to explain phenomena that are deduced from such variations" (Hayek, 1936, p.63); therefore, it is preferable to exclude the analysis theories whose argument is based entirely on monetary change which, if they are eliminated, removes all explanation.

These theories attempt to explain, in one way or another, that the oscillations of the consumer, or of any other items, are followed by changes in production, but not just because of fluctuations in the production of means of production which must be explained, the real problem is that inevitable and irregular fluctuations of the rest of the economic system arise affecting the producing industries means of production. The current ideas of economists have attempted to explain how the causes are the theory of production and savings-investments but from a non-monetary character and psychological theories (Hayek, 1936).

In the monetary theories of the business cycle, it is about finding the monetary influence on the elasticity of the volume of money (quantitative variations) for the existence of rigidness between savings and fixed capital formation, in order to show why and how these monetary influences cause regular disturbances in this part of the economic system. Although Hayek agreed with the idea that fluctuations are directly dependent on changes in the value of money, a "theory of the fluctuation of the money is dangerous, in part, because it always leads to misinterpretation, but mostly because it seems to place on the front line a side effect of cyclical fluctuations; an effect that usually accompanies them, but is not forced to do so" (Hayek, 1936, p.105).

An important contribution to monetary theory of the business cycle was conducted by Lowe (1928) who expressed that this theory must be based on monetary conditions of fluctuations in the price level and, therefore, a fall or a rise in the price level should be caused by monetary circumstances. Also, Hayek, just like Lowe, gave limited access to the statistical methods of analysis cycles and agreed that this theory must be deductive and should explain the phenomena observed in cycles, with all its peculiarities (Hayek, 1936).

However, clarification of Lowe, accepted by Hayek, provided even greater clarity to this issue and stated that, the nature of the changes in the composition of the amount of existing goods, which are caused by monetary changes, depend on the point in which it injected money into the economic system. The point of contention between these authors is given because Lowe and attributes that the product cycles are only wrong measures; Hayek, on the other hand, attributes that these were not the only reasons, but to the needs of the monetary mechanism and credit (Hayek, 1936).

This is where the differences begin to be ideological. The Austrian School, to which Hayek[19] belonged, while recognizing that the disturbances originated from endogenous factors in the organization of the system, totally rejected state intervention in remedial policies or measures countercyclical. But despite these marked lines of study, the real economy incorporated both tendencies in varying proportions depending on its position as the dominant economy or the dominated economy.

In this third component is the quantity theory of money in its basic theoretical formulation (Fisher, 1911) which was used as the backbone for this description of the IMS. In addition to the later theories that have influenced the formation of the current monetary system,

[19] It needs to be remembered that Hayek was a student of Mises and the latter was a fervent opponent of socialism, a position also adopted by Hayek, and formed institutions to spread their ideas and opposition to socialism and converted to the philosophical inspired neo-liberalism. The monetary field also influenced Milton Friedman and both went to the Chicago School at the same time.

such as: the monetarist and neoclassical approaches that reject State intervention, models of endogenous factors, such as the Keynesian theories that combine the first two models, models of the Austrian School and models of an exogenous nature, as well as the models of actual cycle models with rational expectations.

3.4. Monetary System Components

A fourth component in which this paper is based on to describe the current IMS is *the components listed in this system* and which are derived from the theoretical component, such as the separation between the real economy and the economy investments. The real economy is made up of families, small and medium sized businesses which generate savings, voluntary or involuntary, which can participate or not in the market of investments indirectly and do not affect the money supply directly, except as users of the financial system. On the other hand, the investment economy consisted of large companies (bondholders, generating equities and derivatives), of a local and international financial nature (commercial banking and investment banking) and non-financial national or multinational companies, the various industries of the economy, where these large companies enjoyed oligopolistic or monopolistic markets locally and in some cases worldwide, but also often in the collusion of oligopolistic markets. Large companies could create money-debt afflicting the real economy, as well as the economy of investments. Financial arrangements and scavenge savings in the real economy can, in turn, create capture resources (savings) into the real economy. Behind these large companies, there are individuals and/or families with property and concentrated wealth.

Between these two economies there is a steady cash flow in both directions, as well as within them, where some of these movements of money can increase the money supply, but not necessarily all, as some of these increases may be accompanied by a decrease in the money supply, such as the payment of a debt.

The two economies are inserted independently and, in turn, relate to each other, the quantity theory of money, expressed through equality of Fisher, which represents the behavior between money and the price level in each of these independent economies, but interacting.

In this relationship between the two economies, there is a “State” that serves as a regulator of these relations, which has a structure to coordinate this policy, legislative and regulatory or disciplinary in nature. Its intensity in the regulatory function is a function of how it has shaped the State and the influence it has on the regulatory activity, which may be more or less permissive for one or other of the economies involved. Within the structures of the State is the Central Bank, which is normally responsible for creating money, however this work can develop it through the minting institutions in the country or a third party, but the amount of physical money (to differentiate money-debt) reports directly to the Central Bank. In the case of the European Union, the European Central Bank is responsible for determining the amount of money printed as physical money, even though the printing and/or minting can delegate to third parties and, in the case of the USA, physical money is created by the FED which is the union of private federal central bank, where the government is involved by naming the directors and the presidency and which, in turn, sends physical money to be printed in the factory (Bureau of Engraving and Printing Western Currency Facility), a great part located in the city of Dallas, with another part printed in Washington D.C.

Finally, this component as the last of the components, involved international agencies, whether related to monetary matters, as in purely political matters, but with monetary effects. Its fundamental activity is oriented to act in the relationship between States and where their decisions have an impact on monetary matters relating to individual states and, in turn, the relationship between the economies defined within a State. In these international institutions participated many of the countries even though there were countries with great economic importance at a global level that were not involved or had been excluded, although you could see they were usually affected by the decisions made within these organizations.

Also in these organisms, as seen in documents on the formation of corporate governmentality, there is a strong dominance of one or a small group of States in the decisions made or rights of veto of any State of the decisions adopted. These agencies are the IMF, the

World Bank, the Bank for International Settlements, the European Union, WTO, UN etc., which also formed part of these multilateral agreements organisms with effects on world trade and the economies of the States. For example, the UN General Assembly of the United Nations on 27th October 2015, returned to vote against the economic, commercial and financial embargo imposed by the USA to Cuba since 1962, with a result of 191 votes in favor of eliminating the blockade and two votes (USA and Israel) against. This situation has been voted on every year since 1992 and has garnered more votes in favor of lifting the embargo and the blockade persists, with the serious effects this means for a small country. Here it can be appreciated that even though there was an overwhelming majority, the dominant economy continues to implement its unilateral approach and therefore the international organizations cannot exert any pressure or demand a respect for the decisions of the Assembly. The same happened in the war against Iraq in the Security Council of the UN in 2003, where the USA with a minimal support (from Spain and the UK) invaded Iraq. The arguments that were used for the invasion ended up not being real, but the consequences still remain with the number of deaths, ownership of resources, destruction of the economy, the current instability in the component and all its economic effects. Although these decisions were not directly monetary, they had monetary effects in blocked or invaded countries, which in turn have had monetary effects in mainstream economics, where the defense industry[20] is of great importance and the funding of wars generated costs to be borne borrowing by the country, which in turn affected the global monetary system by increasing the money supply proceeds from the issuance of bonds.

4. General Aspects in the International Monetary System

Within the general aspects of the description of the IMS are:

1. The almost total reliance on private companies or private financial institutions, given the objectives of the private business of maximizing their profits, to take precedence over the proper functioning of the system. Hence, the repeated crises that have taken place throughout history in different countries and in dominant economies, with an increasingly global impact, and that the decisions that these companies take adopt their particular premium interest. This is how the crisis has served to help concentrate wealth in selected markets throughout history; on the one hand buying at depressed prices certain companies or receiving state aid, on the other hand, due to them being too big to fail, as it has been especially said in the last crisis. Yet, if they are too big to fail, it is because they conform to an oligopolistic market and an important coordinated pressure group that can impose certain policy decisions to their advantage, making this system work inefficiently.

2. The States have a strong historical dependence on these private companies and the financial system at a national and international level, as they are a source of financing and currently maintain high levels of indebtedness, which makes them more subject to global and local economic power. This makes the system work even more on criteria of private financial institutions and according to their interests of concentration of wealth, from the State to act as a mere facilitator of the interests of financial companies.

3. The existence of dominant economies and dominated economies makes the system work in favor of major world capitals concentrated in certain States that facilitate their operation and economic magnitudes measured in terms of GDP (Gross Domestic Product), plus the influence these institutions have over international organizations, which causes an increasing expansion of the gap between developed and underdeveloped countries. Not only does this make the monetary system inefficient but also unfair.

[20] Military spending, as a percentage of central government spending in the USA rose to 16.5% in 2013, although in 2011 it was 18.2%, according to the World Bank, accessed on October 30, 2015. Available from: http://datos.bancomundial.org/indicador/MS.MIL.XPND.ZS/countries

4. The arbitrary exclusion of certain economies which do not accept the total subjugation of the great world capitals in international organizations that are part of the global monetary system is what ultimately can lead to major changes in the system. For example, the BRICS (Brazil, Russia, India, China and South Africa) have created an alternative bank equivalent to the IMF - the Asian Development Bank (ADB) and the Contingency Reserve Agreement (CRA) plus the Asian Infrastructure Investment Bank[21] (AIIB) with 57 founding member countries without the USA. In the same vein, China[22] has reported that it soon will launch its own service, an alternative to SWIFT (Society for Worldwide Interbank Financial Telecommunication) for international payments. To this must be added that there are agreements between the BRICS and others are joining this position, placing their transactions with their own currencies, with important international agreements between the BRICS countries and other countries in the region, Africa and Latin America. Against this background, it is likely that it is forming a parallel alternative to the existing IMS, increasing tension between the USA which sees losing its global dominance and the BRICS, mainly Russia and China. There is also the possibility of the incorporation of the Yen in the SDR, which would enhance China's[23] position in world markets, but it may also be a strategy to delay the formation of a parallel system, where the countries of BRICS as a whole would play a very important role at a global monetary level. A parallel currency system would be beneficial to the dominated countries, increasing trade opportunities, where the very creation of a parallel system would lower the value of the currencies of current world trade, as well as, fighting currency which could generate the possibility of creating a global payment currency. But if an additional monetary system was formed similar to what exists today, in other words, exclusive, inefficient and unbalanced, the BRICS countries would lose a great historical opportunity. Finally in this regard, it should consider that China acts very slowly but firmly when making positions and do not have a war record, which could mean that they will make firm but slow steps and avoid conflict.

5. The historical demand of many countries to reform the IMS. This position has been supported by several economists throughout the 20th century[24]; firstly, when the gold standard met with developmental difficulties and required increased money supply due to the need for growth of the economy or when excess gold reached the USA in World War I, which led to serious imbalances in a country not prepared in their domestic financial system and which worsened the situation with the creation of the FED. The change to unilaterally inconvertibility was produced by the USA in 1971, which made the system continue to be inefficient, especially for those countries not included in the SDR and the dominated countries. The system has only been useful for capital operating in the international monetary exchange, but neither has proved useful for the inhabitants of the countries where these capitals are localized, by heavy appropriations and consequent price increases on some goods and services that they have to endure.

But the great importance of the gold standard is that much of the existing theoretical basis for monetary economics has its foundations in this period and today with little nuances from the Austrian approach of the endogenous monetary cycle. This approach explains the recurring economic cycles of boom and bust and is the result of processes of credit expansion

[21] Including the UK which from 2004 onwards has been increasing its trade with China and China has also increased its investments in the UK at a rate of 85% annually since 2010.

[22] According to SWIFT, the Yen is now the second most widely used currency for trade finance and the fourth most requested currency to make cross-border payments.

[23] On 30th November 2015, the FMI incorporated China in the countries included in the SDR, a situation will take effect from 1st October 2016. In addition, in December 2015 countries were allowed to have outstanding loans to pay and also qualify for IMF financing, a modification aimed at financing countries with overdue debt with countries outside the orbit of the West, as in the case of Ukraine who have an unpaid and overdue debt as of 31st December 2015 with Russia; a situation that China could have in the future with its creditors, trying to weaken the countries outside the USA and their economic allies.

[24] Some of the economists who raised alternate systems to the gold standard are Fisher, Carl Snyder (The Stabilisation of Gold: A Plan in American Economic Review), Keynes and Triffin amongst others.

of banks through debt-money (fractional reserve) (Alonso *et al.* 2011). This credit expansion, not backed by real savings, is what gave rise to artificially low interest rates, leading to an excess of long-term investment that the market cannot absorb and also generated a speculative phase in the stock market, causing increases in the value of unreal actions, as well as disproportionate increases in real haven as gold (now quite controlled by the financial power) or the real estate sector.

However, one should not forget that the measures inspired by the Austrian School is what created the problem and now, with the same theoretical solutions and a renovated version which aimed to solve the imbalances created, it has become mainstream and has met the interests of finance capital. The problem is that much of monetary theory used was adapted to a different reality; Hayek who inspired Friedman (although he is disowned by Hayek), based his studies on an international gold standard and in 1975, even knowing its faults, ended up defending it against an alternative system and was quite clear, "I am absolutely convinced that any attempt to return at this time to establish the gold standard, through an international agreement, would be broken soon after and would merely serve to discredit, during a long time, the ideal of an international gold standard" (Hayek, 2001, p.120) despite the fact that the economy in 1928 advocated the principle of free choice of currency and considered the gold standard a transitional means of waiting for an ideal solution (Hayek, 2001). Friedman took many of the theories of Hayek and forced a dollar standard or debt-money reality. But both Hayek and Friedman have blamed imbalances and inefficiency of the monetary system of government intervention, which in turn has influenced the further liberalization of the financial market, causing major imbalances which exist to date and today we are in a spiral of concentrated wealth and unstoppable corporate governmentality.

5. Specific Aspects in the International Monetary System Description

Specific aspects of this description will continue to be discussed; they will be made through the interrelation with the different components of the IMS, and even with their own relationships with these components with other components of the same type. But its performance will also be considered and will depend on the degree of dominance that the economy had, which will be analyzed, that is to say, the degree of domination or the dominated economy.

5.1. The Relationship between International Organizations and the State

This relationship is given in two different directions depending on whether the economy is dominant or dominated. In the case of the dominant economies, they are those that impose certain policies that these organizations must impose on the dominated countries. On the other hand, dominated countries become recipients of these policies and these are imposed on them in terms of suggestions which, if not applied, limit for example access to credit and debt negotiations. Two examples of these impositions in recent years are Spain and Greece. In the case of Spain, it had to change the Constitution to implement preferential debt position of the creditor banks. In the case of Greece, it was forced to privatize a group of companies to refinance its debt.

A case with a more generalized effect on economies is to control inflation, imposed through IMF "recommendations".

a) This control of inflation is only applied to the real economy, which means control of wages and inputs (goods and services) that the large company supplies small and medium companies and therefore to maintain control stable costs of big industry, facilitating rent appropriation and yields in the real economy. This also facilitates the entry of foreigners to the capital appropriation process, which is also another recommendation of the IMF (other institutions are also used to exert this pressure as the Bank for International Settlements). Moreover, this cost control also benefits SMEs, but this cost saving is appropriated by the financial sector, by increasing interest rates, justified by higher credit risks.

b) The inflation indicator is inefficient because it includes or excludes certain products and/or services concerned in the basket calculation, as well as the weight of the products included in the basket do not necessarily represent the reality of the components in the real economy, among many other problems of statistical data.

c) This policy of controlling inflation has become an absolute faith, almost religious, and affects the recessionary periods of the economy, given that the inflation control policy, limiting the implementation of expansionary policies and even forces panel spending which decreases domestic consumption and limited growth but, on the other hand, frees resources to pay debt, that is to say, prioritizing debt payment.

d) In these recessionary periods, maintained by the policy applied to control inflation and the consequent credit crunch, the small and medium sized company is affected with high debt levels obtained in boom periods, which result in the destruction of businesses leaving market shares that are appropriate for those with access to credit, resulting in a concentration of wealth or transfer of the real economy to the economy of big companies, when these medium and small companies are absorbed by those who have access to credit (corporate cannibalism, the largest absorbs the medium and small companies).

e) The theoretical justification, in order to sustain the “recommendation” and normalise (discipline) the economic and political agents, where the latter are the obedient executors of the “recommendations”.

Friedman takes as his own, Hayek’s assumption of long term *neutrality of money*, where production and employment will eventually resume natural levels that depend exclusively on real factors rather than currency speculation, which holds a discretionary monetary policy and becomes the main cause of instability in economic activity. The existence of an inverse relationship between inflation and unemployment is accepted which can be exploited by monetary authorities; but the agents lack of inflationary expectations even in an environment of continuous price growth, although this did not last, because workers discovered that the absolute prices rise faster than wages and negotiate their wages upwards to recover the purchasing power. The plucking model of Friedman (1993) argues that full employment growth is interrupted by an imbalance of monetary policy implemented by governments (Alonso *et al.* 2011).

The basis for these claims by Friedman originated in what has been named the Phillips’ Curve (1958), on Hayek’s neutrality of money (1933) and the forced savings (Hayek, 1933), the latter ignored by Friedman. Through a study using data from the years 1861-1957, Phillips determined that there is a negative correlation between the unemployment rate and the change in wages in the UK, by plotting on the abscissa the unemployment rate and the ordinate rate inflation earned a downward sloping curve. Hence, the neoclassical model explained this instability, with the unexpected inflation in the short term which would cause an increase in production and employment; but, in the long run, this monetary illusion would disappear and neutrality between inflation and unemployment would occur. In the absence of inflation expectations, the Phillips curve would adopt a vertical position and would cease to be a relationship between inflation and unemployment (non-accelerating inflation rate of unemployment - NAIRU).

For Hayek, the neutrality of money meant keeping the money supply constant. Producers, therefore, had a cost structure known and only chose to invest new savings which would stay profitable, even if prices fell, in line with the lowering of production costs. “The primary cause of cyclical fluctuations must be sought in changes in the volume of money; the causes are always undoubtedly played and manifested a forgery of the process of price formation and, consequently, a wrong direction of production. The new element sought to be found in the “elasticity” of the volume of money available to the economic system” (Hayek, 1936, p.118). Hayek then highlights that, if this elasticity of the volume of money is a feature of the system of money and credit, that is to say, if certain conditions are given they must necessarily

be changes in the volume of money and the differences between the wild type and the monetary interest rate, or if applicable to causal phenomena of arbitrary intervention of those responsible for the money supply (Hayek, 1936).

This wanted to reflect that the adaptation made by Friedman of applying a policy of neutrality of money and stop at a specific point on the Phillips' Curve did not solve any problems and even created other more serious problems (see points a, b, c & d of this section). Firstly, in the context that developed both the neutrality of money Hayek as the Phillips' Curve, corresponded to a period of the gold standard, this is of fundamental importance, since the increase in money supply was subject to existing gold, limiting these increases naturally. This wanted to apply a theory out of context. Secondly, the application of these theories as a tool of monetary policy in order to neutralize the money supply, when the money supply depends on other agents and does not make any sense. It is so much so, that the curb of the money supply in the real economy does not in any way stop the money supply in what is called economy investments or large companies, and misdirection of production have recreated bubbles in the economy without stopping; that is to say, the creation of debt-money system is a feature that has been formed and its increase is subject to decisions of private interests rather than economic efficiency. Thirdly, this policy did not slow unemployment; it freed the oscillation of the unemployment rate and only controlled inflation in the real economy, with the effects described in this section.

If in this scenario the interest rate is added, or what Hayek called, the difference between the natural rate of interest and the real interest rate, which is today a type close to zero, given that the global economic slowdown with some countries with some exceptions, could be very close to equalize the natural rate of interest to the real, but also generated an increase in the valuation of shares (given the type of interest close to zero and the impact on the valuation update projected), and for some time, they tended to go down the expectations of increase in interest rates by the FED and its impact on all world types. However, those who leave the stock market today move into investment property in major cities in the world and which is causing a fictitious rise of these assets in cities like London, New York and others. Fourthly, Hayek himself in a paper published in 1933 called "Neutrality of Money" says that "the concept of neutral money was created to be used as a tool for theoretical analysis and should not in any way, at least in the first instance, be used as a criterion for monetary policy" (Hayek, 1999, p.318). The relationship between the concept of neutrality of money in the money supply and monetary policy is the degree of approximation of both. Therefore, "It is perfectly conceivable that monetary influences result in a "falsification" of relative prices and a complete misdirection of production if certain conditions are not met; for example, (1) the cash flow remains constant, (2) that all prices are perfectly flexible and (3) that the future price movement is expected, approximately, in the long-term contractual agreements" Hayek, 1999, p.320). But if (2) and (3) are not met, "there is no way at all to achieve the ideal with some monetary policy." (Hayek, 1999, p.320). This is expressed to clarify certain ambiguities in the way that this concept of neutral money has been understood and has been used (Hayek, 1999). Finally, there is the concept of forced savings which is caused by an artificially reduced interest in order to improve the supply of capital in the economy until the natural interest ends up decreasing the interest rate of the money, returning the balance and, in this way, completely preventing the crises. If the money supply can be increased, exceeding the limits of voluntary savings, it requires that the credit creation process is kept in ascending progression by a steady progression of the expansion of consumer purchasing power, but inevitably a time will come when banks cannot continue to increase the pace of inflation necessary in the economy of large companies (Hayek, 1936). But to keep inflation in the real economy, the consumption could not increase and capital goods and consumer economy were created but which as a whole could not be absorbed, generating a crisis. Although Hayek did the analysis considering inflation in the real economy, the limitations in his case was given by the lending limit of banks in a system of gold standard, but the result ended up being the same, "it is probably more appropriate to consider forced savings the cause of the economic crisis than expect it to re-establish a balanced structure of production" (Hayek, 1936, p.177-178).

Other implications of the relationship between international organizations and States correspond to the imposition of policies restricting public spending, the liberalization of markets, the free movement of capital required to support the financial system, privatization of public assets etc. However, these policies have a clear focus on the dominance of the States and prioritized debt repayment over any other needs they might have had, as well as, an orientation to the concentration of wealth due to the appropriation of rents and yields.

5.2. The Relationship between States

The relationship between States is a relationship between dominant States and dominated States and not subject or resistance to power. In the case of countries not subject to Foucault, this resistance is of a strategic and fighting nature that manifests itself in three different forms of domination, exploitation and subjection. The first is against all forms of ethnic, social or religious domination; the second is to combat forms of exploitation that separates individuals from what they produce and the third is against the forms of subjection that link the subject with himself and thus ensure their attachment to the other. The struggles which have as their objective the effects of power are, at the same time, transversal and are not limited to one country or to an economic system and are linked to knowledge (Castro, 2011).

Without resistance, there is no power. This makes it very important to start the description of the relationship between States, the relationship between the dominant and the dominated, since it is the latter that justifies many of the alliances that give strength to the dominant state and the struggle between dominant states or blocks of dominant states. To quote Umberto Eco (2012), “Inventing the enemy” this is what has happened throughout the history of capitalism and now neoliberalism. The Soviet bloc enemy justified many of the conformations of the current economic system and the monetary system itself, when the USA pressurized Germany in the 1960s of the convertibility, to withdraw troops from Germany. In the 1970s, it was the oil-exporting countries and after the dissolution of the USSR, who became created as distinct enemies, and which in recent years have become, yet again, Russia and China, among others. In this way, in recent months all the negative fluctuations of the stock market seen have been blamed on emerging countries or China. Russia was blocked, one of the leaders of the BRICS countries and a possible parallel currency system, with justified conflicts which were created near its borders.

This situation of being constant enemies justifies invasions which are always accompanied by wealth appropriation and, in turn, feeds the defense industry of great importance in the dominant countries for their economies. But also they promote partnerships for the benefit of “security”, as NATO has been, and it has also served to protect its interests in different parts of the world. The United States has about 800 military bases around the world to protect their interests but which in turn generate significant military spending (more funding), which obviously benefits the arms industry, linked to financial power, either through direct participation and through its funding.

The relationship of domination of some States over others has, historically, been undeniable and quite defined in its European origins with respect to the rest of the world. In the early 20th century, European descendents (USA) created world domination. However these dominations have always required allies who become part of the dominant States but who have a lower rank to the main dominator; they are strategic allies as domestic regimes supporters. For those countries dominated in different areas of the planet, their ranking of dominated State decreases depending on the subjection of political power, unless political subjugation, at least domination, reaching statehood is not subject or in resistance.

One of the relationships between States is international treaties whose effects would depend on whether these are between the same or with dominant countries. In the first, they are normally cooperation agreements and regional integrations (ALCA, MERCOSUR in Latin America and COMESA in Africa), either between dominated states or states not subjected (BRICS) and the second. The dominant States have advantages in imposing their criteria for the benefit of big business and greatly harm weaker states. A good example of the effects of an

agreement at a disadvantage is the North American Free Trade Agreement (NAFTA) between the USA, Mexico and Canada, which became effective since 1994, with the following results:

a) The real value of the minimum wage and the manufacturing sector had a percentage change of -17.9% and -20.6% respectively during the period of 1993-2001.

b) Most of the employment generated corresponds to the maquiladora industry.

c) The percentage of Mexicans living in acute poverty fell from 21.46% in 1994 to 50.97% in 1998.

d) Environmental degradation has increased and there is a state of extreme financial volatility.

e) The exodus of farmers to the cities and to corporate farms has accelerated in northern Mexico and the United States - about 2.7 million Mexican farmers have abandoned their land (Anderson, 2001).

Today there are treaties currently underway; Trade in Services Agreement (TISA), Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TTP), all with high opacity for the inhabitants of the countries included in these treaties, as their texts have not been disclosed openly and according to the little information beyond emitting means with effect in domestic law behind citizens on important issues such as, intellectual property, labor law, environmental law and arbitration between the differences between the investor and the signatory state to the treaty, surpassing the laws of the state and sovereignty. The scope of these agreements aims to overcome the interests of big business over the States and should be the subject of an extensive and more detailed study, with the little information that has been filtered in alternative media such as Wiki Leaks.

5.3. The Relationship between the State and the Economy of Large Companies

The relationship between the State and the economy of large companies is a two-way relationship with a strong influence of local oligarchies in the powers of the State, given historically, with the direct participation of these oligarchies in politics, in the institutions of the judicial power, as well as in lobbies or pressure groups. Furthermore, just like in the large companies the transnational companies are also involved; the pressure on the State is not only local but also international. One of the main objectives of these pressures on the State is the influence in generating a particular law or a pressure for not legislating on matters that benefit big companies as a whole or in sectors of the economy in which they participate. Another objective was to obtain certain contracts or grants from the State, where many of these agreements ended in collusion between the State and the company awarded the contract, which was accompanied by political corruption and/or financing of political parties. These pressures manifested themselves through secret agreements, national pressure lobbies, pressure from foreign states, pressure from international institutions, etc. In this way a transfer of the State resources to big companies or rent appropriation of the population occurred but, at the same time, the large companies, mainly in the financial sector, now national or international were the buyers of bonds and grantors of loans to the State, thereby producing a reverse flow of monetary resources, which also caused dependence on the State for these companies. With this funding the state gained influence and pressure mechanisms, producing the captivity of the State. This aspect is one that reversed the work of the State, which should have acted as a principal, acting as an agent of large companies, seen from the point of view of agency theory, but where in addition, the large companies continued asymmetries information on their behalf. Thus the possibilities of control by the State were completely cancelled, from here the effects of income taxes of large companies were much lower than those of small and medium companies

and as well as having large structures of internal professionals and business networks for their defenses and to divert profits, avoiding taxation and supervision.

This relationship between the State and large companies where the distortion of control and monitoring were affected depended on the size of the company which, in some cases, exceeded the benefits of the state GDP or formed an oligopolistic block, as the financial sector, which imposed its conditions within States.

The State's relationship with big companies is very different to the dominant State, where the State is all but defined as a group of companies that exert their dominance in various sectors of the national and international economy with its products. Therefore, it is a relationship with minimal resistance or struggle, where the actions of power remain almost annulled through mechanisms of almost absolute power. However, these high levels of submission within the dominant State, to the extent that increase social imbalances, may be almost as much or more explosive in their rebellion than the dominant States. In the case of the dominated States, large local and international companies linked to local elites imposed their conditions with much less resistance, given the magnitudes of these companies compared with States and by linking local elites with political power, where they had the pressure mechanisms or participated directly in political power. What is more, all this was in addition to the dominant discourse control through control of the media, owned by the same corporations and the educational, cultural and ideological submission.

On taxation, the large companies acted as collectors of indirect taxes, as well as small and medium sized companies, did not produce a special relationship in this respect, with the exception of pressure changes in tax which in this fiscal matter direct taxation which could affect big business and which were interested in changing. In this respect, it also imposed the minimization of the State, which did not have resources to spend more on social benefits, because taxes were not sufficient and therefore spending had to be reduced. This in turn, forced workers to accept minimum working conditions because they had no State support in matters of health, education, welfare etc, blaming, furthermore, those who made use of social services of the problem that had been generated, facing different sectors of the population. This diverted attention from the real problem of low wages or rent appropriation of workers and large companies not paying taxes, which only acted as collectors of indirect taxes, paid for by the consumer.

5.4. The Relationship in the Economy of Large Companies

The relationship in the economy of large companies in the current IMS is where it is born and where crises are generated. Given the current levels of freedom in generating money-debt and inflation control in the real economy, the growth in the money supply remained in the economy of large companies (Kallianiotis, 2014; El-Hodiri and Mukhamediyev, 2014). This is how the increase of the money supply remained within the economy of big companies and flowed to the financial sector to large mainly non-financial companies and a small portion went to the real economy of families and small or medium sized companies. Given that most of these increases went to large companies, the increases in money supply generated new productive assets or increases in products that could not be absorbed by the real economy, generating alternatives and/or joint bubbles in different sectors of the economy.

On the other hand, a low rate of sustained interest over time, which did not necessarily correspond to the natural rate of interest of the economy, subjected the economy to a sustained level of low interest rate, since an upward shift in the type of interest is what slowed down the credit spiral in which sustained the system, given the high levels of debt held. In this way, the excess money began to change the economic sector and shifted the problem from one place to another, as what happened in 2000-2001 crisis with the dotcom or with the real estate crisis in 2007-2008 which increased the supply of goods disproportionately to the needs and possibilities of the real economy, which eventually had to be absorbed by the economy of large companies by individual evictions, bankruptcies, absorption of financial institutions with real estate assets, amongst others. However, these excess production, money-debt or uncollectible loans had to be supported by the State, an important transfer of private debt to public debt. This transfer of

debt in turn affected the low interest rate because the high indebtedness of the States that had to assume the private debt, made its payment unfeasible to a higher interest rate and creditors (financial institutions), which they wanted to recover their loans or collection of interest, at least for an extended period.

This loop that keeps the interest rate close to zero, increased the money supply again in the economy of large companies and these resources moved sectors until the next bubble popped. Bubbles which were nothing more than inflation in the economy of large companies, inflation which resulted in a disproportionate increase in fixed assets and investments; that is to say, in over valuations and over production, that fully complied with the quantity theory of money from Fisher, where an increase in the money supply produces an over-evaluation, in this case of assets, but with an additional component, due to these assets being of long duration in the economy in the long run, further hindering recovery.

This without a doubt, the financial sector is very clear, is where the orientation of the money supply continues to create and now exists, moving to intangible assets (equities and derivatives) and not long-lived assets, saturated, except for investments in infrastructure, but the latter would increase the debt of the highly indebted public sector and, therefore, the lowest of the monetary flows focused on infrastructure, not on repairs or replacements.

Now, as the strong movement of money supply has been oriented to intangibles, which not only involved large non-financial companies, but also financial companies, to balance this market of intangibles is the possibility to assume gradual losses by overvaluation, gradually adjusting the value or aggressively adjusting those which would cause huge losses and an enormous mistrust in the system. The other possibility is to appropriate income from the real economy and shift the loss to families, small and medium sized companies or a combination of some of these strategies.

But as the goal of large companies and professional investors is to maximize their profits, they will be unwilling to take losses on their investments; in this way, some will tend to change sectors and invest in gold, precious stones or real estate in very specific areas, such as large cities. This movement situation of intangible investment property assets is one of the preferences of the financial sector as it helps them get rid of assets that they have but also increase the valuation of those they have in stock.

Also the movement of overvalued investments into the real economy as the strategy that makes the big companies move their losses is approached by capturing pension funds, savings surpluses of companies etc. The market of variable rents sold their own investments in intangible assets (equities and derivatives) - which in many cases had been repurchased to increase its valuation – with an overvalued price and then adjusted prices, assuming directly or moving to the real economy, the loss generated.

Moreover, this excess of money supply began to occur when the massive appropriation of public assets, by large companies, was terminated and new appropriations began to be slower and lower. For this reason, in order to channel this excess money supply, after the strong privatization process, large companies generated conditions for further privatization which is how it reached sectors such as health, pension systems, education, etc. But the privatization of these sectors proved slower and found more resistance, which in one way or another, led to the creation of bubbles. However, the system in its privatization climbing, the strong pressure due to the levels of public debt, once the system channeled and adjusted their investments in intangible assets and/or real estate assets, allowed a small rise in the system types and represented the final pressure for the appropriation of these public resources, regardless of the resistance that could be generated, as the political factors of the same State, who must implement these privatization actions with local companies or through denationalization.

One of the most important monetary flows that occur in the economy is through foreign trade and capital movements. The first represents a flow of production surpluses, whether scheduled or not, which are accompanied by movements of monetary flows between large, medium sized or small companies, and even families or individuals, which directly affect the commercial balance. The second, movements of capital, are investment flows and/or speculation and affect the balance of payments. In the case of foreign trade, exchanges will

give rise to a surplus or a deficit in the trade balance which will force them to compensate for these financings, whether internal or external, through the financial system. The States themselves also purchase goods and/or services abroad and add to these movements of cash flows. But all these monetary flows of foreign trade are usually regulated by a State agency, called central banks, which regulate these cash flows. The currency fluctuations that occur in countries that do not operate with its currency must also be added, due to the exchange rate flexibility, which affects the costs of companies of dominated countries that did not operate with its own currency.

In periods of increased money supply, which have caused an overproduction of either capital goods or merchandise, a way out of this surplus is precisely the international market; however, when these goods cannot be marketed abroad, bubbles burst in the same country and the affect abroad depends on the size of the economy. An example of this is in the crisis of 2007-2008 and the case of the housing bubble; for example in the United States. As well as the domestic impact, a part of this bubble was exported through the sale of so-called derivatives abroad. In the case of Spain, despite export through some derivatives, given the magnitude of its affect on a world level these derivatives investments were not attractive and a large part of excess assets produced had to be left to the local financial system, and long term, waiting for a recovery.

In the relationship of large companies there is no direct link between these monetary and international organizations, but there is great pressure from companies or organizations through large lobbies installed in the headquarter cities of these organizations. A classic example of this is the lobbying of companies permanently installed in Brussels, headquarters of the European Union Parliament.

5.5 The Relationship between the Economy of Large Companies and the Real Economy

The relationship between the economy of large companies and the real economy is the relationship of the largest monetary exchange produced in the economy, though not necessarily greatest imports. The flows between these two economies can be distinguished between those of a productive character (goods and/or services) with those purely financial. The first flows do not generate money supply, even though debt-money can be generated through credit between suppliers and customers; these are offset by payments on previous loans and/or real goods in the economy. On the other hand, the second flows of a financial nature generate money supply, although with some restrictions such as controlling inflation. (El-Hodiri and Mukhamediyev, 2014). This control is exercised directly by the same financial institutions through credit policies, even though these are not respected in periods of booming economies, especially in the case of mortgage credit (real estate), which as it has no impact on the inflation indicator, may grant loans in order to recover credits granted to builders and, in turn, distributing lowering the concentrated risk. In any case, this relationship is not concentrated and the money supply is quite fragmented.

Another control mechanism of increased money supply is through the wages paid to workers which are always kept in tendency to fix the price increases with a price difference which either reduces its purchasing power and results in a decrease in consumption and is forced to gradually adjust, both the States and the companies themselves.

In this relationship of a financial nature can be found the raising of funds for families and small and medium sized companies; these are expressed in savings, short-term deposits, surplus cash and salaries in current and savings accounts. These flows are what largely fuel the financial system and therefore the monetary system. Through this relationship, flows are also produced towards big business, with the payment of interest on loans, commissions and a number of services that have been added by the financial institutions to their product portfolio. But there are also all kinds of credits that financial institutions provide small, medium sized companies and households, either through specific or freely available loans, as well as credit cards.

In this relationship between the economy of big companies and the real economy, one of the most important mechanisms for monitoring and control occurs through different payment

systems that are leaving records that can be crossed with other information relating to persons and companies. The Panoptical Effect which, with the development of payment systems such as plastic money, has deepened. Also, given the link between the State and large companies of the financial system (information exchange), the individualizing discipline is perfected, based on the hierarchical surveillance, linked to the distribution of spaces and power relations it generates distribution and uses as an instrument Bentham's Panopticon, being able to come to take the normalizing judgment, which draws a line between normal and abnormal, in order to homogenize.

Finally, even among the same families, small and medium sized companies, a momentary increase in the money supply, which is offset by payments made between them, end up having no impact on the money supply in the long run.

5.6 The Efficiency of the Private Company and the Inefficiency of the System

The current IMS works inefficiently due to the influence of the monetary system of mainstream economics, which has shaped the international system along the lines of its internal system and satisfies the criteria of private companies, rather than economic efficiency. The first was to discredit the gold standard, blaming all the problems on this monetary imbalance without seeking the real culprit; considering that the gold standard system could be improved or replaced by another, which undoubtedly requires international consensus.

In February 1932, Hayek referred to this subject and made it quite clear its influences against the system stating that, “However, there can be little doubt that the new monetary problems that have arisen derive from more persistent and continuous attempts from many sources and for many years to prevent the operation of the gold standard than the inherent trends.” (Hayek, 1999, p. 229).The repeated violations of the rules of the gold standard were responsible for the imbalance, but these were not considered for the development of subsequent proposals.

Both in the USA, as in England, the excess emissions or increases in supply, product of the conflicts at the turn of the century and the crises of this time, product of these same excess of the money supply, made these abandon the gold standard and issue money on their reserves or without them. To this must be added the influence of Inving Fisher and Gustav Cassel, representatives of the quantity theory of money and price stability and the *price stabilization*, together with the resolutions of the Geneva Conference of 1922 added to the gold standard, cooperation central bank and which spread price stabilization. These fluctuations in the value of money prevailed, “the idea of making the concept of price stabilization an objective of economic policy and a virtually unassailable dogma.” (Hayek, 1999, p. 230). Since gold production was not adequate to maintain, “an increase annually in monetary gold stocks in the world of 3 percent, which was what was needed, according to estimates, to maintain price stability” (Hayek, 1999, p. 230). Keynes also pursued in Britain a policy of “stabilization”, preventing the growth of the money supply according to the growth of gold stocks, taking the example of the USA but forgetting that it had violated, again and again, the rules of the gold standard. It also did not consider that the theory of price stabilization was developed for a closed economy and did not apply to a country that was a member of the international system. This policy of stabilizing prices was based on the idea of credit expansion, with fatal consequences, with persistent inflation that lasted until 1929; inflation which was not enough to maintain the level of completely stable prices. Without considering the opinion of the monetary classic, which “always insisted that a circulation of non-metallic money should always be tightly controlled so that the total volume of money in circulation varied in the same way as would happen if only gold was in circulation” (Hayek, 1999, p.241). Then to generate the product of applied political crises, it was believed that these could be overcome by fighting the symptoms, where the immediate cause of the crisis lay in the wrong production structure and the rise and deflation process generated was just a consequence (Hayek, 1999).

In 1929, Hayek, referring to the FED, expressed that it cannot be assumed that a central bank be better prepared to avoid shocks to the economy, due to excesses in credit volume, a system of independent commercial banks led by purely business principles (liquidity,

profitability). Central banks that provided liquidity to the system are handcuffed when avoiding unwarranted credit growth. Therefore, the reform of 1913-1914 with the creation of the FED, created new possibilities for inflation, increased in turn by successive legal amendments of credit expansion. He ends by recommending Europe to pay careful attention to events that occurred in the USA for forthcoming international conferences, as otherwise they will be completely disoriented and free rein would be given to the USA and England to impose their views; which is just what happened later (Hayek, 1999).

The failure of an IMS which was inefficient, exclusionary and unbalanced is the success of the world finance capital which had been established in all the countries of the Western orbit.

One way to counteract the effects of this model was to incorporate new and more active elements, as noted in a recent study involving a total of 764 between private and public banks in 54 countries for the period 1994-2009. It revealed that public banks played a better role to counteract the crisis, since in these periods it increased credit to the inverse of private banks in normal times and reduced credit, while private banks increased them. In this way, the authors suggest that governments can play a countercyclical active role in their banking systems through state-owned banks (Brei and Schclarek, 2013). But we must keep in mind that this type of action does not solve the problem, it only slightly dims it in periods of crisis, focused on the symptoms, not the root of the problem unless the participation that these state-owned banks have an important market share, around 50%, and generated a significant balance in the measures taken, both in boom periods, as well as in periods of crisis.

6. Conclusions

The monetary system has been shaped historically and it has come to rely almost exclusively on the private financial sector in everything related to money supply, the dependence of States for their financial needs, the conformation of international agencies that have been created to be directly or indirectly dependent on the sector, the establishment of global economic policies etc. In this way, the established monetary system responds to certain interests of maximizing the benefits of the private sector and not to monetary efficiency of the economy.

The takeover by the private company of the monetary system converted it into the fundamental tool of monetary shaping corporate governmentality, concentration of wealth, rent appropriation and yields. In the same way, the dominant monetary theory established is the product of this historical formation and the current functioning of the monetary system based on these theories is the answer to the interests of the private financial system.

This financial private sector, linked to the non-financial private sector either for reasons of major funding or participation, corresponds to the economy of large companies where the concentration of wealth can be found. On the other hand, in the real economy of families, small and medium sized companies it is the consumers, suppliers and distributors, with no or minimal bargaining power, which are against these huge monopolies or oligopolies that are in the economy of big business. In this relationship between the economy of big business and the real economy, the process of rent appropriation and its yields steadily occurs.

The other major process of rent appropriation occurs in the relationship between the state and the economy of big companies where, besides the captivity of the State by big companies, plays a key role. This appropriation process called privatization and which has had a climbing growth, gave birth in the 1980s where the monetary system acted as an essential tool for achieving these appropriations, stopped in the late 20th century due to the appropriation of the best productive public companies and service was over and the still state-owned companies increased resistance to the privatization process on behalf of the population.

But once the States with the proceeds from the sales of companies covered their deficits and/or invested these resources in infrastructure and no longer had revenues of companies that had been privatized, they begin a new stage of indebtedness. Moreover, as the privatization process generated at different speeds in different latitudes, it generated an excess money supply which caused: new loans to States which could hardly be returned due to the drop in revenue, overproduction of capital goods on ratings, excess production of consumer goods which could not find a market due to controlling inflation in the real economy etc. and

which eventually caused bubbles in some sectors of the economy and therefore the crisis over the last 25 years.

This is how the crises generated economic cycles, the result of excess money supply which in turn caused the very creation of the monetary system and all those involved. Furthermore, the same great companies which depended on the monetary system have had the ability to "learn" in this historic process of conformation to take advantage of these crises in their own right, maximize their profits and concentrate wealth. The inefficiencies of the monetary system, its crises and the concentration of wealth are the result of the "efficiency" of big companies in general and of large financial companies in particular, both at a country and global level but where this "efficiency" of large companies is only possible with the complicity of the State, which acts as a facilitator of this process of wealth concentration and rent appropriation.

One aspect not addressed in this paper is based on virtual currencies and block systems although they do not have a large share in the current money supply and if an alternative and/or alternative monetary system is not generated, this mechanism could possibly have a great importance due to the search solutions on the real economy. Another aspect not addressed are the effects of possible negative interests which can be applied in the future, both to reduce the money supply and to reduce the unpayable debt of many countries and also as a tool for appropriating the savings of the real economy. These issues, therefore, are recommended for future research.

Also in the component of future research with specific application to certain countries, the development of studies describing the existence of the influence it may have on domestic monetary systems and the international monetary system the processes of destabilization of governments dominated economies to resist the process of domination is recommended, since these processes are typically accompanied by high inflation.

Finally, this paper on the description of the current monetary system is also a diagnosis of a sick economy that has as its central pillar its irrational and inefficient development, a monetary system concentrated in private companies. Behavior that is at the level of individual States and global level; where in each State a small oligopoly of the financial system imposes its conditions and interests in that State and operates a small world increasingly concentrated oligopoly and operates in the dominant economic and which influences, affects, determines and dominates the whole of the global economy. This diagnosis and description of the monetary system is now also expected to serve as a basis for further research in this field.

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