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### **MONETARY CONFORMATION OF THE CORPORATE GOVERNMENTALITY I FROM THE NEW ART OF GOVERNING TO THE BEGINNING OF NEOLIBERAL GOVERNMENTALITY**

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#### **Abstract**

From the perspective of the Foucaultian approach and using the archaeological and genealogical methodology, this paper describes the origins of the first monetary institutions which are those that have the greatest impact on the development of the monetary system that took shape over time. The origin of the first central Banks, the gold standard system, the origins of the FED (Federal Reserve) and the birth of neoliberal governmentality, institutions whose conformation gave rise to the origins to, from a monetary standpoint, corporate governmentality. This document, of a historical, philosophical and economic character, describes relationships of power which shaped and defined the lines of development of a monetary system in conformation and is based on the concentration of wealth and the appropriation of income and their yields. The crisis, monetary shocks or monetary imbalances began to be more frequent and linked to the monetary conformation of institutions that give rise to the rising monetary system.

**Keywords:** Governmentality, Monetary Conformation, Foucault, Archaeological and Genealogical Methodology, Relationship of Power, Gold Standard Crisis, Concentration of Wealth and Income Appropriation

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#### **1. Introduction**

The undeniable and enormous concentration of wealth, produced by a highly inefficient social system or a highly efficient private enterprise, has been able to control, dominate and submit to the State and society as a whole in a conformation which I have called corporative governability and based on the power of relations of the work of Michel Foucault.

In these conformations of the manifestations of power relations, this governability was engendered but also captured different institutions and economic elements during development. In this way, this work, the first in a series, is a conformation of governmentality and is approached from a monetary point of view and initiates a new art of governing and it covers up to the beginning of the neoliberal governmentality period.

This document uses the archaeological and genealogical methodology conceptualized by Foucault, that is to say, the work is framed in the Foucaultian critical approach. In economic

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terms, this paper begins from the evolution of money and describes how it shaped some of these monetary institutions, which will become a fundamental part, of the basis of the current monetary system. This document, therefore, is embedded in the development of the monetary theory.

The principal sources met, addressed in the historical period are the first central banks, the gold standard, the Federal Reserve System and the conformation of power relations that are generated between economic power and political power.

## **2. Objectives and Methodology**

In the process I call “Cooperative Governmentality”, or governance of large corporations, it is characterized by a process of concentration of wealth and the appropriation of income and their yields and the minimization and captivity of the state which has strongly developed from the twentieth century (Rivera Vicencio, 2014). However, the structures in the twentieth century provide support to its development, with their origins in previous conformations, and which in this paper aims to describe from a monetary point of view.

The main objective of this work, therefore, is the description of monetary conformations which supports the development of corporate governability and which in turn forms an integral part of this conformation. However, given to the extent of these monetary conformations, in this work a first stage is addressed, corresponding to the origins of the central banks of the dominant economies since the mid-eighteenth century to the early twentieth century, that is to say, the central banks of England and the United States.

The paper attempts to answer if monetary conformation influences the characteristics of cooperative governmentality, that is to say, if this conformation helps answer how it is shaping the concentration of wealth, how it germinates ownership of income (monetary or historically) and how it has produced the minimization and captivity of the State; or if the monetary conformation of the governmentality is a newer monetary influence, without any previous monetary influences.

The answers to these questions would be those that can help us understand more the conformation of this social history. They could be given by the deep ideological shift and subjugation suffered by society as a whole in recent years -this occurs because of neo-liberalism- but this would be oversimplifying the issue. What should be done according to Foucault, is “... not asking subjects how, why and in the name of which rights under can it be acceptable to be overpowered, but show how they make concrete manufactured relations” (Foucault, 2003, pp.44-45).

In order to describe how they made these power relations, a historical tour is addressed through the archaeological and genealogical methodology using a Foucaultian approach, which enables showing of this process of social production and conformation.

## **3. Justification and Theoretical Framework**

At present, there are very few pieces of work in the dominant mainstream which study power relations in the field of economics and even fewer studies which focus on the characteristic approach of Michel Foucault and his archaeological/genealogical methodology, and none of them refers to money through a Foucaultian approach. For this reason, taking into consideration the mainstream research (functionalism) of marginal analysis which forms a part of the mainstream research of general investigation and, in particular, the use of this methodology justifies this work due to the additional contributions offered from a historical, from the point of view of social relations in the economic climate and from the point of view of dominant relations (power relations). Furthermore, bearing in mind that a more comprehensive view of a particular economic event and a clearer view of the simple relationship between environmental agents completely disconnected from their surroundings, thus this can provide much more information and contribute to a greater economic study.

In this way, following the Foucaultian approach when he says, “I would suggest that institutions should be analyzed from power relations and not the other way round and, in this way, the fundamental anchor point of relationships – even if they are incorporated and crystallized in an institution – should be found outside the institution” (Foucault, 1994d, p.238). With this methodological suggestion, described as the conformation of money (in power relations) and indirectly, the creation of the first central banks as institutions in historically dominant economies, through the archaeological and genealogical methodology.

The archaeological methodology is registered in general history and is occupied by the regularity of statements which give rise to different discussions and refer to a particular time, understanding the role of science or can be expressed as the analysis method of local discussions. All together, the archaeological methodology is entwined with the genealogical methodology and follows in detail power relations and the tactic which sets in motion of emerging knowledge and freedom of subjugation from local discussions (Rivera Vicencio, 2012).

Referring to the method to be used, Foucault explained that it must be remembered that “power exercised in network”, therefore:

... I think that it has to be done, it should be done, - it is a concern of the method to follow – an ascending analysis of power, that is to say, from the infinite mechanisms of power which have their own history, their own way, their own technique and tactics. Then see afterwards how these mechanisms of power, which have, of course, its solidity and, in a way, its own technology, were and are still invested, colonized, utilized, modified, transformed, displaced, extended etc. for mechanisms ever more general and forms of global domination (Foucault, 2003, pp.34-35).

Starting from this methodological basis and a deeper understanding of what is called “cooperative government and appropriation of income<sup>2</sup>”, the historical and social development of the multiplicity of power relations that shaped the monetary system was embarked upon and addressed the beginnings of cooperative governability where money certainly had a central role in the process of the concentration of wealth (Rivera Vicencio, 2014).

#### **4. Conformation of the New Art of Government/Governing**

For Foucault, “... a new art of governing which began to be formulated, to think, to be outlined more or less in the middle of the XVIII century ...” is characterized by the introduction of complex, numerous and internal mechanisms whose role “... is not necessarily to ensure increased strength, wealth and state power, (the) indefinite growth of the State, such as limiting from within the exercise of power of governance ...” marking “... the difference with respect to the reason of State” (Foucault, 2007, p.43).

This new art of governing has its origins in the privileged market and mercantilism of the XVI and XVII centuries, “... that made trading and commerce one of the main instruments of state power, now constituted verification.” However, through this eruption of the market as the beginning of verification, one must reach the intelligibility of this process, which is in the history of governmentality “... which is, without a doubt, one of the fundamental phenomena in the history of the modern west” (Foucault, 2007, pp.51-52).

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<sup>2</sup> The concept of appropriation of income refers to the appropriation of rents and yields, both present and future.

#### 4.1. Conformation of the First Central Banks

The use of metals as a means of exchange (gold and silver), initially without any kind of stamp or seal and with the risk of fraud or deception until minted coins were established, led to the origin of minted coins and money houses (Smith, 1794, pp.36-39).

“The commodity exchange value is *money*; goods are equaled, compared, measured and reduced – the general equivalent”, this general equivalence supposes a general knowledge and is a social symbol and represents a social relationship (Marx, 1971, pp.67-69). On the other hand, this conformation, which occurs over time, where money is not just a means of unit of measure of goods; money adopts a third role and becomes merchandise itself. As said by Marx, money as a timeless merchandise, as an object of wealth, the product of a particular social development, as something unnatural and historic, with as many different prices as there are markets. Where, “...the capital is alternately transformed between market and money” (Marx, 1971, p.142; p.157; p.167; p.201).

This market development, which shared with merchants who mediated between the end consumers and producers, was due to these farmers or craftsman managing and transporting goods. They based their accumulation of wealth on the appropriation of income or on the appropriation of consumer and producer surplus, crossing the moral borders imposed at this time by scholars about *fair prices* (Pirenne, 1975, pp.91-92).

This nascent accumulation of wealth by merchants, given to the small volume of transactions, enabled them in turn to conquer rights and participate in local government through the financing political power which gave rise to the bourgeoisie and the first Banks.

The bourgeoisie which developed as a social class also established as a legal class demanding freedom for the advantages that this gave them as a useful right for their activities and, moreover, the necessity to defend themselves against the theft of their goods which brought about the building of city walls as defense constructions which substituted stately tributes and to which they paid a proportional share of the expenses represented by these defenses. This led to the construction of villas as a small patria (Pirenne, 1975, pp.43-48).

Before the creation of the first banks, principalities and emerging sovereign states possessed the right of coinage and felt authorized to use them for their own interest which caused constant tampering in order to pay their debts with less metal. This behavior brought about the fall of coinage in the kingdom and returned to being a royal privilege. This centralization of coinage did not consolidate a stable currency due to its constant alteration between one kingdom and another, depending on the necessities of the crown, reducing its intrinsic value; also the rise and fall of currency depending on whether it was for payment or for collection. All this caused chronic disorder in its use and made trading impossible (Pirenne, 1975, pp.86-87; Smith, 1794, p.46).

Furthermore, the political connections brought about monopoly privileges for merchants and artisans which facilitated the concentration of certain areas of Europe. It was also a time when ties with the emerging economic and political power and the church were developed, through marriage unions between their daughters and lords or merchants who dedicated their fortune to the service of God.

In feudal Europe, the lack of gold for transactions was mainly due to gold exportation in exchange for luxury goods (sumptuary purchases), pillaging, (especially in Norman times), hoarding in the churches and to Europe not producing gold. This led to Europe becoming conqueror in the XVI century as it searched for gold. It was not gold, though, that helped the recovery of Europe rather it was demographic expansion, agriculture, development of industrial material and technique initiated in France and later on in England, improvement in the production technique of precious metals, development of the monetary system, finance and commerce, increase of internal and external commerce, improvement in road communication and the birth of national economies and economic policies (Vilar, 1974).

Many of the credits at this time were channeled into public powers, for both personal and family expenses and wars. It was more comfortable for kings, princes and aristocrats to ask for money than sell off their land or order their goldsmiths to make money; although merchants

could deny a loan to people politically and socially influential or fix an interest rate in relation to the risk involved with claiming unpaid debts (Pirenne, 1975).

The influence of bankers lay heavily on the high debt maintained by the crowns which, in more than one case, led to the bankruptcy of these banks by default, as in the case of the emblematic Bardi Family (one of the main banking families in Europe), who had lent large sums of money to King Edward III of England. In 1345, the bank crashed, causing additional damage to companies and individuals who had their savings in these Banks. This situation repeated itself in England and other countries.

Initially, the banks of Amsterdam and Barcelona (founded in 1609 as municipal and local banks and created as a way of correcting monetary conditions) were deposit banks and exchange monopolies, due to the irregularities that many banks had in the management and handling of metals (gold and silver) and acted as general cashiers to traders. However, the Bank of Amsterdam had a greater importance in the world due to its significant role, until the first third of the XVIII century, as regulator and redistributor of metal stocks and its essential role in the European and world monetary system. Later on, it retained its great prestige until the arrival of English supremacy (Vilar, 1974).

Subsequently, the first central banks constituted in an attempt to regulate the new financial system; in Sweden the Bank of Stockholm was founded in 1657 owned by Johan Palmstruch and, at the end of the century, the Bank of England (1694), controlled by the European banking dynasty which included the Rothschild dynasty together with the Kuhn, Loeb, Lehman, Warburg dynasties, among others.

The Bank of Stockholm gained permission after offering 50% of its profits to the crown and began to arrange long term finance using gold and silver deposits usually consigned to short term finance. In order to avoid the risk of not being able to liquidate, they began to print credit notes redeemable for silver (Kreditusedlar) for the stipulated import, for much higher amounts that were usually kept in deposits. When doubts were raised about the bank's solvency, many customers tried to withdraw their deposits and the bank went bankrupt in 1668. The Swedish Parliament decided to create a new bank exclusively under its control (Estrada *et al.*, 2013)

In the case of the Bank of England, founded in 1694, 100% of the initial capital was loaned to the crown. In this way, "... the king will spend, for the ongoing war, the amount loaned; trusting the bank, merchants will lend their money rather than keeping it in their possession; in this way, circulation, in which all sorts of different kinds of roles, is severely swollen." It was the Bank of England that laid the foundations of the world monetary system, gold and banknotes. It is the era of the "moneyed men"; men whose main concern was money, men who were despised were considered to be successful (Vilar, 1974, p.296; p.299; p.303).

Despite the complexities of the monetary circulation in the years 1696-1714, the circulation of paper became very important despite the huge tax burden for the wars and the devaluation of English paper money in the international money exchange.

"The English currency installed consolidation conditions for the country's expansion of industrial and commercial activity and for advantages such as maritime, colonial and commerce secured by military and diplomatic victories on behalf of America, the South Sea and Mediterranean the islands. Everything is ready for the gold and silver, above all gold, to flow towards England" (Vilar, 1974, p.315-316).

Between 1693 and 1713, the revenue from customs and road taxes tripled. It is the era of the birth of scientific economic thinking, economic and mathematical reasoning, calculations of the birth rate, death rate and population and even calculations of the country's domestic product. They are the first announcements of the end of mercantilism and the start of economic liberalism (Vilar, 1974). In the words of Foucault, it is the birth of governmentality.

Prior to the formation of the Bank of England and in the absence of official money changers, it was the goldsmiths who played this role based on the trust of the merchants who gave them surplus coins and the goldsmiths who gave receipts for counterpart deposits. These private deposit receipts began to be widely circulated as a means of payment. By not having to

repay these deposits all at once, goldsmiths began to lend above the metal deposits formed thereby creating credit and money, contrary to what had been done by the bank of Amsterdam. The public powers and the big merchants of London then accused the goldsmiths of speculation, usage, coin cutting and even insolvency which gave rise to the birth of the Bank of England. Despite speculation and disorder at its start, the Bank of England became consolidated, the circulating currency stabilized and the road to the gold standard was taken (Vilar, 1974).

From the 18th century in England, any private bank could issue banknotes and this led to recurrent crises, "... in 1825 almost eighty private English banks suspended payments". "Irresponsible issuing of banknotes by the private English banks made the British government granted a monopoly of printing money to a single bank in 1844, the Bank of England, owned by the Rothschild family, with the condition that it had to endorse the issue of pound notes with the equivalent of gold reserves" (Estrada, *et al.*, 2013 pp.34-35). "The monopoly of issuing of banknotes that the Bank of England enjoyed was not, whatsoever, a "state bank" as it remained totally free in its decisions and what it issued but it was the only bank that could issue refundable banknotes in the moment and in less than six months" (Vilar, 1974, p.403). The Rothschild Family also invested not only in mining gold but in other mines and became one of the main investors of the Rio Tinto Company in 1870, the largest copper producer in Europe and the leading provider to the British industry (Marichal, 2009, p.32).

The Bank of England ceased to be private in 1946 together with nationalized industrial, mining, transport (train), service companies, in a process that took place between 1945 and 1950 (Senf, 2009, p.8).

#### 4.2. Beginning of the Gold Standard Conformation

"In 1802 Thornton<sup>3</sup> published a work entitled "*An Enquiry into the Nature and Effects of the Paper Credit of Great Britain*", with the dual aim of justifying legal tender of banknotes as practiced since 1797 and warned about the eventual abuse of issuing banknotes and excessive increase in the value of banknotes." Vilar, 1974, p.453). Later in 1811, David Ricardo participated in parliamentary debates of "The Bullion Report" (Parliamentary Commission Report on Bullion), in which he set out the principles of a monetary theory which was discussed later with the name of "Currency Principle". Ricardo regards currency as essentially quantities and expresses that the excess of paper explained the rise in prices and premium of gold over the circulating currency which was necessary to raise paper to the level of existing gold and which served as the base of the English monetary system, including the Bank of England Statutes in 1844 valid until 1928. Thomas Tooke (1774-1858), contrary to the ideas of Ricardo and monetary policies included in the Bank of England statutes, stated that money was not wealth but it was gold that was the safe haven, and that price variations depended essentially on public confidence in the currency. However, the amount of the currency in circulation was determined by the demand of the public and by the balance of foreign payment, "the number of banknotes is an effect and not a cause of the demand of banknotes", this being the difference between the "Banking Principle" in opposition to the "Currency Principle" of David Ricardo and the quantity theory of money (Vilar, 1974, pp.453-456).

In the 19th century, a period of stable currency, the undisputed gold standard and the convertible banknote, products were exchanged for products and currency was neutral. The government committed a scam when it modified the legal relationship between its currency and the existing gold (Vilar, 1974, p.10).

In 1690 in the United States "bills of credit" began to circulate to finance the Massachusetts against Quebec colonial war and subsequently the issue of banknotes extended in the thirteen English colonies to the extent of their development.

In 1775, a year before Independence, Congress decided to be in charge of issuing banknotes called "continentals" but the continued issue of banknotes to pay soldiers and their

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<sup>3</sup> Henry Thornton (1760-1915): English economist (monetary theory), banker and parliamentarian.

easy falsification, meant that they depreciated very quickly. Furthermore, each state maintained its own monetary and generated chaos. In 1791, Congress created the Bank of the United States, funded by private capital, and which achieved a great power regulator of the banking system. However, Andrew Jackson, who was re-elected as President, was a staunch opponent of the Bank of the United States and took it to its bankruptcy in 1841 (Estrada, *et al.*, 2013, pp.31-33).

The liberalism which emerged in the 18th century with market verification, limited government participation and the position of Europe in an unlimited economic development in relation to the world market. This new governmentality was presented as an administrator of freedom, but which consumed personal freedom (Foucault, 2007, pp.81-84).

From before the Industrial Revolution, the pound sterling consolidated as a currency of world reference until the 20th century. Its consolidation was associated with the population growth of the empire (British) through multiple colonization which permitted extreme rent appropriation (cotton land ownership) and slavery (appropriation of labor) and led it to become a great world power. The raw material came from abroad and its supply could be increased with the drastic procedures used by the whites in the colonies – slavery and the opening up of new cultural areas – much more than the slow procedure of European agriculture. “Between 1750 and 1769, cotton exportation increased tenfold”; the gains for those who arrived first with the cotton to the markets were astronomical and what brought the achievements of the British industry and which was aggressively supported by the English state (Hobsbawm, 2012, pp.41-43).

At the end of the 18th century, government policy was strongly linked to the supremacy of business, “it was accepted that money did not only talk but ruled”. Another key fact was that in the first stage of the Industrial Revolution the wealthy classes amassed great fortunes so quickly, exceeding all possibility of spending and/or investing and despite spending lavishly they could also invest e.g. in trains. Although those who possessed the traditional wealth such as landowners, merchants, ship owners, bankers etc. chose not risk in large loans in the new industries, despite being the ones who initially pushed for the new industry. “The 19th century rich were prepared to use their money in certain beneficial companies for industrialization, above all in transport (canals, docks, roads and later trains) and in mines” (Hobsbawm, 2012, p.39; pp.50-59; pp.174-177).

The economy of the 19th century was mainly formed under the influence of the English Industrial Revolution, but its politics and ideology was mainly formed under the influence of the French Revolution. “The modern world ideology first entered in ancient civilizations, which had resisted European ideas until then, through the influence of the French”; together with the abolition of feudalism (Hobsbawm, 2012, pp.61-62).

The French financed their conflicts with treasury bonds (*bons de trésor* 1789), which were later changed into money, and with the successive crisis forced more printing of them and caused great economic imbalance, until France was brought to bankruptcy 1797, putting an end to the French monetary system and similar attempts during most of the 19th century. England, however, was familiar with banknotes but nevertheless, the Bank of England would not withstand the pressure of government requests alongside private operations and the 1797 famine which forced the suspension of gold payments and banknotes became the effective currency, giving rise to the pound sterling. Subsequently, the British government introduced a tax on income to finance the war (1799-1816), given the growing prosperity this was perfectly feasible (Hobsbawm, 2012, pp.101-102).

In the USA in 1783, as Niveau (1971, p.69) stated:

The Treaty of Versailles allowed three American colonies to become independent from England. On 17th September 1787, the Philadelphia Convention adopted the United States Constitution and on 4th March 1789 the first federal government under the presidency of George Washington came into being. As a new country, endowed with almost unlimited resources and a population of settlers and immigrants, the United States would lend itself easily to all companies likely to improve Production techniques.

The settlers were mainly from England, but some were from the United Provinces, Scandinavia, Germany and France, which did not bind them socially or with their beliefs (Niveau, 1971).

However, before the independence of the United States, England had sought to hinder the development of its colonies with the objective of consuming their products and stopping raw materials and food products. From the middle of the 17th century until the late 18th century, England created an entire mercantile legislative body in order to curb and control colonial trade and which were nothing more the continuation of the 1651 "Navigation Acts" which prohibited the importation of goods to Great Britain on foreign ships. This policy led to the steady increase in tariffs and in turn provoked the revolt of the settlers and which became known as the Boston Tea Party in 1773; but the failure of labor, savings and lack of transportation perpetuated dependence on manufacturers and English bankers. In the industry of the United States, it was difficult to bear the English competition, which had a solid banking system specialized in international trade making it easier to get out of dependence on domestic industrial consumption than the financial dependence on England (Niveau, 1971, p.75-76). "In clear and simple terms, liberalism is not the general form that economic policy should adopt. Liberalism is simply English politics, the politics of English domination" (Foucault, 2007, p.137). And so a new Europe began to take shape,

"... a Europe that is no longer the imperial and Carolingian Europe and, more or less, heir of the Roman Empire and referred to very specific political structures ..."; "it is a Europe with a collective enrichment, a Europe with a collective economy that, whatever competition takes place between states or, better, through the same competition that occurs between states, moves along a path that will be of unlimited economic progress" (Foucault, 2007, p.73).

Economic progress is a fundamental issue in liberalism, which invites a globalization of the market for the enrichment of Europe, achieved not by the poverty of some, but through a collective and permanent enrichment. "Power was primarily the right of ownership: of things, time, bodies and, finally, life; culminated in the privilege of taking life to suppress it" (Foucault, 2009, p. 144).

### **4.3. Monetary developments in capitalism and its first crisis with global impact**

"The history of capitalism cannot be more than an institutional economic history", "... with a Marxist view, in the broader, very broad, sense, that the determining factor in the history of capital is the economic logic of capital and its accumulation; in fact, it is understood that there is only one capitalism, because there is only one logic of capital" (Foucault, 2007, p.196).

"There is no need to be "Marxist" to draw the outline of the suffering that people endured in the early stages of capitalist industrialization"; "The capitalist economies could give preference to investment over consumption, since entrepreneurs were able to pay starvation wages to an abundant and disorganized labor force" (Niveau, 1971, p.106, p.107, p.108). In the words of Keynes, "In reality it was precisely this unequal distribution of wealth that made this large accumulation of fixed capital and technical progress possible and that were the hallmarks of this era. This is the essential rationale of the capitalist regime" (Keynes, 1920, p.16).

One of the characteristic elements which began to be studied, were the recurring crisis or, what some economists began to call, cyclical movements and which continued to rise from liberalism and were much more common since the beginning of capitalism.

In the middle of the 19th century, one of the greatest fears of established power in Europe was the social revolts. In 1848, the revolts spread worldwide and became the most widespread revolution and with the least success. In Europe, the overthrow of the French monarchy and the proclamation of the republic brought about the beginning of the European revolution. Yet, despite being a widespread revolution, it failed to bring about the desired revolutionary changes, but 1848 marked a before and an after for the traditional policies of



Western European monarchies. "The defenders of social order had to learn the politics of the people" (Hobsbawm, 2014, pp. 37). They learned that they needed to influence public opinion and that they needed the media. During these years, the Rothschild Bank already had the fastest means of information services in Europe. Moreover, "The 1848 Revolutions showed that the middle classes, liberalism, political democracy, nationalism and even the working classes were to be permanent features of the political landscape" (Hobsbawm, 2014, pp.21-38).

The Depression of 1857 was also a period of increased credit and other means of payment in spite of not having sufficient gold reserves, although growth was resumed later (Hobsbawm, 2014).

After the Civil War, the United States developed at a high speed, providing great opportunities for large pirate traders called "Robber Barons" and which was characterized by a) "... the total absence of controls over business, despite its inhumanity and fraudulence, and the possibility of real spectacular national and local corruption, especially in the years after the Civil War ..." (Hobsbawm, 2014, p.154), b) "... big businesses, big money and great power ..." (Hobsbawm, 2014, p.155) , the only thing that mattered was to generate huge profits, they did not have scruples in an economy where there was fraud, bribery, slander and weapons which constituted normal part of the competition and c) "Most came from professional or business families" (Hobsbawm, 2014, p.155) and had no competitors, despite the myth of "self-made men" (Hobsbawm, 2014, p.155). They were not interested in acquiring titles of nobility or the pleasant life of landowners and regarded politics as something to by rather than practicing and included the second generation banker J. P. Morgan (1837-1913), one of the main intermediaries in the transfer of British capital to the USA (Hobsbawm, 2014, p.153-156).

The mid-19th century was characterized by large financing banking, although many industrialists tried to have less dealing with the banks. There existed "... a certain proportion between private resources and the capital market" in Europe's banks and financial institutions which acted consistently and strongly influenced as "factors of historical progress". Another factor rooted in the 19th century bourgeoisie, was the system of informal protection, also called chains of friends, talks with the mayor, the deputy minister, relatives or classmates and formed pressure groups of various kinds, such as the Anti-Corn League. Many of these wealthy and influential industrial millionaires were part of governments as advisors and supporters in elections (Hobsbawm, 2014).

After this period of economic growth in the mid-19th century, came the crisis of 1873, the first global crisis and the first major crisis of capitalism. This crisis is explained by some as part of the cycles of capitalist development, where 1873 marks the culmination of a quarter of a century of rapid development of industrialization of countries like Germany, France, England and the United States, marks the beginning of a prolonged period of recession. Many find many parallels with the crisis of 1929 and today, with the crisis of 2008 (Marichal, 2010). But without any doubt, we can say that the impact of this crisis was different in economies worldwide and its impact spread to different countries, both developed and underdeveloped. A crisis that began in Austria and Germany, spread to other regions and had a strong impact on the London Stock Exchange. Then it impacted the markets and railways of the USA, but its duration was much less than what happened in other countries, and only it lasted until about 1878, although it caused great social unrest as a result of unemployment, sparking strikes and demonstrations for some years. In other countries, however, it almost had no impact, such as in France or Spain, although it affected later crises, such as the crisis of 1882. The crisis also led to the bankruptcy of several countries greatly in debt in 1875 and 1876, such as Turkey and Egypt (The Ottoman Empire) and Peru in Latin America (Marichal, 2009).

The causes of the 1873 crisis have been the subject of different opinions orientated towards monetary cycles which include Juglar, Tougan Baranowsky and Kondratieff. Giffen and Schumpeter; however, they refer to the underlying cause of the crisis as coming from the weakening of one of the most powerful branches of economic activity on an international scale – the construction of railways. New bold attributes this to the instability of the short-term monetary markets, because of movements of gold and cash transfers due to the 1870 Franco-Prussian War, when the French government after its defeat, felt obliged to compensate Germany 200

million pounds sterling. It was the largest financial transaction of the 19th century and was dealt with by the major banks in London and Paris and prompted a huge process of speculation and instability in Europe (Marichal, 2009). Nobody attributed it to their own inefficient monetary systems or persistent violation of the gold standard.

Before the crisis, it was evident that "... the world was not just an aggregation of "national economies". Industrialization and depression made them a group of rival economies where the benefits appeared to threaten the position of the other." This "protection was the instinctive political reaction of the concerned producer to depression and was not the most significant economic answer to capitalism and the problems that it afflicted." The answer was a greater impact on economic concentration and corporate rationalism which was a response to the need to control and program the big companies who wanted to maximize their profits. This new phase of capitalist development implied a trend toward oligopoly in all sectors of the economy and in various countries, mainly in the UK and the USA. This corporate concentration also brought about a sustained fall in prices obtained by the fall in first materials and reduction of salaries. An example of this concentration of wealth is the case of Lloyds Bank, which absorbed 164 small banks at this time and achieved the disappearance of the old local bank. It was also the era when the executive employee replaced a member of the founding family and became part of the bank's directors. The 1873 to 1896 recession led to variations in terms of trade, with strong pressure placed on production costs and profit rates and production sales being paid in installments for sectors with lower incomes. In France and the UK, even after the process of recession ended, salaries continued to decline, resulting in social tensions and outbreaks of violence until before the First World War (Hobsbawm, 2015a).

#### **4.4. The end of the British Empire, the intensification of the relationship between economic power and political power and the origins of the FED**

The era of the British Empire, which was beginning to end in the early 20th century, was leaving behind a totally different world, a new world that was characterized by: a) from being single-centered to being more pluralistic and involved with other large economies such as the USA, German and French, as well as the British; b) London remained the world financial centre, an international capital market of 44%, the remaining 56% were France, Germany, United States, Belgium, the Netherlands, Switzerland and others; c) the global economy had a new technological revolution, with impressive innovations such as the telephone, telegraph, phonograph and cinema, the automobile, the airplane, among others; d) the change in the modus operandi of capitalist enterprise, the same crisis produced a high concentration of capital and the beginning of the great company, with scientific methods of organization; e) the quantitative and qualitative change in the market of consumer goods, the products of population growth, urbanization, real income, that is to say, the mass market; f) the growth of the public and private service sector; and g) the convergence between politics and the economy, on the one hand, the role of governments and the public sector, and on the other, "... political rivalries between states and economic competitiveness between national business groups." However, even though the role of the public sector had a modest role in the economy, it could be crucial. The world began the 20th century in a profoundly unequal global economy (Hobsbawm, 2015a pp.59-63).

In the beginning of the 20th century, a quarter of the planet was distributed amongst half a dozen states (the United Kingdom, France, Belgium Italy, Japan and the United States of America). The colonial expansion was looking for more markets not only for their products but to supply raw materials and, what is more, put companies from the colonized countries in monopoly situations or with great market advantages. This "new colonialism was a consequence of an era of economic and political rivalry between competing national economies, rivalry intensified by protectionism" (Hobsbawm, 2015a, p.68; pp.75-76; p.86).

Although it had already highlighted the economic and political ties, it was in the late 19th century and early 20th century when "... the corruption of political systems are no longer supported by men of independent wealth, but more by individuals whose career and whose

wealth depended on the success they could achieve in the new political system” that it was more dormant. Political corruption scandals was happening everywhere, the Wilson Scandal in France in 1885, the Panama Scandal from 1892 to 1893, the Marconi Scandal in the UK in 1913 (involving Lloyd George and Rufus Isaacs, who later became Lord and Viceroy of India), the scandal of Lord Randolph Churchill in 1895, Winston Churchill’s father, who owed approximately 0.4% of the total income tax of the UK of that year to Rothschild, when he was Treasury Minister, or the distribution of titles of nobility to millionaires in exchange for donations, by William II between 1901 and 1920, to name just some of the most famous scandals (Hobsbawm, 2015a, pp.106-107; p.181).

The 20th century began with a new crisis in the USA, the panic of 1907 due to the fall of the New York Stock Exchange by almost 50% from its peak the previous year, and caused the failure of banks and companies. This crisis was not just another of the many that occurred in the 19th century in the USA (1819, 1837, 1857, 1873 and 1893), its great importance lay in the way the banks acted jointly and for their subsequent repercussions, mainly in motivating the constitution of the FRS (Federal Reserve System), also linked to episodes which were not transparent (Pineda, 2011, pp.130-131; Griffin, 1998, p.408).

In order to save the instability of the situation of the system, which did not have a central bank, J. P. Morgan intervened together with other New York bankers (e.g., John D Rockefeller, George Baker and James Stillman, amongst others) whom he convinced to place money and save the financial system. In these meetings George B. Cortelyou, the Treasury Secretary, also attended and, on behalf of the government, contributed 50% of the resources needed to cover the hole left by Heinz, a sum of 50 million dollars. They then had to make additional contributions to the stock market to cover payments and investors breathed a sigh of relief. However the crisis was not over, a brokerage in New York had taken large loans with the Tennessee Coal, Iron and Railroad Company, whose value of the shares was at a minimum due to collapse of the stock market. Morgan wanted to solve things with the purchase of the shares of the company, through its company US Steel Corporation, but President Roosevelt was opposed because US Steel had 60% of the steel market and Tennessee one of the most important metallurgical industries in the country, placed US Steel in a monopoly position to which Roosevelt disagreed. Finally Roosevelt accepted for fear of what the crisis would unleash and for the pressure sent by Morgan.

“The American banking system was developed in an anarchic and fragmentary way and lacked a central bank. ... In the early 20th century, an American National Monetary Commission to study the functioning of European banking systems and propose a reform of the American system was created.” All this despite that the US had surpassed Britain in the industrial production field. The dollar would not be an international currency until after 1914, making the most of the monetary paralysis of London and the First World War (Niveau, 1971, pp.228-229).

The USA, without a central bank or inter-bank market, made the excess liquidation in one part of the system could not be channeled to areas of scarcity. This brought about the Aldrich-Vreeland Law for banking groups which formed local compensation chambers as a temporary solution. Known as the 1912 Aldrich Plan, due to its recommendation of the Monetary Committee, it established a central institution called the National Reserve Association, with branches throughout the country and power to issue currency and re-discount documents to member banks, therefore acting as a central bank. “The control of the institution resides on an administration board of which the vast majority of members would be bankers” (Howells, 2013, p.72-73).

The Aldrich Plan had been developed long before 1910, when the Rhode Island Republican Senator, Morgan’s business partner, was also known as the Wall Street Senator and spokesman of big businesses and banks and was responsible for organizing a meeting on Jekyll Island, owned by J. P. Morgan off the coast of Georgia. Even though Aldrich was the organizer, the brain power was attributed to a German immigrant called Paul Warburg, who had been a partner of Kuhn, Loeb and the main American Rothschild banks after the American Civil War. Apart from Aldrich and Morgan, Benjamin Strong attended this meeting, the then head of the Morgan Bankers Trust Company; two heads of the Morgan banks; the USA Treasury

Undersecretary and Frank Vanderlip, President of the New York National City Bank, the most powerful New York Bank at that time (now called Citibank) and who represented William Rockefeller and Kuhn, Loeb (Brown, 2008).

The Aldrich Plan was rejected in 1912 by the opposition; but then, with pressure from President Wilson's bankers, who was surrounded by Morgan's men and support from William Jennings Bryan from the Democratic Party a fervent opponent of the bill, who would end up being Secretary of State in the Wilson administration. On 22nd December 1913, the law was passed (Howells, 2013, p.74). To "... get his Bill passed, the Morgan faction changed its name from the Aldrich Bill to the Federal Reserve Bill<sup>4</sup> just three days before Christmas, when Congress was concerned about the imminent holiday season" (Brown, 2008, p.125). "It was quickly passed quickly with a vote of 282 to 60 in the House and 43 to 23 in the Senate. The President signed the bill the following day (Griffin, 1998, p.468).

Initially, the 12 members of regional bank reserves formed the FED Board and set most of its own policy by following the example of the New York Federal Reserve Bank where the real power of the system was concentrated. Its President, Benjamin Strong, was supposedly one of the two men who really understood the Federal Reserve System (he had been the head of the Morgan Bankers Trust Company and was one of the seven participants of the secret meeting on Jekyll Island). It was the ideal choice for the cartel, along with its close relationship with the financial powers in London, which was accentuated by the arrival in 1920 of Montagu Norman, the Bank of England governor, whose relationship would last until his death in 1928. The other was the principal author, Paul Warburg, who was on Washington Board (Zarlenga, 2002, p.536; Griffin, 1998, p.423).

The FED is actually an independent and privately owned corporation. It consisted of twelve regional Federal Reserve Banks and each bank was owned by many business members. The number of FED shares held by each member bank was proportionate to its size. The New York Federal Reserve Bank had the majority of FED shares. The largest shareholders of the New York Federal Reserve bank were the largest commercial Banks in the district of New York. In 1997, the New York Federal Reserve Bank reported that their three largest member banks were Chase Manhattan Bank, Citibank and Morgan Guaranty Trust Company. In the year 2000, JP Morgan and Chase Manhattan merged to become JPMorgan Chase Co. and became the third largest bank holding company in country, after Citigroup and the Bank of America.

The Bank of America was founded in California in 1904 and remained concentrated in the west and southwest states. Citigroup was the cornerstone of the Rockefeller Empire. In January 2004, JP Morgan Chase & Co. undertook one of the biggest bank mergers in history, when they acquired BankOne. The result was that the banking empire became the second largest in the United States, both in terms of assets as well as deposits. JP Morgan Chase now emitted the largest number of Visas and MasterCard of any bank in the country and took up most of the credit card balances in the USA. In 2003, credit cards exceeded cash and cheques as means of payment exchange in shops. Así Citibank and JP Morgan Chase Co, the financial pillars of the Rockefeller and Morgan empires, not only are the two largest banks in USA but are the two largest shareholders of the New York Federal Reserve Bank, the branch of the FED which had the majority of shares. The FED clearly continued to be under the control of the baron thieves who devised them (Brown, 2008).

The monetary conduct maintained its continuity through time, as in the ideological line of successor of W.C. Mitchell<sup>5</sup>, in the 1970s the President of the Federal Reserve Board was his disciple (student), Arthur Burns, and is the period in which converting gold was totally suspended and later a student of Burns, Alan Greenspan, became President (Hayek, 1999, p.56-57).

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<sup>4</sup> The Glass-Owen Bill (Griffin, 1998, p.469).

<sup>5</sup> Founder of the National Bureau of Economic Research (NBER) which is an institution of great influence on the development of the North American economy.

Control not only covered the world of finance, Rockefeller acquired universities and Morgan bought newspapers. The control of the media was under financial control and became concentrated (only six in the year 2000 in the USA) (Brown, 2008).

### **5. Neo-liberalism Monetary Conformation and the Great Depression of 1929**

With the arrival of World War I, the USA benefitted from the increased needs for productive equipment generated by war between 1914 and 1919 as it also did in World War II (1939-1945). However, the crises were also a prototype for the conversion of a war economy to a peace economy (Niveau, 1971).

The USA went from being a debtor country before the war to the main creditor country at the end of the conflict. The USA also aimed to link monetary reparations from Germany for costs and damages caused (the guilt clause in the Treaty of Versailles) with payment of debts that kept allies with Washington. In 1924 (the Dawes Plan) the actual amount Germany should pay annually was established and in 1929 (the Young Plan) modified the reparation plan and established the Bank for International Settlements in Basel, Switzerland. Payments made by Germany in the 1920s were substantially financed through North American credits, similar to other countries in Europe. The 1929 Crisis "*derrumba el castillo de las reparaciones*" (demolished the castle in repairs) and interrupted payments, also between 1931 and 1933 the international payments mechanism is interrupted (Hobsbawm, 2015b, pp.104-106).

The years of 1919-1930 were characterized by the conflict between London and New York, and also with France, which came to play an important role between 1926-1931 as desired currency, in the period between the stabilization and devaluation of the pound sterling. In 1919, Great Britain lost its international financial monopoly (Niveau, 1971, pp.238-239).

The 1922 Genoa Conference and the birth of the Gold Exchange Standard did not represent an innovation and did nothing to reinvent the gold standard just as it had worked in the 19th century. The system had no other purpose than to save gold, as the world stocks were not increased at the same rate as prices during 1914-1918. At the same time, the dollar had become a safe haven during the war in international currency and could compete with the pound after the war. "It is not, therefore, that the gold standard of the 19th century is what explains the 1931 money failure, but the transformation of the economic and financial structures of the world; transformations which accelerated under the 1914-1918 war. The strategies of the major financial centers did not emphasize the risks of capital movements and the causes of instability (Niveau, 1971, pp.241-244).

The dominating position of the City was the result of a long historical development; the international role of New York was a consequence of the war. The American bankers, therefore, focused their efforts on acceptance, management of deposits of foreign assets and long term foreign investments, all product of the needs of countries in conflict. In 1913, when the FED was founded, it granted national banks the right to make acceptance operations. "In order to face English competition, which had come alive again after 1920, New York bankers offered more favorable conditions and attempted to increase the volume of its operations with Germany and central Europe at the expense of relaxing the rules of banking prudence." Similarly, "The City banks and companies also relaxed their usual demands on lending operations in order not to lose out to New York." This high level of debt was in no way a result of the Gold Exchange Standard, but due to speculative capital movements (Niveau, 1971, pp.245-246).

However, the English and American monetary authorities cooperated between themselves at the beginning of 1925; the governor of the Bank of England paid a visit to the USA in order to get a loan to support the pound after his return to gold. J.P. Morgan gave 100 million dollars to the British Treasury and 200 million dollars in gold to the Federal Reserve Banks over a two year period. This re-valued the pound but the price increase, due to the appreciation of the currency, disfavored Great Britain's foreign trade (Niveau, 1971, p.250).

"Despite the new credit loans by France and the United States, Great Britain abandoned the gold standard on 21st September 1931 and so ended the Gold Exchange" (Niveau, 1971, p.263). By accepting a floating exchange rate for the pound, it experienced a significant drop. In

1931 in Great Britain, a time when there were three million unemployed, the May Committee Report was assigned to solve the problem and recommended a strict balanced budget and the reduction of social benefits, such as unemployment compensation, and recommended severe political deflation in a period of global depression which resulted in the remedy being worse than the disease, "because the underlying economic theory was false." (Niveau, 1971, p.261). Moreover, due to the financial decentralization, the gold standard system had in itself a series of speculative capital movements which, among other things, were the cause of the 1929-1933 Depression, with the international monetary system an extra cause of the failure of the system (Niveau, 1971, p.261-263).

The 1929 Crisis, essentially American, ended one of the most extraordinary speculative booms experienced by the New York Stock Exchange. Its origin was due to loans ordered by banks to buy stock bonds and to cover this growing demand, the New York banks lent up to 12% at very short notice to 12%, when FED borrowed at 5%. "Everyone made profits and euphoria spread with credulity." (Niveau, 1971, p.183). These loans were secured by the purchased securities themselves (Niveau, 1971, pp.182-183).

"The depression that followed the 1929 Crash was extremely profound and lasted until 1932..." "The magnitude of the banks' failures was bound to paralyze, even more, further investment decisions. Some 5,096 banks suspended payments between 1929 and 1932" (Niveau, 1971, p.185).

The "speculation of the years 1927-1929 was a result of monetary inflation caused by the policy of cheap money and the ease of the system's loans from the Federal Reserve." (Niveau, 1971, p.192). Among the structural and social psychological factors are a) the fragmented American banking structure, since the beginning 19th century; b) The structure of business was favorable to abuse. The development of investment trusts and holding companies was the profound cause of reckless speculation. These companies had packet shares and bonds and were interested in making up their contributions; c) Financial and banking structures, together with large capitalist interests, the psychology of the masses were just some of the many cumulative causes of inflation and abnormal upward speculation. Together with the inability of the monetary authorities to prevent the crisis, even though their intervention should be considered (with little or no authority), or the government were totally contrary to the principles of liberal capitalism (Niveau, 1971, pp.192-194).

Although it was essentially an American crisis, the changing global structures favored the spread of the crisis worldwide. Other factors that added to the weight of the depression were:

1) Errors of liberal orthodoxy, as rigidities were introduced market mechanisms. Sound money and balanced budgets were necessary for the restoration of the economy, which represented an increase of taxes, in order to implement expansionary measures. The government decided to reduce taxes and asked companies to keep wages and investments, finding a strong opposition to such measures, in both political opponents, as in their own political party.

2) Economic factors such as bank failures which compromised the ability to trust and confidence of depositors, favored hoarding gold and banknotes, and paralyzed investment mechanisms, low prices, especially agricultural ones, a cumulative process of reducing the activity supported by the psychological reactions of consumers and investors and the reduction of public expenditure and increasing unemployment.

3) Structural factors; economic growth before the crisis was, in part, a product of exportations, both products as well as capital, with the crisis, countries privately sold these financings and therefore stopped buying American goods and a sharp reduction in foreign trade occurred (Niveau, 1971, pp.194-198).

In the USA, different experiments aimed at stimulating the economy, some of which had little consistency, such as the New Deal of the President F. D. Roosevelt, did not give the expected results (Hobsbawm, 2015b).

In France, the impact of the depression caused the failure of banks to multiply and clients to lose their savings. "Scandals erupted which showed the collusion between certain

politicians and the business world. The Stawisky Affair was the most famous – after the collapse of the *Crédit Municipal de Bayonne*, its Director, Stawisky, died in mysterious circumstances in January 1934” (Niveau, 1971, p.206).

As has been seen in the historical overview, corruption was present at all levels of political and social life throughout the world, where politicians acted as a puppets for those who wielded the power of money; great businessmen began to be seen as crooks rather than leaders of progress (Laval and Dardot, 2013, p.32).

“It is probable, that fascism would not have had such an important place in world history if the Great Depression had not happened” (Hobsbawm, 2015b, p.136). The thesis of “state monopoly capitalism” can reach an understanding with anyone who does not intend to expropriate and with which you can get agreements. It is because of this that when Hitler came to power, capital cooperated strongly with him, because fascism now had important advantages over other schemes, such as, a) the elimination of leftist social revolution and become a bulwark against it, b) the elimination of labor unions and other elements of limiting employers’ rights; c) the destruction of the labor movement helped guarantee the capitalists a favorable response to the Depression; and d) fascism invigorated and modernized industrial economies, despite the fact that the results were no better than that of western democracies in the long-term scientific-technological planning (Hobsbawm, 2015b, p.134-136).

## **6. The Birth of Neoliberal Governmentality**

“From the mid 19th century, liberalism exposed fault lines that deepened until the First World War and the interwar period” (Laval and Dardot, 2013, p.29). This crisis of liberal governmentality is the crisis of political intervention in economic and social matters; a crisis of government intervention to tackle the mutations of capitalism, conflicts of threat to private poverty and the correlations of international forces. At the same time, it is the pursuit of doctrinal justification, the birth of neo-liberalism, the birth of neo-liberal governmentality (Laval and Dardot, 2013, p.30-31).

In this search for rules according to the higher law in the economic order, its objectives were all forms of legal intervention in economics aspects, already practiced, as in the North American New Deal and all planning following the English type. The rules according to the higher law in the economic order is that there can only be legal state interventions; if these interventions only take the form of enactment of formal principles, there can be no other than the formal economic legislation.

1) The law should tell people what they can and what they cannot do and should not be registered in a global economic environment.

2) It should be seen as fixed rules and never be corrected for the effects that this causes.

3) The framework should be defined in which economic operators act freely, because the legal framework does not change.

4) This law also obliges the State and, therefore, each agent should know exactly how the public authorities will behave.

In short, it is “a regulated game of companies in an institutional legal framework guaranteed by the State; this is the general form of what should be the institutional framework in a renewed capitalism. Economic game rule and unwanted social economic control” (Foucault, 2007, p.209). In Hayek terms, “rule of law”, consistent in tracing the more rational framework, where individuals have to surrender their activities according to their personal plans and the government is limited to set the conditions under which existing resources can be exploited. Therefore, “in this liberal society where the real economic subject is not the man of the exchange, it is not the consumer nor the product but the company. In this economic and social system in which the company is not a simple institution, but a way of behaving in the economic field; ... one can see that in this society of business, when the law is left in the hands of individuals the possibility of behaving as they wish in the form of free enterprise. The more multiple and dynamic forms which characterize the unity “company” are developed, the more

numerous and bigger the friction surfaces between these different units will be at the same time and more opportunities to multiply conflict and litigation” It is “the company unit” as a fundamental economic agent (Foucault, 2007, p.206-213).

Within what Foucault called “critical morality” is where the State is found and in extremely numerous horizons; first in its power of expansion, an endogenous imperialism that led to winning in surface, in extension, in depth and in detail, coming to take over, what for him, constituted its exterior, its objective, to know civil society. A second element found consistently, is the “state phobia” in the different state forms. Both contradictory critical elements are characteristic of the neo-liberalism in decades of 1930-1950, critical of the State, critical of state forms, critical of a State polymorph, omnipresent and all-powerful. This criticism, characteristic of these years, distanced itself from the Keynesian critique, it criticized the directed and interventionist politics, similar to new deal or Popular Front, it criticized the national socialists’ economy and politics, it criticized the political and economic decisions of the Soviet Union and generally criticized socialism. Governmentality expressed, “how to conduct the behavior of men is nothing but a proposed analysis grid for these power relations”, so that this grid of governmentality could be invoked to address an economic policy, the administration of the entire social body, delinquency, children etc; that is to say, it is not limited to a specific field, it is a method of decoding and maybe valid full-scale, it is the method of reason (Foucault, 2007, p.218-221).

Economic liberalism made an enormous effort to restore self-regulation by eliminating all interventionist policies that interfered with free markets of land, labor and money. By three fundamental principles of free trade, free labor market and a freely functioning gold standard became, in effect, the spearhead of a heroic attempt to restore world trade, eliminate all avoidable obstacles to mobility of labor and the reconstruction of stable exchanges (Polanyi, 2001).

Thus neo-liberal governmentality was introduced, with the company as the core and confronting criticism of the State. But we must not forget that the formation of the neo-liberal governmentality dragged from the 19th century the culture of danger, typical of liberalism, that is to say, control procedures (panopticon), duress and coercion, as a counterweight to freedom. “Produce, breathe, increase freedom, introduce more freedom by more control and intervention.” (Foucault, 2007, p.89). An example is found in the 1930s, when the development of the economic crisis and its political consequences, the danger was certain fundamental freedom was seen. Given the dangerous situation of unemployment, securing and producing more freedom, freedom of work, freedom of consumption, political freedom etc. but in turn these economic interventions are characterized as threats in themselves. In this way, the liberal art of government introduced within itself and was victim of the crisis of governmentality. The crisis of liberalism is the set of mechanisms that tried to place economic and political formulas to guarantee the States against communism, socialism, national socialism, fascism etc. they were of economic intervention or, in other words, of the coercive intervention of economic practice (Foucault, 2007).

Michel Foucault, with the objective of placing the history of contemporary modern neo-liberalism, referred colloquially to Lippmann<sup>6</sup>, because in this you can see the crossroads on the eve of the war in 1939, the old traditional liberalism, the German *ordo-liberalism* (Ropke, Rustow, Mises and von Hayek) and American neo-liberalism, which led to the anarchic-liberalism of the Chicago School (Milton Friedman). Also, by the parallel of development dates between Freiburg School or *Ordo-Liberals* (Austrian School ) and the Frankfurt School, two schools which take up equity over capitalism approached by Max Weber, with different directions, but perhaps reflecting criticism of the state. Among the gathered people were Mises and Hayek, who became the agents of transmission of neo-liberalism, both in aspects of economics (especially monetary) and philosophical aspects (Foucault, 2007).

In this process of the reconstruction of the liberal doctrine, major academic institutions in the world were funded, such as the Graduate Institute of International and Development

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<sup>6</sup> Meeting of intellectuals in 1938 and named in honour Walter Lippmann.



Studies in Geneva founded in 1927, the London School of Economics, the University of Chicago and hundreds of “think tanks”, in order to ensure victory against adverse principles and spread their doctrine throughout the world (Laval and Dardot, 2013). Until later on the Nobel Prize in Economics in 1968 was set up, organized by the banks.

Specific discussion formations continued to be set up, it was the way to dominate knowledge and in which Science could be manifested (Foucault, 1984). Where, “Knowledge is not the sum of knowledge because these must always be able to say whether they are true or false, accurate or not, approximate or defined, contradictory or coherent. None of these distinctions are relevant to describe knowledge; knowledge is the set of elements (objects, types of formulas, concepts and theoretical choices) formed from one and the same positivity, in the field of a unitary discourse formation” (Foucault, 1994a, p.723).

## **7. Conclusions**

Money as we know it today has had its origins linked to non-economic decisions. This is how the first central Banks arose from political decisions and linked economic power with political power, or of you will, the response to economic favors at the time of royalty, granting monopoly privileges to their financiers, such as the issue and control of money.

The operation of the gold standard as a monetary standard was also subjected to various perturbations whose origin was the excess of emissions in relation to its reserves, due to financing wars or speculation. For this reason, at this stage of its history, to say that the problem of the monetary system was the gold standard when in reality the problem was the violation of the rules of the gold standard led to incorrect monetary decisions. However, it will be a dominating position which in many cases ended up suspending convertibility.

The crisis, which began to become more frequent at this time, was largely rooted in the currency turmoil, the excess of monetary offer and absence of control, which allowed these disturbances. However, the origin of these absences of control and therefore these disturbances, are part of the conformation of the system and the fight or resistance which began to be generated about the role of the state. Furthermore, in this struggle, the development of certain discourses began which remain even today and which confuse the Nation-State with economic power or the power of capital, due to the state acting to generate the framework for the development of these capitals and powers, because of the capture of the state by these same economic powers. It is this way that causes confusion, a country determined to act with the capital it has, the same wars have been a clear example of how funds can be transferred from one country to another, enriching one and impoverishing another; or before the fall of an empire like the British, the transfer of capital to the new empire which aggravates or accelerates its decline.

The origin of the FED is also a product of power struggle where the financial capital succeeds in imposing its criteria, through group pressure or generating insecurity. Unlike what happened in the origins of the Bank of England, which is the product of a political agreement between the parties, the origin of the FED is the product of an imposition of the dominant financial capital.

This is a period where the concentration of wealth began to manifest itself more aggressively and which, in turn, caused its own currency turmoil to become part of the establishment of the concentration of wealth and provoked monetary imbalances, evermore reoccurring, and prevent a developing monetary system have an efficient economy as a base. Finally, this is a period in which ideological discussion of neo-liberalism began to take shape, where the company became the central element of the development of this model, regulated by the institutional framework given by the State and the culture of danger, which creates a counterweight to the greater freedom (economic) and the greater mechanisms of control, not corporate control, but the control of the people. It is the birth of the neo-liberal governmentality.

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