



BRILL

Historical Materialism 21.2 (2013) 1–17

historical materialism

research in critical marxist theory

brill.com/hima

Seasons of Self-Delusion: Opium, Capitalism and the Financial Markets

Jairus Banaji

Department of Development Studies,
School of Oriental and African Studies, University of London
jairus_b@hotmail.com

Abstract

AU1

[Please provide abstract.](#)

Keywords

AU2

[Please provide keywords.](#)

The first appearance of the term ‘fictitious capital’ in Volume III of *Capital* is in the heading of Chapter 25 (‘Credit and Fictitious Capital’), yet curiously the term itself appears only twice in the main body of the chapter and on neither occasion is it Marx himself speaking. The first occasion is an excerpt from the Yorkshire banker Leatham who, as early as 1840, discusses the humungous circulation of bills of exchange, adding that this was what today we might call a completely unregulated market. ‘The bills of exchange are not placed under any control, except by preventing the abundance of money, excessive and low rates of interest and discount, which create a part of them, and encourage their great and dangerous expansion.’ ‘It is impossible to decide’, Leatham continues, ‘what part arises out of real bona fide transactions, such as actual bargain and sale, or what part is fictitious and mere accommodation paper, that is, where one bill of exchange is drawn to take up another running, in order to raise a fictitious capital, by creating so much currency. In times of abundance and

cheap money this I know reaches an enormous amount'.¹ So here fictitious capital is used to refer to accommodation bills ('mere accommodation paper'), that is, those bills of exchange that were either purely speculative or part of an outright swindle. The second occurrence of fictitious capital in Chapter 25 comes in a parenthesis inserted by Engels, who described the speculation in bills of exchange that involved massive over-trading to India and other parts of Asia (in 1847) as a 'method of creating fictitious capital' and a 'fraudulent procedure' to boot.² Marx himself refers to this as 'swindling in the East India trade, where bills were no longer drawn because commodities had been sold, but rather commodities sold in order to draw bills which could be discounted and converted into money'.³ For Marx this was a 'credit swindle', and he himself was careful to describe it simply as a 'system of fictitious credit', a method where 'fictitious credit was created by means of accommodation bills'. (This in a piece he wrote for the *New York Daily Tribune* in 1858.) He states here, 'The latter were discounted chiefly by joint-stock country banks, which rediscounted them with the London bill brokers. The London bill brokers, looking only to the endorsement of the Bank, not to the bills themselves, in their turn relied not upon their own reserves, but upon the facilities afforded to them by the Bank of England'.⁴

This introduction should hopefully have done three things. First it suggests that Chapter 25 is not where we should look for Marx's understanding of fictitious capital, even if the chapter heading promises something in that direction. Second, that bills of exchange were pivotal to the nature of Victorian capitalism. And third, that the financial system of the City involved an 'entire interlocking system of London brokers, banks, discounting and accepting houses' and, of course, the Bank of England.⁵ It was the Bank that stood behind the London bill brokers or discount houses, as they came to be called, and it was the Bank's 'last resort' facility that in some sense sustained what Leatham had called the 'enormous superstructure of bills of exchange'.

It is in Chapter 29 ('Banking Capital's Component Parts') that we get a better sense of what Marx means by fictitious capital. Here he disaggregates banking capital into (i) cash ('in the form of gold or notes') and (ii) *securities*. The latter 'may again be divided into two parts: *commercial paper*, current bills of exchange that fall due on specified dates, their discounting being the specific business of the banker; and *public securities* such as government bonds,

1. Leatham, *Letters on the Currency*, cited in Marx 1981, p. 526.

2. Engels *apud* Marx 1981, p. 537.

3. Marx 1981, p. 536.

4. Marx 1980a, pp. 35–6.

5. Mayhew 1999, p. 199.

treasury bills and stocks of all kinds, in short interest-bearing paper, which is essentially different from bills of exchange'. And Marx adds, 'Mortgages, too, can be included in this category'.⁶ Now the distinctive feature of this class of assets, the various types of interest-bearing paper that Marx refers to, is that they represent '*claims*, legal titles, to future production',⁷ either a claim to 'certain sums from the overall proceeds of taxation'⁸ in the case of government bonds, treasury bills and so on, or a claim to a share of corporate profits. In either case, the capital value of these securities is purely fictitious, since it bears no relation to the actual determination of value in the production and circulation of commodities. Marx himself identified the formation of fictitious capital, that is, the peculiar determination of its market value, with capitalisation,⁹ but of course in modern financial markets the value at market prices of securities like credit default swaps and most derivatives has nothing to do with capitalisation in that sense. All the same, 'the greater part of this "money capital" is purely fictitious'¹⁰ in the sense that its money value is, as Marx says, 'completely fictitious'.¹¹ 'Their values can rise and fall quite independently of the movement in value of the actual capital to which they are [or more precisely, *may be*] titles'.¹² The capital that is fictitious is *money* capital, and at the end of Chapter 30 Marx even suggests that fictitious capital is interest-bearing paper *par excellence* (more than bills of exchange).¹³ Two final points: fictitious capital circulates as money capital on the financial markets,¹⁴ and, 'In all countries of capitalist production there is a tremendous amount of so-called interest-bearing capital or "moneyed capital" in this form'.¹⁵ 'In times of pressure on the money market . . . they [these securities] are put up for sale in massive quantities, to be converted into money'.¹⁶ 'Their depreciation in a crisis is a powerful means of centralizing money wealth',¹⁷ and Marx calls this a 'devaluation of money capital'.¹⁸

Let me come back to the bill of exchange by a rather circuitous route. The re-internationalisation of the City from the 1960s was bound up with the

6. Marx 1981, p. 594.

7. Marx 1981, p. 599.

8. Marx 1981, p. 609.

9. Marx 1981, p. 597.

10. Marx 1981, p. 601.

11. Marx 1981, p. 600.

12. Marx 1981, p. 608.

13. Marx 1981, p. 625.

14. *Ibid.*

15. Marx 1981, p. 599.

16. Marx 1981, p. 598.

17. Marx 1981, p. 599.

18. Marx 1981, p. 635; cf. p. 650 'devalued securities'.

rapid evolution of a new international money market, namely the Eurodollar market, the ‘founding stone of today’s international financial system’, as Gary Burn calls it – an ‘unofficial, unregulated and unrestricted international money market, dealing in ex-patriate dollar deposits held in a very liquid, short-term form’,¹⁹ a wholesale money market that led not just to the restoration of the City’s fortunes in the 1960s but, even more dramatically, to the re-emergence of global finance (which is the title of Burn’s book, as it happens). What the creation of the Eurodollar market did in the late fifties was provide the City with a ‘way of acting as a centre for international finance without imposing a strain on Britain’s depleted gold and currency reserves’.²⁰ It was restrictions on the use of sterling that triggered ‘the great expansion of the Eurodollar market which took place towards the end of 1957’.²¹ What emerged was a ‘Merchant Bankers’ Market’ that ‘inherited a large part of its institutional structure and techniques from the City’s Victorian system for financing international trade’.²² As Burn says, ‘The advent of the Eurodollar market finally allowed the City to regain its autonomy, lost in 1931’.²³ But it is just as interesting, as he tells us repeatedly, that the institutional framework of that market was ‘borrowed from the Victorian London bill market, by City traders like Sir George Bolton’, suggesting an astonishing continuity in the structures of British capitalism.²⁴

Bills of exchange drawn on London financed most of the world’s trade in the nineteenth century.²⁵ Marx described the bill as the ‘basis of the credit system’ and in Volume III he even describes capitalism as a system of production ‘where the entire interconnection of the reproduction process rests on credit’.²⁶ Bills of exchange could be ‘sold at a discount to face value in order to obtain immediate funds; and because they enjoyed such ready negotiability in the London bill (or discount) market’, they were an ideal means of financing world trade.²⁷ ‘To make the bill of an overseas merchant . . . discountable on the London money market, a London merchant bank would put its signature on it, thus “accepting” (i.e. guaranteeing) it.’²⁸ Accepting was a commission business controlled by leading merchant banks of the ilk of Barings and Schrodgers. These banks were also known as accepting houses. The Bank of England stood behind the

19. Burn 2006, p. 16.

20. Burn 2006, p. 27.

21. *Ibid.*

22. Burn 2006, p. 101.

23. Burn 2006, p. 184.

24. Burn 2006, p. 186. Bolton’s views are best represented in Fry 1970.

25. Mayhew 1999, p. 199.

26. Marx 1981, p. 621.

27. Kynaston 1995, p. 9.

28. McRae and Cairncross 1985, p. 7.

bill-dealers or discount houses, 'prepared *in extremis* to re-discount' their better-quality bills. 'Because the Bank was prepared to do this, the houses were able to finance their massive bill portfolios with money that could be withdrawn virtually at a moment's notice',²⁹ that is, from the call money market. With the phenomenal growth of deposit banking in Britain in the 1850s, the joint-stock banks began to employ an 'increasing portion of their reserves at call with the City's bill brokers (or dealers)',³⁰ and were willing to do so because the Bank of England 'would be willing to discount the bills, in effect acting as lender of last resort' to the dealers.³¹ Relations between discount houses and joint-stock banks were intimate and continuous, for the bill brokers not only sold large lines of bills to the banks but borrowed substantial sums of money from them on a day-to-day basis.³²

Now bills of exchange were used both to finance the trade in opium and as a means of remitting opium profits to Bombay, Calcutta and London. Till the early 1830s the most sought-after bills were those issued by the East India Company on Calcutta or on the Court of Directors in London.³³ Of course, in addition to Company bills there was a vast volume of private paper in circulation.³⁴ Jamsetjee Jejeebhoy, almost certainly the biggest dealer in opium on the Indian side and a major client of Jardine Matheson & Co. (with whom, in the 1830s, he was transacting more than £1 million worth of business) remitted about £150,000 each year to London through China, thanks largely to the 'good offices' of William Jardine.³⁵ As the late John F. Richards suggested, already by the 1820s 'the greater part of private returns from the opium trade that returned to India went to the mercantile communities of western India, not Bengal'.³⁶ The huge volume of Malwa opium that flooded the Chinese market in the 1830s was dominated by indigenous merchants – the opium lobbies in the so-called native states (in the western parts of present-day Madhya Pradesh) and the big dealers at the Bombay auctions.³⁷ Bombay's fortunes were built on opium, as Amar Farooqui argues in *Opium City*. When in 1831 the Company finally relented and allowed Malwa opium to be shipped through Bombay on payment of a transit duty, Jamsetjee ran a 'massive combination' to monopolise

29. McRae and Cairncross 1985, p. 8.

30. Kynaston 1994, p. 181.

31. Kynaston 1994, p. 68.

32. Kynaston 1995, p. 294.

33. Farooqui 2006, p. 99.

34. Cheong 1974, p. 109.

35. Greenberg 1951, p. 164.

36. Richards 2002, p. 168.

37. Farooqui 2006, pp. 25ff. The involvement of Indian capital is discussed at length in Farooqui 1998, Chapter 5, 'Smuggled Malwa Opium and Indigenous Business Enterprise'.

the Malwa trade, seeking to have ‘as much of the supply as possible consigned to Jardine Matheson at Canton’.³⁸ So successful was this combination, writes Asiya Siddiqi, that ‘at its height something like a third of the entire quantity of opium to leave the shores of Bombay was going to the warehouses of Jardine Matheson’ in China.³⁹ As it happens, the leading houses in the China opium trade were also ‘by far the largest of the British traders in this period’.⁴⁰ By the 1860s Jardines were handling close to £300,000 worth of opium on commission each year, apart from investing heavily on their own account.⁴¹

The ‘private English’ in China (an expression laced with irony, since there was a ‘preponderance of Scottish names’ among them) had the backing of the great East India Houses, a number of old and powerful firms in the City of London.⁴² Jardines’ list of merchant banking houses whose paper they endorsed included all the big names.⁴³ Most of these ‘could be drawn on for large sums’. ‘With Fairlie & Bonham in London Jardine’s bills account doubled every year between 1827 and 1830’.⁴⁴ The expansion of Britain’s Eastern trade ‘was largely developed by family and clan groups’ organised as Agency Houses,⁴⁵ a congeries of fluid partnerships that in principle at least drew the bulk of their profits from agency commissions as opposed to ‘speculation’ or trading on their own account. All the agency houses depended on the ‘powerful support’ of City firms like Fairlie, who for their part competed vigorously to ‘grant acceptance credits on international commodity business’.⁴⁶ Leading trading companies like James Finlay & Co. ‘could open any number of accounts for acceptance credits’. For example, in 1871 the Glasgow head office of this agency house ‘advised the Calcutta and Bombay branches that the Royal Bank of Scotland would cover acceptances to the extent of £100,000’, but Finlays also had accounts with the Bank of England and Baring Bros., while the Indian branch had their own accounts with the London merchant banks.⁴⁷

Now Marx was thoroughly conversant with the nature of the bill market and how, for example, banks would create capital by reissuing bills of exchange⁴⁸ or how the ‘London billbrokers carried on their enormous transactions without

38. Siddiqi 1995, p. 198.

39. Siddiqi 1995, p. 199.

40. Jones 2000, p. 33.

41. Le Fevour 1968, p. 26.

42. Greenberg 1954, p. 34.

43. Cheong 1974, p. 115.

44. Cheong 1974, p. 114.

45. Greenberg 1954, p. 37.

46. Chapman 1992, p. 212.

47. Chapman 1992, pp. 212ff.

48. Marx 1981, p. 676.

any cash reserve',⁴⁹ and how the East India trade tied in with the financial mechanisms of the City, periodically blurring the tenuous boundary between trade and speculation. He also knew that the East India Company had 'rapidly convert[ed] the cultivation of opium in India, and its contraband sale to China, into integral parts of its own financial system', as he had said in 1858.⁵⁰ What is not there in Marx, at least in so many words, is a *totalising* picture of how the peasant hinterlands of British capitalism were integrated into the expansion of capital, whether that of the trading houses that were connected with the City or of industry itself. And opium is a good example to look at, not just because it was 'probably the largest commerce of the time in any single commodity', as Greenberg describes it,⁵¹ but because the hesitation that stopped Marx from proposing an integrated model of accumulation is reflected, crucially, in a passage that deals, precisely, with opium. Since this is a crucial passage, I shall cite it in full.

In *A Contribution to the Critique of Political Economy* (1859), when discussing the decisive function of money as means of payment, Marx writes:

In the transaction M – C, money as a real means of purchase may be alienated, thus realising the price of the commodity before . . . the commodity is handed over. This happens, for instance, in the well-known form of advance-payment; also in the form of payment used by the English government to buy opium from Indian ryots, and is largely used by foreign merchants living in Russia to buy goods produced in that country. In these cases, however, money functions only in the familiar form of means of purchase and therefore requires no new definition [*keine neue Formbestimmtheit*].


At this point Marx adds a footnote: 'Of course capital, too, is advanced in the form of money and *the money advanced* [i.e. in these advance payments] *may well be an advance of capital*, but this aspect doesn't lie within the scope of simple circulation'.⁵² In short, Marx is uncertain whether to treat the advances under which so-called Bengal opium was grown in India merely as a set of transactions between a mass of independent producers and their single buyer (the government) or as a circulation of capital. He knew that the opium monopoly or that part of it relating to the cultivation of poppy was based on a mixture of compulsion and enticement. The British government, he wrote, 'compels one part of the Indian ryots to engage in the poppy culture; entices

49. *Report of Committee on Bank Acts*, 1857–8, cited in Marx 1981, p. 605.

50. Marx 1980b, p. 16.

51. Greenberg 1951, p. 104.

52. Marx 1980c, p. 201; Marx 1970, p. 140 (translation modified).

another part into the same by dint of money advances'.⁵³ This was a view abundantly supported by the evidence proffered to the Royal Commission on Opium as late as the 1890s. Bengal opium was grown in an elongated tract along the eastern Gangetic valley in present-day eastern Uttar Pradesh and Bihar,  the bulk of the evidence cited below thus relates to this region.

Poppy was grown in the richest fields of the village, on the rich loams, and needed constant care and labour for nearly five months down to the lancing of poppy heads and scraping of opium which took about a fortnight.⁵⁴ 'The cultivators are generally poor and they make the members of their families work hard', said one clergyman, since cultivation of the poppy needed two or three times as much labour as the other spring crops. 'Poppy is a crop specially suited to small holdings where a large return has to be gained by minute and laborious cultivation of a small area'.⁵⁵ Nearly all the peasants engaging for opium with the state were either Kachhis or Koiris, sub-castes of skilled gardener-cultivators who 'excelled in raising the specialist heavy crops of tobacco, vegetables, and opium'.⁵⁶ The Sub-Deputy Opium Agents dealt directly only with the village headmen who in turn mobilised lists of cultivators willing to enter into the engagement to sow. New advances were disbursed at the end of September through these village intermediaries, and peasants sowing less than the area engaged for cultivation were liable to prosecution under Act 13 of 1857.⁵⁷ To the Opium Agents, that is, the government, what the cultivator entered into was a legal contract.⁵⁸ Richards describes the rates paid per seer of crude opium as a 'carefully calculated *minimal* monopoly price', usually 4 or 5 rupees a seer, much less in the early nineteenth century.⁵⁹ There was solid testimony throughout the century that opium was cultivated at a great loss to the mass of those engaging for it.⁶⁰ So why do they grow it?, the Commission asked one minor zamindar. 'Because Government advances the money', was his main response.⁶¹ The advances were a powerful inducement, because the vast mass of peasants in these parts of the country were tenants-at-will subject to the exactions of both landholders and money-lenders. 'They could never pay their rents but for the opium receipts', said one Sub-Deputy Opium Agent in the Bihar Agency. 'As punctuality in the payment of revenue is rigorously

53. Marx 1980b, p. 19.

54. Royal Commission on Opium 1894a, p. 26.

55. Royal Commission on Opium 1894a, pp. 277–8.

56. Whitcombe 1971, p. 32; Richards 1981, p. 72.

57. Royal Commission on Opium 1894a, p. 92.

58. *Ibid.*

59. Richards 1981, pp. 73–4.

60. Royal Commission on Opium 1894a, p. 27.

61. Royal Commission on Opium 1894a, p. 138.

enforced, they [the smaller landlords] would be in serious difficulty were it not for the opium advances to the ryots, upon which . . . the mahajans advance the instalments of rent payable to the zamindars'.⁶² The advances were interest-free, that is, their sole purpose was to establish a legal claim on the peasant's labour-time, which in practice meant a substantial quantity of unpaid family labour.

Balls of crude opium were weighed and tested for adulteration around the middle of April, and the agreed rates paid only for the finest quality crude. The opium was then placed in earthen jars which were sealed and dispatched to the factory in consignments of a hundred.⁶³ The manufacture of provision or export opium went on from May to the end of July. Opium from the Bihar factory contained 75% morphine, that from Bengal 71%, following a process called 'alligation', that is, mixing opium of different consistences. Opium cakes were then packed into chests of about 130–40lbs. at the rate of 500 chests a day, and these dispatched from the factory to Calcutta by special trains. The opium was then auctioned at Calcutta to private traders like Jardine Matheson when they traded on their own account.

Opium was India's largest export item for most of the nineteenth century, her chief source of the large annual inflows of bullion from China,⁶⁴ and the one commodity more than any other that financed a substantial part of the UK's trade deficit. In the 1870s and 1880s, an average of over 90,000 chests or 5,700 metric tons of opium left Indian ports every year. On the East India Company's estimate the Chinese were importing 'enough opium to supply over 2 million smokers' in 1835.⁶⁵ By the 1880s the massive escalation of exports from Calcutta and Bombay had triggered the emergence of domestic supply areas in the south and west of China,⁶⁶ and the scale of consumption was certainly closer to the 40 million smokers estimated by some scholars than the incredible figure of 2 million cited by the head of the Imperial Maritime Customs in 1881.⁶⁷

William Jardine and James Matheson were both Whigs and strong advocates of a showdown with the Chinese authorities in the interests of securing what Jardine described to Palmerston as 'liberty to trade with the northern parts' of China, 'if we can get it'.⁶⁸ As early as 1834 James Matheson had denounced the new Foreign Secretary, the Duke of Wellington, as a 'strenuous advocate of

62. Royal Commission on Opium 1894a, p. 50.

63. Royal Commission on Opium 1894b, p. 321.

64. Richards 2002, p. 169.

65. Richards 2002, p. 163.

66. Zhang 2005, pp. 104–5.

67. Trocki 1999, p. 91.

68. Blake 1999, pp. 90–1.

submissiveness and servility'.⁶⁹ Palmerston, who was Whig Foreign Secretary from April 1835 to September 1841, was altogether more sympathetic to the commercial interest at Canton. When the showdown finally came in 1839, Jardine was on his way back to Britain. Arriving in London in September, he went to see Palmerston and, as J.Y. Wong writes, 'literally masterminded the government's approach towards China and the Opium War, down to details such as the size of ships to be deployed and the terms of the treaty to be proposed to China, leaving blank only the names of the islands to be occupied and the amount of the indemnity to be exacted'.⁷⁰ 'Seldom has a private business had more effect on public policy', notes Sir Robert Blake, the company's biographer.⁷¹ But Jardine was the epitome of a whole constellation of interests connected with the City, where of course he was 'widely respected'.⁷² Those interests, and the peculiar nexus between the City and the Foreign Office, were even more strident in 1857 when the chief London firms connected with the China trade, some twenty in total, a deputation of literally hundreds of leading bankers, merchants, ship-owners, and brokers of Liverpool, and even Lloyds of London rushed into battle armed with 'the strongest expressions of confidence in Lord Palmerston'.⁷³ 'To open China' was the slogan under which the Arrow War was fought,⁷⁴ 'the same wild vistas of an immense extension of trade', 'dreams of an inexhaustible market', as Marx commented with his usual dour realism a year later.⁷⁵ In 'The Figures of Descent', a key argument of Anderson's revolves around the notion of a *disjuncture* between the City and 'nascent domestic industry'.⁷⁶ If so, it certainly was not obvious in either of the Opium Wars when the Manchester associations were a vociferous part of the war lobby.⁷⁷

All the same, Anderson's general thesis that the nature of British capitalism has been irreducibly shaped by the 'core operations of the City as a complex of British capital' seems scarcely controversial to me.⁷⁸ The only sector of manufacturing that has ever really mattered to the British state is Britain's defence industry.⁷⁹ When Sind was annexed in 1843 and the massive flows of Malwa opium deflected from Karachi to Bombay, the income from transit

69. Blake 1999, p. 77.

70. Wong 1998, p. 311.

71. Blake 1999, p. 106.

72. 'Widely respected': Blake 1999, p. 114.

73. Wong 1998, pp. 219–21.

74. Wong 1998, p. 265.

75. Marx 1980b, p. 13.

76. Anderson 1987, p. 34.

77. Wong 1998, pp. 254–5, 310.

78. Anderson 1987, p. 69.

79. Edgerton 1991; Williams 2006, p. 201.

duties alone could exceed £2–3 million in the 1860s.⁸⁰ Britain's occupation of Egypt in 1882 had more to do with the bondholders than any conceivable manufacturing interest. ('The bondholders are now in possession of Egypt', as the Radical writer Frederic Harrison said at the time.)⁸¹ The annexation of Upper Burma in 1885 was again linked to powerful commercial and financial interests connected both with the London Chamber of Commerce (headed, appropriately, by Charles Magniac of Mathesons) and with the Rothschilds.⁸² Certainly, the 1880s were one of those 'seasons of general self-delusion', as Marx called them, when a plethora of capital gushed into every conceivable channel.⁸³ The City poured billions (in present-day terms) into South American securities, and its speculations in Argentina left Barings with liabilities that threatened to crash the entire financial system in 1890. As the City's historian tells us, 'Not only would the failure of the City's leading accepting house inevitably bring down a host of other firms, including all the discount houses, but the very status of the bill on London would be threatened and thus the pre-eminence of the City as an international financial centre'.⁸⁴ What Barings faced was a liquidity crisis, and the solution cobbled together over one tense week was a rescue package that coordinated infusions of capital from the government, the Bank, and the City. 'Had Barings been allowed to collapse, most of the great London houses would have fallen with them', Natty Rothschild is reported to have said. 'About 6 millions' worth of Bills are drawn daily upon London, and an enormous proportion of this business passed through their hands.'⁸⁵

Let me fast-forward by a century to a financial world that is vastly more complex and more integrated globally. It took barely a decade (say, 1987 to 1997) for the American investment banks to break the entrenched positions of the UK merchant banks.⁸⁶ In a final assault around the mid-1990s, 'six of the City's top investment banks were sold to overseas competitors in little more than eighteen months'.⁸⁷ The British merchant banks were like Eric Santner's 'stranded objects' in the high-octane world of the 1980s, when traders on the fixed-income side started driving the profitability of Wall Street firms, and banks like Bear Stearns became major underwriters of mortgage-backed

80. Wong 1998, p. 404, Table 16.10.

81. Kynaston 1994, p. 340.

82. Kynaston 1994, pp. 377ff.

83. Marx 1980a, p. 34.

84. Kynaston 1994, p. 429.

85. Kynaston 1994, p. 434.

86. Augar 2001, p. 75.

87. Augar 2010, p. 18.

securities.⁸⁸ Mortgage securities were bonds created out of pools of several thousand mortgages that entitled the bearer to a share of the cash flows from the pool. Securitisation creates fictitious capital and mortgage bonds were a good example of how the US investment banks could actively create markets for fictitious capital almost overnight. What was striking about the frenzy of innovation that seized the banking sector in the eighties and nineties was the sheer rapidity with which such markets were being created and expanded and tied into each other. Collateralised mortgage obligations (CMOs) were created out of mortgage bonds which had been created out of mortgages, 'synthetic' CDOs were fabricated out of credit default swaps on different tranches of other CDOs. And credit default swaps preyed on a host of other markets, notably CDOs made up of subprime mortgages, and, more recently, the sovereign debt markets of the Eurozone. Credit default swaps are contracts that enable one side to hedge a long position. But hedgers need speculators to take the other side of the trade, and in 2006 when the total notional value of the CDS market hit \$26 trillion (up from just \$800 million in 2001), 'well over half of CDS bets outstanding were pure speculation' by people who did not even hold the underlying assets.⁸⁹

In *Financial Derivatives and the Globalization of Risk* LiPuma and Lee suggest that the over-accumulation of manufacturing capital in the US economy generated an abundance of speculative capital.⁹⁰ The idea that an excess of speculation stems from a lack of profitability in the wider economy is of course an old one and is found in different guises in John Stuart Mill,⁹¹ Marx himself,⁹² and Henryk Grossmann. In his classic work Grossmann argues that the plethora of capital that builds up as capitalism is increasingly characterised by an absolute over-accumulation of capital is released partly through the export of capital and partly by enormous bouts of speculation on the stock exchange.⁹³ These are the mechanisms by which a complete collapse of profitability is averted. These general determinations are fundamental, but it does not help to counterpose them (as Grossmann does)⁹⁴ to Hilferding's comments on speculation in a remarkable chapter of *Finance Capital*.⁹⁵ Not only is financial speculation characterised by a massive use of leverage and by what he calls

88. Cohan 2010, p. 250.

89. McDonald and Robinson 2009, p. 169.

90. LiPuma and Lee 2004, pp. 97ff.

91. Cited in Norfield 2012, p. 114.

92. Marx 1971, p. 122.

93. Grossmann 1970, pp. 530–72; Grossmann 1992, pp. 191–3.

94. Grossmann 1970, p. 536; Grossmann 1992, p. 191.

95. Hilferding 1985, Chapter 8, 'The Stock Exchange'.

‘the greatest possible rapidity of turnover’⁹⁶ (what Marx in the *Grundrisse* calls ‘circulation without circulation time’)⁹⁷ but, no less importantly, speculation, says Hilferding, has an objective social function under capitalism, namely, *to provide liquidity to the markets for fictitious capital*, to keep them ‘open for business at all times’ and ‘so give money capital as such the possibility of transforming itself into fictitious capital, and from fictitious capital back into money capital’.⁹⁸

These are massive and highly concentrated markets. ‘At year-end 2006 the top ten counterparties accounted for 89% of all CDS trades on a notional basis’.⁹⁹ The \$72 trillion worth of credit default swaps outstanding in 2008 was held by 17 banks, with Lehman holding \$7 trillion of them.¹⁰⁰ Or take this statistic: In the first quarter of 2010 the notional value of derivatives held by commercial banks in the US was \$212.8 trillion. Of the 1,000-odd commercial banks that submitted information on their derivatives exposure, the top five claimed 97% of this notional value!¹⁰¹

The global capital markets work on overnight loans. Unlike commercial banks, the investment banks do most of their funding overnight in the repo market, using the assets they hold as collateral. The collapse of the Bear Stearns hedge funds that triggered the first round of financial panic in June 2007 was brought on by margin calls from the repo lenders, with some lenders like Lehman and Credit Suisse seizing collateral to sell into the market.¹⁰² The Bear hedge funds had a total of \$11.1 billion in repo financing from 16 Wall Street firms.¹⁰³ And of course the irony is, as William Cohan tells us, ‘the very same banks that were repo lenders to the funds were up to their eyeballs in the ... same illiquid mortgage securities’ that the funds had.¹⁰⁴ It was the evaporation of liquidity in the short-term money markets in the middle of 2007 that signalled the emergence of a major crisis and forced the ECB to inject £95 billion into the overnight lending market.

96. Hilferding 1985, p. 144.

97. Marx 1973, p. 659: ‘The necessary tendency of capital is therefore *circulation without circulation time*, and this tendency is the fundamental determinant of credit and of capital’s credit contrivances’; p. 671: ‘The tendency of capital is *circulation without circulation time*; hence also the positing of the instruments which merely serve to abbreviate circulation time as mere *formal aspects* posited by it . . .’; and pp. 630–1, where he refers to the ‘transition of capital from one phase to the next at the speed of thought’.

98. Hilferding 1985, p. 139.

99. Wigan 2010, p. 119.

100. McDonald and Robinson 2009, p. 322.

101. Engelen, Ertürk, Froud, Johal, Leaver, Moran, Nilsson and Williams 2011, p. 61.

102. Cohan 2010, p. 425.

103. Cohan 2010, p. 238.

104. Cohan 2010, p. 415.

Bear's own collapse in the spring of 2008 was brought on by short sellers speculating in the credit default swap market and telling counterparties at other firms they had concerns about Bear's liquidity and solvency, which drove the cost of spreads wider and made funding more expensive.¹⁰⁵ By the fateful second week of March, Bear's overnight lenders were all gone and the hedge funds had started pulling their prime brokerage accounts from the firm. On Thursday of that week (March 13) Bear went 'from solvent to dead' and was scooped up by JPMorganChase for \$10 a share.

The big winners in the crisis were Goldman Sachs and JPMorgan. There were many at Bear Stearns who believed that 'Goldman fomented the negative sentiment and trading that doomed Bear Stearns in its final week'.¹⁰⁶ Goldman 'supposedly bought puts, shorted Bear's stock, and/or encouraged hedge funds to pull money from the firm',¹⁰⁷ or, in short, engineered a run on the bank. The demise of Lehman some months later, in September, was clinched by the extraordinary fact that the Federal Reserve agreed to expand the collateral that investment banks could pledge as part of its suddenly contrived rescue facilities but denied Lehman access to the discount window.¹⁰⁸ 'No public money', Hank Paulson said at the time, yet 'Paulson had no trouble putting billions of taxpayer dollars on the line for both Bear Stearns, six months earlier, and AIG, the giant insurer, two days later'.¹⁰⁹ On 16 September 2008 'the federal government poured \$85 billion of taxpayer money into AIG to keep it from falling into bankruptcy... and in effect took over the company'.¹¹⁰ The Federal Reserve gave the counterparties 100 cents on the dollar.¹¹¹ AIG was brought down by its exposure to credit default swaps (since it was consistently on the wrong side of the trades), Bear and Lehman by their vast accumulation of assets that soon became worthless. The 'ability to take short positions through the credit default swap market'¹¹² was a major part of the way the banking crisis played out, for example, by allowing Goldman to become 'significantly short' the market by the end of January 2007 when the other banks were still collecting vast amounts of collateral to ram into their CDOs.¹¹³ Goldman's net exposure to the mortgage market was virtually flat by March 2007.¹¹⁴ And by

105. Cohan 2010, p. 15.

106. Cohan 2010, p. 539.

107. Cohan 2010, p. 559.

108. Cohan 2010, p. 526.

109. Cohan 2010, p. 559.

110. Cohan 2011, p. 589.

111. Cohan 2011, p. 590.

112. Stulz 2010, p. 76.

113. Cohan 2011, p. 507.

114. Cohan 2011, p. 540.

April it was aggressively marking down its residual mortgage securities, with lethal consequences for other firms.

Altwater has argued that credit default swaps are perfect instruments for speculation on defaulting sovereign debts, and indeed that speculators have been targeting the Eurozone 'by attacking the weakest link in the chain in the European periphery'.¹¹⁵ There is now enough evidence to suggest that as countries move into distressed debt situations, 'the bond market adjusts to the CDS market and not the other way round'.¹¹⁶ In other words, speculators in the credit default swap market exert a major influence on sovereign bond spreads, with the devastating consequences this has for the mass of the population in countries like Greece and Spain, and of course elsewhere as well.

References

- Altwater, Elmar 2011, 'From Subprime Farce to Greek Tragedy: The Crisis Dynamics of Financially Driven Capitalism', in *Socialist Register 2012: The Crisis and the Left*, edited by Leo Panitch, Gregory Albo and Vivek Chibber, London: Merlin Press.
- Anderson, Perry 1987, 'The Figures of Descent', *New Left Review*, I, 161: 20–77.
- Augar, Philip 2001, *The Death of Gentlemanly Capitalism: The Rise and Fall of London's Investment Banks*, Harmondsworth: Penguin Books.
- 2010, *Reckless: The Rise and Fall of the City*, London: Vintage.
- Blake, Robert 1999, *Jardine Matheson: Traders of the Far East*, London: Weidenfeld and Nicolson.
- Burn, Gary 2006, *The Re-Emergence of Global Finance*, Basingstoke: Palgrave Macmillan.
- Chapman, Stanley D. 1992, *Merchant Enterprise in Britain: From the Industrial Revolution to World War I*, Cambridge: Cambridge University Press.
- Cheong, W.E. 1974, 'The Crisis of the East India Houses, 1830–1834', *Revue internationale d'histoire de la banque*, 9: 107–33.
- Cohan, William D. 2010, *House of Cards: How Wall Street's Gamblers Broke Capitalism*, Harmondsworth: Penguin Books.
- 2011, *Money and Power: How Goldman Sachs Came to Rule the World*, Harmondsworth: Penguin Books.
- Coudert, Virginie and Mathieu Gex 2010, 'Credit Default Swap and Bond Markets: Which Leads the Other?', *Financial Stability Review (Banque de France)*, 14: 161–6, available at: < http://www.banque-france.fr/fileadmin/user_upload/banque_de_france/Economists_and_researchers/etude19_rsf_1007.pdf>.
- Delatte, Anne-Laure, Mathieu Gex and Antonia López-Villavicencio 2012, 'Has the CDS Market Influenced the Borrowing Cost of European Countries during the Sovereign Crisis?', *Journal of International Money and Finance*, 31, 3: 481–97.
- Edgerton, David 1991, 'Liberal Militarism and the British State', *New Left Review*, I, 185: 138–69.
- Engelen, Ewald, Ismail Ertürk, Julie Froud, Sukhdev Johal, Adam Leaver, Mick Moran, Adriana Nilsson and Karel Williams 2011, *After the Great Complacency: Financial Crisis and the Politics of Reform*, Oxford: Oxford University Press.

¹¹⁵ Altwater 2011, pp. 275, 280.

¹¹⁶ Delatte, Gex and López-Villavicencio 2012, pp. 481ff.; Coudert and Gex 2010.

- Farooqui, Amar 1998, *Smuggling as Subversion: Colonialism, Indian Merchants, and the Politics of Opium, 1790–1843*, New Delhi: New Age International.
- 2006, *Opium City: The Making of Early Victorian Bombay*, Gurgaon: Three Essays Collective.
- Fry, Richard 1970, *A Banker's World: The Revival of the City 1957–1970. Speeches and Writings of Sir George Bolton*, London: Hutchinson.
- Greenberg, Michael 1951, *British Trade and the Opening of China, 1800–42*, Cambridge: Cambridge University Press.
- Grossmann, Henryk 1970 [1929], *Das Akkumulations- und Zusammenbruchsgesetz des kapitalistischen Systems (Zugleich eine Krisentheorie)*, Second Edition, Frankfurt: Verlag Neue Kritik.
- 1992, *The Law of Accumulation and Breakdown of the Capitalist System: Being also a Theory of Crises*, translated and abridged by J. Banaji, London: Pluto Press.
- Hilferding, Rudolf 1985, *Finance Capital: A Study of the Latest Phase of Capitalist Development*, translated by Morris Watnick and Sam Gordon, London: Routledge & Kegan Paul.
- Jones, Geoffrey 2000, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries*, Oxford: Oxford University Press.
- Kynaston, David 1994, *The City of London, Volume 1: A World of Its Own, 1815–1890*, London: Chatto & Windus.
- 1995, *The City of London, Volume 2: Golden Years, 1890–1914*, London: Chatto & Windus.
- Le Fevour, Edward 1968, *Western Enterprise in Late Ch'ing China: A Selective Survey of Jardine, Matheson and Company's Operations, 1842–1895*, Cambridge, MA.: Harvard University Press.
- Lewis, Michael 2011, *The Big Short: Inside the Doomsday Machine*, Harmondsworth: Penguin Books.
- LiPuma, Edward and Benjamin Lee 2004, *Financial Derivatives and the Globalization of Risk*, Durham, NC.: Duke University Press.
- Marx, Karl 1970 [1859], *A Contribution to the Critique of Political Economy*, Moscow: Progress Publishers.
- 1971 [1863], *Theories of Surplus-Value, Part III*, Moscow: Progress Publishers.
- 1973 [1939/41], *Grundrisse: Foundations of the Critique of Political Economy (Rough Draft)*, translated by Martin Nicolaus, Harmondsworth: Penguin Books.
- 1980a [1858], 'British Commerce and Finance', in *Collected Works of Karl Marx and Frederick Engels*, Volume 16, *Marx and Engels 1858–60*, London: Lawrence & Wishart.
- 1980b [1858], 'History of the Opium Trade', in *Collected Works of Karl Marx and Frederick Engels*, Volume 16, *Marx and Engels 1858–60*, London: Lawrence & Wishart.
- 1980c [1859], 'Zur Kritik der politischen Oekonomie', in *Marx-Engels-Gesamtausgabe*, Division II, Volume 2, *Ökonomische Manuskripte und Schriften, 1858–1861*, Berlin: Dietz Verlag.
- 1981 [1894], *Capital: A Critique of Political Economy. Volume Three*, translated by David Fernbach, Harmondsworth: Penguin Books.
- Mayhew, Nicholas 1999, *Sterling: The Rise and Fall of a Currency*, Harmondsworth: Allen Lane.
- McDonald, Larry and Patrick Robinson 2009, *A Colossal Failure of Common Sense: The Incredible Inside Story of the Collapse of Lehman Brothers*, London: Ebury Press.
- McRae, Hamish and Frances Cairncross 1985, *Capital City: London as a Financial Centre*, London: Methuen.
- Norfield, Tony 2012, 'Derivatives and Capitalist Markets: The Speculative Heart of Capital', *Historical Materialism*, 20, 1: 103–32.
- Richards, John F. 1981, 'The Indian Empire and Peasant Production of Opium in the Nineteenth Century', *Modern Asian Studies*, 15, 1: 59–82.
- 2002, 'The Opium Industry in British India', *The Indian Economic and Social History Review*, 39, 2/3: 149–80. Royal Commission on Opium 1894a, *Minutes of Evidence Taken Before the Royal*



- Commission on Opium from 3rd to 27th January 1894. Volume III*, London: Her Majesty's Stationery Office.
- 1894b, *Minutes of Evidence Taken Before the Royal Commission on Opium between 18th November and 29th December 1893; with Appendices. Volume II*, London: Her Majesty's Stationery Office.
- Siddiqi, Asiya 1995, 'The Business World of Jamssetjee Jejeebhoy', in *Trade and Finance in Colonial India, 1750–1860*, edited by Asiya Siddiqi, Delhi: Oxford University Press.
- Stulz, René M. 2010, 'Credit Default Swaps and the Credit Crisis', *Journal of Economic Perspectives*, 21, 1: 73–92.
- Trocki, Carl A. 1999, *Opium, Empire and the Global Political Economy: A Study of the Asian Opium Trade, 1750–1950*, London: Routledge.
- Whitcombe, Elizabeth 1971, *Agrarian Conditions in Northern India. Volume I: The United Provinces under British Rule, 1860–1900*, Berkeley: University of California Press.
- Wigan, Duncan 2010, 'Credit Risk Transfer and Crunches: Global Finance Victorious or Vanquished?', *New Political Economy*, 15, 1: 109–25.
- Williams, Hywel 2006, *Britain's Power Elites: The Rebirth of a Ruling Class*, London: Constable.
- Wong, J.Y. 1998, *Deadly Dreams: Opium and the Arrow War (1856–1860) in China*, Cambridge: Cambridge University Press.
- Zhang, Yangwen 2005, *The Social Life of Opium in China*, Cambridge: Cambridge University Press.

~~Authors' Query:~~

~~AU1 Please provide abstract~~

~~AU2 Please provide keywords~~