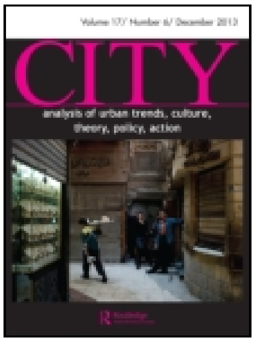

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The financialization of capitalism

'Profiting without producing'[1]

Costas Lapavitsas

Financialization is a systemic transformation of capitalism that has occurred during the last four decades. This paper shows that the concept of financialization originates in Marxist theory, though its meaning remains unclear. It then proposes a theory of financialization as rooted in the altered behaviour of the fundamental agents of capitalist accumulation, including non-financial corporations, banks and workers. Finance has reshaped the activities of all three, also resulting in new forms of profit. It follows that opposing financialization is a complex process that involves creating public financial institutions but also re-establishing public provision for workers across a broad range of activities. Financialization cannot be reversed without re-establishing the command of the social and collective over the private and individual for the modern era.

Key words: finance, financialization, crisis, periods of capitalism, regulation

The global crisis of the 2000s has lifted the curtain on the transformation of mature and developing capitalist economies during the last three decades, confirming the pivotal role of finance, both domestically and internationally. Finance-related capital permeates economic activity, and interacts with financial markets in ways capable of generating enormous profits but also precipitating global crises. Contemporary capitalism is 'financialized' and the turmoil commencing in 2007 is a crisis of 'financialization'.

The economic processes and social relations characteristic of financialization represent a milestone in the development of capitalism. The catalyst of the crisis in 2007 was speculative mortgage lending to the poorest workers in the USA during the 2000s, the loans being subsequently traded in 'securitized' form in global financial markets. It is hard to exaggerate what an extraordinary fact this is. Under conditions of classical, 19th-century capitalism, it would have been unthinkable for a global disruption of accumulation to materialize because of debts incurred by workers, including the poorest. However, this is precisely what has happened under conditions of financialized capitalism, an economic and social system that is much more sophisticated than its 19th-century predecessor.

Financialization has emerged gradually during recent decades. To be sure, capitalist economies are continually restructured due to pressures of competition and the underlying drive to maintain profitability. However, some transformations have a distinctive historical significance, and financialization is one of those. The change that has taken place in mature capitalist economies and societies since the late 1970s requires appropriate attention to be paid to finance.

Context and structural aspects of financialization

Mature capitalism has been marked by deep transformations of the economy and society. Toward the end of the 19th century, for instance, there emerged new methods of production in heavy industry, accompanied by the rise of monopolistic, joint-stock enterprises. The change coincided with a long depression, 1873–96, and led to a rebalancing of global productive power away from Britain and toward the USA and Germany. Similarly, at the end of the Second World War, mass consumption emerged across several developed countries based on methods of mass production. A long boom occurred, lasting until 1973–74, during which production became increasingly dominated by transnational monopolistic enterprises, while finance operated under a system of controls domestically and internationally. For nearly three decades, the USA was the dominant economic force in global production and trade.

The transformation represented by financialization is of a similar order of importance. Since the 1970s, there have been profound changes in production methods deriving from information and telecommunications technologies. Transnational enterprises have become dominant over global production and international trade. The centre of gravity of global productive capacity has partly shifted from mature economies in the West toward rising economies in the East, primarily China. Meanwhile, the institutional framework of capitalist activity has been altered as deregulation has prevailed in important markets, above all, for labour and finance. Throughout this period, accumulation has lacked dynamism in mature countries, inequality has been exacerbated, and crises have become sharper and more frequent.

The most striking feature of the period, nonetheless, has been the rise of finance, the start of which can be usefully placed in the late 1970s. The financial sector became progressively larger in the 1950s and 1960s, while still operating within the regulatory framework characteristic of the long postwar boom. However, even by the late 1970s, the domestic and international importance of finance remained modest. The three decades that followed have witnessed unprecedented expansion of financial activities, rapid growth of financial profits, permeation of the economy and society by financial relations, and domination of economic policy by the concerns of the financial sector. At the same time, the productive sector in mature countries has exhibited mediocre growth performance, profit rates have remained below the levels of the 1950s and 1960s, unemployment has generally risen and become persistent, and real wages have shown no tendency to rise in a sustained manner. An asymmetry has emerged between the sphere of production and the ballooning sphere of circulation.

The rise of finance has been predicated on a radical alteration of the monetary framework of capitalist accumulation, both internationally and domestically. International monetary conditions have been stamped by the collapse of the Bretton Woods Agreement in 1971–73. Bretton Woods had enforced the convertibility of the US dollar into gold at $35 to the ounce, thus fixing exchange rates during the long boom. Its collapse led to the gradual emergence of alternative international monetary arrangements based on the US dollar functioning as inconvertible quasi-world money. The new arrangements have generated considerable instability of exchange and interest rates, thereby spurring the growth of international financial markets.

Growth of international capital flows during the same period, partly in response to exchange and interest rate instability, has led to financialization in developing countries. Domestic monetary conditions, in contrast, have been marked by the steady accumulation of power by central banks as controllers of credit money backed by the state. Central banks have emerged as the dominant public institution of financialization, the defender of the interests of the financial sector.

The ascendancy of central banks is hardly surprising, since financialization in general would have been impossible without active and continuous intervention by the state. Financialization has depended on the state to deregulate the financial system with regard to prices, quantities, functions and cross-border flows of capital. Equally, financialization has depended on the state to regulate the adequacy of its own capital, the management of risk and the rules of competition among financial institutions. Even more decisively, financialization has depended on the state to intervene periodically to underwrite the solvency of banks, to provide extraordinary liquidity and to guarantee the deposits of the public with banks.

Ultimately, however, the rise of finance has resulted from changes deep within capitalist accumulation. Three characteristic tendencies of accumulation in mature countries have shaped financialization as a structural transformation of contemporary capitalism. First, non-financial enterprises have become increasingly involved in financial processes on an independent basis, often undertaking financial market transactions on their own account. The financialization of industrial and commercial enterprises has affected their profitability, internal organization and investment outlook. Non-financial enterprises have become relatively more remote from banks and other financial institutions. Second, banks have focused on transacting in open financial markets with the aim of making profits through financial trading rather than through outright borrowing and lending. At the same time, banks have turned toward individual and household income as a source of profit, often combining trading in open markets with lending to households, or collecting household savings. Third, individuals and households have come increasingly to rely on the formal financial system to facilitate access to vital goods and services, including housing, education, health and transport. The savings of households and individuals have also been increasingly mobilized by the formal financial system.

Financialization reflects a growing asymmetry between production and circulation—particularly the financial component of the latter—during the last three decades. The asymmetry has arisen as the financial conduct of non-financial enterprises, banks and households has gradually changed, thus fostering a range of aggregate phenomena of financialization. A telling aspect of the transformation has been the rise of profits accruing through financial transactions, including new forms of profit that could even be unrelated to surplus value; this process can be summed up as 'financial expropriation'.[2] New social layers have emerged as financial profit has burgeoned.

Intellectual origins of financialization

The concept of financialization is closely associated with Marxist political economy, whether implicitly or explicitly, as even a cursory glance at the literature would reveal. First, it hints at an epochal change of capitalism, and the latter has traditionally invited Marxist analysis. Second, it suggests systemic, or aggregate, transformation of the economy and society, which has similarly attracted Marxist interest. Third—and here things become much more complex—it carries a whiff of disapproval by tacitly suggesting a problematic relationship between finance and the rest of the economy. This is, again, broadly consistent with Marxist theoretical predilections, but considerable care is required not to lapse into treating finance as a parasitical or speculative set of activities, thus assigning to financialization a pathological character that would be misleading.

Close association of financialization with Marxism goes back at least to the insights advanced by the current of *Monthly Review* (see Magdoff and Sweezy 1987; Foster 2007, 2010; Foster and McChesney 2009). For these Marxist authors, financialization is a characteristic trend of mature capitalism ultimately deriving from the production of a 'surplus' that cannot easily be absorbed (Baran and Sweezy 1966). The normal state of the monopolistic capitalist economy is to be overwhelmed by surplus. It follows that methods must emerge through which the surplus would be absorbed, either in production or in consumption, because it would otherwise lead to stagnation of the productive sector.

From the perspective of *Monthly Review*, the theory of surplus absorption offers a ready explanation for the epochal events of the mid-1970s and the subsequent emergence of financialization: by the 1970s, surplus absorption had become problematic, crisis had burst out and the spectre of stagnation hung over mature capitalist countries. As a result, capital began to search for refuge in the sphere of circulation and above all in the speculative activities of finance. Financialization has emerged as a decisive way of absorbing the investible surplus that inundated the sphere of production by channelling it to the realm of finance. More broadly, financialization is one of three epochal trends of capitalist accumulation in the 20th century, together with the slowing down of the rate of growth and the rise of monopolistic multinational corporations (Sweezy 1997).

Monthly Review has broken an innovative path by claiming that financialization reflects an epochal shift in the balance between the spheres of production and circulation, in favour of the latter. This is an appropriate point of departure for a theory of financialization. However, the current has not offered a detailed analysis of the altered conduct of the agents of the capitalist economy—productive capitalists, bankers and workers—which has produced the changed balance between the two spheres. If financialization is not explicitly related to the operations of the fundamental agents of the capitalist economy, its content will remain unclear.

The epochal aspect of financialization is even more prominent in the work of Giovanni Arrighi, which also has strong affinities with the Marxist political economy. The original insight in connection with Arrighi's theory, however, goes back to Fernand Braudel's analysis of the *longue durée* of capitalism. In the second volume of *Civilization and Capitalism*, Braudel (1982, 246) proposed a pattern of recurrent historical rise of finance based mostly on examining the expansion of capitalist world trade since the early modern era. On each occasion that finance has emerged as the ascendant capitalist activity, the 'sign of autumn' has marked the state power that took the lead in financial development. From this perspective, the financialization of a social formation is an omen of its decline.

In his *Long Twentieth Century*, Arrighi (1994) adopted Braudel's insight on the recurrent rise of finance, turning it into an argument about the financialization of contemporary capitalism. Arrighi's true interest, nonetheless, lay in elaborating a theory of historical hegemony in the evolution of capitalism. Arrighi claimed that the capitalist world economy tends to contain a hegemonic power that evolves in a cyclical pattern. Hegemonic powers succeed each other as their prowess in production and trade declines, while the sphere of finance grows. Financialization thus represents autumn in the cyclical trajectory of a particular hegemonic power. The historical path of hegemony has traversed Genoa, the Netherlands, Britain and the USA (see also Arrighi and Silver 1999). On each occasion, the newly dominant power has emerged partly through availing itself of the financial resources of the declining—and financializing—hegemon. In this light, contemporary financialization, including the global crisis that began in 2007, are aspects of the long-term decline of US hegemony.

Two analytically important points stand out in Arrighi's theory. The first is the association of financialization with declining productive vigour and thus waning hegemonic power. Arrighi's theoretical point of departure is different from Baran and Sweezy's 'absorption of surplus', but the outcome is similar: the productive sector has lost the fire to accumulate as financialization has burgeoned. The epochal turn of the capitalist economy toward finance reflects a malaise in the realm of accumulation, while at the same time exacerbating the weakness of production and trade.

The second point—and again similarly to *Monthly Review*—is that Arrighi's analysis of financialization encourages attention to be paid to the returns to capitalist activity: financialization is reflected in high profits from financial transactions compared to other activities (see particularly Arrighi and Moore 2001). Arrighi's work does not clearly spell out the mechanisms and patterns through which profit derives from finance, but has motivated the path-breaking empirical studies by Greta Krippner.[3] Her work is the first systematic attempt to give empirical content to the claim by *Monthly Review*, Arrighi and others that financialization is about capital seeking profits in the realm of finance.

Further theoretical approaches of Marxist origin similarly associate the rise of finance with a secular transformation of the capitalist economy, often noting decline or stagnation of the sphere of production. This outlook can be found, for instance, in the work of the Regulation School, which discussed financialization already in the 1990s. The regulationist approach to financialization has resulted partly from the search for the new 'regime of accumulation', on the assumption that the old regime of 'Fordism' came to an end in the 1970s.[4] By the second half of the 1990s, Chesnais (1996b) had already proposed the term 'regime of accumulation with financial dominance', a term that he deployed within a Marxist framework, briefly discussed below. The Regulation School appropriated the term and deployed it extensively within its own theoretical framework.

For regulationists, the crisis of the 1970s and the ensuing period of turbulence have resulted from the exhaustion of the elements characteristic of the period of 'Fordism' in the decades following the Second World War: mass production, rising productivity and rising real wages. Thus, a new regime of accumulation might have begun to emerge based on finance. Frédéric Lordon has proposed that a 'financialized regime of accumulation' has perhaps begun to form around the ascendant realm of finance, replacing the lost material basis of Fordist regulation.[5] Orléan (1999) more clearly proposed the notion of regulation occurring through the trading of capital in financial markets, an idea that Boyer (2000) has attempted to model in relation to the operations of the stock exchange. Regulation through finance can have problematic effects for the performance of accumulation, including rates of growth, output and so on (Aglietta 2000; see also Aglietta and Breton 2001). In subsequent work, Michel Aglietta and Antoine Rebérioux (2004) have further developed the notion of 'patrimonial capitalism' whereby income accrues through shareholding and could compensate for stagnant real wages.[6]

There is also other Marxist work on the rise of finance that does not necessarily relate it to malfunctioning production, but which remains important for the analysis of financialization. Chesnais (1996a) was one of the first to study financialization in conjunction with globalization and international capital flows, stressing the advancing integration of national financial systems. Chesnais (1996b) draws his analytical categories directly from Marx's analysis, but has also paid particular attention to the role of rentiers in mature capitalist economies. Thus, he has emphasized the dominance of financial interests—the 'dictatorship of creditors'—over industrial and other capital which has given to globalization the character of 'rentier capitalism'.

Gérard Duménil and Dominique Lévy (2004a, 2004b, 2011), in a series of empirically based works, have related the growth of finance to the rise of neo-liberalism, the latter representing a secular transformation of the capitalist system. From this perspective, financialization has meant higher profit rates for the financial sector, while also contributing to greater instability, above all, in the form of the crisis that broke out in 2007. However, for Duménil and Lévy, financial capital does not dominate industrial capital in the neo-liberal era, unlike the first period of financial ascendancy at the start of the 20th century; these writers also make the contentious claim that neo-liberal capitalism has witnessed a transformation of class structure such that a class of owners hold property through financial assets, while a larger managerial class draws profits in the form of wages and salaries (Duménil and Lévy 2006).

The relationship between industry and finance, or more specifically, the financialization of non-financial corporations has been a major concern of Claude Serfati. It is particularly relevant for our purposes that Serfati rejects the notion of financial interests dominating industrial interests in contemporary capitalism. For Serfati (1996, 2008, 2011), Hilferding's notion of finance capital should be understood more broadly to encompass industrial enterprises that undertake financial transactions. A similar view has been developed by François Morin (2000, 2006), who has examined the transformation of French enterprises and shown the emergence of a financial level of governance within large industrial capitals.

Finally, among French Marxists, Dominique Plihon (2009) has proposed the term 'shareholding capitalism' to capture the rise of finance and the concomitant transformation of capitalism in recent decades. Plihon has suggested that, at least for France, non-financial enterprises have been instrumental in the transformation, including through reliance on retained profits to finance investment, issuing financial assets in open markets and fostering the pre-eminent role of institutional investors in contemporary finance. Banks have also been transformed by turning to financial markets.

French writers aside, some of the most pertinent Marxist analysis of the rise of finance in recent years has been produced in India, even though these writers have meticulously avoided the term 'financialization'. The work of Prabhat Patnaik, in particular, has been concerned with the macroeconomic dimension of the rise of finance and the role of world money. For Patnaik, the ascendancy of finance has been associated with the centralization of capital, but has not led to the re-emergence of Hilferding's finance capital—that is, to a coalescence of industrial with financial interests. Globalized finance is directed to financial markets and has been largely speculative (Patnaik 2005, 2009).

This approach has implications for the classical Marxist theory of imperialism, since the global ascendancy of finance has drawn into its orbit poor and developing countries, primarily through debt and financial liberalization. For Patnaik, imperialism necessarily entails developed countries encroaching on a pre-capitalist periphery and drawing benefits in terms of new markets and keeping wages low.[7] International stability is predicated upon maintaining the value of world money, namely, the US dollar. However, the rise of finance has upset the management of domestic demand within the imperialist countries, thus enhancing instability. Moreover, the accumulation of debt by the USA, partly due to lack of direct colonial control, has created additional difficulties in holding the value of world money stable. In this context, C. P. Chandrashekhar (2008) has examined the mechanisms through which a small number of international financial enterprises have intermediated global capital flows, while Jayati Ghosh (2005) has argued in favour of regulating the domestic financial systems of developing countries.

From a still different Marxist perspective, Harvey (2003, 2007) has sought the origin of financial expansion in blockages of productive accumulation, which might then be resolved through a 'financial fix' as capital seeks profits in the realm of finance. Peter Gowan (1999), on the other hand, has put forth the argument that the rise of finance masks a bid for US dominance undertaken by the 'Dollar–Wall Street Regime'. The merit of Gowan's analysis is its emphasis on the role of the dollar as world money, though Gowan's (2009) view that financial expansion and crisis are primarily phenomena of North Atlantic economies—put forth in one of his final works—carries little conviction in view of the crisis spreading to the Eurozone after 2010.

A similar point can be made about Leo Panitch and Sam Gindin (2004, 2009a, 2009b), who have produced a series of works claiming that globalization is a reassertion of US empire in the face of intra-imperialist rivalries. For these writers, financialization is the 'Americanization' of finance, which has strengthened and universalized US power. Panitch and Gindin stress the importance of the dollar in shaping financialization as well as arguing that the dollar will not be easily supplanted by another currency. However, financialization represents much more than the 'Americanization' of finance, and it is far from obvious that financialization has strengthened the hegemonic position of the USA.

An approach to financialization that draws on classical Marxism

Marxist political economy, broadly understood, has cast considerable light on financialization, although the concept has remained unclear. On this basis, it is possible to develop a coherent approach to financialization, while also drawing on work on the Marxist theory of finance that has been developed since the early 1980s.[8] Fundamental to the approach proposed below are the classical Marxist debates on finance capital and imperialism, particularly Hilferding's *Finance Capital* and Lenin's *Imperialism*, even if the specific conclusions of both belong to a different era and do not necessarily apply to financialized capitalism.

Financialization as historical transformation of capitalism

The theoretical and empirical point of departure is the notion that financialization represents a structural transformation of advanced capitalist economies, and its roots must therefore be sought within the fundamental relations of non-financial enterprises, financial enterprises and workers. It is pointless to attempt to define financialization without first examining its foundations: the conduct of non-financial capitals, the operations of banks and the financial practices of workers. Only on this basis is it possible properly to examine the articulation of financial markets and institutions with each other and with the rest of the economy, as well as the interventions of the state in the financial sphere. Put differently, the content of financialization becomes clear only after demonstrating the financialization of non-financial enterprises, banks and households, subsequently considering the implications for mature capitalist economies as a whole.

Financialization does not represent the escape of capital to the realm of finance in search of higher (and possibly speculative) profits. Financialization has indeed been characterized by rapid growth of circulation compared to production, but this asymmetry is the outcome of 'financialized' interactions among the fundamental agents of the capitalist economy. The emerging social phenomena are highly complex, and cannot be interpreted as the outcome of non-financial capitalists escaping low profits in the sphere of production.

Finance is a well-defined field of capitalist economic activity, not a nebulous realm into which capital seeks to escape when, and if, profitability is low in production. The processes of finance should be analysed in their own right, rather than being treated as surface phenomena sitting atop the 'real' economic activities of production and exchange. More specifically, the financial system is a set of ordered economic relations, comprising markets and institutions with characteristic profit-making motives which are necessary to support capitalist accumulation. The rational and social basis for the extraction of financial profit derives from the role played by the financial system in the context of accumulation. At the same time, finance is a relatively autonomous field of capitalist profitmaking with its own rules and internal life. For this reason, financial profit also has a predatory aspect setting it apart from profit in the sphere of production. The predatory dimension of finance has placed its mark on financialization.

Financialization, moreover, represents a historically specific transformation of capitalist economies. The interaction between finance and the rest of the economy is mediated by a complex set of institutional structures that often reflect historical, political, customary and even cultural factors. A major source of difficulty in analysing financialization lies in identifying the necessary mediations in a historically specific way. Financialization does not readily lend itself to abstract theorization because it represents epochal change resting on financial phenomena that are inherently institution-specific. Consequently, the theoretical approach proposed below focuses on the fundamental tendencies that define financialization at the level of non-financial enterprises, financial enterprises and households. It subsequently considers the concrete ways in which these tendencies have been deflected through the historical and institutional peculiarities of core capitalist countries. Financialization by nature lacks a homogeneous form valid across the world; rather, it varies among mature countries. Moreover, financialization also varies between developed and developing countries, taking a subordinate form in the latter.

There are similarities but also differences between financialization and the first bout of financial ascendancy in advanced capitalism which took place at the end of the 19th and the start of the 20th century. Both Hilferding and Lenin sought the origins of the historic transformation of capitalism of their era in fundamental interactions occurring within capitalist accumulation. Hilferding associated the transformation with the rise of finance capital—an amalgam of industrial and banking capital created as monopolistic corporations come increasingly to rely on banks for investment finance. Finance capital 'organizes' the economy to suit its own interests, thus resulting in exclusive trading blocs and the export of money capital. Consequently, it seeks to establish territorial empires by mobilizing the political and military help of the state. Lenin adopted Hilferding's analysis, added to it 'parasitical rentiers' and greater emphasis on monopoly, and produced the definitive Marxist theory of imperialism in the 20th century. Hilferding and Lenin's diagnoses and conclusions hardly fit the current period of financial ascendancy. However, their analytical and methodological approach is vital to examining financialization theoretically.

Tendencies and forms

Three underlying tendencies characterize financialization. First, although monopolization remains a characteristic feature of mature contemporary economies in terms of both trade and foreign direct investment (FDI), monopoly capitals have become 'financialized'. Large multinational corporations are typically able to finance the bulk of their investment without relying heavily on banks and mostly by drawing on retained profits. In so far as they require external finance, they are able to obtain significant volumes in open financial markets, relatively independently of banks. Even the wage bill of large non-financial corporations is frequently financed through the issuing of commercial paper in open markets. Successive waves of takeovers, furthermore, have led to corporations becoming heavily involved in bond and equity trading in stock markets, thus developing skills in independent financial operations and trading.

Second, banks have restructured themselves, partly reflecting the altered conduct of non-financial enterprises. Specifically, banks have moved toward mediating in open markets to earn fees, commissions and profits from trading; they have also turned toward individuals (and households in general) to obtain profits from lending but also from handling savings and financial assets. The transformation of banks has been in line with the enormous growth of open financial markets in recent decades, further fostered by state legislation. Banking capital has benefited from successive waves of mergers and acquisitions among non-financial enterprises; from channelling personal savings to stock markets at the behest of the state; and from the lifting of controls on interest rates and capital flows that has encouraged growth of financial markets.

Third, perhaps the most striking aspect of the recent period has been the financialization of the personal revenue of workers and households across social classes.[9] This phenomenon refers both to increasing debt (for mortgages, general consumption, education, health) and to expanded holdings of financial assets (for pensions, insurance, money market funds). Household financialization is associated with rising income inequality but also with the retreat of public provision across a range of services, including housing, pensions, education, health, transport and so on. In this context, the consumption of workers and others has become increasingly privatized and mediated by the financial system. Banks and other financial institutions have facilitated household consumption but also the channelling of household savings to financial markets, thus extracting financial profits.[10]

Note that relations between banks and households are qualitatively different from relations between banks and industrial capitalists. Financial transactions between banks and households do not refer directly to the creation of profit (surplus value) in the sphere of production. Generally speaking, workers seek finance to acquire use values; in contrast, financial institutions and industrial capitalists engage in financial transactions aiming at profit extraction. Moreover, workers are systematically disadvantaged compared to banks with regard to economic information and power. Thus, the systematic extraction of financial profits out of the revenue of workers and other social layers constitutes a new set of relations that has been called financial expropriation (see Lapavitsas 2009). Financial expropriation is a characteristic feature of financialization and represents the re-strengthening of the predatory outlook of finance toward the economy and society.

The three underling tendencies of financialization have emerged within the historical and political context of neo-liberalism, including financial liberalization and labour market deregulation. Moreover, the epochal features of financialization have been conditioned by the historical and institutional specificities of particular countries, reflecting the shifting balance of class forces between capital and labour. Financialization has thus necessarily varied across different times and among different countries. By this token, the aim of theoretical analysis cannot be to produce a generally valid abstract model of financialization but to specify its underlying tendencies and to ascertain the particular form and content it acquires in different contexts.

It cannot be overemphasized that historical and institutional variation is a necessary feature of financialization. The first bout of financial ascendancy at the end of the 19th century was also characterized by considerable historical and institutional variation. Hilferding's *Finance Capital* focused heavily on Germany and Austria, both of which had very prominent bank-based practices in finance, thus lending a misleading air of universality to his analysis. In contrast, Lenin's

Imperialism stressed that finance capital acquired a different form depending on the economic structure, the political system and the institutional mechanisms of particular countries. Imperialism was significantly different between, say, Germany and France.

Financialization varies among mature countries, for instance, the USA, Japan, Germany and the UK. Non-financial corporations have generally become less reliant on banks, but there are major differences in financial practices between, on the one hand, the USA and UK and, on the other, Japanese and German enterprises. Banks, on the other hand, have moved away from lending for productive activities and toward lending to other financial corporations and households in all four countries. Nonetheless, significant variation is present and often of unexpected form; German banks, for instance, have a strong tendency to transact with other financial institutions. Households, finally, exhibit a general trend to move savings away from bank deposits and toward other financial assets that could be traded in open markets, including pension funds and equities. Also notable is the increase in household indebtedness, typically associated with housing, though local practice can still be very different, as in relatively low household indebtedness in Germany.

Financialization has emerged due to the spontaneous interactions among non-financial enterprises, banks and households. These interactions necessarily occur within an institutional context influenced by state policymaking, resulting in systemic change that reflects the peculiarities of each country. The form of the capitalist economy necessarily varies, and often in ways that are related to the financial system. This insight is vital to analysing financialization: the transformation has a systemic outlook that reflects the peculiarities of each country.[11]

Financialization also varies systematically between developed and developing countries. Formal imperialism has become practically irrelevant in contemporary capitalism, but mature capitalist countries have retained a dominant role in economic activity across the world. At the same time, the mode of integration of developing countries into the world market has changed profoundly in recent decades. Financialization in developing countries is associated with the financial liberalization that began in the 1970s, lifting price and quantity controls in domestic financial systems. Financial liberalization has gradually acquired further features, including the establishment of stock markets. By the late 1980s, financial liberalization had morphed into an integrated pro-market development strategy, the Washington Consensus.

A fundamental component of the Washington Consensus has been to open domestic economies to international capital markets, typically on the grounds that capital would flow from rich to poor countries, thus promoting development. However, in the 2000s, as developing countries became more closely integrated with world capital markets, precisely the opposite has taken place. The peak years of financialization have been characterized by reverse net flows of capital as developing countries have accumulated reserves of international means of payment—mostly US dollars. The accumulation of reserves has acted as catalyst for the growth of domestic finance in developing countries, spurring the emergence of financialization but with a subordinate character. Entry of foreign banks in developing countries has further fostered the evolution of subordinate financialization.

Summing up, the 2000s have been a period of accelerated integration of developing countries into the processes of world trade and finance—with significant variations—which has lent an international as well as a domestic aspect to subordinate financialization. In the 2000s, there has been strong growth of FDI and significant short-term lending, but weak portfolio flows from developed to developing countries. At the same time, developing countries have registered large current account surpluses through rising commodity prices and manufacturing exports. Above all, there has been enormous accumulation of foreign exchange reserves by developing countries. The result has been negative net capital flows: poor countries have financed a select few among the rich countries, mostly the USA.

Holding enormous hoards of dollars as world money has been an integral part of subordinate financialization. The costs to developing countries have been substantial, gauged either as the spread between domestic and foreign interest rates or as the cost of sterilization by central banks. Developing countries have been paying an implicit tribute to developed countries, mostly to the USA, the hegemonic issuer of the dollar. Reserve accumulation has contributed to the growth of domestic financial markets, thus also boosting domestic financialization. Sustained foreign bank entry into developing countries has exacerbated subordinate financialization by encouraging a shift of banking practices toward open financial markets and personal income as source of financial profits. Domestic financial expropriation appears to have taken root in several developing countries in the 2000s, resulting in rising individual indebtedness.

Concluding remarks: confronting financialization

Financialization is not the outcome of policy; it has not resulted from the lifting of financial regulation; it is not a tendency that could be dealt with through regulatory change alone. The crisis of 2007 and its aftermath, furthermore, indicate that financialization is persistent. Confronting it and dealing with its problematic outcomes from the standpoint of working people will take more than merely intervening in the regulatory framework of finance.

Financialization represents a transformation of mature capitalism resting on the altered conduct of non-financial enterprises, banks and households. The transformation has taken place during the last four decades within an environment determined by neoliberal ideology and shaped through deregulation of labour and financial markets. Financialization also has a subordinate dimension in developing countries reflecting the hierarchical nature of the world market and world money.

Thus, there are no simple ways to confront financialization through regulation. This is without even considering the enormous social and political power of finance which would certainly be mobilized to block reform nationally and internationally. The poor prospects of regulatory control inevitably bring to the fore the issue of public property over financial institutions. If public property and control were widely re-established in the sphere of finance, the introduction of regulatory measures on the operations of finance could also be considered on a different basis. Public banks operating in the spirit of public service would more easily refrain from speculation and more naturally accept restricted trading in open financial markets. A weightier presence for public banks in the financial system would, moreover, reduce the ability of private banks to influence the policymaking environment.

Financialization, however, has also drawn strength from the increasing involvement of households in the realm of finance. Consequently, confronting financialization includes reasserting the importance of public housing, health, education, pensions and consumption more generally. It entails re-imposing a public spirit across these fields as well as the ascendancy of the notion of a public right to access basic goods and services. The expanded rule of money over the livelihood of households and individuals would thus be reversed. Room to engage in policies of public provision is afforded by the rise of new technologies and by the spontaneous opposition of working people to the monetization of life. Fresh approaches to public provision, incorporating democratic and communal practices, are required.

It is evident, in this light, that countering neo-liberalism is integral to confronting financialization. The ideas of neo-liberalism—above all, on markets and tax—have set the terrain for financialization and for the broader transformation of capitalism during the last four decades. Financialization cannot be confronted without re-establishing the ideological primacy of the collective over the individual, and of the public over the private. It cannot be opposed without reasserting the superiority of the public interest over the profits and benefits of the individual. It cannot be reversed without accepting that public authorities have the right and the obligation to intervene in the economy in the interests of the many. Only on this basis would it be possible to devise policies that could re-establish control over capital domestically and internationally. Confronting financialization, in other words, is inherently a stance that leads to anti-capitalist ideas, policies and practices, and for this reason it should be part of the struggle for socialism.

Notes

1 This paper is based on Lapavitsas (1913).
2 This is one of the sharpest features of financialization. Marx was well aware of the possibility of deriving profit directly in the sphere of circulation, which he called 'secondary exploitation'; in the era of financialization the mechanisms for profit extraction in the sphere of circulation have become gigantic giving rise to 'financial expropriation'; for further discussion, see Lapavitsas and Levina (2011).
3 See Greta Krippner (2005) and, for a broader theoretical discussion, Greta Krippner (2011).
4 For an early and balanced review of regulationist analysis of financialization, see John Grahl and Paul Teague (2000). An analysis of the emergence of the idea among regulationists from the inside, as it were, has been given by François Chesnais (2001).
5 See Frédéric Lordon (1999) and more fully Frédéric Lordon (2000).
6 For a sharp critique of the validity of this idea, see Michel Husson (2001).
7 See Prabhat Patnaik (2002) and more fully Prabhat Patnaik (2009).
8 The theoretical framework is based on Makoto Itoh and Costas Lapavitsas (1999) and Costas Lapavitsas (2003).
9 Workers and households are, of course, not the same category. However, both terms indicate economic agents that are associated with capital but whose revenues also have non-capitalistic aspects.
10 An innovative Marxist analysis of the crisis of the 2000s, fully aware of the independent significance of finance, has been put forth by Photis Lysandrou focusing on hedge funds as wealth pools of the rich. See Photis Lysandrou (2011).
11 There is a growing perception within economic geography that financialization varies among developed countries; see Claude Dupuy, Stéphanie Lavigne, and Dalia Nicet-Chenaf (2010).

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