

Putting « financialisation » in its correct place: the truly global and historical nature of the crisis.

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I. Introductory remarks

Opportunity today of opening a real debate

- **Not only on the nature & causes of the crisis and its likely length**
- **But also on our appreciation of the historical moment from the standpoint of the struggle for social emancipation & socialism**
- **Possibly also of identifying some key strategical political issues stemming from the planetary situation**

At the stage of the debate represented by this meeting and possibly for some time perceptions will probably have a regional-continental dimension

- **The process of liberalization, deregulation & globalization was propelled by the USA**
- **Its outcome has been the true advent of the “world market” as understood by Marx**
- **The world economy as a “differentiated totality” which can no longer be analyzed correctly by continuing to postulate “the unique hegemony” of the USA. China & India now major “players”**
- **The economic crisis is having rather different impacts in different continents & there may be differentiated perceptions of the ecological crisis**

- **Dangers of taking an « objectivistic » approach to the crisis**
 - **Danger of losing sight of capitalism as a historically determined system not there of all eternity and so one that can give way to what we name now rather generically socialism**
 - **Simultaneously a way of organizing production on the basis of private property, commodity production and appropriation of unpaid labor and a mode of political & social domination under the sway of oligarchies bent on the preservation & reproduction of their domination**
 - **Economic crisis sharpens this dimension. All the steps taken by oligarchies will be shaped by their will to preserve their social domination**
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- **Crises can question and, if very severe, weaken this domination, but corporations' initial reflex will be to view them as opportunities for worsening the conditions of exploitation and that of governments for accelerating “reforms”**
- **Measures in favor of specific entrenched capitalist interests can of course become a factor delaying the creation of the necessary conditions for re-launching accumulation**
- **However the essential point is that**
 - **crises sharpen class oppositions and heighten political & social stakes**
 - **“ways out” of the crisis are strongly shaped by the intensity and outcome of class struggle**

- For the exploited and the oppressed the preservation of domination before recovering the possibility of extended reproduction has had an increasingly high cost
 - Today in a different historical context and in new forms the cost is reaching the level of the 1930's
 - A global crisis, infinitely more serious for the exploited & for humanity than for capital
 - Liberalization & globalization of capital have led to a new leap in the globalization of the industrial reserve army, workers pit one against the other by capital across borders
 - Increasing economic & social impacts of "climate change" ; basic food unavailability ; and high permanent unemployment
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- Entry into a critical historical phase for civilization
- « Ecological » questions are vital. They pertain to the basic conditions of social reproduction now increasingly contested for the most vulnerable peoples on the planet
- Hurricane Katrina in New Orleans as a application of Naomi Klein's thesis of the "Shock Doctrine" practiced by "Disaster Capitalism"
- Planetary "New Orleans" : today's new ecologically related forms of Barbarianism

II. Some theoretical premises

**Not a financial crisis nor one of
« financialisation »**

A major crisis of over-accumulation at world level following from, and ending a period of US dominated accumulation and unprecedented power of interest-bearing capital

Critical theoretical issues are those relating to the way one understands capitalism

Interpretations of the crisis as well as political proposals and/or demands stem from and reflect given approaches to the analysis and understanding of capitalism

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- **A. The process of capital accumulation as a process of self-expansion « which can know no end and accept no limits » (Marx). Capital is permanently in dearth of value and surplus. It has never enough surplus value while continually creating its own barriers for this.**
 - **B. The appropriation of surplus value required by the self-expansion of capital entails the production and sale of material commodities. Ferocious exploitation of labor and huge waste and destruction of natural resources go hand-in-hand.**

- The *real barrier* of capitalist production is *capital itself*. Capital and its self-expansion as the motive and purpose of production
 - Production is only production for *capital*
 - The means of production are not mere means for a constant expansion of the living process of the *society* of producers.
 - The limits within which the self-expansion of the value of capital move rest on the expropriation and pauperisation of the great mass of producers
 - These limits come continually into conflict with the methods of production which drive towards production as an end in itself, towards the unconditional development of the social productivity of labour.
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- These methods of production also which drive towards to the unlimited use of natural resources = origin of the ecological crisis
- Since the self-expansion of capital entails to a very large extent the production and sale of material commodities, accumulation inherently marked by :
 - the exploitation of labor, in some countries transitorily “peaceful” but mostly ferocious
 - huge waste of natural resources leading towards their total destruction
- They are two facets of a single process

- Finance = interest (& dividend) bearing capital centralized first by banks and later pension & investment funds
 - Un-reinvested profit and rent (land, mines, oil)
 - Unspent income of the very rich
 - Small savings, but from 1940's onwards private pension schemes which come of age in the 1970's (the 1974 ERISA law)
 - Balance of payment surpluses (Petrodollars in the mid 1970's, Asian trade surpluses since circa 2000)
 - Marx stresses that this capital
 - stands “outside production”
 - develops a fetishistic view of accumulation in which « the original starting-point of capital, money in the formula $M — C — M'$ is reduced to its two extremes $M — M'$ »
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- Interest = “a portion of the profit, i.e., of the surplus-value, that the functioning capitalist has to pay to the owner of money-capital whenever he uses loaned capital”. This must be extended to dividends paid to stockholders.
- Interest & dividends as very concrete levies operated by governments (interest on government debt fuelled by taxes) & corporate managers (“functioning capitalists”) to owners of money capital (division between retained & distributed profits is pertinent)
- Levies shouldered by workers & tax-payers through government measures & corporate decisions
- Finance is predatory with strong rentier traits. Its “functionality” only lies in really supplying credit to the economy and making investment capital available to firms.

- **Interest & dividend bearing capital breeds “fictitious capital”**
 - In the best of cases bonds & shares as the “*memory*” of a previous investment which live a “second life” in secondary financial markets
 - for those, institutions or households. who hold assets they have the appearance of “capital” not only because they entitle, in “normal times”, the appropriation of value and surplus value, but because successful transactions in financial markets yield “financial profits”
- **The opportunity to reap “financial profits” increases with the growth in the “accumulation” of fictitious capital**
- **For workers in a large part of the world economy retirement schemes are market-based & rest on fictitious capital**

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- **Finance accentuates the unquenchable thirst for value and surplus stemming from the self-expansion « without end or limits » of capital .**
 - **The barriers capital creates for itself take the form of over-accumulation and overproduction**
 - within given relevant socio-political space (today the world market & its continental sub-components)
 - in particularly acute ways for specific sectors (today cars)
 - **Over-accumulation and overproduction harden the play of underlying mechanisms tending to the fall in the rate of profit. Two simultaneous perceptions and “solutions” are given**
 - Wages must be brought down & productivity raised
 - Demand is “insufficient” and must receive a “solution” (e.g. strong consumer & mortgage credit)

- **Since increasing productivity while keeping wages down is a major method for increasing surplus value, explanations & ways-out of the crisis can arise within the left focusing on the “excess of surplus value” and advocating the redistribution of productivity gains. This issue will probably arise in the course of this meeting**
 - **The radically novel context following the leap in the internationalization of the industrial reserve army and in the intensity of the global competition waged by capitalist firms**
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- **Since over-accumulation and overproduction are consubstantial to capitalism, each important crisis possessing these features must be placed in its specific setting**
 - **In a long term historical trajectory**
 - **In the relevant configuration of the “world market” and relationships among “national centers of accumulation” and of State apparatuses**
- **The issue here is how to tackle the problem of the historical segmentation of capitalist accumulation**

III. An approach to the issue of the historical segmentation of capital's "endless self-expansion"

- **Cue provided by Marx's remark that "capitalist production seeks continually to overcome its immanent barriers, but does so by means which again place them in its way on a more formidable scale"**
 - **The "means" of transitory solution include**
 - major converging changes in technology and in corporate organization (e.g. the joint stock company, the Fordist factory line, US corporation as analyzed by Chandler)
 - the opening up of new markets
 - nature and scale of the methods used for coping with over-accumulation, destroying excess capital
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Two key elements in my interpretation

- **I. A view of capital's historical trajectory dating back to the 1930's and World War II**
 - the depression of the 30's only ended by rearmament & war
 - the "Glorious Thirty Years Growth" as due principally to the scale of destruction of the means of production, communication and housing brought about by the war and only in a very secondary manner to "fordist regulation"
 - the victory of the Chinese revolution, the independence of India, the success of the national liberation & anti-colonial movements and a first period of self-centered accumulation in the "Third World" made possible by the scale & political effects of the inter-imperialist clash
 - the sterilization of these genuine advances subsequently laid the ground for the real breakthrough achieved by capital in the 1990's

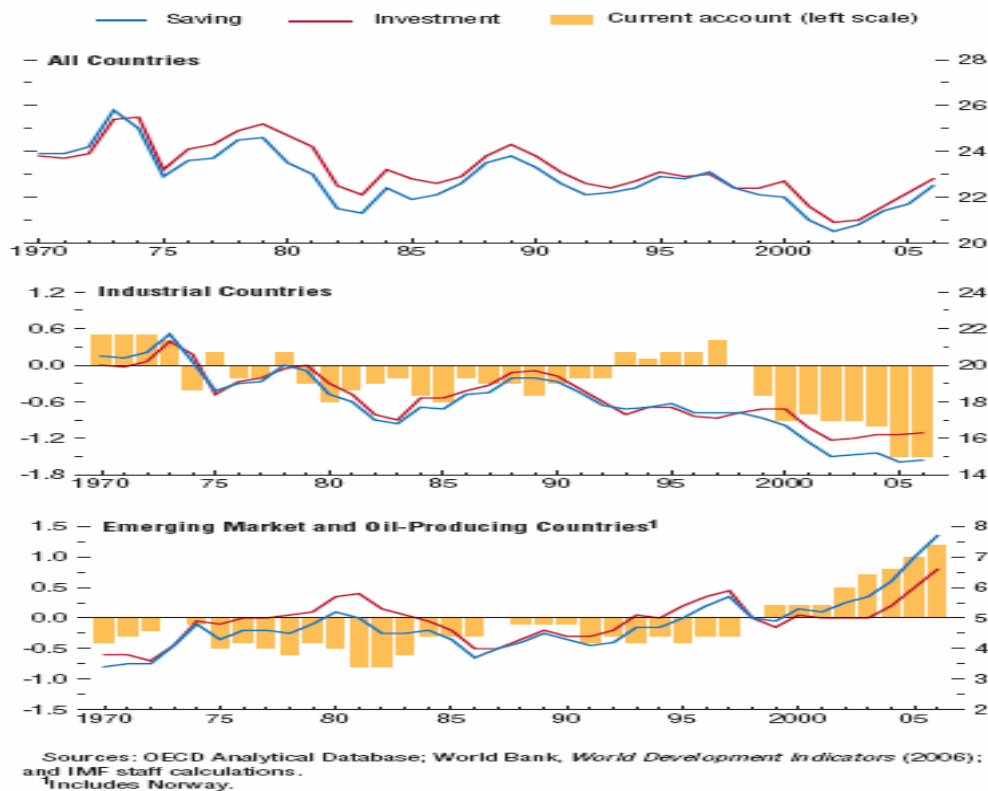
- **II. The full incorporation of China & India into the liberalized global economy as representing a major truly genuine success of “neo-liberalism”, even it has introduced new problems which are central to the crisis**

A simplified historical segmentation

- **A real breaking point in 1973-74 = exhaustion of the effects of reconstruction & modernization**
- **A transitory period from 1978 up to 1992-93 with the extension of neo-liberalism from its initial bases (UK, US) and the setting up new institutions (WTO) or the reorganization of existing ones (Maastricht)**
- **Almost fully fledged globalization from 1992-93 on, but immediately Mexican and Asian crises**
- **2001 : fully fledged globalization with China in WTO, but collapse of Nasdaq & end of the New Economy**
- **2002-2007 : world accumulation founded on “emerging country” and not industrialized-located, let alone US-located investment**

Figure 1.15. Global Saving, Investment, and Current Accounts
(Percent of world GDP)

Global investment has risen during the present economic cycle but remains low by historical standards, particularly in the industrial countries. The corresponding rise in saving has been exclusively in emerging market and oil-producing countries, which are building up high current account surpluses.



- For the industrialized countries the record of neo-liberalism is a long downward trend
- Concentration of investment since 2002 in the emerging countries
 - over-accumulation as a truly global phenomena seated ultimately in the “emerging countries”
 - accumulation of un-invested & unspent money in the these countries, has led some authors to justify “functionality” of finance in organizing “reverse recycling” towards the US

IV. Whither now? Some queries and issues

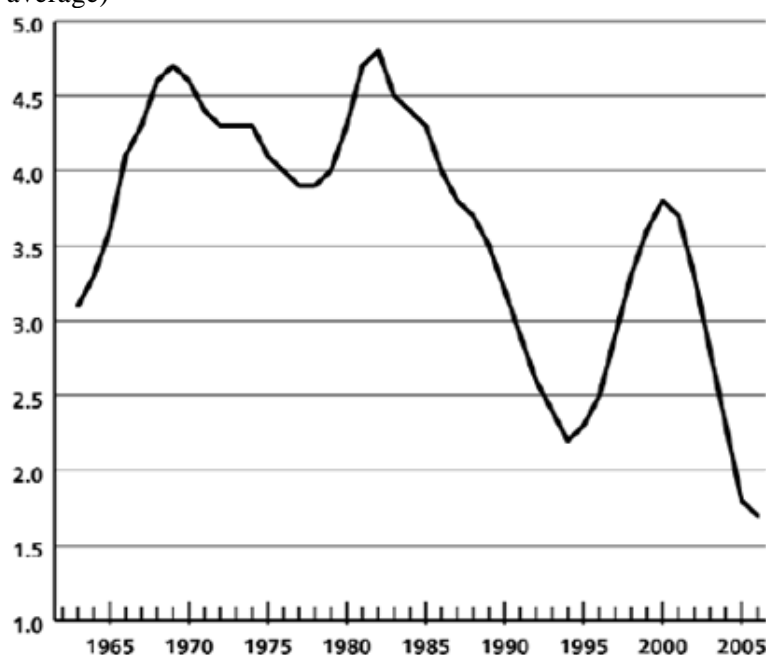
- **“Emerging country” accumulation :**
 - To what extent endogenous vs. FDI supported?
 - How strongly dependent on foreign demand?
 - **“Emerging countries” as the only realistic seat of any possible phase of renewed accumulation?**
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- **China, the « factory » of the world**
 - Low-wage fairly skilled labor “assembly-plant” features of a significant part of the Chinese industrial base
 - Chinese strategies for upgrading & technology transfer, but US & Japanese FDI as undeniable accelerators
 - The acceptance of this role by China as an expression of social relationships and preservation of domination strategies by the CCP
 - **China’s contribution to US macroeconomic management under “financialization”**
 - Export of low priced wage goods & downward pressure on wages (the “China effect: Goldman Sachs)
 - Proceeds of China’s trade surplus made available to US Federal gov. & US mortgage firms

- **The political and social prerequisites for any future “Keynes in Beijing”**
 - Freedom of trade unions, end of CCP’s political monopoly
 - What conditions of domestic across-China class struggle for this to occur?
 - Would socialist objectives emerge in such a process?
 - **The almost inevitable predictable decline of European capitalism**
 - only an alliance of a core of European working classes can save what remains of the European industrial base
 - the real challenge faced by revolutionaries in Europe
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- **USA as the major question mark. The hypothesis defended here:**
 - financialization as the cancer of the US economy (and of many European ones)
 - the power of US finance still touched very little by the crisis. Wall Street more than ever at the helm
 - US hegemony is a “hollow ” one, but due to a number of reasons, no real perspective of China challenging it in the near future

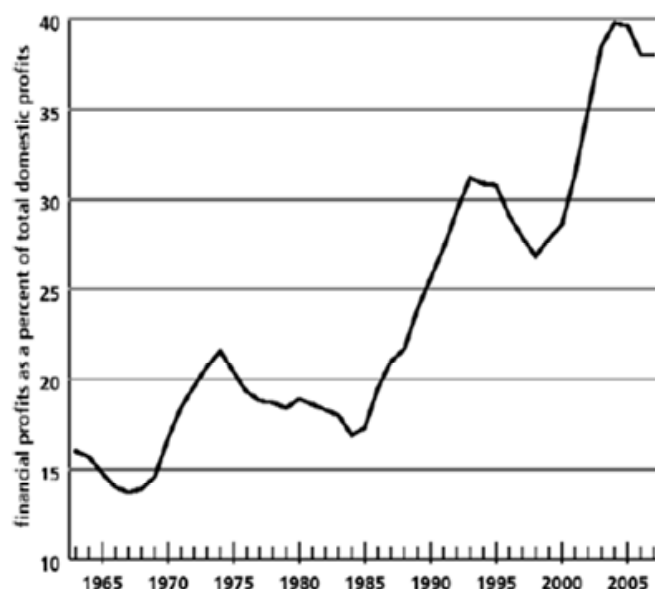
- **The US economy under the sway of finance**
 - Shift of a major part of manufacturing abroad, notably in the course of the 1990's to China (application of the theory of comparative advantage)
 - Choice of housing & office building as the motor of domestic accumulation
- **The “functionality” of finance: the record from 1998 to 2007**
 - making investment capital available to firms? No: in the Stock market buy-backs of shares and distribution of “extra” dividends
 - supplying credit to the economy? Organization of a massive housing bubble & the accumulation of a form of asset-cum-physical capital not prone to restructuring and harder to destroy than factories

Chart 2. Net private non-residential fixed investment as a percent of GDP (5-year moving average)



Source: Bureau of Economic Analysis, National Income and Product Accounts, Table 5.2.5. Gross and Net Domestic Investment by Major Type, Annual Data 1929-2006; *Economic Report of the President, 2008*, Table B-1. Gross Domestic Product, 1959-2007.

US: Financial profits as a % of total profits (5-year moving average) Source: Monthly Review



Source: Table B-91. Corporate Profits by Industry, 1959–2007, *Economic Report of the President*, 2008.

- **« Profits » of financial institutions, a « package » of two inter-connected processes**
 - basic levies on value & surplus with effects on wages and retained investment capital
 - levies stemming from the credit supplied to firms (corporate bonds) and to households (consumer credit & mortgage)
 - proceeds of successful speculation, “trading”
- an indicator of the path followed by the accumulation of fictitious capital
- an indicator of the “power of Wall Street” to the extent that the fuelling of the process by inflows of Asian liquidity is left out of the picture

- **« Hollow hegemony », but very strong capacity for defending the domination of interest-bearing capital earning the most fictitious forms of « financial profits »**
 - **On the part of China, not only political CCP's caution, not yet the means in terms of true industrial capacity to act as a challenger**
 - **Predictable phase of global “putrid status quo” of unpredictable duration**
 - **Towards a merging of the economic crisis with expressions of the ecological crisis**
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- **The finite character of the planet's resources and the global climate crisis are the outcome of the process of endless self-expansion & is of capital's own making as much as the ones taking the classical forms of over-accumulation, overproduction and fall in the rate of profit**
- **The overall problems are recognized by some capitalist circles (in their own way of course) but capital as a whole is having the greatest difficulty in coming to terms with this new barrier and some segments of capital cannot & will not accept to take heed of it at all**

- **There are several major reasons**
 - **the intensity of competition in the world market accentuated by recession**
 - **the strength of entrenched position of the energy-automobile-building industrial complex**
 - **but also the fact that the nature of the commodities produced & the way in which they are produced have never been considered “class issues”**

**In the 20th century, world history was marked by the ever more brutal responses of capital
The proletariat as the designated enemy and the foremost victim = mass unemployment and two world wars decimating the working class**

Today there are high risks that problems stemming from the finite character of the planet's resources and the global climate crisis will receive a similar type of response.

Danger of a world & domestic ecological-social divides only enforceable by military-security regimes. Now the most important contemporary expression of socialism or barbarianism?