Nyerere Resource Centre - COSTECH

Financialization, Accumulation and Crisis

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Short Course on "Financialization of Land and Ecology"

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OUTLINE OF THE LECTURE

- The current economic crisis
- New stage of development of capitalism?
- What is financialization and what are its implications?
- Bibliography

The Current Economic Crisis

- Each crisis incorporate specific characteristics – proximate cause/trigger, depth, incidence across the economy, ideology or political system, impact within and/or between economic sectors or upon the working class, the state and fractions of capital in each country. These are the specific manifestations of the underlying cause of capitalist crisis – the subordination of the production of use value to the production of surplus value.

- The current crisis is remarkable across a number of dimensions:

  - The crisis spread from the sub-prime market in the US, which provides finance for mortgages for the poorest households. Collapse of housing markets and paper claims of real assets (fictitious capital) lost value.

  - The transmission mechanisms and the magnitude of the crisis has overwhelmed even the unprecedented levels of state intervention, and revealed the inadequacy of mainstream theory, ideology, policy and institutions to understand such crisis, let alone to stop it and deal with its impacts.

The Current Economic Crisis

- It's the more severe crisis since the 1930s, but ends a cycle of 30 years of slow growth, during which a series of largely contained and localized, financial crisis occurred in different regions, and starts a new, normalised cycle of even slower growth (in productivity and output, and employment). Hence, the crisis is not a sub-prime crisis alone, although the sub-prime market may have triggered it.

- The state has effectively created resources, that did not exist before, to save the financial system (the accepted culprit blamed for the crisis), spending several trillion of USD in rescue packages, manipulating ideology and policy to unprecedented levels, with very little "value for money". The rescue packages exceeded several times the total revenue accrued from privatization ever in the whole world. Those resources would be more than sufficient to eradicate world poverty for the next 50 years, if not forever. Instead, they were created to rescue the "culprit". And yet, it is the same state and ideology that prevented states froom promoting industrialization and industrial policy and infrastructure development.

The Current Economic Crisis

- One of the implications of such degrees of state intervention is a world-wide, huge public budget deficit, which have been almost everywhere approached in a monetarist and neo-liberal way: the destruction of social systems (in health, education, transports, housing, sanitation, water and energy supply, infrastructures, social security and pensions, etc.) and the creation of more opportunities for financial capital to penetrate in those same sectors (through systematic and wide spread privatisation of public systems). Hence, the state cuts expenditure in social areas in order to deal with a debt crisis created by the financial system, and opens up those same areas for further penetration of the same financial system and the dominance of interest bearing capital, expanding their profit opportunities.

- Finance and its excesses have been blamed, not the poor, for the crisis. However, the political slogan became “we need to work together and save the financial system”, so further crisis is avoided, meaning that less is available for everyone, when then culprit is “clearly” identified.

A New Stage of Development of Capitalism?

- For purposes of theoretical work, understanding or policy, the crisis cannot be contained to one sector or set of sectors, to one factor or set of factors, to one period or region. Need for a broader understanding of the crisis, that is systemic (how the capitalist economy works) and dynamic (how it has changed).
- The cause of the crisis is located precisely in the ways in which financialization has governed economic and social restructuring, reducing levels and efficacy of investment (other than the fictitious) as well as undermining the broader social conditions within which accumulation of capital takes place (Fine, 2013).

A New Stage of Development of Capitalism?

- Are we in the presence of a new stage of development of capitalism?
  - Strong and authoritarian state, focused on promotion of the interests and internationalization of capital in general, and of finance in, particular: (i) financialization of the finances of the state, (ii) deregulation as means to facilitate the expansion of interest bearing capital (IBC) to activities from which it was excluded, (iii) massive public rescue packages for the financial system, and (iv) severe social austerity (free public resources for finance, increase rate of profits, expand opportunities for further expansion of finance into uncommon areas)
  - Unprecedented favourable conditions for capitalism developed over the last 4 decades: broad range of new technologies, adoption of neo-liberal policies, ideological triumph of free markets, wining of the cold war, entry of China in the global capitalist system, declining of progressive liberation movements, containment of economic and social wages, weakening of trade unions, increase of flexibility of labour supply,…AND, yet, the worst crisis for almost a century

What is financialization and what are its implications?

- So, what is financialization? It is the intensive (as in speculative booms) and extensive (as in attaching itself to activities from which it was previously absent) accumulation of fictitious capital, this is, the increasing scope and prevalence of interest bearing capital (IBC) in the accumulation of capital (Fine, 2013).
- In this light, the current concrete manifestation of the underlying conditions for capitalist accumulation and crisis are located in financialization as a distinct stage of capital accumulation. Hence, the relevant ce of understanding it.

What is financialization and what are its implications?

- Role of money as money – enabling transactions:

  - **M** → consumption, where the initial credit enables consumption that may not otherwise have happen, and such consumption is part of the process of realization of surplus value (value created over and above the social costs of reproduction of labour) and accumulation of real capital. One may borrow to buy a house or a car, and that borrowing may not be contigent to making the car or house into a surplus value generating activity.

  - Redistribution of wealth that already exists

What is financialization and what are its implications?

- Role of money as capital (or interest bearing capital, IBC)
  - Money lent to create money, or to expand accumulation for which a return with profit is anticipated (interest bearing capital, or IBC).
    - $\mathbf{M} \rightarrow C \rightarrow C' \rightarrow \mathbf{M'}$
  - Paper claims on debt (fictitious capital) can be bought and sold as a bundle of assets, for a value that may or may not correspond to the potential to realize that value.
  - Expansion of wealth (which may or may not be fictitious wealth, which may diverge from real wealth) and redistribution and deployment/utilization.
  - IBC is both essential (as it may promotes competition, may expand accumulation and may help innovation and productivity increase) and destabilizing (as when accumulation of fictitious capital runs ahead of real capital and, therefore, promotes speculative booms followed by crashes, fails to realize its potential returns and makes fictitious and real accumulation to diverge).

What is financialization and what are its implications?

- Money as money and IBC coexist, and the frontier between them depends not only on intentions but on the realization of such intentions:
  - Borrowing may not be contingent to making a surplus generating activity (accumulation of capital), but it becomes so when the portfolio of lending/debt is bundled into an asset that can be sold and resold.
  - Whereas IBC may help to promote competition, innovation and expansion of accumulation elsewhere in the economy, it is much less inclined to promote financial competitors. IBC extracts surplus before the residual is redistributed. Hence, the intensive and extensive expansion of fictitious capital (which becomes a market that comes alive on its own and quite independent of other, real markets) may occur at the cost of contraction in real investment, real accumulation and welfare.

What is financialization and what are its implications?

- Hence, financialization is not the presence of finance itself, no matter how intensive and extensive, but the incorporation of this into further financial operations that constitute the extensive and intensive expansion of IBC, this is, the subordination of finance to IBC.

- Under financialization, fictitious capital is linked not only with a claim on surplus but with corporate ownership and control.

What is financialization and what are its implications?

- *"Banking was created in iniquity and was born in sin. Then bankers own the Earth. Take it away from them, but leave them the power to create money, and with the flick of a pen they will create enough deposits to buy it back again. However, take that power away from them, and all the great fortunes like mine wil disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money." (Sir Josiah Stamp, in Fine 2013).*

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