

## Financialization and its Discontents

By Francis Lee for the Saker blog, 25 September 2022

As the textbooks would have define it Capitalism should be understood as being essentially a dynamic force, constantly growing and mutating, and it takes no prisoners moreover. It is a social system in which individuals are free to own the means of production, property, and maximize profits and which resource allocation is determined by the price system. Well, that's the theory in its pristine form going all the way back to John Locke (1632-1704). However, in the fullness of time the system changed and adapted to the requirements of its new environment. The early logicians of the system were mostly to be found in Europe, particularly England, France, and Germany. The English School of theoretical practitioners, including Adam Smith – who in fact was Scottish – (1723-90), (David Ricardo (1722-1823) who was originally Portuguese, John Stuart Mill (1806-1873), Karl Marx (1818-1883) and his sidekick (Friedrich Engels – both German (1820-1895) Although much of Engels' work was journalism rather than economic theory – see for example '*The Condition of the working class in England 1844.*'

Such was the golden age of political economy.

Political Economy was, however, about to be eclipsed by a new theory, viz., 'Economics'. Mathematical Economics has now pretty much insinuated its way into the Political Economy of the dominant school, university, and business curricula. The theory is based upon a system of 'natural' laws' (sic!) which are apparently above dispute and rigidly disciplined by a priesthood of clerics sworn to uphold its religious precepts.

So far, however, any attempt to challenge the teachings of this faith and its defenders will find it tough going. Be that as it may a radical movement among its retractors is building up a head of steam in opposition. Nothing stays the same forever and to be subject to a radical reshaping of the way economics and finance are, and have been, studied and taught. What has gone wrong has long historical roots and will doubtless correct – but correct it must. There has been and increasingly more than dissatisfaction with the current Economics paradigm. Its critics are vehement:

"Academic economics has become a disaster and a disgrace. In a particular lecture Nobel Laureate Paul Krugman said that much of the past 30 years of macroeconomics was 'spectacularly useless at best, and positively harmful at worst.'" (1)

Krugman was on this occasion correct. "Not only did most academic economists fail to see the Great Implosion (2008) coming, but they were not even looking in the right direction. And having been surprised by its arrival, they had little to say about its implications – the greatest event to have fallen the capitalist system since the Second World War." (2)

Yet, the herd-like response to the 2008 debacle was not unique. It seems like many other blow-outs inbuilt in popular consciousness. Everything seems to be going along as normal and then – wham, everything collapses. And this is not the first time that this has happened. Much the same was true of the collapse of communism in the early 1990s which broke on an unsuspecting academic community that had written virtually nothing about how a society should move from communism to a market system. The situation was and is hardly unique.

"Although there are shining exceptions, most academic economists, whilst clinging to the idea that their subject matter is somehow relevant and of interest to a wider world, in fact practice a modern form of scholasticism – of no use or interest to man or beast. The output of this activity consists of articles entombed in 'scholarly' journals usually about questions of

startling irrelevance, badly thought out and appallingly badly written, littered with jargon, and liberally dosed with mathematics, destined to be read by no-one outside of a narrow coterie, and increasingly not even by them.” (3)

But what happens when civilizations disintegrate as they always do? Well, we would have a case-study – or perhaps I should say case-studies, plural – standing squarely in front of us. During the 1980s and 90s the system enjoyed a period of considerable prosperity. This was occasioned by the fall in the oil price and dominance of the yuppie ideology of leveraged wealth and risk taking. There was also the emergence of China – N.B. Russia was still in the convalescent ward at the time having been ravaged by its own extractive yuppie class oligarchs – China, however, powered ahead as a major supplier of cheap goods and the remarkable advances in technology.

The values of modern financial markets, dominated by the devil-may-care worship of greed, are deeply corrosive of the values which held societies together. They are also corrosive of the values that underpin successful business. Businesses once focused primarily on producing goods and services for which they had a competitive advantage, but today they are more likely to place just as much if not more focused on their share price, their dividends regime, their borrowing, and their bets they have made on exchange rates and interest rates.

What also bears examination was the great sell-off of national assets during the heady years of the Blair/Clinton interlude. Monies which were handed out into the greedy grasp of the oligarch class throughout the US and Europe. Michael Hudson explains:

“The West’s former left-wing parties have adopted neo-liberal policies relinquishing political control back to the financial and *rentier* elites that seemed on the brink of losing them when the 20<sup>th</sup> century tax and regulatory reforms began to be put in place. Tony Blair’s British Labour Party, and Bill Clinton’s US Democratic Party in the 1990s have been followed by the German Social Democrats SPD and French PS Parti Socialiste in this regression. Not to mention the Greek and Spanish socialist parties.” (4)

But we have now moved on to the second leg of the great economic and political reset which was in as sense 2008 on steroids.

### **The Finance Revolution**

The best-known understanding of Finance and Financialization can be delineated as follows: financialization is a global system which involves the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of domestic and international economies. (5)

Financialization involves a uniquely new order of wealth extraction – not to be confused with wealth creation (production). In addition, the unchecked growth of finance has given rise to the emergence of a new rentier economy and a rentier class similar to the aristocratic strata of yesteryear; a class against whom the 19<sup>th</sup> and 20<sup>th</sup> century proponents of a productive economy toiled in vain. Unfortunately, this social/economic formation has become a growth consuming parasite which has positioned itself astride the national and even global/financial borders of sovereign states. This economic and financial coup against the working class as well as productive capitalism has nurtured a political counter-revolution which has so far been impervious to any change of its social and political position. As Michael Hudson notes.

“The distinguishing feature of finance-capitalism is not the *real* economy of production and consumption, industrial profits, and wages, but the financialization of income and wealth. That is what is imposing austerity, as a result of payments to the Finance, Insurance and Real

Estate sector, “crowding out” personal and corporate income. This phenomenon is a composite of debt deflation and rent deflation.” (6)

Michael Hudson: a note on *debt deflation*. Below.

“Every economy needs credit to finance housing, education, (in the United States) and large consumer durables from automobiles to refrigerators. The problem is that the economy-wide volume of debt grows exponentially by compound interest. The financial expansion of debt (and of “savings” on the creditors’ side of the economy’s balance sheet) is extractive, deflating the industrial economy’s circulation of production and consumption spending ... Hudson.

David Ricardo (see above) ignored the exponential growth of interest-bearing debt. It was left to Karl Marx to elaborate (In Volumes II and III of *Capital*) that the financial system of credit and debt is external to industrial capitalism. It grows by purely mathematical laws, and these are independent of the economy’s ability to produce and pay-off the debts. As the rising debt overhead diverts income away from the industrial economy, creditors receiving this exponential growth recycle their interest receipts into yet more lending diverting more and more income to banks and bondholders away from the industrial economy. What doubles is not **real growth** but the financial burden, leaving less income to be spent on goods and services.

The resulting exponential all-devouring path “assimilates all the surplus value with the exception of the share claimed by the state.” see Marx. (7)

### **The State and Sovereignty**

During the post 1945 period it was generally understood that the political institutions of state have always been in a sense neutral. Acting in the public interest the state was responsible for key sectors of the economy which included, health, education, key industries like transportation, public utilities – water, electricity, gas, coal, iron, and steel. Moreover, there were cultural utilities such as music, housing, and theatre drama – and in addition, museums, parks, playing-fields, and lidos which have always been funded by the state. There were a number of things like Circuses for example which remained in the private sector.

But the state no longer oversees most of the above. The only real institutions which now matter are the civil service, the police, and the armed forces, and of course – the media.

First to be targeted were the inhabitants of the global south. The IMF and World Bank were given this particular role. This deadly duo of IMF/WB were provided with a brief to impose the dreaded ‘Structural Adjustment Programmes forced on governments in Latin America Asia and Africa by the IMF/WB duo to pursue export led industrialization, cut welfare spending, lower salaries of civil servants and cut their numbers, rush privatization measures, and above all, enforce private property rights ... And the upshot of all this was the creation of crony capitalism which enabled well-connected individuals and companies to take control of key sectors and turn themselves into plutocrats through opportunistic networking and clientelism. Carlos Slim emerged from nowhere and became the richest man in the world by acquiring control of Mexico’s telecom sector on privatization. Predictably other nonentities in the global south emerged as billionaires combining political skills with ruthless commercial acumen.

In the Northern hemisphere what was left was the privatization of much of the above. In Russia this took on the most extreme form and led to a collapse in the Russian state,

institutions, culture and religion and the rise of the Oligarch class. Russia was literally gutted by the privatizers and their western backers and took years to recover.

This process also took place in ex-post-soviet states and also took years to recover, and had enjoyed a brief renaissance, until a reemergence of the new capitalist order with the usual smorgasbord of structural reforms imposed by the IMF/WB duo was meted out. (8) These destructive policies brought in by a series of privatizations which were a bonanza to the already well-heeled but has become a new burden for the new working class in the West.

(One of the side effects of this global counter-revolution has been the fall in population particularly in the northern hemisphere. The fertility rate for women has been falling and with it the size of the population. I cannot think of one country in the northern hemisphere which manages the minimum 2.1 fertility rate for women. In short, and to the joy of the eugenicists, the world population has been in long-term decline from 1950 onwards.) The Great Game goes on.

### **This article by Alastair Macleod can be read in full in Goldmoney**

Geopolitics: The world is splitting in 2. 18-Aug-2022. By Alasdair Macleod.

While we are being distracted by Ukraine, President Putin has advanced his geopolitical goals materially. Aided and abetted by President Xi, Putin is taking the Asian continent into his control. The mission is well on its way to being achieved. He now awaits the winter months to finally force the EU to reject America's hegemony. Only then, will the western end of the Eurasian continent be truly free of America.

This brief synopsis explains how he is achieving his strategic goals. It examines the geopolitics of the Asian landmass and the nations tied to it, which are commercially and financially turning their backs on the US-led western alliance.

I look at the politics from President Putin of Russia's viewpoint, since he is the only national leader who seems to have a clear grasp of this long-term objectives. His active strategy conforms closely with Halford Mackinder's predictive analysis of nearly 120 years ago. Mackinder is regarded as the founder of geopolitics.

Putin is determined to remove the American threat to his western borders by squeezing the EU to that end. But he is also building political relationships based on control of global fossil fuel supplies – a pathway opened for him by American and European obsessions over climate change. In partnership with China, the consolidation of his power over the Eurasian landmass has progressed rapidly in recent weeks.

For the Western alliance, financially and economically his timing is particularly awkward, coinciding with the end of the 40-year period of declining interest rates, rising consumer price inflation, and a deepening recession driven by contracting bank credit.

It is the continuation of a financial war by other means, and it looks like Putin has an unbeatable hand. He is on course to push our fragile fiat currency based financial system over the edge.

### **NOTES**

(1) *'The Trouble with Markets'*, Roger Bootle – *Saving Capitalism from Itself* – Chapter 9 – pp.232-33 – P.Krugman

(2) Bootle – page 233 – *Ibid.*

(3) *Bootle – op. cit.*

(4) *Michael Hudson – The Destiny of Civilization – p.172*

(5) *Grace Blakely – Stolen: How to Save The World from Financialization. By Grace Blakeley – page 11.*

(6) *Michael Hudson – The Destiny of Civilization – p.15*

(7) *K. Marx – Capital Volume 3, page 699*

(8) *Meanwhile the Washington Institutions gained a new role in the 1990s as the midwives to capitalist development in the numerous 'transition' economies of the former Soviet Union and Eastern Europe the hastily established European Bank for Reconstruction and Development. (ERBD). They adopted the structural adjustment strategy to these countries in what was euphemistically called 'shock therapy'. This had calamitous social and economic consequences for which the international financial institutions advising them to bear a great deal of responsibility.*