New Directions in Modern Economics

EE Elgar

THE GREAT FINANCIAL MELTDOWN

Systemic, Conjunctural or Policy Created?

Edited by **TURAN SUBASAT**

The Great Financial Meltdown

The Great Financial Meltdown

Systemic, Conjunctural or Policy Created?

Edited by

Turan Subasat

Department of Economics, Mugla Sitki Kocman University, Turkey

NEW DIRECTIONS IN MODERN ECONOMICS

Edward Elgar
PUBLISHING

Cheltenham, UK • Northampton, MA, USA

© Turan Subasat 2016

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical or photocopying, recording, or otherwise without the prior permission of the publisher.

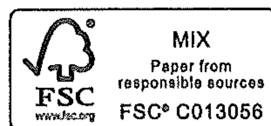
Published by
Edward Elgar Publishing Limited
The Lypiatts
15 Lansdown Road
Cheltenham
Glos GL50 2JA
UK

Edward Elgar Publishing, Inc.
William Pratt House
9 Dewey Court
Northampton
Massachusetts 01060
USA

A catalogue record for this book
is available from the British Library

Library of Congress Control Number: 2016931499

This book is available electronically in the **Elgar**online
Economics subject collection
DOI 10.4337/9781784716493



ISBN 978 1 78471 648 6 (cased)
ISBN 978 1 78471 649 3 (eBook)

Typeset by Servis Filmsetting Ltd, Stockport, Cheshire
Printed and bound in Great Britain by TJ International Ltd, Padstow

Contents

List of contributors ix
Acknowledgements xvi
List of abbreviations xvii

PART I INTRODUCTION

1 The crisis in context 3
Turan Subasat
2 Roots of the current economic crisis: capitalism, forms of capitalism, policies and contingent events 18
David M. Kotz

PART II CRISIS AND PROFITABILITY

3 Crisis theory and the falling rate of profit 37
David Harvey
4 Monocausality and crisis theory: a reply to David Harvey 55
Michael Roberts
5 Booms, depressions and the rate of profit: a pluralist, inductive guide 73
Alan Freeman

PART III THE CRISIS IN ECONOMIC AND SOCIAL REPRODUCTION

6 A global approach to the global financial crisis 97
John Weeks
7 The incubator of the great meltdown of 2008: the structure and practices of US neoliberalism as attacks on labor 116
Al Campbell and Erdogan Bakir
8 The value of history and the history of value 136
Radhika Desai
9 The systemic failings in framing neoliberal social policy 159
Ben Fine

10 The policy-based and conjunctural causes of the 2008 crisis 178
Turan Subasat
11 The systemic causes of the 2008 crisis: an alternative theoretical perspective 198
Turan Subasat

PART IV CRISIS AND FINANCE

12 Inequality, money markets and crisis 217
Simon Mohun
13 The crisis of finance and the crisis of accumulation: it was not a 'Lehman Brothers moment' 236
Jan Toporowski
14 Contradictions of capital accumulation in the age of financialization 248
Özgür Orhangazi
15 Which crisis, of which capitalism? A Marxian and financial Keynesian interpretation of neoliberalism and the great recession 266
Riccardo Bellofiore
16 The contested nature of financialization in emerging capitalist economies 287
Annina Kaltenbrunner and Elif Karacimen

PART V THE CRISIS UNFOLDS

17 The Greek crisis: structural or conjunctural? 307
Stavros D. Mavroudeas
18 Greece, global fault-lines and the disintegrative logics of Germany's primacy in Europe 328
Vassilis K. Fouskas
19 Conclusions 341
John Weeks

Index 345

Contributors

Erdogan Bakir received his BS and MS from the Middle East Technical University in Ankara, Turkey and his PhD from the University of Utah, USA. In 2006–2007, he held a Swedish Institute postdoctoral scholarship at the Gothenburg University in Sweden. He has been teaching at the Bucknell University in Lewisburg, USA since 2008. His research, which focuses on business cycles and the neoliberal form of capitalism in the USA, has been published in political economy journals including the *Review of Radical Political Economics*, *Science and Society* and *Journal of Economic Issues*.

Riccardo Bellofiore is a professor at the University of Bergamo, Italy. He teaches advanced macroeconomics, history of economic thought, monetary economics and international monetary economics. His research interests include capitalist contemporary economy, endogenous monetary approaches, Marxian theory and the philosophy of economics. Among his recent publications are: 'Crisis Theory and the Great Recession: A Personal Journey, from Marx to Minsky' (*Research in Political Economy*, 2011); '"Two or Three Things I Know about Her": Europe in the Global Crisis, and Heterodox Economics' (*Cambridge Journal of Economics*, 2013); and with Francesco Garibaldo and Mariana Mortagua, 'A Credit-Money and Structural Perspective on the European Crisis: Why Exiting the Euro is the Answer to the Wrong Question' (*Review of Keynesian Economics*, 2015); and five co-edited books: with Giovanna Vertova, *The Great Recession and the Contradictions of Contemporary Capitalism* (Edward Elgar Publishing, 2014); with Scott Carter, *Towards a New Understanding of Piero Sraffa. Insights from Archival Research* (Palgrave Macmillan, 2014); with Guido Starosta and Peter Thomas, *In Marx's Laboratory. Critical Interpretations of the Grundrisse* (Leiden, 2013); and with Ewa Karwowska and Jan Toporowski, two volumes in honour of Tadeusz Kowalik: *The Legacy of Rosa Luxemburg, Oskar Lange and Michal Kalecki* (Palgrave Macmillan, 2014) and *Economic Crisis and Political Economy* (Palgrave Macmillan, 2013).

Al Campbell is a retired Emeritus Professor of Economics from the University of Utah, USA, currently living in Bern, Switzerland. He is a

longstanding member of the Steering Committee of the Union for Radical Political Economics (URPE), a member of the Programme Committee of the International Initiative for Promoting Political Economy (IIPPE) and on the editorial board of the *International Journal of Cuban Studies*. His central research interests over his career have been the nature, structure and functioning of contemporary capitalism (neoliberalism today), theoretical issues concerning more humane socialist alternatives, and empirical considerations of contemporary national economies attempting to build such an alternative. He is the editor of *Cuban Economists on the Cuban Economy* (University Press of Florida, 2013).

Radhika Desai is a professor at the Department of Political Studies and Director, Geopolitical Economy Research Group, University of Manitoba, Winnipeg, Canada. She is the author of *Geopolitical Economy: After US Hegemony, Globalization and Empire* (Pluto Press, 2013), *Slouching Towards Ayodhya: From Congress to Hindutva in Indian Politics* (Three essays Collective, 2nd rev. edn 2004) and *Intellectuals and Socialism: 'Social Democrats' and the Labour Party* (Lawrence & Wishart, 1994), a *New Statesman and Society* Book of the Month. She is editor of *Theoretical Engagements in Geopolitical Economy* (Emerald, 2015), and *Developmental and Cultural Nationalisms* (Routledge, 2009), and co-editor with Paul Zarembka of *Revitalizing Marxist Theory for Today's Capitalism* (Emerald, 2010). She is also the author of numerous articles in *Economic and Political Weekly*, *New Left Review*, *Third World Quarterly* and other journals, and chapters in edited collections on parties, political economy, culture and nationalism. With Alan Freeman, she co-edits the Geopolitical Economy book series with Manchester University Press and the Future of Capitalism book series with Pluto Press. She serves on the editorial boards of *Canadian Political Science Review*, *E-Social Sciences, Pacific Affairs*, *Global Faultlines*, *Research in Political Economy*, *Rivista Economica Critica*, the *World Review of Political Economy* and *International Critical Thought*.

Ben Fine is Professor of Economics at the School of Oriental and African Studies (SOAS), University of London, UK and holds honorary positions at the Universities of Johannesburg (Senior Research Fellow attached to the South African Research Chair in Social Change), Rhodes University (Visiting Professor, Institute of Social and Economic Research), and Witswatersrand (Associate Researcher, Corporate Strategy and Industrial Development). His recent books include: as contributing editor, with K. Bayliss, *Privatization and Alternative Public Sector Reform in Sub-Saharan Africa: Delivering on Electricity and Water* (Palgrave Macmillan, 2008); co-edited with Alfredo Saad-Filho and Marco Boffo, *The Elgar Companion to Marxist Economics* (Edward Elgar, 2012); co-authored with

Dimitris Milonakis, *From Political Economy to Economics: Method, the Social and the Historical in the Evolution of Economic Theory* (Routledge, 2009), awarded the 2009 Gunnar Myrdal Prize; co-authored with Dimitris Milonakis, *From Economics Imperialism to Freakonomics: The Shifting Boundaries Between Economics and Other Social Sciences* (Routledge, 2009), awarded the 2009 Deutscher Prize; co-authored with Alfredo Saad-Filho, *Marx's Capital*, sixth edition (Pluto Press, forthcoming); *Theories of Social Capital: Researchers Behaving Badly* (Pluto Press, 2010); as contributing editor, with K. Bayliss and E. Van Waeyenberge, *The Political Economy of Development: The World Bank, Neoliberalism and Development Research* (Pluto Press, 2011); as contributing editor with J. Saraswati and D. Tavasci, *Beyond the Developmental State: Industrial Policy into the 21st Century* (Pluto Press, 2012); as contributing editor with Kyung-Sup Chang and Linda Weiss, *Developmental Politics in Transition: The Neoliberal Era and Beyond* (Palgrave Macmillan, 2012). He has served as an advisor to trade unions, other progressive organizations, and to international, national and local agencies and governments, and served as one of four international expert advisors on President Mandela's 1995–1996 South African Labour Market Commission. He currently sits on the Social Science Research Committee of the UK's Food Standards Agency for which he chaired the Working Group on Reform of Slaughterhouse Controls. He is Chair of the International Initiative for Promoting Political Economy (IIPPE).

Vassilis K. Fouskas is Professor of International Politics and Economics at the University of East London (UEL), UK and the Director of the Centre for the Study of States, Markets and People (STAMP) in the UEL's Royal Docks School of Business and Law. He is the founding editor of the *Journal of Balkan and Near Eastern Studies* (Routledge, six issues a year since 1998) and the co-author (with Constantine Dimoulas) of *Greece, Financialization and the EU: The Political Economy of Debt and Destruction* (Palgrave Macmillan, 2013).

Alan Freeman is a former principal economist at the Greater London Authority, UK where he was responsible for London's Economic Forecast, the Living Wage, and the Creative Economy. He retired in 2011 and lives in Winnipeg, Canada where, with Radhika Desai, he is co-director of the Geopolitical Economy Research Group. With Hasan Bakhshi and Peter Higgs he co-authored *A Dynamic Mapping of the UK's Creative Economy* (NESTA, 2014), which laid the statistical basis for the UK Department of Culture, Media and Sport's creative industry estimates from 2015 onwards. With Radhika Desai he co-edits the Future of World Capitalism book series (Pluto) and writes regularly on economics and

politics. His books include *The Benn Heresy*, a biography of the UK politician Tony Benn (Pluto, 1981, rev. edn 2014), and with Boris Kagarlitsky, *The Political Economy of Empire and the Crisis of Globalisation* (Pluto, 2002). He co-edited *Marx, Ricardo, Sraffa* with Ernest Mandel (Verso, 1984), *Marx and Non-equilibrium Economics* with Guglielmo Carchedi (Edward Elgar Publishing, 1996), and *The New Value Controversy* with Andrew Kliman and Julian Wells (Edward Elgar Publishing, 2004).

David Harvey is a Distinguished Professor of Anthropology and Geography at the Graduate Center of the City University of New York, USA. He is the author of *The Limits to Capital* (Basil Blackwell, 1982), *The Condition of Postmodernity* (Blackwell, 1989), *The New Imperialism* (Oxford University Press, 2013), *A Brief History of Neoliberalism* (Oxford University Press, 2005), *The Enigma of Capital* (Profile Books, 2010) and, most recently, *Seventeen Contradictions and the End of Capitalism* (Oxford University Press, 2014). His popular video lectures on Marx's *Capital*, Volumes 1 and 2 are available free at www://DavidHarvey.org.

Annina Kaltenbrunner is a lecturer in the economics of globalization and the international economy at Leeds University Business School, UK. Her areas of research are development economics, international finance, monetary economics, international political economy, heterodox economics and methodology. She has published on emerging market currency internationalization, financial integration, external vulnerability, and the eurozone crisis and has collaborated on work for the United Nations University (UNU) and the European FP7 Project AUGUR. She is currently contributing to several projects including the European FP7 FESSUD, a two-year project on Finance and Inequality with the Foundation for European Progressive Studies (FEPS), and commissioned work on currency internationalization by the Brazilian central bank.

Elif Karacimen is an assistant professor of economics in the Department of Economics at Recep Tayyip Erdogan University, Turkey. Her research interests include the political economy of banking and credit, financialization in emerging capitalist economies and household debt. She has published articles in the *Cambridge Journal of Economics* and *Journal of Balkan and Eastern Studies*. She obtained her BS in Economics from the Middle East Technical University, Turkey, and her PhD in Economics from the School of Oriental and African Studies (SOAS), University of London, UK. She is a member of Research on Money and Finance (RMF).

David M. Kotz is a professor of economics at the University of Massachusetts Amherst, USA and Distinguished Professor in the School

of Economics at the Shanghai University of Finance and Economics, China. His recent books are: *The Rise and Fall of Neoliberal Capitalism* (Harvard University Press, 2015); *Contemporary Capitalism and Its Crises* (Cambridge University Press, 2010), co-edited with Terrence McDonough and Michael Reich; and *Russia's Path from Gorbachev to Putin: The Demise of the Soviet System and the New Russia* (Routledge, 2007), co-authored with Fred Weir. He has published articles in the *Review of Radical Political Economics, Science and Society, Monthly Review, World Review of Political Economy* and *International Critical Thought*.

Stavros D. Mavroudeas studied at the Economics Department of the University of Athens, Greece (BA Economics 1985), the School of Oriental and African Studies (SOAS), University of London (MSc Economics 1986), and Birkbeck College, University of London, UK (PhD Economics 1990). He is currently working as Professor in Political Economy in the Economics Department of the University of Macedonia. He has published in many academic journals including *Science and Society, Review of Radical Political Economics, Review of Political Economy, Economie Appliquee, International Critical Thought*. His publications include *The Limits of Regulation: A Critical Analysis of Capitalist Development* (Edward Elgar, 2012), *Greek Capitalism in Crisis – Marxist Analyses* (Routledge, 2014), 'Development and Crisis: The Turbulent Course of Greek Capitalism' (*International Critical Thought*, 2013), 'Regulation Theory: The Road from Creative Marxism to Post-Modern Disintegration' (*Science and Society*, 1999), 'Periodising Capitalism: Problems and Method: The case of the Regulation Approach' (*Research in Political Economy*, 1999), 'Work More or Work Harder? The Length and the Intensity of Work in Marx's "*Capital*"' (*Science and Society*, 2010), 'Duration, Intensity and Productivity of Labour and the Distinction between Absolute and Relative Surplus-Value' (*Review of Political Economy*, 2010), 'A History of Contemporary Political Economy and Post-Modernism' (*Review of Radical Political Economics*, 2006), 'All Work and No . . . Pay? Unpaid Overtime in Greece: Determining Factors and Theoretical Explanations' (*Industrial Relations Journal*, 2014).

Simon Mohun is Emeritus Professor of Political Economy at Queen Mary University of London, UK. His research interests are primarily concerned with the theoretically informed measurement, description and explanation of trends in aggregate profitability in developed capitalist economies since the 1960s. He has written extensively on value theory, productive and unproductive labour in capitalist societies, and the rate of profit in the US economy. His most recent work is concerned with the development of long time series of quantitative measures of class in the US economy,

the empirical measurement of Goodwin-type cycles in the post-war UK economy, and finance and financial crisis. He is an active member of the International Initiative for Promoting Political Economy (IIPPE).

Özgür Orhangazi is an associate professor of economics at Kadir Has University in Istanbul, Turkey. He is the author of *Financialization and the US Economy* (Edward Elgar, 2008) and numerous articles and book chapters on financialization, financial crises and alternative economic policies. He previously taught economics at Roosevelt University in Chicago, USA.

Michael Roberts is an independent researcher. He has worked in the City of London, UK as an economist for more than 30 years. He is the author of *The Great Recession: A Marxist View* (Lulu, 2009). He has a new book, *The Long Depression*, to be published by Haymarket in 2016. He has published in the *World Review of Political Economy* and *Historical Materialism* journals and presented papers at the Association of Heterodox Economists, Historical Materialism, Allied Social Sciences Association (ASSA), Society for the Advancement of Social Sciences (SASE) and International Initiative for Promoting Political Economy (IPPE) conferences. He blogs at thenextrecession.wordpress.com.

Turan Subasat is a professor at the University of Mugla. He received his BSc from the University of Istanbul, and his MSc (Birkbeck College) and PhD (SOAS) from the University of London, UK. He previously taught development studies at the University of London (School of Oriental and African Studies, SOAS), economics at the University of Bath, UK and economics at the Izmir University of Economics, Turkey. His research focuses on development economics, international trade, foreign direct investment (FDI) and Turkish economy and he has published in political economy journals including the *Review of Radical Political Economics* and *Journal of Balkan and Eastern Studies*.

Jan Toporowski is Professor of Economics and Finance at the School of Oriental and African Studies (SOAS), University of London, UK and a visiting professor at the University of Bergamo, Italy. He studied economics at Birkbeck College, University of London, UK and the University of Birmingham, UK. Jan Toporowski has worked in fund management and international banking. His most recent book is *Michal Kalecki An Intellectual Biography Volume 1 Rendezvous in Cambridge 1899–1939* (Palgrave, 2013).

John Weeks is Professor Emeritus of Development Economics, School of Oriental and African Studies (SOAS), University of London, UK, and former director and founder of the Centre for Development Policy and

Research, SOAS. He has published over 70 scholarly articles and 12 books plus several edited volumes. Since retirement he has sought to intervene in debates over current policy, especially in Britain and the eurozone. He is a founding member of the UK advocacy organization, Economists for Rational Economic Policies. His most recent book critiques neoliberal economics for non-expert readers, *Economics of the 1%: How Mainstream Economics Serves the Rich, Obscures Reality and Distorts Policy* (Anthem, 2014).

14. Contradictions of capital accumulation in the age of financialization

Özgür Orhangazi

The 2008 US financial crisis and the ensuing 'Great Recession' has brought increased interest in the transformation of the financial structures since the 1980s and in the changing relationship between the financial sector and the rest of the economy. The term 'financialization', which in its broadest sense refers to the increase in the size and significance of the financial sector, has gained widespread use. Financialization has involved a number of changes that have taken place in the relationship between financial markets and institutions and the non-financial sector, especially the non-financial corporations (NFCs). On the one hand, NFCs came under more intense pressure from financial markets and institutions and their decision-making process has increasingly been reshaped to conform to the demands of finance; and on the other hand, NFCs themselves have increasingly got involved in financial investments (Orhangazi 2008a).

As such, financialization of the US economy and its crisis led to renewed interest in Marxian analyses of money and finance and of the structural transformations that have taken place since the early 1980s. Despite differences in usage, the concept of financialization in this literature has two common implications: first, it implies that a structural change has taken place, within which finance has played a central role; and second, this change has had (at least potentially) negative consequences for the economy. In this chapter, while critically engaging with some of this literature, I present two broad arguments. First, financialization can be understood as an inherent tendency within capitalism, and historically this tendency has manifested itself in different forms. Second, the relationship between finance and the productive accumulation process is a complex and contradictory one and Marxian theorizations of financialization need to take these complexities and contradictions into account. In other words, financial and real sides of the economy should not be taken in abstraction from each other but rather as forming a contradictory unity. This argument

runs against some Keynesian arguments that see finance simply impinging upon the real economy, as well as some Marxian arguments where finance is presented only as an afterthought where determination runs only from the real side to the financial. In this regard, some of the arguments here partly follow from Orhangazi (2011), where I argued that the relationship between the real and financial sides of the economy has become increasingly more complicated and contradictory. Therefore, presenting the rise of finance as some external force impinging on the economy is a simplification that ignores other structural problems originating in the economy and fails to give a complete explanation of the rise of finance and its relation to the rest of the economy. Likewise, presenting financialization simply as a response to accumulation problems in the non-financial parts of the economy also amounts to an oversimplification.

The rest of the chapter is organized as follows. In section 14.1, I present the argument that financialization is an inherent tendency within capitalism and acquired a new form under neoliberalism. Hence, I argue, the common theme found in some Marxian approaches that financialization is simply a response to the problems in the real sector falls short of explaining the complexities of the era of financialization. In section 14.2, I argue that in Marxian economic theory finance plays a contradictory role within capitalism, and that financialization further intensified these contradictions. Section 14.3 concludes with a brief overview of the arguments presented.

14.1 THE ROOTS OF FINANCIALIZATION

Historically, the separation of ownership and management in capitalist firms can be seen as a first step towards financialization. Through this separation, reached at the stage of corporate capitalism, the owner ceases to be a direct proprietor of productive capital. The owner's relationship to productive capital is financialized as productive capital now 'appears as commodified financial capital and the revenue generated by corporate productive capital appears to the capitalists, qua rentier, as a stream of financial payments' (Pineault 2001: 35). As such, financialization can be seen as an inherent tendency of the capitalist accumulation process. The transformation of ownership from direct ownership of productive capital to ownership of financial securities, in a way, allows the capitalist to escape risks built into the productive capital accumulation process, and not to be stuck in a productive investment. A productive capitalist enterprise always faces risks due to competition, especially in the introduction of new technologies and new products. Capital struggles to escape these risks through various methods. Monopolization and/or securing state protection of the

investment can help the capitalist to curtail these risks to a certain degree. Shifting capital from the productive sphere to the financial sphere is another way of avoiding these risks. Kotz (2011) argues that this is one of the reasons why Rockefellers, for example, shifted their fortune born in oil to finance and real estate as the capital in their bank – Chase Manhattan Bank – was not tied to any particular form of productive capital. However, banking still involves risks, especially when it involves lending money to productive enterprises. Capital may acquire more safety through holding and dealing in marketable securities as this approaches to the ideal form in which the form of capital can be changed instantly when risks increase. That way, the risks of new products and processes is borne mostly by workers, while capital remains safe (Kotz 2011). This then creates an underlying tendency in capitalism towards financialization; that is, towards an increased role for financial markets, institutions and motives in the operation of the economy.

The financialization tendency has manifested itself in various forms throughout capitalism's history. The rise of 'finance capital' in the early twentieth century is one example. Hilferding ([1910] 1985) argued that under modern capitalism competition was replaced by a process of concentration and centralization of capital that led to the creation of cartels and trusts. This process brought banks and industrial capitalists together as finance capital, a close integration of the financial capital of banks with industrial capital in which banks acquired a dominant position and representatives of banks joined the boards of corporations, reflecting direct control. This integration emerged as a result of the increased reliance of large monopolistic corporations on banks to finance their investments. Finance capital was not only economically important but also socially and politically powerful, as it pushed governments to implement policies that would protect it domestically while supporting it internationally in efforts towards global expansion (Orhangazi 2011). In the case of the United States (US), major banks led by J.P. Morgan controlled most of the US industry at the beginning of the twentieth century (Kotz 1978: 24–39). They aimed to prevent destructive competition as well as financial speculation. In this set-up, financial institutions were oriented towards developing the real sector and preventing excess competition there. There were, of course, financial speculators such as Jay Gould, but the main structure of finance was oriented towards controlling and developing the real sectors. However, by the 1920s new financial centers arose outside New York, challenging the power of New York banks, while large corporations such as the Ford Motor Company emerged outside the control of bankers. This era saw the rise of more financial speculators, such as the Van Sweringen brothers of Cleveland and Samuel Insull of Chicago (Kotz 1978), as

unregulated markets allowed them and some of the old financiers to engage in speculative activities. The 1920s were characterized by a succession of two forms of financialization: the earlier system of finance capital based on a close relationship between finance and industry, aiming to develop industry through elimination of destructive competition, gave way to the rise of financial speculation where financial actors prioritized pure financial profits independently of the health of the non-financial sector.

Following the Great Depression and World War II, a new institutional set-up emerged, in which finance was strictly regulated and made subservient to the needs of productive capital accumulation (Kotz 2011; Orhangazi 2008a: Chapter 3). In this period, this tendency toward financialization was held in check by institutional arrangements, which were ultimately a reflection of the relative power of various classes and groups at the time. However, once neoliberalism began gaining strength, barriers to the expansion of finance were removed.[1] In fact, financial institutions had already been getting around regulations through financial innovations, and the pressure exerted by them coupled with neoliberal policies led to a rapid wave of financial deregulation and liberalization after 1980. Financialization this time emerged as part of a regime shift from the regulated economy of the post-war era to the neoliberal regime. Hence, financialization should be considered as part of a wide range of developments in the post-1980 era including the shift in the US economy towards offshoring and its transformation into a service and rentier economy (Harvey 2003). It is clear that a shift from patient financial markets that seek long-term growth to impatient financial markets that raise financial costs forces NFCs to pay larger shares of their income to financial markets, and changed managerial incentives and shortened planning horizons of NFCs have occurred (Crotty 2005). These changes took place in the context of neoliberal restructuring. While financialization has deeper roots that are not necessarily related to neoliberalism, financial deregulation and liberalization policies in the neoliberal era furthered financialization tendencies (Kotz 2011).

The role of the state in this process is important and there are different arguments regarding the role of the state policies in the financialization process. While it is clear that the state played a facilitating role in the rise and spread of financialization, Magdoff and Sweezy (1987) argue that this was due to the belief that financial expansion would help to sustain economic growth. Panitch and Gindin (2012) argue that the US state actively promoted financialization as it involved 'Americanization of finance' and contributed to the strengthening and universalization of US power. Krippner (2011), on the other hand, argues that while financialization allowed the state to avoid a number of dilemmas that policy-makers faced,

it was not a purposeful outcome but rather an unintentional outcome of policies attempting to solve other problems.

In the Marxian literature on financialization we find a common narrative that sees financialization as emerging in response to the troubles in the non-financial capital accumulation process. In its general formulation, the argument runs as follows. Beginning in the 1970s, the sphere of production has been characterized by low profitability, and faced with low profitability in the production process capital shifted to the financial realm in search of higher profits. While this shift provided temporary relief, the underlying problems in the production side of the economy remained and kept reasserting themselves in the form of crises of different magnitudes, and the crisis that began with the collapse of the US financial sector in 2008 is a resurfacing of the underlying crisis. There are a number of variants of this general argument. For example, Arrighi (1994), who was one of the first scholars to use the concept of financialization, argued that the expansion of finance as an epochal change was part of the latest long wave of capitalism. Arrighi's argument that financialization signals a transition from one accumulation regime on a world scale to another is based on Braudel's thesis that the stages of financial expansions are a sign of the maturity of major capitalist developments (Braudel 1984). In this long wave approach, each long cycle of capitalism involves, first, an increase in material production followed by a crisis of overaccumulation; and second, a financial expansion cycle. Financialization, then, is an outcome of two inherent tendencies within capitalism: overaccumulation of capital, and competition among states for mobile capital. The overaccumulation of capital is reflected as an exhaustion of profitable investment opportunities in the real sectors of the economy, which is usually accompanied by increasing product market competition. The turn towards financial expansion worsens the weaknesses in the real economy and has negative implications for real capital accumulation.

A somehow similar argument was put forward by the *Monthly Review* approach, which sees financialization as a response to the 1970s' crisis, though from a completely different theoretical vantage point (e.g. Foster and Magdoff 2009). According to this approach, the mature state of capitalism is dominated by monopolies, that create a continuously expanding surplus value whose absorption becomes the main problem and leads to wasteful activities, sales effort, increased military expenditures and so on. By the 1970s the surplus absorption problem led to a crisis and capital began looking for a safe haven in the speculative activities of finance. Hence, financialization is an outcome of the search for a sphere for the absorption of surplus that could not find profitable investment opportunities in the real sector with the exhaustion of the post-World War II

stimulants to demand, such as post-war reconstruction, automobilization, the military–industrial complex, and so on. Both Arrighi and the *Monthly Review* approach agree that financialization is triggered by overaccumulation problems, though overaccumulation is a result of increased competition in the former, and increased monopolization in the latter.

Brenner (2009) argues that there has been a chronic overcapacity problem in production since the 1970s, mainly due to increased international competition, that has lowered the profit rates. This led to a 'permanent and latent' crisis in advanced economies whose actualization has been prevented by the financial expansion. Harman (2010) and Callinicos (2010) make similar arguments to the effect that overaccumulation is a chronic condition of contemporary capitalism, and financialization with its credit expansion serves to counteract the stagnation tendencies and create periods of booms. However, once the credit expansion comes to an end, stagnation is manifested. Harvey (2003) argues that overaccumulation of capital leads to shrinkage of profitable investment opportunities and hence requires a temporal and spatial reshuffling of the processes of production and accumulation. Overaccumulation requires a redirection of capital into more profitable places and/or postponement of investments. Financialization helps this 'spatio-temporal fix' by redirecting capital flows from one space to another. Financialization brings a 'financial fix' as capital is directed towards the realm of finance in search of profits. However, Harvey also takes into consideration a number of other factors effective in the rise of financialization, especially the role of changing accumulation patterns, institutional changes and neoliberal policies, stressing that political decisions have been effective in the drive towards financialization through financial market liberalization and deregulation (Harvey 2005).

These approaches to financialization attempt to seek structural causes for the rise of financialization as they treat it as a general response to a profitability crisis. The emphasis on the causation running from the production sphere to the financial sphere is perhaps partly due to the fact that often these analyses, either explicitly or implicitly, attempt to build themselves against the Keynesian approaches that see the financial expansion as essentially caused by the financial liberalization and deregulation policies. Furthermore, historically, Marxian theorization presumed the primacy of real capital accumulation over financial factors. While these analyses do not deny the role of the institutional changes, they rather present them as a structural necessity of the underlying problems in the production side of the economy. In effect, they present a one-way causation between the real and financial realms of the economy, through which the financial sphere is determined by the real accumulation process. This provides an incomplete

picture of the financialization process and ignores the structural changes that take place in the non-financial sector due to changes in financial structures and practices (see section 14.2 below).

Another problem with the overaccumulation thesis has to do with its high level of abstraction. Capital is treated as a singular entity; various divisions and differentiations within capital are mostly ignored in the search for structural explanations of the origins of financialization. However, the search for a structural explanation often prevents a thorough understanding of the choices and behaviors of the different economic and political actors that were involved in this process. For example, if the (non-financial) capital running into stagnation was escaping from real activities to financial activities, then the economic reasons and motivations of different capitals within the real sector need to be explained clearly. In other words, if 'non-financial capital has indeed been seeking escape from stagnation by engaging in the speculative activities of finance, it follows that industrialists, merchants, and bankers must have had economic reasons to change their conduct, which have to be specified accordingly' (Lapavitsas 2013: 17–18).

The underlying claim that capitalism has been in a permanent (but latent) overaccumulation crisis since the 1970s is another critical issue with the overaccumulation thesis. Seeing the more than three decades between the 1970s and 2008 as a period of crisis rather empties the concept of crisis from any analytical meaning. It is clear that the rate of economic growth has been relatively lower in the post-1980 era compared with the 'golden age' years in the US and many other economies. However, this period has also witnessed strong recovery in the profitability of the US non-financial corporate sector, reasons for which need to be explained.[2] Furthermore, capitalism sustained growth through new centers of accumulation especially in China and other East Asian countries; production has been transformed through new technologies, especially in information and telecommunications, and so on. Dynamic accumulation in many other parts of the world is not explained, as much is invested in the notion that the normal state of contemporary capitalism is stagnation in the absence of state intervention and financial expansion.

Perhaps a more important problem with these approaches originates from the lack of theorization of financial profits. As the financial sector is not analyzed but treated as a black box without an analysis of its own logic of accumulation, these approaches fail to explain how financial profits can be higher at a time when profitability in the real sector is falling. This analytical problem is further aggravated with the actual timing of low profitability in the real sector and the rise of financialization. Financialization took off in earnest in the 1990s, after profitability of the NFCs began recovering.[3]

14.2 FINANCIALIZATION AND DYNAMICS OF ACCUMULATION

In this section, I argue that financialization should be understood in terms of its contradictory nature and that the relationship between real capital accumulation and the financial sector is inherently complex and contradictory. This is an argument inherent in Marxian economic theory, in sharp contrast with mainstream theory. In mainstream economic and financial theory, the role of the financial sector is simply to serve the needs of the economy. In the standard model, markets and economies are portrayed as inherently stable, and macroeconomic models study only stable states that are affected by external shocks. Financial markets provide essential services to the economy, such as providing liquidity, mobilizing and pooling savings, and allocating funds to investment. They gather, process and disseminate information possessed by different agents in the economy and hence provide services of screening and monitoring, risk management, diversification and hedging. According to these models, as financial markets perform these functions, the prices of financial assets are supposed to reflect their fundamental values in the real economy. Financial markets, therefore, increase the allocative efficiency of the system (Dowd 1996).[4]

Marxian economic theory, however, portrays capitalism as an inherently unstable system. The primary driving force of capitalism is the accumulation of capital, and capital accumulation systematically creates contradictions resulting in crises. The sources of instability and crises can be found in different parts of the accumulation process itself. In very simplified terms, capital accumulation takes place in three stages. The first stage involves the purchase of capital, labor and other inputs; the second stage is the production process; and the third stage is the sale of products. At the beginning of the process, money capital is invested with the expectation of a profit to be realized at the end of the process. Therefore, accumulation is closely associated with the rate of profit, which depends on conditions at different stages of the accumulation process. Potentially, problems at any point could have destabilizing effects for the whole system, and various scholars point out different potential problems at different stages of the process.[5] For instance, conditions of the labor market could generate instability in the first stage of accumulation. A decline in the rate of unemployment (reserve army of labor) and/or increased bargaining power of labor could lead to an increase in wages and/or to a reduction in workplace discipline. If the productivity growth falls behind the wage growth, a decline in the share and rate of profit would be observed, leading to a decline in the pace of accumulation. The second stage of accumulation

involves potential contradictions in terms of the organization of production, choice of technology, supervision of the labor process, and labor productivity. For example, competition among firms results in adoption of the most efficient technology, but when all the firms follow the same route an increase in their capital outlays could lead to a decline in profitability. Labor-saving technical change leads to an increase in the capital–labor ratio and hence creates a tendency for a secular decline in the rate of profit. In the third stage of the process, both the level and the composition of aggregate demand as well as the distribution of income among classes are important variables that would affect realization of the surplus value and hence profitability and accumulation. For example, a high unemployment rate and/or low wages could increase profitability, but at the same time could lead to a shortfall in aggregate demand or to disproportionality among the supply and demand of different sectors, which then would lead to a failure of realization of surplus value (Orhangazi 2011).

Within this rich literature, most of Marxian economic theorization focused on the real components of the accumulation process without paying much attention to the financial side. Sweezy (1997) warned that Marxian approaches failed to take finance seriously because of a one-sided conceptualization of the accumulation process:

> Basically, I think the answer is that its conceptualization of the capital accumulation process is one-sided and incomplete. In the established tradition of both mainstream and Marxian economics, we treated capital accumulation as being essentially a matter of adding to the stock of existing capital goods. But in reality this is only one aspect of the problem. Accumulation is also a matter of adding to the stock of financial assets. The two aspects are of course interrelated, but the nature of this interrelation is problematic to say the least. The traditional way of handling the problem has been in effect to assume it away: for example, buying stocks and bonds (two of the simpler forms of financial assets) is assumed to be merely an indirect way of buying real capital goods. This is hardly ever true, and it can be totally misleading. (Sweezy 1997: 56–57)

It should still be noted, however, that while mostly emphasizing the real sector roots of capitalist instability, Marxian economic theory also points out the contradictory and often destabilizing role of finance. Financial markets and institutions support capital accumulation by mobilizing large amounts of money capital, and allow accumulation to take place at a faster rate and a larger scale than otherwise possible. However, finance can also exacerbate capitalist instability, which can originate either in the financial realm or in the real sector. When there are favorable conditions for accumulation, investment expands rapidly, leading firms to use more credit. The pace and scale of expansion at this stage would depend on the amount of financial capital invested in capital accumulation. These

expansions endogenously create disturbances in the financial or real side of the economy. An adverse development in the real side of the economy could turn into a crisis and collapse, if it leads to or is accompanied by troubles in the financial markets. Likewise, a disturbance originating in the financial sector can spread to the real side of the economy by disrupting the accumulation process. An overextended and fragile system can turn what might have been a mild downturn into a financial crisis (Harvey 1982; Crotty 1986; Orhangazi 2011). Hence, the relationship between the financial and real sides of the economy forms a contradictory unity where finance not only provides the necessary means for accumulation but also may exacerbate periodic disturbances in the economy that can originate either in the financial or the non-financial side of the economy. In other words, finance plays a dual role by sustaining the accumulation of capital and at the same time undermining it. Finance capital is both an important and dominating accelerator of the accumulation process and a destabilizer. The credit system allows the accumulation process to take place at a faster pace and on an expanded scale that would otherwise not be attainable. When the conditions are favorable and investment expands rapidly, the resulting increase in confidence levels leads firms to make use of greater amounts of credit, while the creditors make more loans, some of which are increasingly riskier. The pace and the scale of the expansion then depend on the amount of financial capital thrown into accumulation. However, these expansions prepare their own ends as they endogenously produce either financial or real problems within the economy. Crotty (1986: 68) underlined that:

> adverse nonfinancial developments which would have caused only a mild and temporary hesitation in an ongoing expansion in the absence of an oversensitive financial environment can generate a crisis and collapse in its presence. Moreover, semiautonomous disturbances in the financial sector can themselves initiate a crisis if the system is oversensitive. And an overextended, oversensitive financial system can turn what might have been a mild downturn into a financial panic and depression.

14.2.1 Financialization of the NFCs

In short, in Marxian economic theory, finance is an integral part of the accumulation process and should be understood with its contradictory role. Seen from this perspective, financialization of the NFCs has led to a number of complex and contradictory transformations. First, financialization meant increased involvement of the NFCs in financial investments, which contributed to NFC profitability on two levels. Its direct

contribution was through the financial incomes derived from the financial operations. The involvement of NFCs in financial activities was partly due to the hedging needs of the corporations in an increasingly volatile financial environment, while shareholder pressure forced them to generate short-term returns. Initially, a large portion of these financial activities were oriented towards extending credit to their own consumers and thus helping sales, a second way through which financialization contributed to NFC profitability. Furthermore, credit expansion and asset price appreciations indirectly contributed to NFC profitability through their positive effect on aggregate demand. Proceeds from financial activities contributed to the profits of the corporations and most likely kept firms that were otherwise not profitable in business for an extended period of time, and high financial profits contributed to prolonged excess capacity problems in certain industries, notably the automobile industry. Financial expansions had another impact on the accumulation by artificially increasing demand and hence leading to overinvestment in certain sectors (Kotz 2011). However, increased financial investments of NFCs also show the contradictory effects of financialization over accumulation as the promise of higher returns in the financial markets, together with shareholder pressure for short-term returns, put a downward pressure on investment in real capital stock (Orhangazi 2008b).

Although explicit control of banks over corporations is not observed in this era, there is a complicated relationship between the financial and real sides of the economy as a result of the transformations that took place in the financialization era. The rise of the institutional investors and the so-called shareholder revolution brought a change in the ownership structure of the corporations and in the demands of the owners from the corporations, signaling a shift from 'managerial capitalism' towards 'shareholder capitalism'. As a result of the prominence of the interests of creditors and shareholders, the behavior of the NFCs was now increasingly determined by the demands of the financial sector, implying indirect dominance of financial sector over the non-financial sector. While financial capital does not directly dominate industrial capital, the alliance of the interests of the managers with that of shareholders led to the dominance of financial interests in the economy. Financialization has thus been characterized by the primacy of the financial logic over the productive capital accumulation. An indicator of this is the introduction of financial criteria for the NFCs. One result of this shift is observed in increased payments by the NFCs to the financial markets and a change in the management perspective towards short-termist strategies. A number of works in the literature show that this change is associated with decreased investment by the NFCs (Orhangazi 2008b; Davis 2013). In a way, this aspect of financialization

has created a tendency working against the overinvestment, excess capacity problems: in terms of the dynamics of investment, when we consider the pressure of the financial imperatives on the NFCs to increase short-term profitability, certain types of investment projects with longer time horizons are discouraged. It is not a coincidence that waves of plant closures and downsizing occurred as a result of pressure from financial markets. However, at the same time, periods of financial expansions and bubbles led to excess investment in different sectors, including high-technology, luxurious office buildings and, more recently, housing. Hence, the overall impact of financialization on capital accumulation seems to be contradictory.

As a side note, post-Keynesian theorizations of financialization have certain similarities with some of these arguments as they see the process mainly emanating from the removal of regulations. According to this approach, the rise of rentiers has strengthened the financial sector at the expense of the productive sectors of the economy. The dominance of finance is partly responsible for the poor performance of investment and output in advanced capitalist economies (e.g. Stockhammer 2004). There are different versions of the post-Keynesian approach, as well. For example, Palley's (2013) account of financialization sees the process as a response to the demand deficiency problem created by neoliberal policies and the financial deregulation by expanding credit and through financial innovations. The reluctance of some Marxian theorists to acknowledge the potential negative effects of financialization on the productive sphere seems to originate from the hesitancy to agree with reformist Keynesian policies aiming to constrain the negative effects of financialization on the real economy. Therefore, in positioning themselves against reformist Keynesian approaches, Marxian theorizations sometimes miss the dialectical and contradictory relationship between the financial and real sides of the economy.

14.2.2 Globalization of Production

Both aspects of the financialization of the NFCs are directly related to the changing global patterns of capital accumulation, which involved the breaking-up of production processes and their relocation in different parts of the world depending on cost and market considerations. The combination of increased product market competition and financial market pressure – the 'neoliberal paradox' (Crotty 2005) – forced NFC managers to look for ways to reduce costs. NFC management chose to focus on 'core competence' and sought to subcontract remaining operations. In this way, they reduced domestic investment needs and managed to meet shareholder demands. The result of this process was the shift of sources of profits from

domestic output markets to foreign input markets. This shift has contributed to the maintenance of high profit rates and a high share of profits in national income in industrialized countries. While offshoring helped cost reduction and boosted profits, it also reduced the need for corporations to invest as they turned over production to contractors (Milberg 2008; Milberg and Winkler 2013). While increasing profitability satisfied shareholder demands, the reduced need for investment allowed the NFCs to distribute more to the shareholders and/or to invest in financial assets. As manufacturing operations declined in core countries, this process allowed NFCs to distribute a larger share of their revenues to financial markets. The reduction in investment needs also allowed them to directly delve into financial investments. As financialization created greater incentives for cost-reducing and flexibility-enhancing offshore production by US lead firms, the sustainability of this set-up was enhanced by the successful utilization of global value chains. Financialization further encouraged restructuring of production, and this was critical in sustaining the financialization trends of the post-1980 era.

14.2.3 Labor

Financialization in conjunction with globalization has been a significant contributor to the worsening of the condition of labor. In the post-1980 US economy, average real earnings declined until the mid-1990s; while they slowly increased after this point they never recovered back to the highs reached in the early 1970s. Various factors have been cited for the wage stagnation. Relocation of production to lower-cost sites put US workers in direct competition with the global reserve army of labor, whose size grew immensely with the increased participation of China in world industrial production. Meanwhile, the domestic balance of power moved against labor. Declining power of labor organizations and deunionization were coupled with the decline of the social wage through cuts in or eliminations of social programs such as guaranteed retirement pensions, unemployment benefits and so on. Flexible labor markets involved widespread use of temporary and contingent workers, which led to decreased job security, bargaining power and declining wages (Rosenberg 2010). In terms of economic policy, a shift from full employment targeting of the 'golden age' to inflation targeting and a reduction in social programs which brought down the social wage decreased the bargaining power of labor. Financialization contributed to this trend in various ways. Financial market pressures intensified exploitation by cutting wages and worsening working conditions, together with mass firings as a result of downsizing. The shareholder value maximization dictum was often invoked to promote

the downsizing of the firms' workforces. Takeovers facilitated by financial markets have been effective in breaking labor contracts and forcing wages down. The 2000s witnessed a wave of leveraged takeovers undertaken by private equity funds. These private equity funds took over firms, restructured them and sold them back. In the process of restructuring, many jobs, health and retirement benefits, and similar commitments to employees were eliminated in order to enhance the resale value of the firm (Orhangazi 2008c). Hence, finance has effectively contributed to the overall stagnation of wages, and redirecting income from labor to finance has been a hallmark of the financialization process (Duménil and Lévy 2004). When taken together, financialization and global value chains led firms to shift their labor policies from 'long-term, full-time employment with the provision of health insurance and pension benefits' to 'reducing costs by hiring younger workers, with less tenure and fewer benefits' (Milberg and Winkler 2013: 24).[6]

While financialization contributed significantly to undermining the income of labor, it also provided a solution to it, albeit a temporary and contradictory one. Two dynamics supported household consumption in this era: increasing household indebtedness, and the wealth effect created through the rising asset prices. Faced with stagnating wages, households relied more than ever on borrowing in order to maintain their purchasing power. In the face of stagnating wages, households kept increasing their consumption by increased participation in the labor force, by working longer hours and finally by borrowing (Wolff 2010). While the households spent a declining share of their incomes on consumer goods, thanks to the impact of cheaper imported products, increased medical, education and insurance expenses pushed households to borrow in order to maintain their standard of living (Warren 2007). Credit became central in providing the means to continuing expansion of consumption despite stagnant wages (Barba and Pivetti 2009). Furthermore, rising asset prices allowed the creation of a wealth effect, which acted as an important mechanism in maintaining the purchasing power of the households and supporting consumption. Speculative asset bubbles allowed households to increase the debt-financing of their expenses by allowing them to use their houses and other assets as collateral.

14.3 CONCLUDING REMARKS

Financialization of the US economy led to contradictory outcomes for the capital accumulation process. It has changed the behavior of the NFCs, leading to increased financial investment, while an increasing portion of

the downsizing of the firms' workforces. Takeovers facilitated by financial markets have been effective in breaking labor contracts and forcing wages down. The 2000s witnessed a wave of leveraged takeovers undertaken by private equity funds. These private equity funds took over firms, restructured them and sold them back. In the process of restructuring, many jobs, health and retirement benefits, and similar commitments to employees were eliminated in order to enhance the resale value of the firm (Orhangazi 2008c). Hence, finance has effectively contributed to the overall stagnation of wages, and redirecting income from labor to finance has been a hallmark of the financialization process (Duménil and Lévy 2004). When taken together, financialization and global value chains led firms to shift their labor policies from 'long-term, full-time employment with the provision of health insurance and pension benefits' to 'reducing costs by hiring younger workers, with less tenure and fewer benefits' (Milberg and Winkler 2013: 24).[6]

While financialization contributed significantly to undermining the income of labor, it also provided a solution to it, albeit a temporary and contradictory one. Two dynamics supported household consumption in this era: increasing household indebtedness, and the wealth effect created through the rising asset prices. Faced with stagnating wages, households relied more than ever on borrowing in order to maintain their purchasing power. In the face of stagnating wages, households kept increasing their consumption by increased participation in the labor force, by working longer hours and finally by borrowing (Wolff 2010). While the households spent a declining share of their incomes on consumer goods, thanks to the impact of cheaper imported products, increased medical, education and insurance expenses pushed households to borrow in order to maintain their standard of living (Warren 2007). Credit became central in providing the means to continuing expansion of consumption despite stagnant wages (Barba and Pivetti 2009). Furthermore, rising asset prices allowed the creation of a wealth effect, which acted as an important mechanism in maintaining the purchasing power of the households and supporting consumption. Speculative asset bubbles allowed households to increase the debt-financing of their expenses by allowing them to use their houses and other assets as collateral.

14.3 CONCLUDING REMARKS

Financialization of the US economy led to contradictory outcomes for the capital accumulation process. It has changed the behavior of the NFCs, leading to increased financial investment, while an increasing portion of

their earnings were transferred to the financial markets. This process went hand in hand with the rise of global value chains, which decreased domestic investment needs, increased profits and allowed the NFCs to continue financial investments and allocate a large portion of their earnings to the financial markets, while contributing to uneven development globally through the rise of new centers of accumulation. At the same time, it contributed to the worsening of the conditions of labor and increased inequality, while credit expansions and asset bubbles added to aggregate demand in a period when other factors pushed the aggregate demand down. Historically there have been a number of periods of financialization. Novel features of the current period have been the acceleration of the speed of circulation of financial capital and the decline in financial transaction costs, which have been effective in the emergence of speculative bubbles followed by busts. By forcing the NFCs to move capital accumulation and productive processes to new geographical locations with lower costs, financialization has contributed to both uneven economic development and inequality by driving wages down. In Harvey's (2014: 178) terms, 'The merchants and rentiers as well as the financiers are repositioned as the arbiters of capital accumulation relative to industrial capital'. However:

> There is, in all of this, a deep irony. Historically, industrial capital waged a mighty struggle to free itself from the chains of the landlords who extracted rent, the usurious financiers and the merchants who looked to rob or buy cheap and sell dear in unevenly constructed markets. Twenty-first-century capitalism seems to be busy weaving a net of constraints in which the rentiers, the merchants, the media and communications moguls and, above all, the financers ruthlessly squeeze the lifeblood out of productive industrial capital, to say nothing of the workers employed. It is not that industrial capital disappears. It has merely become subservient to capital in its other more fantastic and virulent forms. (Harvey 2014: 179)

Hence, developing a full understanding of the financialization process with its complex and contradictory features, allows us to make better sense of the crisis as well as the state of the world economy.

NOTES

1. Fine (Chapter 9 in this volume) notes that 'neoliberalism does signify a separate stage of development, one that is marked by the heavy and increasing role of finance in both economic and social restructuring. This is reflected most obviously in the phenomenal rise of financial markets themselves and also their influence on how economic restructuring takes place, together with the increasing role of finance in social reproduction, not least with privatisation of public services, and so on . . . this signifies that financialization is at the heart of neoliberalism, and is what has sustained it over three decades (as opposed to

temporary and contingent interventions on behalf of finance). Neoliberalism promotes financialization, and financialization impacts directly and indirectly on economic and social restructuring and reproduction.' (p.160, this volume.)
2. Shaikh (2011) explores the role of financialization in this recovery of profitability and finds that both cheap financing and finance's contribution to aggregate demand contributed to the recovery in profitability.
3. See Pollin (1996), Orhangazi (2008a) and Levina (2014) for a discussion of the sources of financial profits.
4. Crotty (2013) provides a thorough critique of the mainstream financial theories. He shows that the theory of 'efficient financial markets' is a fairy tale based on grossly unrealistic assumptions, and argues that this theory was a significant contributor to the crisis as it helped to justify the financial deregulation process.
5. See Itoh and Lapavitsas (1999: 126) for a brief review of how different Marxian economists stressed one or the other crisis tendency.
6. See Campbell and Bakır (Chapter 7 in this volume) for a look at the relationship between financialization and labor.

REFERENCES

Arrighi, G. (1994), *The Long Twentieth Century: Money, Power, and the Origins of our Times*, London: Verso.
Barba, A. and M. Pivetti (2009), 'Rising Household Debt: Its Causes and Macroeconomic Implications – A Long Period Analysis', *Cambridge Journal of Economics*, 33(1), 113–137.
Braudel, F. (1984), *Civilization and Capitalism*, New York: Harper & Row.
Brenner, R. (2009), 'What is Good for Goldman Sachs is Good for America: The Origins of the Present Crisis', Center for Social Theory and Comparative History, Paper 2009–11.
Callinicos, A. (2010), *Bonfire of Illusions: The Twin Crises of the Liberal World*, Cambridge: Polity Press.
Crotty, J. (1986), 'Marx, Keynes and Minsky on the Instability of the Capitalist Growth Process and the Nature of Government Economic Policy', in D. Bramhall and S. Helburn (eds), *Marx, Keynes, and Schumpeter: A Centenary Celebration of Dissent*, Armonk, NY: ME Sharpe.
Crotty, J. (2005), 'The Neoliberal Paradox: The Impact of Destructive Market Competition and Modern Financial Markets on Nonfinancial Corporation Performance in the Neoliberal Era', in G.A. Epstein (ed.), *Financialization and the World Economy*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
Crotty, J. (2013), 'The Realism of Assumptions Does Matter: Why Keynes–Minsky Theory must Replace Efficient Market Theory as the Guide to Financial Regulation Policy', in M.H. Wolfson and G.A. Epstein (eds), *The Handbook of the Political Economy of Financial Crises*, Oxford: Oxford University Press.
Davis, L. (2013), 'Financialization and the Nonfinancial Corporation: An Investigation of Firm-Level Investment Behavior in the US, 1971–2011', University of Massachusetts Economics Department Working Paper 2013-08.
Dowd, K. (1996), 'The Case for Financial Laissez-Faire', *Economic Journal*, 436, 679–687.

Duménil, G. and D. Lévy (2004), *Capital Resurgent: Roots of the Neoliberal Revolution*, Harvard, MA: Harvard University Press.
Foster, J.B. and F. Magdoff (2009), *The Great Financial Crisis: Causes and Consequences*, New York: Monthly Review Press.
Harman, C. (2010), *Zombie Capitalism: Global Crisis and the Relevance of Marx*, London: Bookmarks.
Harvey, D. (1982), *Limits to Capital*, New York: Verso.
Harvey, D. (2003), *New Imperialism*, Oxford: Oxford University Press.
Harvey, D. (2005), *A Brief History of Neoliberalism*, Oxford: Oxford University Press.
Harvey, D. (2014), *Seventeen Contradictions and the End of Capitalism*, Oxford: Oxford University Press.
Hilferding, R. ([1910] 1985), *Finance Capital: A Study of the Latest Phase of Capitalist Development*, London, UK and Boston, MA, USA: Routledge & Kegan Paul.
Itoh, M. and C. Lapavitsas (1999), *Political Economy of Money and Finance*, London: Macmillan.
Kotz, D. (1978), *Bank Control of Large Corporations in the United States*, Berkeley and Los Angeles, CA: University of California Press.
Kotz, D. (2011), 'Financialization and Neoliberalism', in Gary Teeple and Stephen McBride (eds), *Relations of Global Power: Neoliberal Order and Disorder*, Toronto: University of Toronto Press.
Krippner, G. (2011), *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, Cambridge, MA: Harvard University Press.
Lapavitsas, C. (2013), *Profiting Without Producing: How Finance Exploits Us All*, London, UK and New York, USA: Verso.
Levina, I. (2014), 'A Puzzling Rise in Financial Profits and the Role of Capital Gain-Like Revenues', Political Economy Research Institute Working Paper 347.
Magdoff, H. and P.M. Sweezy (1987), *Stagnation and Financial Explosion*, New York: Monthly Review Press.
Milberg, W. (2008), 'Shifting Sources and Uses of Profits: Sustaining US Financialization with Global Value Chains', *Economy and Society*, 37(3), 420–451.
Milberg, W. and D. Winkler (2013), *Outsourcing Economics: Global Value Chains in Capitalist Development*, Cambridge: Cambridge University Press.
Orhangazi, O. (2008a), *Financialization of the US Economy*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.
Orhangazi, O. (2008b), 'Financialization and Capital Accumulation in the Non-Financial Corporate Sector: A Theoretical and Empirical Investigation on the US Economy, 1973–2003', *Cambridge Journal of Economics*, 32(6), 863–886.
Orhangazi, O. (2008c), 'Wall Street vs. the labor movement', *New Labor Forum*, 17(1), 101–107.
Orhangazi, O. (2011), 'Financial' vs. 'Real': An Overview of the Contradictory Role and Place of Finance in the Modern Economy', *Research in Political Economy*, 27, 121–148.
Palley, T. (2013), *Financialization: The Economics of Finance Capital Domination*, Basingstoke: Palgrave Macmillan.
Pantitch, L. and S. Gindin (2012), *The Making of Global Capitalism: The Political Economy of American Empire*, London, UK and New York, USA: Verso.
Pineault, E. 2001, 'Finance Capital and the Institutional Foundations of Capitalist

Finance: Theoretical Elements from Marx to Minsky', unpublished paper, Ecole des Hautes en Sciences Sociales, Paris.
Pollin, R. (1996), 'Contemporary Economic Stagnation in World Historical Perspective', *New Left Review*, September–October, 109–118.
Rosenberg, S. (2010), 'Labor in Contemporary Social Structure of Accumulation', in T. McDonough, M. Reich and D.M. Kotz (eds), *Contemporary Capitalism and its Crises*, Cambridge: Cambridge University Press.
Shaikh, A. (2011), 'The First Great Depression of the 21st Century', in L. Panitch, G. Albo and V. Chibber (eds), *The Crisis this Time: Socialist Register 2011*, London: Merlin Press.
Stockhammer, E. (2004), 'Financialization and the Slowdown of Accumulation', *Cambridge Journal of Economics*, 28, 719–741.
Sweezy, P.M. (1997), 'More (or Less) on Globalization', *Monthly Review*, 49(4), 1–4.
Warren, E. (2007), 'The New Economics of the Middle Class: Why Making Ends Meet has Gotten Harder', Testimony before Senate Finance Committee, 10 May.
Wolff, R. (2010), *Capitalism Hits the Fan*, Northampton, MA: Olive Branch Press.