From Financialisation to Neo-liberalism[1]

Engaging Neo-liberalism

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When it first emerged, neo-liberalism seemed to be able to be defined relatively easily and uncontroversially. In the economic arena, the contrast could be made with Keynesianism and emphasis placed on perfectly working markets. A correspondingly distinctive stance could be made over the role of the state as corrupt, rent-seeking and inefficient as opposed to benevolent and progressive. Ideologically, the individual pursuit of self-interest as the means to freedom was offered in contrast to collectivism. And, politically, Reaganism and Thatcherism came to the fore. It is also significant that neo-liberalism should emerge soon after the post-war boom came to an end, together with the collapse of the Bretton Woods system of fixed exchange rates.

This is all thirty or more years ago and, whilst neo-liberalism has entered the scholarly if not popular lexicon, it is now debatable whether it is now or, indeed, ever was clearly defined. How does it fair alongside globalisation, the new world order, and the new imperialism, for example, as descriptors of contemporary capitalism. Does each of these refer to a similar understanding but with different terms and emphasis? And how do we situate neo-liberalism in relation to Third Wayism, the social market, and so on, whose politicians, theorists and ideologues would pride themselves as departing from neo-liberalism but who, in their politics and policies, seem at least in part to have been captured by it (and even vice-versa in some instances)?

These conundrums in the understanding and nature of neo-liberalism have been highlighted by James Ferguson (2007) who reveals how what would traditionally be termed progressive policies (a basic income grant for example) have been rationalised through neo-liberal discourse. At the very least, he closes, "We will also need a fresh analytic approach that is not trapped within the tired 'neo-liberalism versus welfare state' frame that has until now obscured many of the key issues from view". The tensions within the notion of neo-liberalism have also drawn the attention of human geographers, not least because of their sensitivity to how a general and abstract term should allow for differences in time and place (or context) even to the point of inconsistency and, thereby, undermining itself. In surveying the literature, Castree (2006, p. 6) concludes, "'neo-liberalism' will remain a necessary illusion for those on the geographical left: something we know <u>does not exist</u> as such, but the idea of whose existence allows our 'local' research finding to connect to a much bigger and apparently important conversation", emphasis added. Are we, then, alongside globalisation for example, to accept "neo-liberalism" for its investigative and polemical purchase despite knowing that it is conceptually flawed to the extent of not existing at all?

Given its diversity and elusiveness, does neo-liberalism exist or not. If it does exist, what is it? If it does not exist as such, does it still remain a useful and progressive term for the purposes of political and ideological engagement? The salience of these questions is particularly powerfully brought to the fore by the financial crisis that is unfolding at time of writing. Proposals within the United States to take into public ownership the bad debt of its financial institutions to the tune of what will ultimately be $1000 billion or more are remarkable, not least in emanating from those across Bush as President, through Treasury to the Federal Reserve, who might previously and still be considered to be ideal representatives and guardians of neo-liberalism. Yet here we have state ownership and intervention to such an extent that we might refer to a creeping if not galloping socialism albeit confined to the bankers. Marx himself might be chuckling in his grave. In Volume I of <u>Capital</u>, he polemically asserts that, "The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is - their national debt", Chapter XXX. Now it seems we are to own the private debt as well! To put this figure in proportion, a mere $45 billion was required to calm the markets after 9/11, Davidson (2008b). And, remarkably, whilst in a crisis, there is no difficulty in finding $1000 billion to support finance. Yet, in more normal times, such funding for health, education, welfare and poverty relief would be viewed as the height of fiscal irresponsibility.

So, in the capitalist market, we are all equal although some are more equal than others when it comes to finance and crisis. For finance must be saved in order to save the economy as a whole. But strip out all those financial services and would the rest of the economy need to go to the wall. There does not seem to be a compelling reason why production, distribution and exchange should not continue as before in the absence of so many financial instruments which are, after all, of relatively recent vintage and without which even advanced capitalist economies could prosper. There is, of course, the inflated and distorted demands for goods that derive from the expenditure of those who have made their fortunes out of finance. A little redistribution of that demand to the poor and needy should surely be both manageable and warranted.

But I digress from my theme of the uncertainties that surround the notion of neo-liberalism. To the extent that they can be, I seek to resolve the corresponding conundrums attached to neo-liberalism through a two-pronged assault upon them. The first, in characterising neo-liberalism, is to distinguish between its rhetoric (advocacy or ideology), its scholarship and its policy in practice. Each of these is shifting in content and emphasis (across time and place) and, whilst they have connections with one another, these too are shifting and by no means mutually consistent. In addition, there is a complex and shifting relationship between neo-liberalism across these three elements and the reality that they purport both to represent and influence. And the shifts can be both dramatic and acrobatic. There are those, increasingly rare, who continue to blame the current crisis on too much state intervention. It might even be claimed in a perverse way that the state has got in the way of finance spontaneously creating its own regulatory safeguards and that, as now overtly revealed, as lender if not subsidiser or nationaliser of last resort, it has positively encouraged undue risk taking and speculative activity. Such neo-Austrianism and its belief in the natural order that springs from individual freedom, not least through the market place, is understandably less than popular amongst the banking fraternity currently as it clamours for more not less state intervention. By the same token, if from an entirely different analytical perspective of beneficial, as opposed to spontaneous, harmony, the efficient market hypothesis of finance is also keeping a low profile in these troubled days. As the variously infamous former US Treasury Secretary, Chief Economist at the World Bank, and Head of Harvard, Larry Summers has put it Summers and Summers (1989, p. 166) cited in Davidson (2008a):

> The ultimate social functions are spreading risks, guiding investment of scarce capital, and processing and dissemination the information possessed by diverse traders … <u>prices always reflect fundamental values</u> … The logic of efficient markets is compelling.

The reality is, of course, somewhat less compelling than the logic, especially today and not least to the bankers themselves have deployed the logic to rationalise what is being revealed to be a logic of inefficient, dysfunctional and parasitical markets.

Even before the current crisis, the idea that finance efficiently mobilises and allocates resources on behalf of the real economy borders on the ridiculous. In the UK, formerly the workshop of the world, does it take one million workers to do this and 25% of GDP? Perhaps this can be excused on the grounds of the weight of international financial services provided. That cannot be said of South Africa. Financial services has been its fasted growing sector since the overthrow of apartheid, now taking up 20% of GDP. Yet, 40% of the population do not benefit from any financial services at all which have, in any case, been deployed to financialise and globalise the operations of previously internationally constrained, highly concentrated, domestic conglomerates – that is to export domestic capital and surplus generated within the economy. Effectively, far from contributing 20% of GDP, finance has appropriated a quarter of it, claiming this to be a contribution to what has been produced.

Neo-liberalism, then, both lavishes praise on the market at the expense of the state and, yet, calls upon the state to rescue the markets from themselves and not just provide an orderly environment in which to operate. So, unpicking neo-liberalism's chameleon-like character, around its shifting diversity across rhetoric, scholarship, policy and realism, is a challenge. These considerations, though, around the contradictions within the spirit of an age, neo-liberalism or otherwise, as is already apparent by way of the example of finance already deployed, can be grounded in what has been a defining feature of contemporary capitalism over the past thirty years, the extraordinary rise and spread of finance. As will be argued, it is this material factor that underpins, constrains and, thereby, defines the current period as neo-liberal and which also is a major factor in explaining its otherwise illusory character. I begin, though, in the next section by addressing the role of contemporary finance.

<u>**Financialisation**</u>[2]

From a Marxist perspective, as a system of accumulation, capitalism is heavily dependent upon finance in the form of interest bearing capital, that is finance deployed for the exclusive purpose of expanding production for profit. But this specific role for finance is embedded, to coin a phrase, in other aspects of the circulation of commodities, money and credit.[3] What is uniquely characteristic of the current period of capitalism is the extraordinary extent to which such embedding has been both deepened and broadened. Such developments have within the literature been best captured by the notion of financialisation. This has been addressed from a number of perspectives, but not always explicitly and wittingly since however much recognised as such, its effects are inescapable. The explicit literature on financialisation is both limited and marginalised from mainstream thought. For Epstein (2005, p. 3), "financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies". Stockhammer (2004, p. 720) offers an overview of financialisation, acknowledging that it "is a recent term, still ill-defined, which summarises a broad range of phenomena including the globalisation of financial markets, the shareholder value revolution and the rise of incomes from financial investment". His own focus is upon "changes in the internal power structure of the firm", see below.

Before turning to this literature directly, three further elements need to be added. The first is the role of the state as regulator of the monetary and financial systems, and itself as a major agent in the provision of financial instruments, not least through its own indebtedness, paper bonds as a form of fictitious capital.[4] Second is the nature and role of world money, how it is that the relations, properties and functions of money in general are realised on a global scale in light of the presence of numbers of national currencies. And third is historical specificity in relation to both of the previous two elements and their interaction, reflecting particular patterns of accumulation at a global level. In this respect, there are generally identifiable and agreed historical periods in which the role of nation-states and of world money are distinct, most recently the rise and fall of the Bretton Woods system, Arrighi (2003) for a deeper and longer account for example.

The current period is one in which finance has penetrated across all commercial relations to an unprecedented <u>direct</u> extent. I emphasise direct here because the role of finance has long been extensive both in promoting capital accumulation and in intensifying its crises, most notably in the Great Crash of 1929 and the ensuing recession. For Krippner (2005, p. 199), in her overview of contemporary financialisation in the United States, it neither necessarily "represents an entirely novel phase of capitalism … [nor] do these data allow us to draw any conclusions regarding the *permanency* of the trends documented here". But, these reservations aside, in qualitative terms, finance is different today because of the proliferation of both purely financial markets and instruments and the corresponding ranges of fictitious capitals that bridge these to real activities. Most obviously, and a major element in the financialisation literature, especially in the United States, is the drawing in of personal finance in general and of pension funds in particular. As Langley (2004, p. 539) has put it, citing Richard Minns, "it is this commitment to 'the extension and growth of stock markets and "liberalised" financial markets' that has underpinned pension reform initiatives in Anglo-American state-societies over recent decades, also becoming central to the 'model' for reform favoured by the World Bank and the Organisation for Economic Co-operation and Development (OECD)".[5] Yet the breadth of financialisation goes much further than institutionalised investment funds, as finance has inserted itself into an ever-expanding range of activities, not least in managing personal revenues as emphasised by Lapavitsas (2008) and dos Santos (2008). Think of your own finances, not least as they pass in and out of your bank account on an almost automatic basis once put in place, whether it be payments in or, more frequently, out to fund credit cards, mortgages, standing orders, and so on.

As already indicated this fundamental feature of contemporary capitalism, other than in a piecemeal fashion dealing in it bit by bit rather than as a systemic property, has best been broached by the financialisation literature, although still limited in both volume and influence, and practically non-existent for developing countries. The work around Epstein (ed) (2005) is the most prominent, although more important in some respects has been the initiative on financialisation furnished by the ESRC Centre for Research on Socio-Cultural Change at the University of Manchester, see especially Froud et al (2006).

From this literature, a number of important elements can be teased out, not least from a labour movement contribution concerned with the impact of financialisation upon labour market conditions, Rossman and Greenfield (2006). First is the rise of institutional investors and the extent to which their interests have been channeled as more generally into financial channels concerned with "shareholder value", effectively the making of money out of ownership as such as opposed to the making of investments with real returns. In effect, this is to acknowledge the increasing importance of fictitious capital, with the presumption that, second, all financial institutions are embroiled in light of the rising significance of market analysts. Third, the result is to place financial restructuring and short-termism in a position of precedence over long-term investment plans and productive restructuring. Fourth, the impact on wages, employment and working conditions is inevitably undermined as a high investment, high productivity, high employment, high wage nexus is broken in favour of low investment, low productivity, low wage and casualised employment. As Froud and Williams (2007) suggest, companies have increasingly become perceived as a bundle of assets to be traded, an exercise in value capture as opposed to value creation, p. 14. The result is to create a new cadre of intermediaries, continuously financially restructuring enterprises, Folkman et al (2006). As Perry and Nölke (2006, p. 566) put it:

> Financial analysts gain power and traders/fund managers pay more attention to them; enterprise managers lose power … Most of the principals in the financial system – i.e. investors, savers, pensioners, future pensioners (workers) – are not in the picture.

From Keynes' euthanasia of the parasitic rentier, we are suddenly confronted with the heroic financial entrepreneur, who creates nothing but fictitious value, Erturk et al (2006).

But the highly publicised benefits that have accrued both to corporate management and to those working in finance are real enough. As Erturk et al (2004, p. 707) observe, "the explosive rise in CEO pay reflects the value skimming opportunities of bull market euphoria" although bear markets are not without their opportunities either. This has to be set in the wider context of financialisation itself with two elements. On the one hand, the proportion of corporate profits as a whole being derived from financial activity has been rising, so this is where major sources of rewards are to be found, Krippner (2005). On the other hand, a point taken to be crucial in arguing for the presence of financialisation itself, non-financial corporations have been accruing increasing proportions of their profits from financial activity. Stockhammer (2004, p. 720), in particular, defines financialisation as "the increased activity of non-financial businesses on financial markets", and finds that, "For France, financialisation explains the entire slowdown in accumulation, for the USA about one-third of the slowdown. Financialisation, therefore, can potentially explain an economically significant part of the slowdown in accumulation", p. 739.[6]

Stockhammer and most others explicitly connect such financialisation to the issue of who controls the modern corporation. This obtains both systemically and at the level of corporate governance itself not least, in citing Lazonick and O'Sullivan (2000) as "retain and invest" gives way to "downsize and distribute" in pursuit of shareholder value, p. 721. Erturk et al (2004) set such issues in the longer term perspective of managerialism, deriving from Berle and Means and the separation of ownership and control. Far from shareholder value signifying the triumphant return of the shareholder, it is apparent that financialisation has driven up the rewards for both financial corporations and for the management of non-financial corporations, with potential for fluidity between the two. In the era of financialisation, CEOs within non-financial corporations have conformed to its dictates and have been correspondingly rewarded. Ertuk et al conclude that it is even less appropriate to look to them to drive a wedge between real and financial governance than it was previously to see managers as exercising control against the interests of owners.

For what has changed is the relationship between finance and industry. As Rossman and Greenfield (2006, p. 2) put it, citing Stockhammer:[7]

> Of course, companies have always sought to maximize profit. What is new is the drive for profit through the elimination of productive capacity and employment. Transnational food processors, for example, now invest a significantly lower proportion of their profits in expanding productive capacity. Financial markets today directly reward companies for reducing payroll through closures, restructuring and outsourcing. This reflects the way in which financialization has driven the management of non-financial companies to "act more like financial market players".

Such considerations have understandably led to a pre-occupation with the relations between private capitals, and financial and non-financial corporations, at the expense of the role of public finance and world money, although these are addressed in other literature, macroeconomics for the mainstream. Inevitably this literature is both vast and oblique in its approach to financialisation for, as Duménil and Lévy (2005, p. 17) put it, "neoliberalism is the ideological expression of the reasserted power of finance”. Thus, financialisation is the subject of all of the literature on neo-liberalism, globalisation and stabilisation, critical, consciously or otherwise.

Now we are all familiar with the way in which speculative booms and busts are mutually reinforcing, EMH to the contrary. It is important to emphasise, however, that this is a source of inefficiency and constrained investment and growth, the more so as financialisation spreads and deepens. Of course, we see it in the Stock Exchange, as in the dot.com bubble where genuine innovation is seized upon and developed prodigiously in a frenzy of speculative logic, sucking in finance without due regard to the efficacy of the technological developments that do or might accrue. I need say no more about the rise and fall of the housing market and its financial derivatives other than to point to the irony of the rescue of HBOS by Lloyds in the UK to create a mortgage provider that takes 30% of the market, a higher share than was disallowed in a proposed merger just a year before. Both competition and state withdrawal are neo-liberal sacrificial lambs in a crisis. As the politician, and perhaps a neo-liberal, says these are my principles and if you don’t like them, I will change them, and perhaps the audience was made up of bankers. Historically and ironically, HBOS had been a building society or not-for-profit mortgage provider until it demutualised in 1997. The same was true of Bradford and Bingley, now nationalised like Northern Rock, by the British government as its share prices has collapsed towards nothingness.[8]

And, in commodity markets, we have futures trading at its most bizarre with carbon offsets. Commodity fetishism has surely arrived at perfection when we can buy and sell in a market for not producing something in the future (especially when, in fact, carbon trading is about allowing that undesirable carbon to be produced for you by someone else as well as yourself on the grounds that they might produce less of it than you would if you were producing what they produce as well as what you yourself will carry on producing). Down on earth, futures trading and speculation more generally in “commodities” is endemic. In 2006, the US Permanent Senate Committee came to the view that at least a third of the then $60 price of a barrel of oil was due to speculative futures trading. Presumably, we may well have to have added a further $40 since then, Davidson (2008a). And, futures trading in commodities more generally has increased by twenty times since 2003 alone to a level of $260 billion. But, as this is a trade in which you only have to lay out a small proportion of the cost of what you buy (you are, after all, never going to consume it), the actual trades are ten or more times larger. It is tragic that, alongside other triggering factors, the speculative ebb and flow of trading in commodities futures should so inflate the prices of food that hundreds of millions will be added to those at risk from starvation.

At the broader, macroeconomic level, what is apparent empirically, irrespective of how it is situated analytically, is that the current world financial system has become even more dependent on the US dollar as world money even as the US economy itself has experienced relative decline at a global level with peculiarities of its own. In a couple of papers, Eichengreen (2004 and 2006) has addressed the nature and significance of this for the continuing stability of global financial markets. His main conclusion is that, to the limited extent that the current system can be interpreted as comparable to the Bretton Woods system of the post-war boom, it is liable to enjoy a much shorter life-span with prospects for instability and systemic change on the horizon sooner rather than later.

Across his analyses, Eichengreen does not offer a well-defined theoretical position but that does not mean there is an absence of analytical content. He seems to accept, for example, that the current system might be sustained for as long as China is willing and able to exploit surplus labour to underpin a trade surplus with the United States and to accept dollar-denominated assets in return. There are a number of important issues here. One is the emphasis upon the capacity to sustain accumulation through particular financial relations, although there is no reason why this should be confined to the Chinese reserve army of labour. Indeed, as Eichengreen is at pains to point out, it is not just China that is exporting to the United States in return for its currency. This is one reason why he anticipates instability sooner rather than later for the portfolio of (Asian) countries to which the US is indebted is perceived to be heterogeneous and, consequently, less able and willing to underpin a collective will in support of the US dollar. This is contrasted with the greater uniformity of purpose and stages of development across western Europe and Japan for the Bretton Woods period.

For the current period, this indicates just the beginnings of a broader understanding of how sustaining accumulation across the world involves many more considerations than the extent of cheap Chinese labour, with different countries situated at different stages of development, sectoral compositions and dynamics, and with differing structures and processes of economic and social reproduction. These factors benefit from much less consideration than those concerned with how they are complemented by finance. For Eichengreen, these include the capacity of private flow of funds to respond very quickly following crises, greater mix and extent of foreign holdings and speculation in capital flows, lesser control over these private flows, and the extent to which this has all been driven by the new technologies associated with financial markets and its dealings.

As indicated, Eichengreen's account is motivated by scrutiny of the prospective stability of the current financial system. From this, though, implications for the pace of accumulation more generally can be teased out. First is the observation that the weakness of the US dollar has induced developing countries to hold dollars in line with export-led growth. This is in part a result of the increased potential instability that has accompanied both the weakening of the dollar and the liberalisation of national financial systems. Eichengreen (2006, p. 5) observes:

> The uses to which developing countries have put foreign funds are very different than in earlier years … emerging countries … put into international reserves every single dollar of private capital received in the last five years, on net, from the rest of the world.

By contrast, continuing the text:[9]

> Traditionally, a not entirely desirable side effect of capital inflows has been a spending binge by governments, firms and households which has driven up the real exchange rate, undermined export competitiveness, and diminished national creditworthiness, often precipitating a crisis. Spending by credit-constrained governments and households has been procyclical and capital inflows, by relaxing that constraint, have amplified their response. In the first decade of the 21st century, in contrast, the story has been different. The entire private capital inflow - and more - has been set aside in the form of international reserves rather than being used to finance additional purchases of consumer durables by households, to underwrite a construction boom, to support inefficient corporate investment, and to finance government budget deficits.

Leaving aside the cynicism, warranted or otherwise, attached to how such reserves might otherwise have been spent, this is indicative of developing countries coming to own their own National Debt or, more exactly, that of the United States. This is not simply a distributional support to the United States – the rich exchange paper for the products of the poor – it is also a system at the expense of the potentially developmental goals and provision – household consumption, construction, corporate investment and budget deficits, all handmaidens of capital accumulation.

Second, though, the impact of these financial arrangements runs deeper still. For their origins lie in the liberalisation of financial systems under the Washington Consensus. As observed, this has led paradoxically both to the need for higher and higher levels of reserves and to the corresponding funding of US indebtedness. And, as observed by Eichengreen in his own way, once opened up in this fashion, capital markets incorporate a momentum of their own, p. 18:

> Policy makers in emerging markets thus see capital account liberalization as part of the larger process of economic and financial development. They appreciate how globalization reinforces the fundamental argument for liberalizing international transactions: as a country is more deeply integrated into the global economy, it has an incentive to specialize further in order to capitalize on its comparative advantage, in turn making financial diversification more valuable as a risk-sharing device.

Thus, the impact of neo-liberalism in promoting capital account liberalisation offers some explanation for the rise of US indebtedness – higher saving in emerging markets in the form of dollar-denominated reserves, and the corresponding lower levels of investment in the public and private sectors.

Third, though, in the last decade, there has been something of a reaction against neo-liberalism, with the Asian and other crises having prompted a more cautious approach, p. 18/9:[10]

> But policy makers in emerging markets also absorbed the lesson of the 1990s that financial opening should proceed gradually and be carefully sequenced with other policy reforms. A

> one-sentence summary of the lessons of the Asian crisis is that capital account liberalization in advance of measures to strengthen domestic financial markets, reform corporate governance and adapt the macroeconomic policy regime to the imperatives of open capital markets can be a recipe for disaster. Taking these lessons to heart, emerging markets have moved away from pegged exchange rates, adopted flexible inflation targeting as a framework for monetary policy, and strengthened their budgetary institutions. They have recapitalized their banking systems, strengthened supervision and regulation, and reformed corporate governance to pave the way to life with an open account. The question is whether these reforms have proceeded fast enough, given the growing exposure of their economies to international capital flows.

But the learning of these lessons is not to have restored the status quo ex ante. On the one hand, the financial markets have now been liberalised and function in entirely different ways requiring different, possibly more extensive intervention to prevent them from being destabilising. On the other hand, as only vaguely hinted at by Eichengreen in terms of alternative uses of resources and the developmental ideology of policy makers, these changes represent the support of financial interests and activities against those of others. This does itself suggest that the study of the global and national financial systems in terms of a parsimonious account of the relations between nations is entirely inappropriate. We have witnessed the excesses of financialisation in liberalising financial markets, and we have seen the financial elite and its activities extended as a result. Renewal of intervention, regulation and control has to be seen in this light rather than as a belated if more sensible and balanced approach to achieving some sort of neutral target of stabilisation. As McMichael (2004, p. 19) puts it, "the preservation of money value increasingly governs institutional politics in global and national arenas, generalizing a cycle of liberalization and crisis management through structural adjustment, at the expense of sustained social policies".

Revisiting Neo-liberalism by Way of Financialisation

To a large extent, the preceding discussion has focused upon financialisation as a prism through which to view more mainstream accounts of macro- and industrial finance. But, as already emphasised, financialisation has extended finance beyond the traditional to the personal and broader elements of economic and social reproduction. For the latter, it is not simply that neo-liberalism is associated with privatisation, commercialisation and commodification but, where these do prevail, financialisation will not be far behind and even in the lead. As dos Santos (2008, p. 2) dramatically puts it for the sub-prime mortgage crisis at time of writing:

> By many historical measures the current financial crisis is without precedent. It has arisen from neither an industrial crisis nor an equity market crash. It was precipitated by the simple fact that increasing numbers of largely black, Latino and working-class white families in the US have been defaulting on their mortgages.

But it is not merely a matter of the extent to which financialisation has thereby rendered contemporary capitalism subject to crises of potentially greater depth and breadth, of both origin and incidence. Financialisation is also complicit in the persistence of slowdown of accumulation since the end of the post war boom. It has created a dynamic in which real accumulation is both tempered and, ultimately, choked off by fictitious accumulation (although this may be preceded by bubbles of excessive accumulation, fictitious or real); it has undermined the role of the state as an active agent of economic restructuring; and it has also undermined the role of the state as an agent in furnishing the more general economic and social conditions conducive to accumulation, in health, education and welfare, for example, that alongside industrial policies underpinned the post-war boom as opposed to Keynesianism as such.

In this light, it is possible to suggest in broad terms that neo-liberalism has experienced two phases. The first, following upon the collapse of the post war boom was akin to a sort of shock therapy of greater applicability than to the transition economies of eastern Europe at a later date. This phase is marked by the state intervening to promote private capital in general as far as possible and financial markets in particular. The second phase exhibits two aspects. One has been for the state to intervene to moderate the impact of this financialisation, most notable now in the support given to rescuing financial institutions themselves. But, as is thereby evident, the second aspect is for the state to be committed to sustain the process of supporting private capital in general and of financialisation in particular.

Where does this leave "neo-liberalism"? Here, the distinctions around rhetoric, policy, scholarship and realism are imperative if subject to subtle application. For, of course, opponents of neo-liberalism but proponents of capitalism will claim that the second phase is a departure from neo-liberalism. And, in a limited sense, they are correct for the rhetoric and the scholarship are not neo-liberal even if swayed in that direction by comparison with Keynesian/welfarism. Indeed, the new market and institutional micro-foundations within orthodox economics that emphasises the need for targeted correction of imperfections to the market and its governance, and Third Wayism as its political expression, are ideal complements for the new phase of neo-liberalism since they rationalise piecemeal, discretionary intervention in deference to moderating and promoting the market in general. And, making markets work in general increasingly means making financial markets work in particular. What is going on now in support of financial markets is both an acute and a striking illustration of these postures.

For, the era of financialisation entrenches new modes of corporate governance and assessment of performance, privatisation and state support to it rather than public provision, lack of coherent and systematic industrial and agricultural policy, pressure for user charges for health, education and welfare, and priority to macroeconomic austerity to allow for liberalisation of financial capital. In this context, market imperfection economics is not only weaker than Keynesian/welfarism it is so in a context where it needs to be much stronger to be effective.

This is not to suggest that neo-liberalism will sweep homogeneously across a globalised world, nor fail to be reversed. Krippner (2005, p. 203), for example, acknowledges the ambiguity for outcomes as, "increased openness generates demands from citizens for 'protection' from the vicissitudes of international markets … but too much openness may embolden business interests, constraining the ability of the states to respond to such demands". Welfare programmes in South Korea, for example, were expanded in response to the financial crisis, and the globalisation literature is marked by pointing to the continuing salience of the nation-state and heterogeneity in interventions and outcomes, especially in the field of welfare provision, Kasza (2006) for an overview. Financialisation has shifted the modes of interaction and balance of power across vested interests but it does not rigidly determine outcomes. These remain contingent, especially in the wake of the continuing weight of state intervention, upon struggles to sustain alternatives, not least in seeking insulation against the logic of finance. If neo-liberalism is not a temporary illusion, it is only because it is inextricably linked both to the state and to financialisation.

What Is to Be Done?

The policy dilemmas posed by this situation are beautifully anticipated by Sir Josiah Stamp some seventy years ago. Apart from serving on the Board of the Bank of England, he was reputedly the second richest man in the UK in the 1930s as a result of his financial and other interests.[11] This is what he has to say about his ill-gotten gains:

> Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the great fortunes like mine will 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.

A moment's reflection will reveal the striking affinity between this judgement and dependency theory – once replacing notions of core-periphery with those associated with banking versus the rest. There is not only the moral opprobrium associated with surplus (wealth) transfer but also the presumption of a mechanism by which such transfers are realised (dependency of some sort as opposed to the flick of the pen) and irrespective of efforts to the contrary unless they run very deep (sufficient detachment from the world system or abolition of right to create money). But, whether for finance or underdevelopment, despite its power as metaphor on its own terms and as a starting point for investigative purposes, there are more questions raised than answered. First of all, for finance at least, the metaphor refers exclusively to the redistribution of wealth. Even so, what are the mechanisms by which wealth is retrieved through the capacity to create money? What are the implications for the nature and rate of accumulation, and the levels and distribution of employment and/or rewards amongst those outside the banking system? And what is the broader impact on social and economic reproduction?

What we can recognise is that the current plans to rescue the finance from its predicament in the second phase of neo-liberalism do not even get as far as Stamp's first step. Indeed, they seem to be a step in the opposite direction as the state is throwing money at the financial institutions in order that they can continue to create money. In this light, the issue is not the more or less orderly and justifiable rationale upon which such funds are allocated. Instead, it is the question of whether levels of economic and social provision should be subject to the dictates of a financial system that is so dysfunctional. It is surely time not only to reverse rather than to sustain the financialisation of our lives but also to throw off the chains of slavery that reside in the banker's flick of a pen. Indeed, we need to turn this neo-liberal world upside-down if not inside-out. If socialism is good enough for the bankers without regard to the rest of us, surely it is good enough for us without regard to the bankers?

Footnotes

[1] This paper in part draws upon Fine (2008a and b).
[2] The earlier paper laid out the basis for addressing financialisation by reference to Marx's political economy of finance.
[3] By fictitious capital is meant paper claims to future returns whose pricing is distinct from the value of the real assets on which they ultimately depend (with fraud only an extreme case of absolute fiction).
[4] See Erturk (2003) for the importance of public debt in Turkey for financialisation and its role in undermining entrepreneurship and investment.
[5] See also Cutler and Waine (2001) for occupational welfare more generally. They do observe, however, that, "in 1997-8 half the British population had financial wealth (excluding housing, pensions and bank current accounts) of less than £750".
[6] See also Orhangazi (2006).
[7] And see McMichael (2004) for financialisation and global corporate food regimes more generally, "such that corporate strategies intensify vertical integration (from seed to supermarket) with flexible horizontal mergers and alliances", p. 18.
[8] Bradford and Bingley demutualised in 2000 and aggressively entered the buy-to-let market which has depended heavily for its viability on continuing capital gains on properties purchased as far as scarcely monitored borrowers are concerned. Northern Rock demutualised in 1997, and equally aggressively entered both the UK mortgage market and US sub-prime market (the latter in 2006 in partnership with Lehman Brothers) . In a wonderful example of football, if not art, imitating life, Northern Rock is the shirt sponsor of Newcastle United whose fortunes have also collapsed!
[9] Eichengreen qualifies this account in three ways, "The full picture, inevitably, is more complex, since emerging markets have also used private foreign funds to finance their residents' net investments abroad and to repay obligations to international financial institutions and official bilateral creditors. But the bottom line remains the same". He adds in a couple of footnotes that "the picture is much the same if we consider all developing countries", and that the result is to "have not contributed as much as otherwise to the growth of global demand", p. 6, indicating a dampening effect other than from the US trade deficit.
[10] See "the new, more nuanced view of the IMF", Kose et al (2006, p. 34/5), cited in Chang (2007):

> Premature opening of the capital account without having in place well-developed and well-supervised financial sectors, good institutions, and sound macroeconomic policies can hurt a country by making the structure of the inflows unfavourable and by making the country vulnerable to sudden stops or reversals of flow.

Substitute a few words and you have the World Bank's rethink on privatisation, and probably most other things as well, Bayliss and Fine (eds) (2007). See also Kane (1996) for the dialectic of bank regulation.
[11] See http://en.wikipedia.org/wiki/Josiah_Stamp,_1st_Baron_Stamp

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