MALIGNANT GROWTH: A REVIEW OF
FINANCIALISATION IN CRISIS, EDITED
BY COSTAS LAPAVITSAS, AND THE
RESTRUCTURING OF CAPITALISM
IN OUR TIME, BY WILLIAM K. TABB

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Financialisation in Crisis, edited by Costas Lapavitsas, Leiden and Boston, Brill,

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Bearing in mind that more than 40 percent of US corporate profits come from a financial
sector whose profits have been bloated by leveraged carry trading, the scope for trouble
is considerable. We have a system overloaded with debt in the household and public
sectors and stretched by financial imbalances. Yet many in the markets are saying, as
with technology in 1999, that this time it is different. Encouraged by the relentless
optimism of the great helmsman at the Federal Reserve they are convinced we shall all
muddle through.
I agree that finance is more sophisticated than ever before, as Alan Greenspan, chairman of the Federal Reserve, often reminds us, but I am pretty sure that the principles on which the financial system operates remain broadly intact. Whether it happens in August is anyone’s guess, but something nasty is certainly around the corner. (Plender 2004)

It is a measure of our overly financial times that people can recall the day Lehman collapsed as a previous generation remembers the moment when an American president was assassinated in Dallas. (Das 2013)

The literature of financialization is vast and expanding exponentially. The term itself is of relatively recent vintage and seems to have emerged at some point during the mid-1990s. Kevin Phillips’ *Boiling Point* (1993) appears to have featured the first use of the term, and a year later his *Arrogant Capital* (1994) railed against the capture of the US political process by the financial sector and the consequential doom that this spelled for the US, with a chapter devoted specifically to financialization (Phillips 1993, 1994). At around the same time, Giovanni Arrighi employed the term in his discussion of historical phases of hegemony (Arrighi 1994). Two years later, *Business Week* economics editor Michael Mandel effectively combined the observations of Phillips with those of sociologists Ulrich Beck (1992) and Anthony Giddens (1991) when he wrote,

We are seeing the financialization of the American economy . . . The combination of high uncertainty and unrestricted competition is reducing the difference between the real economy of factories and offices on the one hand, and the financial markets on the other. The rules governing Wall Street now apply to the entire economy.

The implication: In the high-risk society, workers, businesses, and countries must start thinking like investors in the financial markets, where the only way to consistently achieve success is to accept risk. (Mandel 1996, 8)²

Since then, there has been an ever-increasing number of publications purporting to handle financialization, whether primarily from a business perspective (Luttwak 1999) or, more broadly, as a cultural phenomenon (Martin 2002). A predominant theme of all these, as suggested especially by Luttwak, is a universalized “speed-up,” as financialization “insinuates an orientation toward accounting and risk management into all domains of life” (Martin 2002, 43). Costas Lapavitsas similarly identifies its pervasive cultural ramifications, as financialization “has allowed the ethics, morality and mindset of finance to penetrate social and individual life” (2012, 17). Indeed he goes so far as to say that financialization stands “for increasing autonomy of the financial sector” (50).³
Financialisation in Crisis (Lapavitsas 2012) is among the many products of the Research on Money and Finance (RMF), an international network of researchers whose collaborative efforts have generated a substantial amount of output in a relatively short time. It is deliberately positioning itself as a think tank, supporting media-friendly press releases and op-ed contributions with scientific research, appearing in the form of discussion papers, special reports, and books. It is an altogether ambitious project that aims to direct informed activism with solidly grounded research. At its center is Lapavitsas, whose work prominently features in both the publications and activities of RMF and in the articles featured in this book.

Financialisation in Crisis begins with an editor’s introduction that sets the scene. Thereafter, the various chapters begin from the same point of departure, in most cases rehearsing the same points as others at first but thereafter focusing on a more specific aspect of the political economy of financialization, especially as that pertains to macroeconomic analysis. The result is a collection of sustained, high quality, in which the authors marshal an impressive array of empirical data to highlight especially the globalized nature of the phenomenon under scrutiny. Simultaneously, they are very consciously attempting to demonstrate the applicability and relevance of Marxist political economy. However, they are not working in an intellectual autarky—much mainstream literature is cited, as are other heterodox treatments of the crisis. Although there is a shared commitment to the superiority of Marxist political economy as an analytical instrument, the authors also understand the necessity of its adaptation and modification in accordance with the evolution of global capitalism. Hence, there is a refreshing lack of dogmatic reiterations of orthodox “truths” and rhetorical liturgy. This is a serious attempt to craft a dynamic and adaptive epistemic community with a core normative commitment to worker emancipation.

While what might be considered the “non-economic” aspects of financialization are to some extent treated in Financialisation in Crisis, the focus here is squarely on the macro-structural changes that have facilitated both the increasingly dominant role of finance in contemporary capitalism and that have been themselves wrought as a result. In his introduction, Lapavitsas specifically rejects what might be called the “workerist” Marxism that would “bypass the ‘surface’—phenomena of finance in a forlorn search for the ‘true’ causes of the current crisis.” It is “necessary to examine financialisation as a structural transformation of the capitalist economy during the last three decades” (Lapavitsas 2012, 9); financialization “ought to be approached by treating the financial system as a structured whole that is connected organically to real accumulation” (Papadatos 2012, 131).

Following the introduction, Lapavitsas opens with a more general account of financialization as that is to be understood for the purposes of this book. Among the key themes is the extraction of financial profit “directly out of the personal
income of workers” (Lapavitsas 2012, 16), and the “distinctly exploitative social content” of household borrowing (94). This is partially in contrast to treatments that focus on financialization’s “transformation of future streams of income (profit, dividends, and interest) into marketable and traded assets in the form of equities and bonds” (Lucarelli 2012, 431). It is because of the “financialisation of personal income, mostly expenditure on housing but also on education, health, pensions and insurance” (15) that the economic storm unleashed in 2007 and still engulfing the global economy has been so unique: “never before in the history of capitalism has a major global crisis been caused by the extension of credit to workers, including to the poorest” (3–4).

Given the centrality of the US housing market to this, Gary Dymski’s rendering of the transformation of racial minorities’ status from pariah to meal ticket is particularly apposite. Within the history of commercial banks’ transformation from staid deposit holders and prudent investors to overly adventurous risk arbitrageurs is a profound change in the treatment of minorities, ostensibly shedding the racism of the preceding era but in fact merely adapting such profiling to new, more remunerative practices. During the 1980s, US banks’ “new strategies shifted the balance from net earnings based on interest margin to net earnings based on fees for financial services” (Dymski 2012, 60). These included what Dymski calls “extortionary racial inclusion . . . at terms and conditions that are predatory” (65). As the whole collection makes clear, this occurred in a generalized context of intensifying “financial expropriation,” in which “[e]xtracting financial profit directly out of the personal income of workers and others has acquired greater significance” (16). As William Tabb notes in The Restructuring of Capitalism in Our Time (2012), Julie Williams, then chief counsel of the Comptroller of the Currency, stated in a 2005 speech that the “focus for lenders is not so much on consumer loans being repaid, but on the loan as a perpetual earning asset” (quoted in Tabb 2012, 40).

Dymski’s succinct recounting of the transformation of US banking practices is followed by a more generalized analysis of banking in contemporary capitalism by Paul L. Dos Santos. The privatization of such goods as education, health care, housing and pensions has forced many households to seek access to finance for present and future consumption (Dos Santos 2012, 85). It is as if the logic of Milton Friedman’s (1957, 42) permanent income hypothesis has fully come to life, assisted by the vastly enhanced capacity for data processing, and the exploitative aspect of this is explained thus:

Money loaned out to individuals for consumption or mortgages does not ordinarily generate the value from which it is to be repaid with interest. Interest-payments are generally made from subsequent wage-receipts by borrowers, representing an
appropriation of value borrowers have secured independently of the loan. (Friedman 1957, 94)

Friedman’s distinction between “permanent” and “transitory” income is today integral to the calculations of lenders as regards their ability to extract, for as much and as long as possible, a share of their borrowers’ income.

The switch in emphasis away from traditional lending practices and toward personal finance is reflected in the rising proportion of total bank revenues that is attributable to non-interest income. Dos Santos also provides figures for the US and various other countries to show how since 1980 there has been a parallel reduction in bank lending to commercial and industrial enterprises (Dos Santos 2012, 87). In summary, “banks have re-oriented to private-wage income as a source of revenues” (98).

Consistent with the collection’s treatment of finance as an increasingly autonomous but structurally integral facet of contemporary capitalism, Dos Santos explains the “dramatically different outcomes of capital market trading for retail investors and for financial intermediaries” as not the product of “irrationality” on the part of retail investors, but instead as evidence of “the class-content of contemporary capital markets,” and specifically the “monumental and crystallized class parasitism” (Dos Santos 2012, 114) symbolized by the massive profits of investment banks prior to the meltdown of 2007 onward.

For all the hype, stock markets are of little significance with respect to capital raising. This is exemplified by the initial public offering (IPO) of approximately 20% of Facebook’s stock in May 2012, in which the company, then valued at US$100 billion, was hardly requiring a fresh capital injection. Its deliberately complex and opaque capital structure, coupled with separate voting rights entitlements that concentrate power in the hands of founder Mark Zuckerberg, goes against all strictures regarding sound corporate governance (Aama 2012; Plender 2012). It took over a year for Facebook stock to recover to its IPO price of US$38, following a controversial bailing out by underwriters (Dembosky 2013).

So what is stock markets’ purpose in practice?

For Lapavitsas, they “have facilitated the concentration and centralization of capital through IPOs, leveraged buy-outs and similar transactions” (Lapavitsas 2012, 37). To this, we can add their function as a means of “valuation of companies, the payment of shareholders and, possibly, the control of performances through mergers and takeovers.” As their role expanded, “net share issues by private companies in the United States were negative” (Aglietta and Rebérioux 2005, 85). Stock markets have become a means by which the financial sector has intensified its extraction of value, assisted by the remuneratively alluring co-optation of corporate executives whose alignment with the stockholder interest has been
of a very particularist kind. But this is best understood as part of a pervasive “drive by banks and broader financial system to increase the scope for financial expropriation” (115).

Demophanes Papadatos provides an informative critique of central banking and its role prior to and during the crisis. Specifically, following the failure of the monetarist effort to measure and restrict the growth of the money supply, the rise of inflation targeting is treated as “an attempt to preserve financial interests at the expense of the vast majority of the rest of society” (Papadatos 2012, 121). As other chapters of this book demonstrate, this policy has been especially punishing for lower income countries forced to adhere to conventional wisdom in order to gain access to markets and capital inflows. The one-size-fits-all nature of inflation targeting is shown to be unable to discriminate with respect to the causes of inflation and the heterogeneity of capitalism (125). In particular, the sharp focus on unit labor costs while refusing to acknowledge the significance of asset bubbles, which Alan Greenspan famously claimed could be identified only ex post (Palley 2003), encapsulates the class content of central banking. The collateral damage of this policy, however, means that not all its supposed beneficiaries appreciate it. London-based asset manager Andrew Smithers (2009, 8) is withering in his verdict of Greenspan’s regime as ideologically committed to ignoring asset prices. “My interpretation of our current financial tribulations is that they are largely the result of mistakes by central banks, with the Federal Reserve being the most culpable” (105).

Papadatos offers an interesting line of defense for Greenspan, stating that, “in a capitalist economy, it is very hard to distinguish at an early stage between a bubble and a period of lasting improvements in productivity-performance” (Papadatos 2012, 138). However, while such an explanation may suffice for stock prices, skeptics’ including Smithers notwithstanding, it has less purchase on real estate booms. And in any case, as is pointed out, Greenspan calculated that the ex ante profits would more than compensate for the costs ex post, which would in any case be socialized to some degree—quite an intellectual contortion for an avowed libertarian.

The asset bubbles that have emerged with increasing regularity since the 1990s have undermined the claims made for inflation targeting. Price stability may in fact have a role in breeding financial instability, fed by optimism that is itself a product of low interest rates that encourage greater risk-taking. Papadatos (2012, 134) notes that “in all countries that suffered financial bubbles during the last fifteen years, inflation was either low in absolute terms, or low relative to its earlier history.” And even before, Japan’s real estate bubble of the 1980s was accompanied by very low inflation.
Papadatos (2012, 131), in highlighting the structural power exercised by rentiers in contemporary capitalism, rejects the notion that labor should support industry over finance, given the systemic origins of finance’s ascendancy. The time for a “producers’ alliance” (Ramsay 1998, 115) or “intensive regime of accumulation” (Lipietz 1986), against the encroachment of financial interests, has passed, given the structural transformation of capitalism that is rendering it increasingly in finance’s image.

While the central banking fraternity debates what remains of the “Jackson Hole consensus” regarding inflation targeting and the treatment of asset bubbles (Evanoff, Kaufman, and Malliaris 2012), Papadatos (2012, 139) notes that central banks, in addition to being the lender of last resort, have now become the “market-maker of last resort,” by purchasing those securities in the possession of banks that are otherwise unsaleable. Once again, the losses of private actors are socialized following a binge of private profit-taking on the back of unsustainable risk-taking.

Makoto Itoh (2012, 149) draws parallels with the subprime crisis in the experience of Japan. The “financialisation of labour-power” is highlighted as having already been a feature of the Japanese boom of the 1980s, although this aspect was even more to the fore in the US experience. But Itoh does not expand upon this concept, focusing instead on means by which the financial sector has engineered first bubbles and then crises.

Expansion of consumer credit to finance consumption and housing purchases, in addition to health care, education, and even physical security, has meant that exposure to financial risk has never been more pervasive.

Privatisation and the celebration of choice brought with it the exposure of the risk of wrong choices, even if they were wrong only retrospectively. . . . We are now the compulsory entrepreneurs of our own lives: labour is being re-conceived in the image of capital. (Bryan 2010, 53)

Dick Bryan (2010, 57) argues that labor’s “dual freedom” (from physical compulsion to work and from attachment to capital, following Marx) is supplemented by another: the freedom to accumulate and to convert a part of its income into surplus in the form of interest payments. In Bryan’s rendering, this “new class of accumulators” has the effect of lower consumption (resulting from a fall in the value of labor power) and “seemingly incalculable risks to capital,” as evidenced by the collapse of the US housing market and the knock-on effects throughout the financial system of defaulted household debts. This “freedom” is less double-edged in practice, however, given the regime’s socialization of the suddenly very calculable risks to capital that resulted in the rescue of financial institutions.
and state purchase of supposedly “toxic” assets. Itoh describes this development as “completely contrary to the theoretical precepts of neoliberalism”—true—and “closer to socialist arguments about managing the capitalist economy than even to traditional Keynesianism” (159)—not true, given socialist arguments’ rather more normative and specific class content than the “keep the wheels turning” logic of traditional Keynesianism, and the telling reluctance of state managers to exercise control over that which they have employed taxpayers’ money to rescue.

Itoh makes two important observations. Firstly, the supposedly greater transparency and efficiency of US capital markets has been shown to be both opaque and inefficient in practice. This crisis was not the result of “an external shock . . . but largely due to the internal motion of the US-financial system itself” (Itoh 2012, 155). The crisis “has forced a rethink of the supposed superiority of the US (and UK) over the Japanese (and German) financial system” (151). Secondly, for its own part, Japan’s supposedly more traditional “indirect” banking system was not able to prevent its own bubble from first inflating and then bursting, with disastrous results (160). As with Papadatos and the analysis of capital fractions above, it is simply too lazy to assume that the “continental” or “originate-to-hold” banking systems of Germany and Japan are inherently superior to their anglosphere, “direct” finance counterparts. The presence, or otherwise, of an effective labor movement can make all the difference in practice.

Nevertheless, Itoh should also take into account the impact of the Plaza Accords of 1985, in which central banks intervened to bring down the value of the US dollar and therefore facilitate a rebalancing of Japan’s trade surplus with the US. The subsequent impact on the Japanese economy was such that the Japanese government implemented a stimulus package in 1986, combining interest rate reductions with fiscal injections, bringing about recovery, but of the most unsustainable kind, as funds were redirected into real estate and credit, following earlier financial deregulation in line with conventional US-led wisdom. These developments did not excite alarm because they represented a boost to domestic demand, in line with the Plaza Accords’ focus on trade rebalancing. Monetary easing was also preferred because to have raised interest rates would have risked strengthening the yen, contravening Plaza. Only when the boom turned to bust in 1990 was there any recognition of the fundamental unsustainability of the course of action agreed to by Japan, under heavy US pressure.6

Carlos Morera Camacho and José Antonio Rojas Nieto examine the globalization of financial capital from the Asian crisis to the subprime crisis. Specifically, they identify “the consolidation of an international-financial space through which practically all national-financial processes are obliged to pass in an articulated manner” (Camacho and Rojas Nieto 2012, 162). This has been accompanied by a generalized attack on labor and a transformation of the role of the state. The
transformative effects of financialization are colonizing and integrating previously insulated, local institutions and social practices. The sphere of production has been subordinated to the sphere of circulation. In all this Morera and Rojas see efforts intended ultimately to combat the tendency of the rate of profit to fall. However, as they themselves admit, this is complicated by “substantial increases in the mass of profit,” making “disputes among all the factions of capital more controversial and violent” (163).

Conventional treatments in Marxist political economy view financialization as having achieved a restoration of the profit rate, with an upward trend observed in Britain since 1979 and in the US since approximately 1980. Both dates coincide with the imposition of monetarist policies intended to combat inflation and the accelerated liberalization of the financial sector in both countries, which are of particular note given their hosting of the two most important global financial centers.

According to Freeman (2012/2013), the traditional focus on physical capital means that the calculation of the profit rate is increasingly distorted by its exclusion of money capital. If “money balances, hoards and financial investments” are included, then the impact of financialization on the profit rate is rendered just as visible but in such a way as to reveal its failure to restore the profit rate to levels enjoyed from 1946 to 1970 approximately. In the US, the decline of the profit rate is shown to have continued steadily downward since 1982, while in Britain financialization has even accelerated the decline since 1987, coinciding with the period when the descent of manufacturing was accompanied by a resurgent City of London (Freeman 2012/2013, 170, 177, 179). What has happened is that the profit rate for some has certainly been restored, if not enhanced, while for others it has declined, and in many cases drastically so. Financialization has engineered a redistribution and concentration of a shrinking surplus, rather than its aggregate increase. As Tabb (2012, 41–42) states, it is “an appropriation from the rest of the economy.”

Private equity buyouts encapsulate the process at work here. “The capture of the rights to the returns on large assets based on a proportionately small equity commitment” enables the “sweating” of the asset until eventually it is sold, leaner but often not at all fitter, since it is debt-laden, and with many previous claim holders (such as pension savers) left significantly poorer (Morgan 2009, 230–31). The apparently remarkable returns achieved by such financial practices attract other investors who compete for a shrinking purvey. The falling profit rate under financialization is simply the outcome of an aggregated form of the asset-stripping and financial engineering that has hollowed out vast swathes of industry in the high-income countries and which exploits the more vulnerable populations of the global South. Overall profit rates are reduced while the financial sector’s
structural power engineers a taxpayer-subsidized upward redistribution of income that ensures spectacular gains are enjoyed by a shrinking, but accumulating, plutocracy. The gains are spectacular precisely because they are shared among so few. But the aggregation of profit rates, like GDP statistics more generally, can serve to hide these redistributive effects and so help to legitimize both intensifying expropriation and, relatedly, accelerated crisis tendencies.

The impact of financialization on developing countries is the focus of Juan Pablo Painceira’s discussion. As an outgrowth of the Third World debt crisis of the 1980s, the Brady Plan’s debt restructuring involved opening up indebted countries to further inflows of capital, accompanied by liberalizing reforms. Dollar hegemony has ensured that the US has enjoyed the benefits of this integration into the global economy. The superiority of Marxist political economy with respect to development studies is highlighted in connection with understanding how capitalist development endogenously “induces development of the financial system, which then fosters further capitalist development” (Painceira 2012, 192). With respect to financial crises, Painceira claims that it is able to distinguish between those that are production-related and those “due to the overstretching of finance caused by the internal operations of the financial system,” thereby confirming the “inherent autonomy of finance from real accumulation” (195).

Painceira attributes the present crisis to the implosion of the subprime loans sector in the US, but this in turn is itself a product of changes in real accumulation. Analyzing global financial flows and the position of the US dollar as “quasi-world money” (Painceira 2012, 195–202), he analyses international money flows to determine just how the US has benefited from its currency’s status and how much less developed countries have themselves financed the excess of the US financial sector by protecting themselves against speculative money flows of the kind that featured in the Asian crisis of 1997–8. This has been done by the accumulation of dollar reserves, effectively “a form of tribute to the issuer of quasi-world money” (200). Meanwhile, thanks to the inflation-targeting regime forced upon developing countries in the name of economic orthodoxy, the increase in the money supply that this causes is “sterilized” by the issue of public debt, whose opportunity cost is the investment foregone that this represents (207). “Financialisation has thus resulted in the absurd situation of the poor financing the rich in the world economy, while allowing the USA to run vast trade deficits” (212). What is true locally is further amplified at the global level, in line with Tabb’s “appropriation” thesis.

In a final chapter, which is very timely, given recent events in Istanbul involving the occupation by and police brutalization of protestors in Taksim Square, Nuray Ergünes presents a case study of Turkey, ostensibly an economic success story in recent years, following a series of crises culminating in the intervention of the International Monetary Fund (IMF) in 2000–2001. The familiar pattern of capital
account liberalization, trade opening, foreign exchange (mostly US dollar) reserve accumulation, and inflation targeting as the basis of monetary policy has been observed. Regarding the latter, Ergünes highlights its restrictiveness with respect to both monetary and fiscal policies, with higher real interest rates and downward pressure on wages serving to attract capital inflows and enhance “competitiveness.” But the growth that this path has apparently delivered in recent years is vulnerable to sudden reversal, a point very much in evidence at the time of writing (Wigglesworth 2013).

Ergünes draws attention to how the inflation-targeting regime of Turkey’s central bank has altered the composition of Turkey’s external debt. What was in the past associated with the state is now driven by private sector borrowing, as producers go abroad to finance fixed investment in order to escape the higher domestic interest rates. Meanwhile, foreign banks have, mainly through acquisition, established themselves in Turkey and have plowed a familiar path of consumer credit expansion, pulling along domestic competitors in their wake (Ergünes 2012, 238). As a result, there has been a rising level of household indebtedness and insolvencies.

Foreign exchange reserves are also on an upward trend, with the central bank investing heavily in US Treasury bonds (Ergünes 2012, 223). Economic growth has been impressive, aside from the absence of employment growth. Capital account surpluses have been accompanied by large current-account deficits, despite surging exports. This relates to a pattern of trade referred to as “buy from Asia, sell to Europe” (227), in which intermediate and investment goods are imported mainly from Asia and employed in the manufacture of consumer goods and, increasingly, investment goods to Europe. A high exchange rate and competition from other producers means that Turkey’s competitiveness in this is dependent on cheaper unit labor costs. A Customs Union with the European Union coincided with the withdrawal of agricultural support, speeding up urbanization and supplying plentiful cheap labor that also forms the basis of the governing party’s electoral support. As part of the inflation-targeting regime, wages have been index-linked, resulting in a decline of real wages (230) while manufacturing productivity has boomed, enhanced by significant growth of more capital-intensive production. The social dislocation caused by this rapid development path is very much in evidence at present.

Ergünes (2012, 241) sees Turkey as typical of middle-income developing countries under financialization: “import-dependent production, a huge current-account deficit, large public and private debts, increasing unemployment and indebted individuals,” to which could be added production for export.

Financialisation in Crisis provides a strong analytical focus and is replete with statistical evidence that is usefully organized in tabular or graphic form. It locates
the origins of the crisis within the US, and in so doing convincingly locates the
global centre of this globalizing mode of production, dwelling at length on its
impact both globally and in more specific locales. *The Restructuring of Capitalism
in Our Time* is a quite different proposition, although ostensibly covering the
same topic, and from a similar theoretical perspective, albeit more eclectic in its
theoretical sources than strictly Marxist. The book is more US-focused, as it is
written with an eye to influencing policy debates, whether directly via academics,
journalists and wonks, or indirectly through general readers.

The accessibility of Tabb’s book means that its theoretical and analytical content
is far less concentrated than in Lapavitsas’ collection. Nevertheless, as a guide to
the origins and unfolding of the crisis beginning in 2007, *The Restructuring of
Capitalism in Our Time* (Tabb 2012) is unlikely to be rivaled. And while there is
no shortage even of more mainstream treatments (e.g., Blinder 2013) that are good
at dissecting the origins and the unfolding, their deference to conventional wisdom
and largely uncritical treatment of the crisis management by the US government
and the Federal Reserve means that the reader is left to conclude that if only the
right people were in charge, everything would be at least much better, if not fine.
The advantage of Tabb’s book is that the systemic roots of the crisis are very much
on display, transcending the vacuous Democrat versus Republican sideshow.

Tabb cites both social structure of accumulation (SSA) theory and world
systems thinking as major influences on this book, although there is an eclecticism
that encompasses also the work of Paul Sweezy, Hyman Minsky and Wynne
Godley, among others. The result is a descriptively rich recounting of the crisis,
its origins and aftermath, peppered with pockets of analysis that could have been
developed further to great advantage. There are long passages of history that veer
close to chronicle, and while for those less familiar with the background this will
serve an important purpose, for those more familiar with the subject matter there
is likely to be a somewhat unquenched thirst for deeper theoretical insight. That
said, there are telling flashes of such insight throughout the text that are suggestive
of further inquiry and theorizing. Tabb is also very much aware of the ideological
ramifications of methodological choices, a longtime concern (Tabb 1999). In this
connection, he highlights the folly of the efficient markets hypothesis and the
manner of its defense by prominent mainstream economists who prized abstraction
above relevance (20).

Tabb (2012, 4) begins by highlighting the political dilemma posed by a crisis
such as the present one that “calls attention to the perceived fairness of a society’s
political economy.” For the reader, ahead is the promise of an explanation of how
the game is rigged in favor of the financial sector, depicted, following Sweezy, as
“a relatively independent superstructure . . . atop the world economy” (Tabb 2012,
9; see also Dowd 2002). Thus financialization is defined as “the dominance of
the financial sector in the totality of economic activity such that financial markets
determine the state of the overall economy and financial sector demands dictate
nonfinancial company behavior” (Tabb 2012, 10). We might question if there is
even such a thing as a “nonfinancial” company any more, given the penetration of
finance and risk management throughout almost all aspects of life, and especially
business. On this latter point, not only has financialization “changed corporate
governance but proven to be a form of redistributive growth” (Martin 2002, 12).
It is “a tool of accumulation pushed powerfully by the American state and other
money-center governments” (10).

Before proceeding further, two questions arise: firstly, is the base-superstructure
metaphor of any significant use in helping us understand contemporary capitalism?
Secondly, if it is of use, to what extent can the financial sector be regarded as
belonging to the superstructure? While Tabb appears to be comfortable with the idea
of finance as belonging to the superstructure, Lapavitsas et al. appear to be more
equivocal, insisting on the integration of financialization with real accumulation,
but without resort to the kind of “tail wagging the dog” criticism that is at least
implicit in the Sweezy/Tabb rendering, and which finds much support beyond
Marxian political economy, as in the British government’s recent commission of
inquiry into the role of equity markets, for example (Kay 2012). Indeed, while
the RMF approach adheres to the distinction between “real” accumulation and
finance, it is not necessarily the case that this distinction is synonymous with
the base-superstructure metaphor, given the attribution of a certain degree of
autonomy to finance.

Tabb devotes the second chapter to relating financialization to SSA theory,
covering similar territory to an earlier paper (Tabb 2010, 25) but tailored more to
a broader audience. SSAs are defined as “coherent set[s] of mutually reinforcing
institutions favorable to capital accumulation” that are necessary for prolonged
periods of economic growth. Given the evidence provided especially by Freeman
(2012/2013), the modification of Wolfson and Kotz (2010, 73) that SSAs are in fact
better understood as the stabilization of class contradictions, thereby facilitating
profitable accumulation, is arguably more appropriate. Meanwhile, Tabb’s (2012,
30) reference to the “global neoliberal regime’s period of confident growth” prior
to the onset of crisis indicates his agreement with Wolfson and Kotz, among
others, as regards the applicability of the SSA concept on a global scale, contrary
to Victor Lippit’s argument that because “institutions vary widely among capitalist
countries . . . it is not meaningful to speak of a global or international SSA”
(Lippit 2010, 45n1). The extent of global integration, including the prolonged and
depthening structural imbalances that have characterized globalization, attracting
much mainstream comment (Wolf 2008; Rajan 2010), is amply demonstrated by
the data presented in Financialisation in Crisis, as are phenomena common to
different categories of economic development, such as middle-income developing countries. As Tabb (2012, 54) agrees, “The debt-driven redistributive growth model, featuring a harmful financialization, characterizes the global neoliberal SSA.” Lippit’s (2005, 55) treatment of globalization as “exogenous” to the new SSA of the US ignores the economic, political and even ideological centrality of the US to the globalizing processes that led ultimately to the global crisis of 2007 onward and amply laid bare in Financialisation in Crisis.

There is a lot of overlap in the contents of both volumes under review here, but to a large extent they are differentiated by their selection and treatment of evidence. Whereas Lapavitsas et al. are concerned to demonstrate the relevance of Marxist political economy with copious use of statistical data, Tabb’s (2012, 49) narrative contains regular reference to telling observations by insiders, as well as a focus on fraud and criminal behavior that is integral to financialization. “Nothing, it turns out, correlates as strongly with fraud as stock options.”

Even more seriously, the “pretense of profitability” (Tabb 2012, 48) that was supposedly finished with the bursting of the dot-com boom and ignominious scandal surrounding Enron in 2001 in fact continued. “Gains in the real economy were for the most part illusory” (52). According to Smithers (2009, 142), “profits have been habitually overstated” and not only in the US. While this is not unique to the present era of financialization, the evidence from the US shows that the periods apparently most afflicted by this overstatement were the inter-war years and 1968 onward, the latter coinciding with Freeman’s recalculation of the rate of profit in the US discussed above.

In addition, Tabb’s discussion of the derivatives market captures, as few others have, an essential feature of financialization in practice: the “preference for opaque products and secretive dealings to protect rents” (Tabb 2012, 58), hence the remarkable, rapid expansion of the “over-the-counter” (OTC) derivatives market. Bryan and Rafferty (2006, 205) note that financial derivatives, like the Eurodollar market before them, were developed in order to avoid state regulators and capital controls. Where opacity reigns, criminality is likely to develop, and in the case of OTC derivatives, they “have indeed been used in ways that are flagrantly illegal, and . . . it would appear that regulators have turned a blind eye to illegal practices” (206). Fictitious capital might be a perennial theoretical problem within Marxist political economy, but as Crotty’s (2003) analysis of shareholder value highlights, fictitious financial reporting is an endemic empirical, and legal, problem, given the incentives and opportunities that the shareholder value regime has brought into being. Banks are thoroughly implicated, as they “push the envelop of legality by offering derivatives designed to arbitrage earning over time and space in order to move money to jurisdictions or forms of payment that face lower taxation” (Crotty 2003, 105).
This is part of the more generalized phenomenon of “shadow banking,” whose very lack of regulation has encouraged its growth to the extent that, according to the Federal Reserve, it was worth over US$20 trillion in early 2008, as compared with the regulated banking sector’s US$11 trillion, and shrinking to “only” US$16 trillion by late 2010, but still larger than the regulated sector’s US$13 trillion value (Tett 2010). The sector includes hedge funds, private equity groups, insurance companies, money market funds, and pension funds, among others, and features funding sources involving the use and reuse of collateral posted with banks and others to finance transactions that show up as non-balance sheet funding. (Tett 2010, 94–95)

The far from small matter of off-balance sheet accounting can be added to the fictitious financial reporting ledger, given its central role in the Enron scandal (Chandra, Ettredge, and Stone 2006). Meanwhile, central banks’ efforts to monitor, let alone control, the money supply, have been rendered increasingly forlorn, with interest rate policy likened to “pushing on a piece of string” by Joseph Stiglitz (Authors and Tett 2008).

As regards solutions to our predicament, Tabb’s longstanding advocacy of political economy in both academy and government is combined with his support for policies including financial transaction taxes that could finance any shortfall in US social security, while structured in such a way that “would not inhibit nonspeculative investment” (Tabb 2012, 265). More generally, a more activist economic role for the state is required; “It may be time for nation building at home and a transition from a financialization-anchored regime of accumulation to a new investment strategy to promote employment and growth” (244). In fact, there is no “may be” about it. Even the foreign policy establishment recognizes the limitations placed on US power by its domestic economic woes (Haass 2013).

Echoing the views of Wolfson and Kotz (2010), Tabb foresees a future SSA that is likely to be regulationist. The question is whether it will be a repressive regulation of a fearful society . . . or one that restructures . . . in ways that hold financialization in check and empower an inclusive, sustainable growth path. (Tabb 2012, 276)

That depends very much on the various social groups, encompassing what remains of organized labor as well as the new social movements that defy easy classification in the Marxist schema, being sufficiently organized and united around a clear set of feasible objectives. That the Tea Party wing of the Republican Party has been allowed to become representative of the popular disgust at the financial sector’s performance says much about the Obama administration’s and Democratic Party’s
capture by Wall Street (Suskind 2011). Yet the Obama administration’s knee-jerk recourse to tried and tested policies such as free trade agreements and tax system tinkering promise to yield diminishing returns.

Freeman’s analysis provides strong evidence that the neoliberal, financialized model of capital accumulation has not only run out of steam, but never accomplished what was its supposed justification. The rate of profit, far from being restored to more acceptable levels, has in fact continued to decline. The redistribution of a declining total surplus to an ever-decreasing circle of recipients (Tabb’s “appropriation from the rest of the economy”) has now become so glaring that globalization’s erstwhile cheerleaders are themselves concerned at the widening inequalities that are the result (Wolf 2008; Rajan 2010; Freeland 2012). Yet, as both these books underline in their respective ways, while the technocratic Keynesianism that views such outcomes as intrinsically unsustainable and therefore undesirable is rearing its head more prominently, there is no guarantee that a hegemonic bloc of class fractions will coalesce even to support policies that would be in the interests even of capital per se. Suskind’s account of the first years of the Obama administration is as sobering a reminder of the power of Wall Street in spite of everything that has happened since 2007. Even worse, nothing has changed, seven years later. Half-hearted efforts to regulate derivatives trading, for example, has resulted in the shadow banking sector

steal[ing] the lion’s share of the derivatives business from the big banks . . . with shadow banks, such as hedge funds and other non-bank financial institutions, now taking more than 50 per cent of both interest rates and forex trading for the first time. (Jenkins and Schäfer 2013)

Dos Santos’s (2012, 116) call for a “reawakening” of organized labor and “broader social organisations of ordinary people” is a necessary, if possibly still insufficient, condition of progress. Papadatos might be correct as regards the passing of the era of the intensive regime of accumulation, but only insofar as organized labor must find allies among the new social movements that have developed alongside it, and recognize even the possibilities of alliances, however temporary, with certain fractions of capital. Without the sort of leadership that can unite these unnecessarily disparate interests into a cohesive, effective coalition, they are condemned to be single-issue groups whose singularity condemns them to a similar fate as the Occupy movement, which eschewed any sort of programmatic goal and as a result has left a legacy of negligible impact (Craven and Zhang 2012; Fraser 2013). There is nothing inevitable about the continuation of the neoliberal SSA, and plenty to suggest its disintegration (Desai 2013; Keaney 2013). But neither is there anything inevitable about the manner of its disintegration. As
Bertolt Brecht wrote in *The Resistible Rise of Arturo Ui* in 1941, and as we ourselves might say of financialization today, “Do not rejoice in his defeat, you men, for though the world has stood up and stopped the bastard, the bitch that bore him is in heat again.”

**Notes**

1. Mandel is now the chief economic strategist at the Progressive Policy Institute.
2. In this respect, Mandel was far ahead of the sociologist-prophets of the risk society, because he explicitly linked the rise of risk with that of finance, a point highlighted by Martin (2002, 207n1):

   It is interesting that the literature on risk emerges at the same time as the phenomenon of financialization, which is treated as peripheral. This periodization of modernity reinforces the idea of a break between new and old social movements, the one based on knowledge and the other oriented to political economy. The distinction plays into “new labor” politics (in which Giddens figures centrally), whose electoral career has been based on the claim that it is not beholden to working-class formations like unions.

3. The identification of an increasing autonomy of finance echoes earlier debates on state theory (e.g., see Jessop 2001).
5. The most likely form of mobilization against the financial sector is that of the new social movements that Nicos Poulantzas (1978) already decades ago saw as opening up a new front of political struggle. See Keaney (2013).
6. History is repeating itself, first as tragedy, in the futile accusations of currency manipulation against China in a context of an overwhelming US trade deficit, with US leaders wishing for another Plaza Accord-type of arrangement (Liu and Deng 2012, 352). Meanwhile, the farcical element is provided by the International Monetary Fund’s (IMF) own analysis of the Plaza Accord: “because the dangers of real estate bubbles were not well understood in those years, the Japanese government did not deploy countervailing regulatory and fiscal policies until 1990” (IMF 2011, 54). When did this understanding emerge? What was the Federal Reserve’s excuse?
7. The case of US retailer Home Depot in 2007 usefully highlights the misuse and abuse of stock options: (1) far from aligning executive interests with those of shareholders, stock options allowed departing CEO Robert Nardelli to walk away with a US$210 million severance package, despite having overseen a significant reduction of shareholder value; (2) executive compensation is more often not a market-determined issue but instead subject to the whims of a closed circle, often including the executive concerned; (3) far from having no cost, stock options’ opportunity cost is the capital the company could have received had they been sold on the open market—a point that took years to register with accounting standards setters. See Bebchuk and Fried (2003) and Plender (2007).

**References**


