The Supremacy of Finance and the Crisis

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OBJECTIVE

- To interpret the supremacy of finance before, during and also after the crisis, despite its responsibility as a cause of it.

- To relate neoliberalism to this supremacy of finance and the two with increase of inequality.
SUMMARY

• Some conceptual clarifications about what is defined as financial capital and fictitious capital.

• Financialization as development of fictitious capital and the crisis as a consequence of this development.

• Neoliberalism, development of fictitious capital and development of inequality.

• Political considerations
In Capital – Volume III – Part IV we have:

- **Merchant’s Capital**: Capital which operates in the circulation.
- **Commercial Capital**: commodity-capital functioning as a special function of a special capital.
- **Money-Dealing Capital**: money-capital functioning as a special function of a special capital.
- **Financial Capital is Money-Dealing Capital**
Interest-bearing capital: Its use-value is “serving as capital” (Marx, 1972, p. 338).
“it is weighted with surplus-value” (Marx, 1972, p. 342).

“Interest-bearing capital remains as such only so long as the loaned money is actually converted into capital and a surplus is produced with it, of which interest is a part” (Marx, 1972, p. 381).

Fictitious capital: It is the money-dealing capital when it does not really function as capital because it does not buy labour force.
“The formation of a fictitious capital is called capitalisation” (Marx, 1972, p. 466).
If the rate of interest is 5%, every periodic income of £100 is assigned to a capital of £2000, even if the labour-force is not purchased.
“All connection with the actual expansion process of capital is thus completely lost” (Marx, 1972, p. 466).
“I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital” (Finance Capital, Chapter XIV).

Finance capital cannot include the fictitious capital, because it is always seen as being invested in the industry.

Even if this concept could be useful to analyze the case of Germany in Hilferding’s time, it cannot explain either financialization or the crisis of 2008.
Being a case of increase of value without relation with its own creation by labor, the development of fictitious capital is a case of growth of finance without new production of commodities and surplus-value.

This is what financialization means.

Consequently:

1. The prices of fictitious capital depend on supplies and demands.
2. The value of fictitious capital is thus merely speculative. There is not real production sustaining its value.
3. The development of fictitious capital implies distribution of values already created.
How to explain the increase of demand to sustain the increase of value of fictitious capital?

With neoliberal globalization the several credit markets all over the world were closely linked, increasing the money available to be placed in financial markets. But those placements were concentrated in few developed markets.

A great volume of monetary resources in a small number of markets explains the development of fictitious capital in a high proportion for so long.
**Neoliberalism and the Development of Fictitious Capital**

- Being a case of increase of value without relation with its own creation by labor, the development of **fictitious capital** is a case of speculative value.

- Neoliberalism increased the possibilities of **speculation** and so of development of fictitious capital:
  - Fierce competition led to the search for quick speculative profits (Epstein (Ed.) 2005; Chesnais (Ed.), 1994, 1996; Brunhoff, et al. 2006).

- Flexible exchange-rates and free movement of capital intensified the opportunity of speculative gains.

- The increase of value of stocks was seen as a criteria of success. The payments of CEOs with stock options (Plihon, 1999), and repurchase of stocks by the issuing company itself) (Duménil & Lévy, 2004) were normal practices.
NEOLIBERALISM AND THE DEVELOPMENT OF FICTITIOUS CAPITAL

- Privatization of public pensions increased the resources looking for international gains and stimulated speculative placements.

- Even the resources of pension funds sought for speculative placements, because the funds had to show good results quickly to attract clients (Parenteau, 2005).

- The general deregulation gave rise to a lot of risky financial innovations (Gutmann, 1994, 1996, 2008; Zerbato, 2001), increasing the speculation.
Being the result of a mere distribution of income, it means a puncture of resources from real production. This is the reason why it leads

1. to the crisis.
2. to the increase of inequality
DEVELOPMENT OF FICTITIOUS CAPITAL AND CRISIS

Relation to crisis

During neoliberalism the economy showed a relatively low growth of real product and employment (Chesnais, 1994, 1996, Crotty, 2005).

Consequence: Lack of income coming from the production to sustain the asset’s demand and so the speculative gains. Increase of value of assets begin to be reduced and this leads to massive sales and to the market deflation.
Neoliberalism, Development of Fictitious Capital and Inequality

Relation to Inequality:

Neoliberalism intensifies competition which leads to the concentration and centralization of capital and to technological unemployment.

Stimulating the development of fictitious capital, neoliberalism also stimulates inequality, because fictitious capital is the result of mere distribution of income without generating new production.
Injections of liquidity were driven first and mainly to banks and to financial institutions, to avoid that the crisis spread to other sectors. As suggested by Minsky (1977, 1982, 1986 and at the moment of 2008 crisis), this avoided that the liquidity crisis become general insolvency.

But the increased liquidity, in this case, can avoid a larger extension of insolvencies but cannot solve the problems of the absence of investment in the real sphere of the economy. The problem is not of liquidity scarcity but of excess of speculative liquidity or of fictitious capital. The money must be redirected to production.

The increased uncertainty or the loss of confidence with the crisis leads to what Keynes called “liquidity trap” and what Marx refers as an absolute preference for money present in every crisis.
Austerity’s neoliberal policies and the exit of the crisis

- The austerity’s neoliberal policies conceived to constrain the role of governments, continue to:
  - benefit specially the financial sphere;
  - punish real production with reduction of demand and so investment;
  - increase inequality.

- The austerity policies affected mainly the less developed countries (Ortiz e Cummings, 2013).

- Even after the crisis the inequality grows Piketty e Saez (2013)

  The richest 10 % of USA:
  1929 - 50% of the total income
  1940-1970 - 35% of the total income
  2010 – 50 % of the total income
The tax system protected the richest people, whose tax payments were reduced, despite the higher part of inequality be in the top (1%) of the income pyramid (Pikety & Saez, 2013).

In the neoliberal era the part of wealth of the European countries in the national income grows substantially up to 2010 (Pikety & Saez, 2013).

The loans aiming the crisis’ exit were given mainly to financial institutions, in less proportion to some industrial companies, but nothing to the families (Silvers, 2013).

The debts were not restructured to share its weigh between creditors and debtors, which is another reason of increase of the inequality among and inside the countries (Akyuz, 2014)
Total Global Income (US$ billions – Current rate of Exchange – Nominal Value)

*Green*: Increase of global income from 1988 to 2011 (US$ bi)
*Wine*: 1% richest

Source: OXFAM
POLITICAL CONSIDERATIONS

- To alleviate the problems, fiscal policy is needed to increase productive investment, employment and income changing the concentrated economic distribution which politically sustains the financial globalization and the development of fictitious capital.

- For Post Keynesians it is easy to propose discretionary economic policies as fiscal policy to reduce the problem of supremacy of finance.

- But even a great part of Marxists know that it is important to count on economic policies to make the worker’s position on the capital-labor relation better, and to organize and well prepare the workers to build and assume a better society.
Political Considerations

In this sense we have to fight:

- **Against the austerity’s policies** that impoverish the labour-force, maintain the supremacy of finance and prevent the exit of the crisis.

- **In favor of discretionary policies** which increase employment and wages and so demand and growth;

- **Against neoliberalism** that hates discretion in the discourse but that increases inequality, as we have seen, in its practices.