Financialization in the twilight of capitalism

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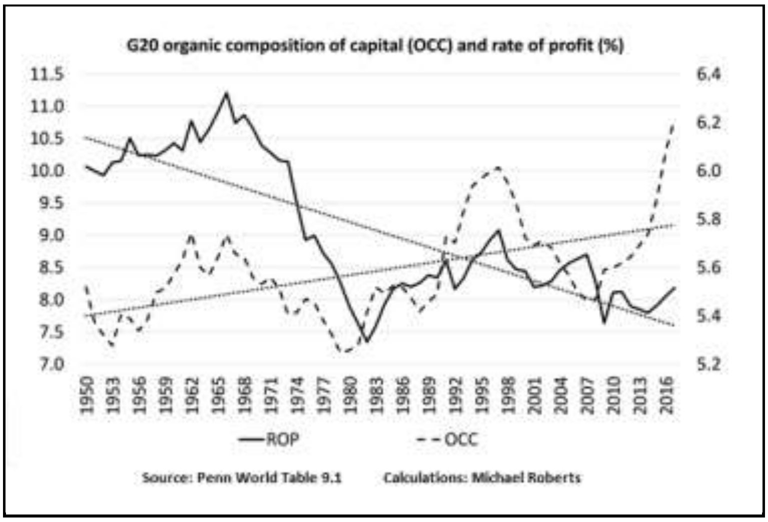
Introduction

The issue of financialization has been the subject of great controversy; even the validity and appropriateness of the term has been questioned. However, there is no doubt that certain historical facts support this thesis. A growing exuberance of finance came after the end of World War II and, especially, from the 1980s onwards. But what is financialization? This is a question that still requires an innovative answer (Prado, 2018b).

After 1945, there were two long cycles in the world economy: one between 1946 and 1982, when Keynesianism dominated, and another from that last date, when neoliberalism prevailed. In the first period, the world GDP growth rate averaged 5% per year. Between 1981 and 1990, the world economy grew on average 3.12% per year; between 1991 and 2010, this average rate dropped to 2.8%, to reach only 2.2% in the last decade. Because of this low growth, it is widely recognized that the world economy entered a period of stagnation after 1997, which has not yet been overcome. And this secular decline is well explained by the declining behavior of the rate of profit in the period, as shown in the graph below.



But the fall in the rate of profit and the rise of organic composition of capital is not the only striking fact in the history of postwar capitalism. The irresistible process of financialization, intrinsically related to the former, has also developed over the last seventy years. Why?

If its main antecedent was the expansion of the Eurodollar market, mainly in the 1970s due to the abundance of petrodollars, it effectively took off in the 1980s. As is

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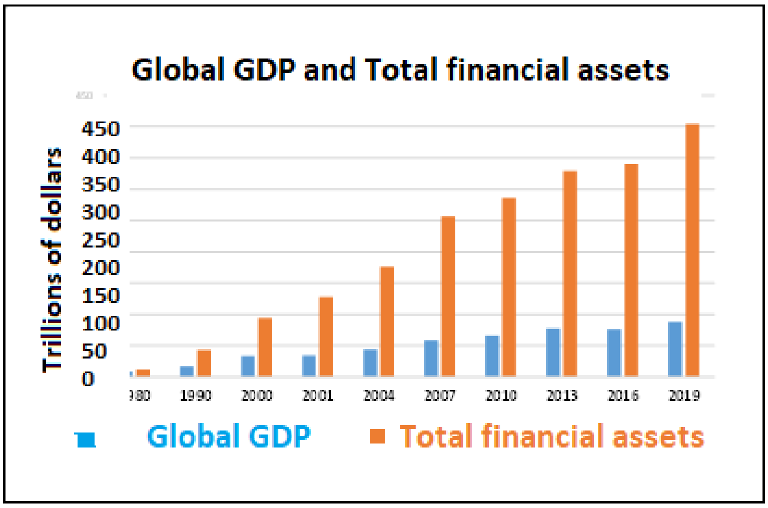
well known, the precedent decade was characterized by two strong crises that happened in between 1974 and 1982. In this period, there was also a long stagflation. The growth of global financial assets compared to the increase in global GDP is shown in the graph below:



Source: World Bank; Calculations: by the author.

The following are evidences of the financialization process: the expansion of the international financial market; the increase in the participation of the financial sector in the GDP and in the appropriation of profits in the central countries; the widespread use of complex new financial instruments (eg derivatives); the emergence of a parallel financing system in relation to banks (shadow banking); the management of companies starts to privilege the interest of shareholders in the short term to the detriment of the productive advance of the company in the long term; increasing indebtedness of families, national states, as well as non-financial companies, etc.

Studies that accept the term financialization to designate this empirically observable phenomenon are divided in two branches depending on their central concern. There is no doubt that the facts listed above mark the development of contemporary capitalism; if the process starts in developed economies, later on it spreads to the world economy as a whole as a result of the third great wave of capital globalization (Prado, 2018a).

Here is the division: either recent research focuses on the effects of financialization as an unprecedented event in the history of the evolution of capitalism, which came to affect the distribution of income and wealth and, thus, the economic growth of nations, or it turns to understand it as a recurrent phenomenon, and thus endogenous, of the contradictory process of reproduction and capital accumulation, with its expansion spurts and its crises.

Representative of the first orientation is the seminal article by Greta Krippner written shortly after the turn of the millennium (2005). There, this author shows empirically that financialization was really present in the North American economy. For that, she defines this phenomenon as “a pattern of accumulation in which profits accrues primarily through financial channels rather than through trade and production of goods” (Krippner, 2005, p. 174).

A little before her, Gerard Epstein had defined this phenomenon explicitly by its appearance: there is in the economy – he says – an "increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies" (Epstein, 2004, p. 3).

Thomas Palley, who points out and endorses the economic content of these two definitions, added a political dimension to them; in a very recent article he repeats what he had said in his book on the subject: "financialization correspond to financial neoliberalism which is characterized by the domination of macro economy and economic policy by financial sector interests" (Palley, 2013, p 1; 2021, p. 465).

Now, these studies can be interesting to understand the manifest aspects and the unfolding of the phenomena associated with financialization in its momentous actuality, but they fail for not apprehending them as an expression of the internal logic of the reproduction of the social relation of capital in historical temporality. As is well known, this logic is not deterministic, as it includes both the necessary and the contingent determinations that affect the course of events. In this particular study, an attempt will be made to understand financialization as a consequence of capitalistic development. It follows the tracks of the capitalist mode of production dialectical exposition that is found, as is well known, in the three books of *Capital*; but, in particular, a specific content of the third of them will be very important.

The legacy of classical Marxism

What Marx left written in his works allows us, first of all, to think about the financial exacerbation observed contemporaneously as a consequence of the overaccumulation of capital in the sphere of commodity production. And this interpretation has been supported by authors such as Ben Fine (2013), Stavros Movroudeas (2018), Michael Roberts (2018) etc.

To present their thesis, it is necessary to start by showing the connections between the different forms that capital takes in the process of reproduction of capitalism. For this, the complete circuit of capital in the sphere of production is presented in sequence:

M - M - C (MP and LP) ...P... C' - M' - M''

In the first phase of this process, indicated by M – M, free monetary capital pass from the hands of the holder of money to the hands of the industrial capitalist through a loan. Then, money become committed to the purchase of goods. In the second phase, M – C, a metamorphosis occurs, as the industrial capitalist uses borrowed money and acquires means of production (MP) and hires labor power (LP). In sequence, the production process itself takes place, from which a new commodity appears, C', which must be sold. If its value is realized in the specific market, the new commodity C' metamorphoses into M', that is, it becomes money again. Now it gains, in principle and for a time, its free, uncommitted form again.

However, the industrial capitalist, in principle, has to return M to the lending capitalist plus an amount of interest that corresponds to the time the initial capital remained tied up in commodity production. Thus, M' minus M is the surplus-value and M' minus M'' is the interest paid on the borrowed capital. It seems obvious that, in general, the surplus value must be quantitatively greater than the amount of interest paid. For Marx, this circuit as a whole is the dynamic core of the capitalist mode of production. If ...P... indicates the sphere of production in the circuit, on its left and right there are operations in the sphere of circulation: thus, first, money functions as a form of capital and then as money itself; in the second half of the process, this sequence is reversed as money functions first as money and then as capital.

At the end of the process, bearing in mind this unfolded circuit, workers have received the value of their workforce in the form of wages. The cost of the means of production now reappears as part of the value of the goods sold and is thus recovered. And the surplus value is shared between the commodity-producing capitalist, the financial capitalist and the commercial capitalist, who supposedly acted in the sale of the commodity. Thus, we have, respectively, the income forms: industrial profit, interest and commercial profit. The generation of added value, therefore, is at the base of the system. Formally, Marx, as is well known, represents the value of the commodity as the sum of the cost of the means of production, the "apparent cost" of wages and profit (apparent form of surplus-value).

Money, therefore, is a central category of capitalism; behold, it functions as money in the purchase and realization of goods, but also as a means of loan, a condition in which it acts primarily as capital – and not as money. Here is its proper circulation circuit: M – M', money that generates more money. In order to understand the operation mode of money in this second function, Marx distinguishes two circuits: either it acts as money-dealing capital or it acts as interest-bearing capital. In the first case, money operates in the circulation of goods as a means of credit creation and, in the second, it functions in the interface between monetary capital and industrial capital as a means of appropriating part of the surplus-value generated in the production of commodities.

The first one is exercised especially by banks: as the development of capitalism, this type of capitalist enterprise monopolizes the ability to create credit money. This issuance is based on primary money created by central banks. The second function can be fulfilled by banks, but it is also true that a specialized type of business develops that is exclusively dedicated to operating as interest-bearing capital. Such capitalist firms do not create money through credit like commercial banks do, as their specific function is to mobilize and redirect existing idle capital.

When capital is not directly committed to the production of goods, it circulates in its own sphere, called financial, in different forms and in a very complex way. Anyway, it should be mentioned that this sphere is formed by two types of markets: a credit market in general and a capital market. The specific function of the latter is to mediate the supply of capital to productive companies, a task that can also be done by the credit market in general. The latter acts, therefore, in a much broader way in the financing of commercial activities in general.

Interest-bearing capital is not just a way of extracting part of the surplus-value produced in the sphere of industrial capital (it is well-known that industrial capital indicates for Marx commodity-producing activities in general). It also carries out, at the same time, an activity of supervision of capitalist production. Credit to productive companies is only provided when they show current and future capacity to extract more surplus-value from the workers who sell their labor power to them.

In general, interest-bearing capital exists in a dual form: as a value lent by the capitalist owner of the money to the industrial capitalist and as a “right” to receive back the borrowed capital plus the *ex-ante* contracted interest. This right is, therefore, an “obligation” contracted by the debtor and owed to the creditor. Now, the securities in general that attest to this “obligation” (bonds, shares, debentures, etc.) take on a life of their own in the financial system. Marx calls these forms fictitious capital because they command earnings (interest, bonuses, etc.) but are not directly committed to the production of surplus-value. For this reason, government bonds and private debt bonds in general also take on the form of fictitious capital.

Due to the fluid nature of the securities circulating in the financial system, it acquires a certain autonomy. In principle, they represent the real possibility of appropriating, on certain dates, bits of the surplus-value that is being generated by productive work in the sphere of industrial capital. However, as debts can be paid by contracting new debts, with their forms being interchangeable and negotiable in exchange for money (that is, they are liquid), the creation of fictitious capital becomes to some extent independent of the effective generation of surplus-value in the sphere of industrial capital. But the limits of this fortune are revealed in the bursts of "bubbles" and general financial crises, when the fictitious character of these securities become shown because, for now, they will die in a drawer, in a bank vault, etc., being then recorded as "losses" in the balance sheets of financial agents in general.

Now, the movement of the fictitious capital mass is related to economic cycles with their three phases: prosperity, crisis and depression. In periods of strong advance of accumulation, the current and future profit rates appear promising and, thus, investments are accelerated, producing high economic growth. And this is made possible by the expansion of credit and fictitious capital within the financial sector. In the course of this process, what Marx called the overaccumulation of both industrial and financial capital takes place. Then comes the crisis.

Behold, the excess was possible because of the relative autonomy of credit creation. A bet on a bright future produces an exceptional accumulation of securities. And this financial euphoria often pushes the accumulation of industrial capital beyond its own limits. In the meantime, real wages grow, the organic composition of capital rises, factors that lower the profitability of capital. The crisis happens because the profit rate starts to fall because there is an increase in idle capacity. As a dramatic consequence of this evolution, there is a growing unemployment of workers.

Capitalism, as is well known, is bipolar: after periods of euphoria in which expectations were optimistic, there are always recessive or even depressive periods in which expectations become pessimistic. They are, therefore, characterized as depressions. It should be noted that the acceleration of the process of capital accumulation had been allowed, reinforced, and taken beyond the broadly possible way by the unbridled creation of credit.

The rush of productive investment in the period of economic euphoria depends on the mood of loan capital. Thus, it is to be expected that after the outbreak of the crisis there will not only be a sharp drop in the pace of accumulation, but also a start of a devaluation process that affects a good part of the capital previously accumulated both in the industrial sphere and in the sphere of financial capital. And this destruction is necessary for the rate of profit to recover, starting a new cycle of accumulation, a new prosperity that, in principle, should not last forever.

From this perspective, financial exacerbation is perceived in its intrinsic connections with the accumulation of industrial capital, that is, in the sphere that occurs the generation of surplus-value. As a result, it provides a theoretical framework that allows us to understand – albeit initially – the process of financialization that took place in the development of highly regulated capitalism in recent decades. In this sense, this phenomenon that has lasted for forty years can be understood not as something exceptional, but as a recurring process in history. Financial innovations that seem unprecedented are nothing more than developments of the inherent functions of money as money and money as capital. Thus, they always respond to the needs of the evolution of capitalism itself.

Contradictions of contemporary capitalism

If this previous theorization – here just outlined[2] – is reasonable and necessary, it does not seem sufficient to explain financialization as some authors who adhere to classical Marxism believe. Two scholars, Mouvroudeas and Papadatos, for example, argue that "the spectacular ballooning of the financial system in recent decades (...) does not constitute a new era, much less a new capitalism. Rather, it consists of a customary capitalist response to periods of low profitability" (2018, p. 451). For sure, this affirmation is flawed and must be corrected.

Therefore, it is necessary to go further. However, before that, a more general view of contemporary capitalism is presented. It is above all necessary to think about the main contradictions that are currently hindering the development of this mode of production. The secular drops in profitability observed after World War II, already shown graphically in this paper, indicates that the barriers posed by capital's own development are now formidable; in consequence, it is having enormous difficulty in overcoming these blockades: one of them is precisely linked to financialization.

This paper follows Murray Smith's thesis in his book *Invisible Leviathan* (2018) according to which, since the beginning of the 1980s, one has been in the presence of the twilight of capitalism. Furthermore, this process has been uneasy and has continued to deepen since then. In that decade, it entered in a structural crisis from which it has not yet surpass. Probably, this mode of production will not be able to surpass these barriers for reasons that will be presented in sequence. According to this author, only Marx offers a "*theoretical framework necessary to apprehend the contradictory, irrational and increasingly dangerous trajectory of the capitalist mode of production"* (Smith, 2018, p.9).

From this perspective, neoliberalism does not portray a winning capitalism. On the contrary, as a form of social and economic policy, it was not able to overcome the systemic difficulties of capitalism, which were already present in the 1970s. It is an ultimate resource used to improve capital accumulation, albeit increasingly precariously. The bullish and bearish cycles have happened and will continue to happen,

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[2] Makoto Itho presents in one of his books a much more complete version of Marx's conception of economic cycles (1988). His paper was useful for the elaboration of this article.

but the long-term trend presents itself as a persistent decline (see again the above charts).

Four “Marxian” contradictions underlie this structural crisis. They are: a growing need for public goods in a system based on private property; an economic system that becomes global – by the way it therefore requires an administration at this level –, but is organized in nations that have conflicting interests; a growing appropriation of nature in face of the limited carrying capacity of planet Earth; an overaccumulation crisis in which the destruction of capital became politically unsustainable. It is, therefore, necessary to explain them in sequence.

The first mentioned consists of a result of the contradiction between the private character of appropriation and the social character of production so emphasized by Marx. As capitalism develops, the need for goods and services offered as public goods grows; behold, they are necessary to provide the infrastructure and community social protection that guarantee a certain unity to the system. But this provision burdens the budget of national states and the capitalist class too. The taxes collect by states are ultimately fed with part of the surplus-value extracted from workers in the productive sector of the economies.

Thus, faced with the need to raise the average rate of profit, they had no choice but to fall into a privatization policy that tends to make public goods increasingly scarce. By eroding the common basis of society, this policy of neoliberalism spreads poverty and nihilism, concentrates income and wealth, undermines liberal democracy, that is, certain foundations that give social and political support to capitalism itself (see Brown, 2019, about this).

The second contradiction concerns the fact of globalization of the production of goods, as well as the internalization of financial system that supports it. Big corporations – North American, European, Chinese etc. – operate now in many countries. Production depends on global component supply chains. The coordination of economic activities depends on digital platforms that not only operate but actually lie beyond the domain of national states. The transnational financial system becomes nucleated in large rhizomatous banks that supposedly cannot fail.

As is well known, the State is the instance of power that provides the unity that is lacking in an economic system permeated by antagonisms between individuals, groups and social classes and in which there are frequent systemic dysfunctions. It is governments, moreover, who seeks to find a solution to the problems arising from the operation of the mode of production. However, many problems are now being generated on a global scale, beyond the intervention power of national states. Many of them, the weakest and least developed, find themselves constrained by decisions of private powers that operates internationally.

The third contradiction listed concerns the inherently predatory character of capitalist production, which clashes with the demands of conservation and regeneration of the natural environment – which include the reproduction of the workforce. There is a certain consensus in critical thinking that there is a growing “metabolic rift” between the commodity production through which capital is realized as such and the natural conditions of production.

Here, the ecological conditions for the sustainability of human civilization have been eroded with unprecedented speed by a process of capital accumulation that cannot be stopped. In consequence, the ideal of sustainability cannot receive priority in each of the nations that make up this civilization. Even if international agreements are made, for example, to reduce carbon emissions, they continue to grow because their sources are not being eliminated; in fact, they grow even if the generation of this type of pollution is already at a very critical level.

By failing to guarantee the sustainability of human civilization on planet Earth, capitalism has become unsustainable. "Together" – says Smith –, "these interrelated crises suggest that we have now entered a 'twilight era' of capitalism – one in which humanity will either find the means to create a higher and more rational order of social and economic organization, or in which decaying capitalism will bring about the destruction of human civilization." (Smith, 2019, 6-9)

Beyond classic Marxism

But the contradiction that has produced and continues to produce financialization and which stems from the irrational nature of capital accumulation has not yet been mentioned. Its intrinsic lack of limitation, which is in opposition to its inherent circumstantial and historical limitation, constantly produces overaccumulation. Capital itself, as people can know reading *Capital* (2017, p. 286-290), creates barriers for itself and, even if it overcomes them, it always creates new and greater barriers. Thus, moments of overaccumulation can only be overcome, bringing with itself a new wave of accumulation, if the excess of previously accumulated capital – industrial and financial – is devalued and even physically destroyed. As a result, crises are, as is well known, necessary events of the capitalist process of growth.

The insatiability of capital produced the crisis of overaccumulation that has been hampering the motto of globalized capitalism since the 1970s. In order to increase labor productivity in the production of commodities, capitalistic competition used to decrease the ratio between total value added and the capital employed in production – and this decrease, as is well-known, tends to reduce the rate of profit. But, the political sphere of this system – behold, the economic system is never disconnected from the State – can no longer allow crises process to unrestrictedly destroy accumulated capital, thus allowing a recovery of the rate of profit. In consequence, the world economic system started to face a crisis that cannot be solved, that is a structural crisis. Then, given the stock of capital accumulated in the past, the production of surplus-value become always "insufficient" (see Prado, 2021).

In this circumstance, neoliberalism was not an option against Keynesianism for bourgeoisie. "There is no alternative" to capitalist class otherwise adopt this contemporary socio-political *praxis* that sought to create, through the State and its ideological apparatus, counter-trends to the fall in the rate of profit.[3] To reach this end, it sought to decompose society more and more into individuals, free up the movements of financial capital, transfer labor-intensive industries to the periphery, reduce workers' real wages, etc. All this generated a weak recovery mainly in the center of the system, which lasted between 1982 and 1997, approximately. From now on the downward trend

[3] If neoliberalism first took a moderate or, as has been said, "progressive" form, in the course of the structural crisis it ends up taking an extremist and reactionary form.

in the rate of profit was imposed again, with no prospects that this depressive situation could change.

At this stage of the exposition, a question arises: why the devaluation, the destruction of part of the accumulated productive forces and the annihilation of a large portion of the mountain of existing debts – due to the excessive expansion of credit that has taken place in the last forty years – cannot occur at a level sufficient to substantially raise the rate of profit, allowing the engendering of a new long cycle of economic growth? In order to answer this question adequately, it is necessary to go beyond classical Marxism.

But to go beyond this kind of Marxism, it is still necessary to continue with Marx, examining how he presents the role of credit in the capitalist economy and, in particular, how he announces certain trends inherent in its development. It should be noted, to begin with, that the very term "classical Marxism", adopted by Marxist economists mentioned above, implies a reductionism that does not do justice to this author's theses.

These economists correctly emphasizing the centrality of industrial capital in the development of capitalism. But they disregard an inherent tendency to collectivize the ownership of companies, mainly the big ones. If for a long time a very distributed mode of property prevails among the members of the capitalist class, based on private ownership of the means of production, a more concentrated mode, based on collective forms of property, gradually develops.

For Marx, the credit system has three main functions: to allow the equalization of profit rates; reduce the cost of the circulation of goods and accelerate the metamorphoses of capital; create the joint stock company. Now, equity capital is the historical form par excellence for the collectivization of capital ownership. Thus, an indefinite number of capitalists may own one or more large profitable companies. Here, this form allows, above all, a "huge expansion of production and companies, on a scale impossible for isolated capitals" (2017, p. 494). Here, then, there is a point to be highlighted: capital in social form diffuses the ownership of financial assets not only among capitalists, but also among workers, especially among those with better incomes.

The concentration of the means of production and labor forces thus transforms private capital into social capital, that is, into "capital of directly associated individuals". Thus, according to Marx, occurs in capitalism "the overcoming of capital as private property within the limits of the mode of production itself" (2017, p. 494). The formerly unified command of the component companies of the industrial system is now being duplicated. It is divided between the command of productive, administrative and commercial processes, which is now carried out by managers, and the command of the investment of capital, which now becomes an exclusive privilege of the capitalists who own the money, that is, of the financial capitalists.

There is no doubt that forms of social capital expanded throughout the development of capitalism, especially from the last quarter of the 19th century onwards. Furthermore, it is also quite certain that they grew exponentially in the period from the end of World War II to the present. During this period, the number and economic power of corporations indirectly subordinated to equity capital certainly increased.

In addition to this, other forms of collective ownership of capital have developed in parallel, such as mutual investment funds, closed or open, and pension funds. Furthermore, the volume of insurance premiums that share the risks associated with business between collectives of capitalists has also soared. By noting that the tremendous growth of global financial assets (according to the graph shown in the introduction to this article) are now collectively owned by multinational capitalists, a new understanding of financialization can be reached: rather than being seen as an expression of “rentism” or of “economic vampirism”, is now seen as a manifestation of the advanced process of socialization of capital in contemporaneity.

Furthermore, when it is understood that financialization is no more than a result of a historical trend, driven little by little by the crises of capitalism as argued by "classical Marxism", it is possible to understood the strong resistance to allowing the devaluation of industrial and financial capital accumulated in the past. If the economic system is based mainly on individual private property, then the losses will always be individual as well; however, when this system starts to be based in an important way on social property, that is, on the free association of monetary capitalists, the losses become collective, thus becoming politically unacceptable. If it happens, it will destroy capitalism itself.

Financialization, as well as the climate crisis, contradictory globalization and the overload of the state in a system based on capitalist property, indicate that capitalism has come to its twilight. Will humanity survive or will it die with him? The answer to this question is found in political struggles, in the struggle between a new the enlightenment and reactionary denial, in the capacity of workers in general to confront the capitalist class.

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