



Towards a Marxian theory of financialised capitalism

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Outline

1. A brief reminder on the Marxist method
2. Marxian theories of financialisation
 - a. The long view: Long cycle (WST) vs. IPE
 - b. Old crisis theory in new bottles: Monopoly, TRPF
 - c. Eclectic: Crisis, neoliberalism and overdetermination
3. **Process vs. stage: Financialisation and financialized capitalism (and the question of ‘de-financialisation’)**
4. **Financial vs. fixed assets: ‘Crowding out’, ‘outsourcing’, and the internationalization of the circuit of production**

1. The Marxist method

- Embrace dialectic understandings
- Allow for overdetermination and contingency
- Operate at multiple levels of abstraction
- Emergence – from quantitative change to systemic qualitative change
- Examine the particular within the totality
- A prominent role for class – class-based understanding of the state
- Capitalism is a system driven by profit

2. Theories of F: Long cycle (WST) vs. (York) IPE

- Braudel to Arrighi (influence on Krippner)
- Finance gets capital out of declining hegemon, into rising one
- Historical relevance?
- Current empirical evidence?
- Questionable prediction
- Panitch & Gindin, Gowan, Norfield (2016)
- Finance allows hegemon to overcome crises; sub-hegemons to remain relevant

2. Theories of F: Old crisis theory in new bottles (1)

Monopoly and overaccumulation

- Shortage of investment outlets due to monopoly and government intervention – leads to capital flow into financial sector
- Evidence:
 - rising international monopolization
 - falling capacity utilization
 - rise of global reserve army

Old crisis theory in new bottles (1)

- Understanding of monopoly in relation to neoclassical notion of perfect competition (Shaikh, 2016)
- Finance as residual (limited elaboration of the dialectic of finance), disconnected from production
- How convincing is the monopoly story relative to other historical periods?

Old crisis theory in new bottles (2)

Tendency of the rate of profit to fall

- Brenner: overcompetition – falling profits (70s/80s) – flight of capital into finance
- Kliman: ROCC – falling profits until today – linkage to financialisation “unclear”

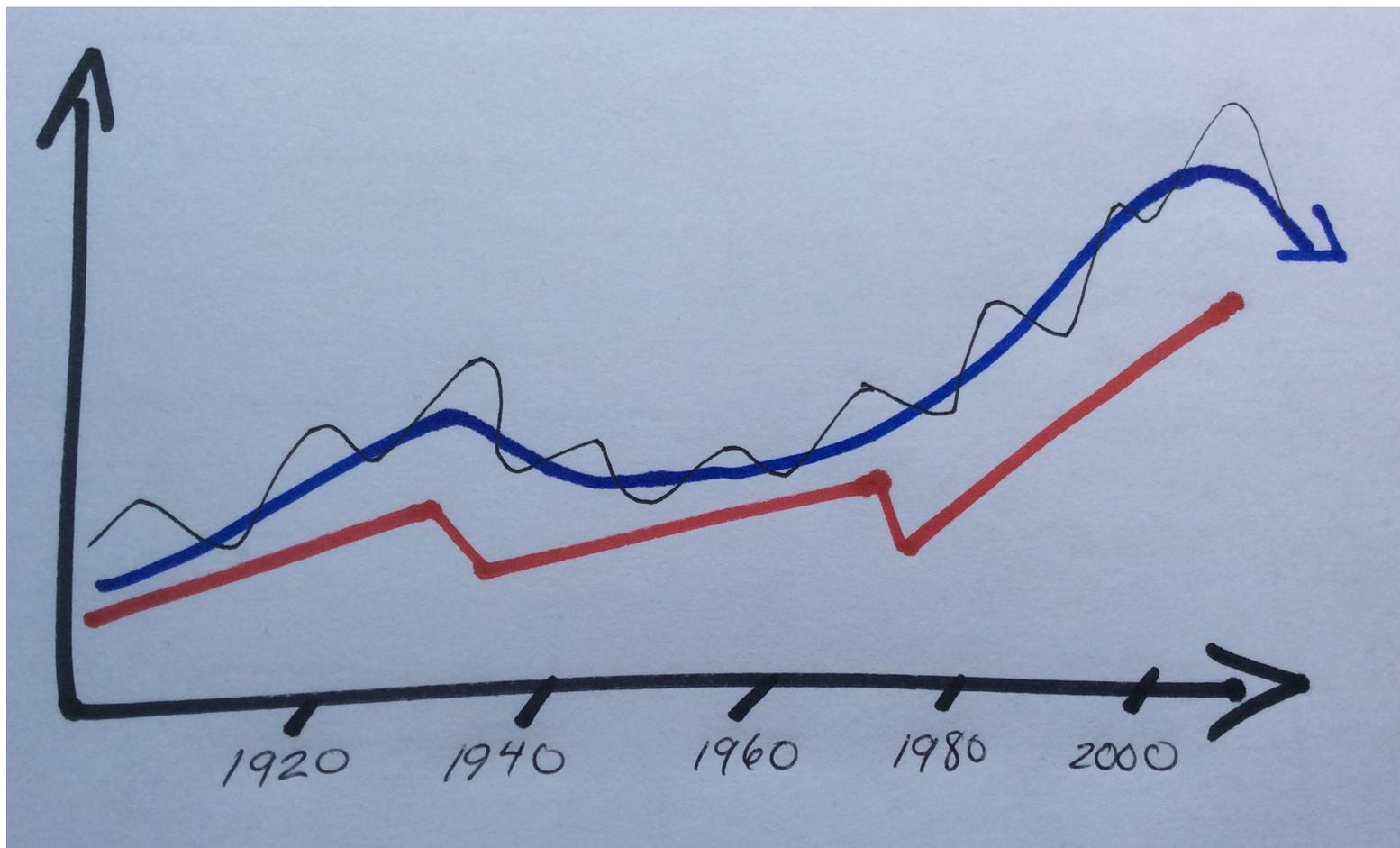
Old crisis theory in new bottles (2)

- Does anybody really argue this?
- Profits rose during the period of financialisation (Shaikh, Dumenil & Levy, etc.)
Endless technical debates over measurement – is there a way out?
- US fixation (understandable, if unhelpful)
- Tendencies and counter-tendencies vs. fetishisation
- ‘flight’ of capital vs. profit equalisation

2. Theories of F: Crisis, neoliberalism and overdetermination

- Crisis of accumulation of the 70s led to a backlash against workers and deregulatory push
- Rising inequality and the emergence of institutional cash pools
- Unprecedented secular decline in interest rates restored profit of enterprise
- Global restructuring of production ('vertical disintegration') boosted profitability: direct - unit cost reduction; indirect – transfer pricing and tax arbitrage

3. Financialisation (process) vs. financialized capitalism (stage)

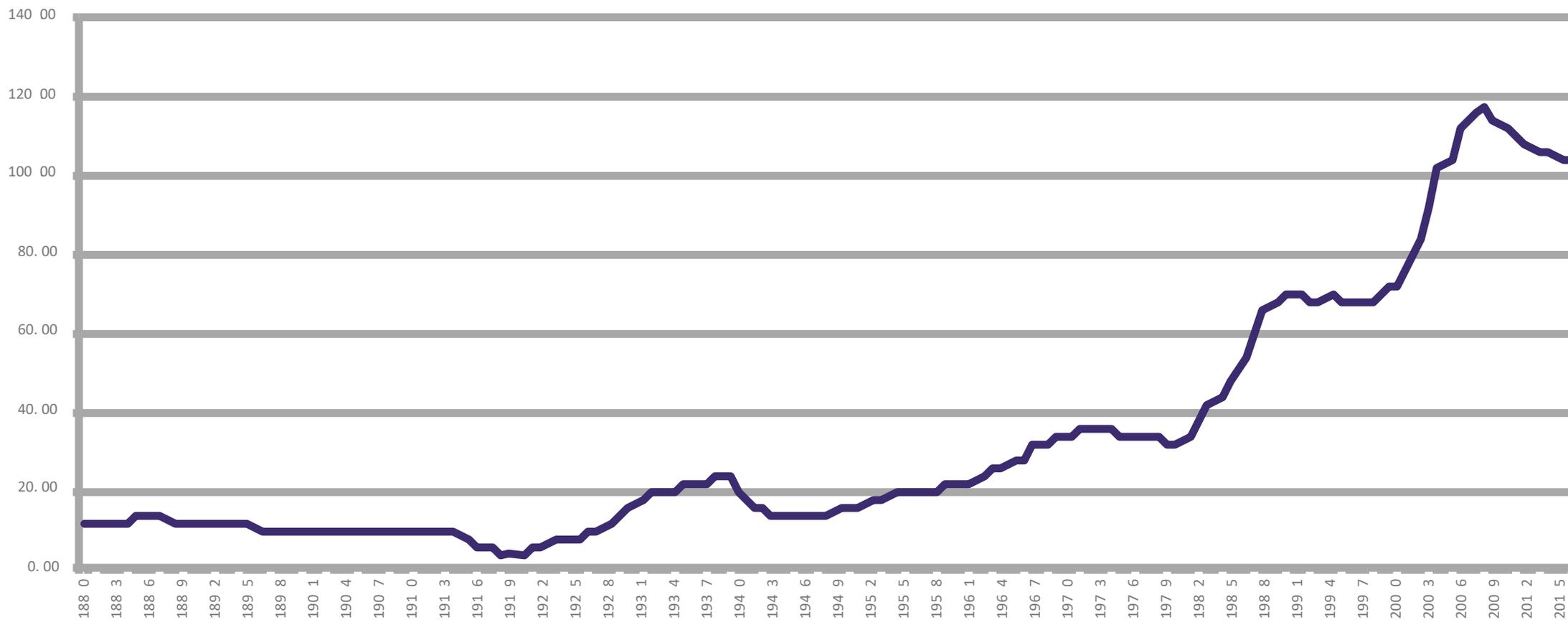


**Financialised
Capitalism
(stage)**

**Financialisation
(process)**

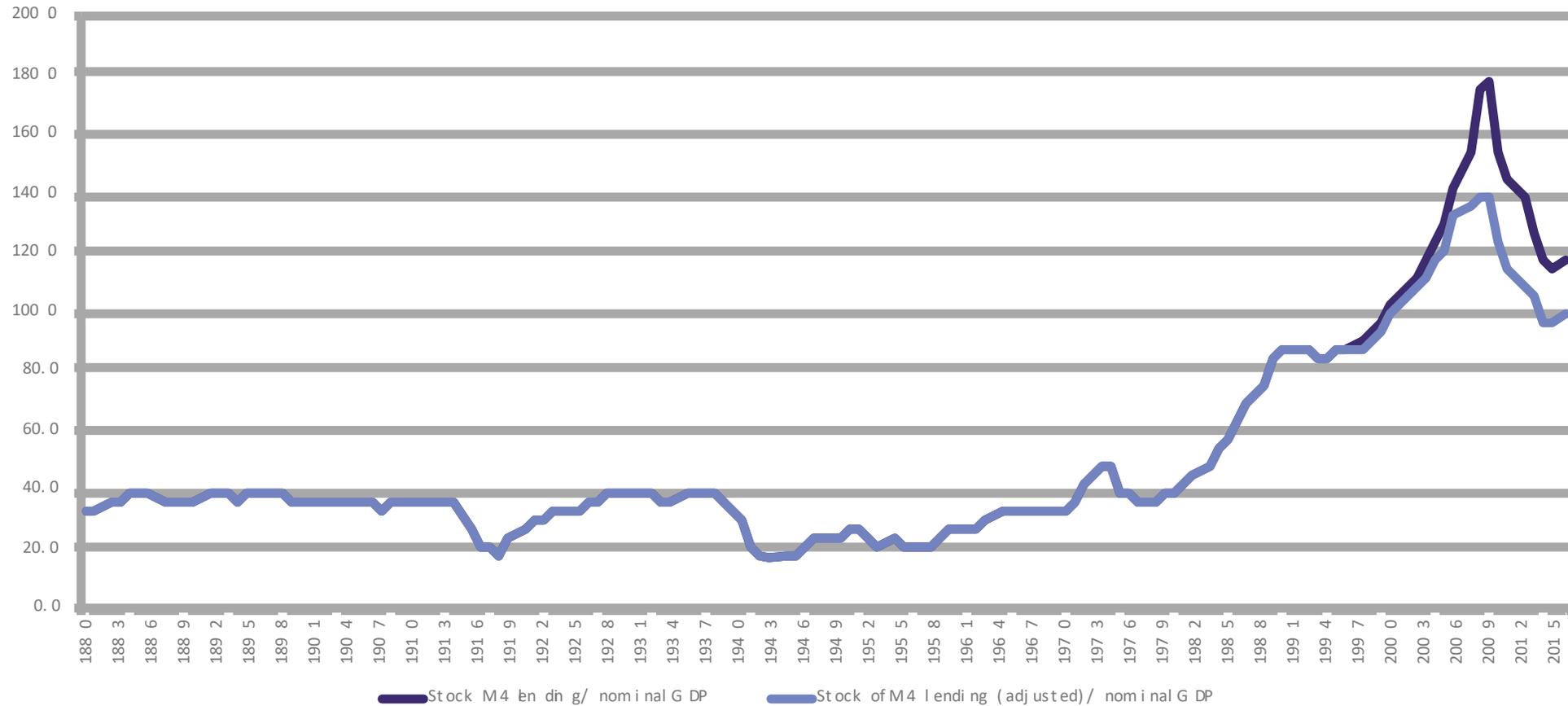
Finance
epicycles

UK HH loans / HH income



Source: BoE Millennium data

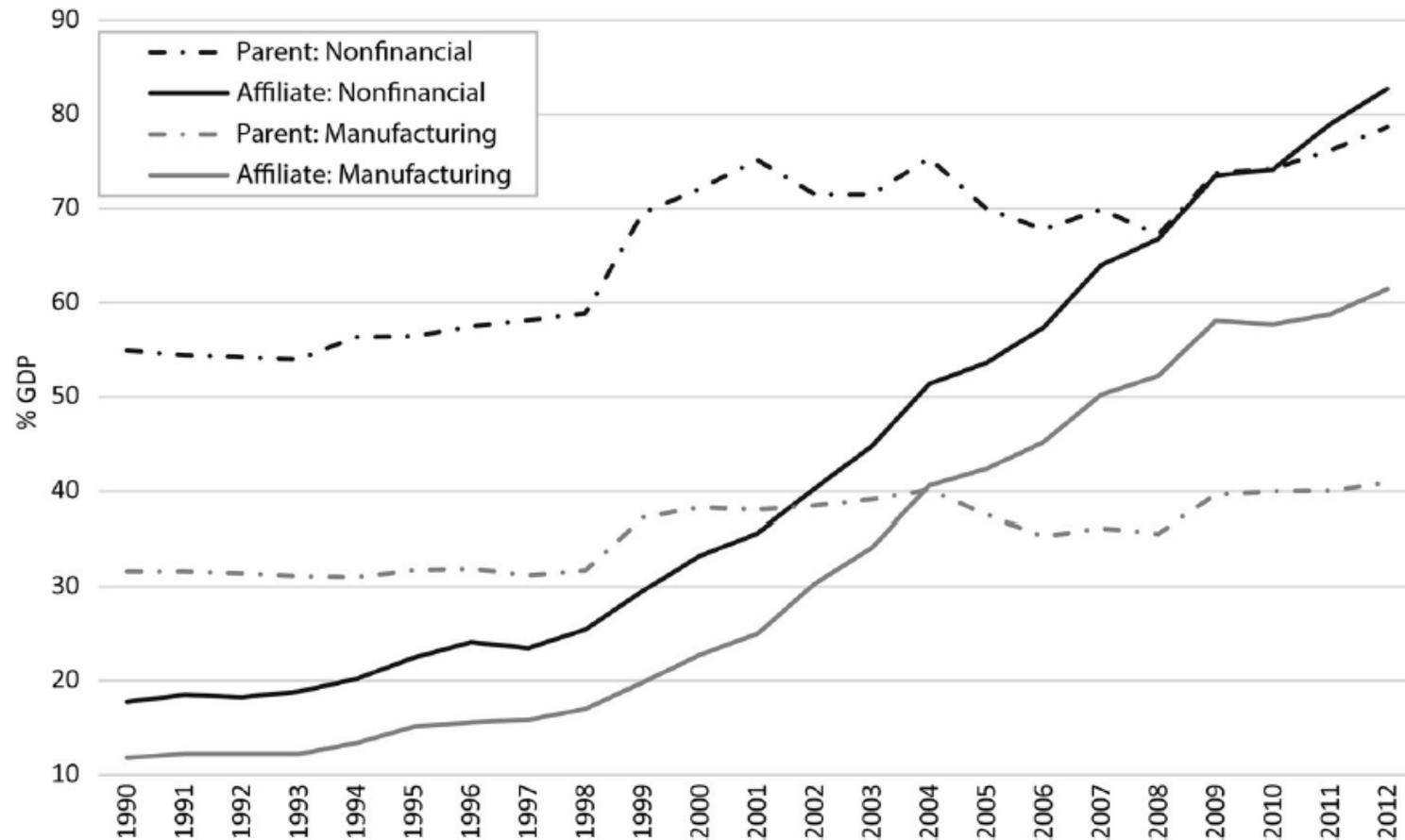
UK credit / GDP



4. 'Crowding out', 'outsourcing' and IoP

- Firms seek higher returns in financial investments, GFCF falls (hence 'crowding out'), productivity falls, rate of growth in output stagnates
- Econometric evidence (Tori & Onaran (2018), Orhangazi (2008), etc.)
- Raises a number of questions:
 1. Are these higher returns in finance available/sustainable?
 2. Drivers? What is pushing firms to do so? SVO
 3. Interpretation? Investment in finance to replace GFCF, or investment in finance to facilitate transformation of GPNs

Assets of US NFCs and foreign affiliates

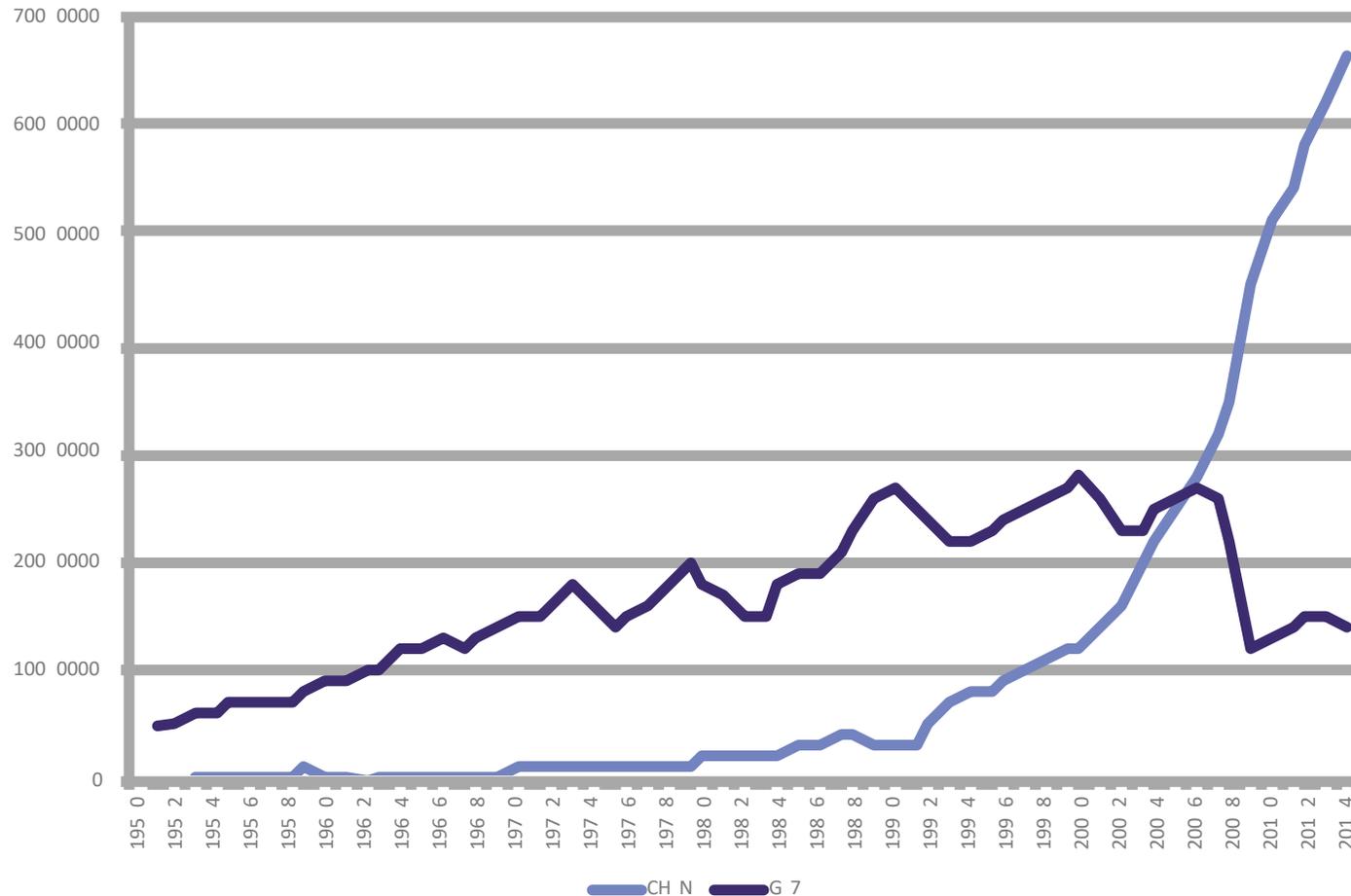


Source: Fiebiger
(2016)

Figure 2. Assets of US NFC parents and US-outward NFC MOFAs (data by industry of parent) as percentage of US GDP, 1990–2012

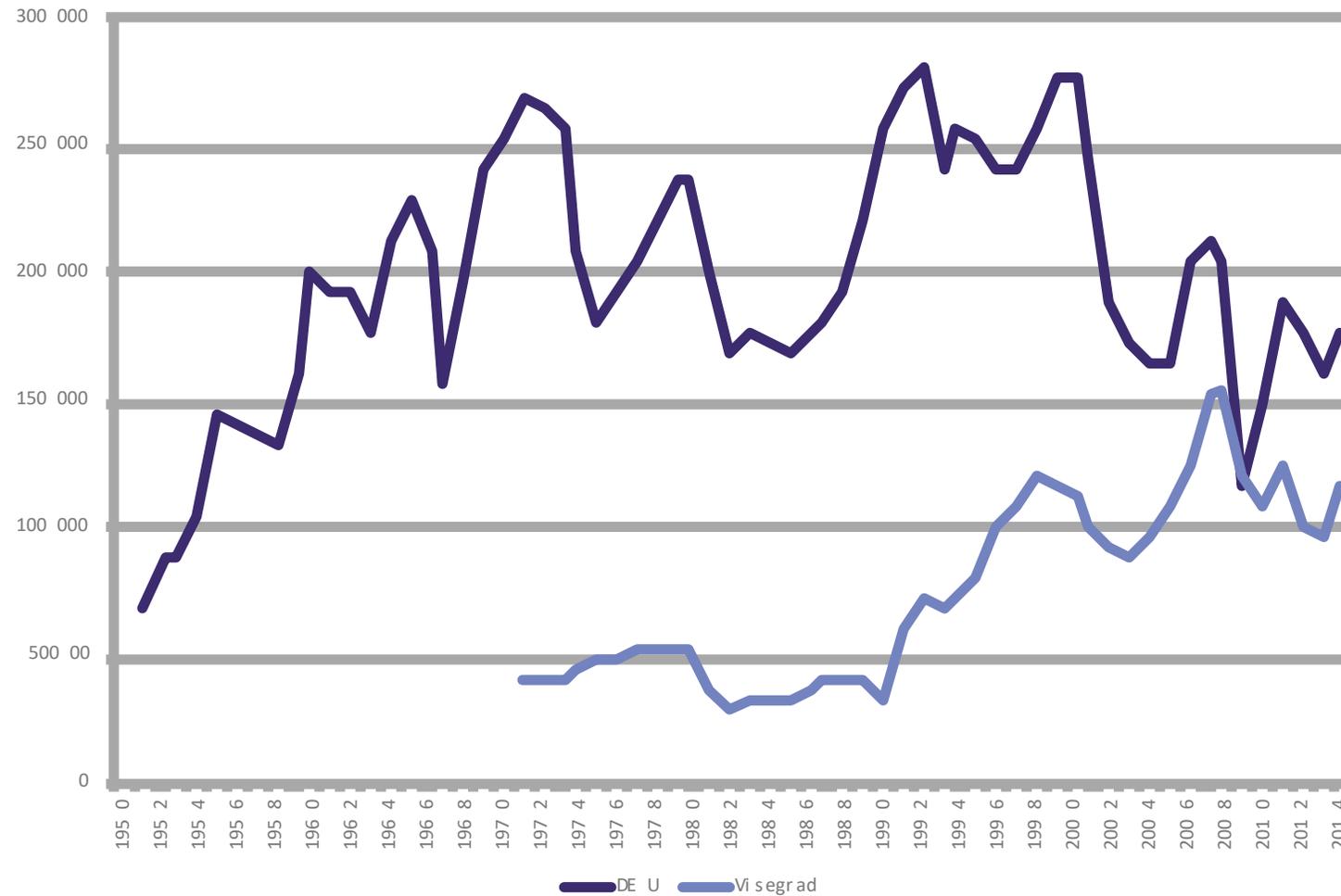
Source: US Federal Reserve (2015); BEAb (various years).

GFCF (constant national prices in mil. 2011 USD)



Source: Penn World Tables

GFCF (constant national prices in mil. 2011 USD)



Source: Penn
World Tables

4. 'Crowding out', 'outsourcing' and IoP

- Economic geographers looking at Global Production Networks (GPNs) (Coe & Yeung, 2015) have adopted Milberg's 'outsourcing hypothesis' to explain financialisation of lead firms in GPNs
- Higher mark-ups (a la Kalecki) allow lead firms to exploit (subordinate) capitalists (Milberg & Winkler, 2013); captured value used for share buybacks and dividend payments (a la Lazonick, so back to SVO)

The evidence so far...

- **Milberg and Winkler (2013)**: econometric evidence linking financialization (proxied by dividend payments, share buybacks and net interest payments of publicly listed companies in the US) with offshoring (services and materials offshoring intensity by sector) is mixed.
- **Auvray & Rabinovich (2017)**: US non-financial firms belonging to sectors with high levels of offshoring in non-core activities are more likely to be financialised, with the assumption that the higher profit levels resulting from entry into GVCs have funded a 'downsize and distribute' strategy.
- **Durand and Gueuder (2016)**: the 'globalisation narrative', proxied by imports from developing countries as a share of GDP, has the most explanatory power over falling investment as a share of profit in a group of OECD countries.

4. 'Crowding out', 'outsourcing', and IoP

- More Marxian take – internationalisation of the circuit of production has transformed relations of production
- Emphasis not on price-setting, but cost-cutting – and particularly on the cutting of labour costs; TNCs can be price competitive (not monopolistic in an orthodox sense) but still have power in relation to the production network
- Super-exploitation? VLP compressed to a fraction of its level in advanced economies (Chesnais, 2017; Smith, 2016)

4. 'Crowding out', 'outsourcing', and IoP

- Milberg's 'outsourcing hypothesis' OK, but...
- Not a mechanical conclusion that GPN restructuring will lead to increased profit capture by lead firms (rising competition, shifting power relations in GPNs, etc.) but note that finance benefits either way! Central role of finance in facilitating, managing and disciplining these GPN transformations
- Also note that as investment is shifted to other geographical locations, aggregate demand will become more reliant on consumer demand (esp. where austerity reigns and net exports are weak); where wage share is constrained this will translate into rising household indebtedness

4. Role of finance in value capture trajectories:

- Facilitating: IPO, leverage of intangibles (brand, IP, technology), M&A activity, securities issuance, loan syndication, supplier credit
- Managing: risk management (exchange rate, interest rate, political risk), tax avoidance, advisory role (financial advice, investment evaluations, value projections, market projections, etc.)
- Governance/discipline

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