Neoliberalism In Crisis? Money And The State In Contemporary Capitalism[1]

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Introduction

At the time of writing (March 2009), it is clear that what first began some two years ago as a crisis in the obscure sub-prime mortgage market within the US finance industry has developed into a full-blown global economic crisis, with declining output and rising unemployment in many countries. As always in such circumstances, different social forces are now proposing responses that serve their own interests; but for all such groups, in order to frame an appropriate response it is first necessary to decide *what kind of crisis* this is.

Superficially, it has been first and foremost a crisis in the supply of credit, and in the liquidity of major banks and other financial institutions: in brief, a *credit crisis*. Until the summer of 2008, this was the most common interpretation, with the result that bankers, economists and politicians were focused on rather narrow issues of regulatory standards and procedures in financial markets. By and large, with the exception of the original victims – the low-income US homeowners to whom the sub-prime mortgages had been sold – the problem did not seem to concern ordinary workers and consumers, so long as the monetary authorities in each country were able to guarantee deposits and avoid bank insolvencies.

A second line of argument has more recently emerged as the 'real economy' has ground to a halt. This is now a *crisis of overproduction*, whether in the Keynesian sense of a cumulative decline in effective demand, accompanied by a slowdown in inflation or even falling prices, or in the traditional Marxian sense, where the excesses of an investment boom lead to

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falls in the mass and rate of profit, first from labour shortages via rising real wages, and then from the emergence of overcapacity. This is the sort of crisis that is addressed by theories of the trade cycle, seen as an unavoidable feature of capitalism that is eventually resolved by a shorter or longer period of recession. But the present downturn is widely expected to be the most severe since the 1930s, and in some respects the first truly global crisis of overproduction since then. Because typically the burden of adjustment in such cyclical crises falls most immediately and heavily on workers and peasants, it is this understanding of the crisis that most obviously focuses on class responses, first of all in the form of trade union resistance to unemployment and wage cuts, and then to wider political mobilisation.

On the other hand, many commentators identified the proliferation of financial derivative products as a key reason why the crisis broadened so rapidly in all directions. This proliferation has in turn been attributed to the deregulation of financial markets, which has been such a central feature in the neoliberal model of capitalism that has been adopted almost everywhere in the last thirty years. From this standpoint, progressive commentators have suggested that we are facing a *crisis of neoliberalism*, which opens up the prospect of a turn towards greater state regulation and a curbing of speculative finance in favour of directly addressing problems of the 'real economy'. This understanding of the crisis has also led to calls for the rethinking of the global economic order, especially through a 'new Bretton Woods'[3] process that would address the restructuring of the world economy and the rising economic strength of China and India in particular.

Predominantly, such a view of the crisis is at present only adopted within what we can call the political class, since it focuses on the institutions and practices of state economic management. Since in most countries neoliberalism has excluded the organised working class from participation in economic management – as occurred in the old forms of corporatist inclusion in many industrial capitalist countries from the 1930s to the 1970s – these issues still remain remote from the day-to-day lives of most people. But there is no question that in the longer term, it is this dimension of the crisis that is most important, because it raises deep structural issues of the nature of class power: the ideology and practice of neoliberalism, which attained hegemonic status in the 1990s, is now seriously called into question. At the same time, a focus on neoliberalism automatically raises the issue of globalisation also, since the two have been so closely related.

But today's global crisis can only really be a crisis of neoliberal capitalism, in the sense of offering genuine possibilities to construct a non-

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[3] This refers to the international conference convened by the US and the UK in 1944 at Bretton Woods, New Hampshire, which created the International Monetary Fund, the World Bank and (with a delay) the General Agreement on Tariffs and Trade.

capitalist social order, if the roots of such an alternative can be shown to be present in both theory and practice. This is the purpose of the present paper. The first section discusses the historical origins and development of neoliberalism as a form of capitalism, emphasizing that it has been a political project of the ruling classes rather than just a blueprint for economic management. The second section then outlines the importance of money and credit in capitalism, especially the role of the state as lender – and now also borrower – of last resort. The third section then examines in more detail the prospects for regulatory reform, through an examination of the concept of financialisation: here it is argued that the dramatic expansion of financial services, especially in 'Anglo-America', may be seen as a new sphere of accumulation for capital rather than a different structure in which 'real' production is subordinated to the rule of money capital. Even extensive financial re-regulation will not therefore in itself challenge the inequalities of wealth and power in global capitalism. The final section argues that a socialist alternative needs to focus instead on the sphere of production, opening up what Marx termed the 'hidden abode' where the rule of capital is constituted through wage-labour.

Neoliberalism after three decades[4]

The main features of neoliberalism have by now been exhaustively described by progressive scholars, both at the general (global, theoretical) level, and in its concrete manifestations in different regions and countries. Neoliberalism was launched in the 1970s as a response by economic and

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[4] This section draws on Hugo Radice, 'Neoliberal globalisation: imperialism without empires?', ch. 9 in Alfredo Saad-Filho and Deborah Johnston (eds), *Neoliberalism: a Critical Reader* (London: Pluto Press, 2005), pp. 91-98; and Hugo Radice, 'The developmental state under global neoliberalism', *Third World Quarterly* (Vol. 29 No.6, 2008), pp. 1153-74. On Latin America, recent books include Henry Veltmayer, James Petras and Steve Vieux, *Neoliberalism and Class Conflict in Latin America* (London: Macmillan, 1997); Gareth Williams, *The Other Side of the Popular: Neoliberalism and Subalternity in Latin America* (North Carolina: Duke UP, 2002); Robert N Gwynne and Cristobal Kay, *Latin America Transformed: Globalization and Modernity*, (London: Arnold, 2004). See also the following articles (in addition to those referenced below): Robert N Gwynne, 'Clusters and commodity chains: firm responses to neoliberalism in Latin America', *Latin American Research Review* (Vol. 39, No. 3, 2004), pp. 243-55; Richard L Harris, 'Popular resistance to globalization and neoliberalism in Latin America', *Journal of Development Studies* (Vol. 10, No. 2-3, 2003), pp. 365-420; Alejandro Portes and Kelly Hoffmann, 'Latin American class structures: their composition and change during the neoliberal era', *Latin American Research Review* (Vol. 38, No.1, 2003) pp. 41-82; Brian Potter, 'Constricting contestation, coalitions and purpose: the causes of neoliberal restructuring and its failures', *Latin American Perspectives* (Vol. 34, No.3, 2007) pp. 3-24; and Richard Roman and Edur Velasco Arregui, 'Neoliberalism, labor market transformation, and working-class responses: social and historical roots of accommodation and protest', *Latin American Perspectives* (Vol. 28, No. 4, 2001), pp. 52-71.

political elites to the threat posed by the growing strength of organised labour in the industrial countries and the drive for a more autonomous post-colonial development path in the less developed countries. In the former case, the widespread adoption of incomes policies, moves to regulate labour markets and the extension of the welfare state threatened to undermine the postwar revival of economic liberalism represented by tariff reductions, the rise of transnational corporations and the liberalisation of capital flows. In the latter case, the success of OPEC from 1973 in repatriating a growing proportion of oil rents exemplified the wider drive towards national control of resources, and the unification of the Third World begun at Bandung in 1955 culminated in the campaign for a New International Economic Order.

In this typical view of the genesis of neoliberalism, there is an asymmetry in the respective accounts for developed and less developed countries. In the 1970s, in the former case even mainstream approaches such as pluralism and corporatism took it for granted that the politics of economic management centred on the conflict between capital and labour. However, in the latter case not only the mainstream, but also progressive and even Marxist approaches, were still centred on the national struggle against colonialism and neocolonialism. Naturally, for countries and regions perceived as being at an intermediate level of development – the semiperiphery[5] – both analytical axes could be applied: in the Latin American case, long histories of class struggle in terms of both economic and political contestation had shown, at least since the 1930s, considerable similarities with those of more advanced capitalist countries, interwoven with patterns of agricultural exploitation and international trade that resembled more the experience of colonial and postcolonial Africa and Asia.

A common feature in the analysis of all cases was the reluctance of scholars to abandon methodological nationalism[6] and appreciate the increasing salience of global relations of accumulation and class struggle. By the mid-1990s, a double process of unification and convergence seemed undeniable to many: the Washington Consensus, although initially formalised in relation to what was still called the Third World, could be seen to be faithfully reflected in the restoration of capitalism in the former Soviet bloc, and in the evolution of European integration towards the single currency and the 'Maastricht rules' on public debt and deficits. As far as less developed countries are concerned, neoliberalism provided an ideological foundation for the 'normalisation' of post-colonial capitalism, profoundly altering

[5] Hugo Radice, 'Halfway to paradise? Making sense of the semiperiphery', in Phoebe Moore and Owen Worth (eds), *Globalisation and the Semiperiphery* (London: Palgrave Macmillan, forthcoming 2009).
[6] This concept is explored thoroughly in Charles Gore, 'Methodological nationalism and the misunderstanding of East Asian industrialisation', *European Journal of Development Research* (Vol. 8, No. 1, 1996), pp. 77-122.

the forms of states, political regimes and institutionalised social interests towards liberal norms – effectively extending and/or completing the historical transition to capitalism across the globe.[7]

Nevertheless, the continued 'real' existence of the nation-state, and indeed its continued capacity to act as promoter of national development in certain circumstances, has encouraged approaches among progressive scholars to both comparative and world-historical analysis that emphasise the existence of alternative norms to those of pure neoliberalism.

Comparative analysis of advanced capitalist countries, in the 'varieties of capitalism' literature,[8] became very popular following the collapse of the Soviet alternative. US scholars in the 1980s and even the 1990s looked to the relative success of Japan in arguing that the Reaganite dismantling of welfare and the deregulation of labour and financial markets would only accelerate the US's relative decline in economic performance. Similar arguments were made in Europe based on the clear evidence, at least until the mid-1990s, of UK decline in relation especially to the north European 'social market' or Rhineland model. But from the late 1990s, the more neoliberal regimes in the UK and Ireland experienced rapid growth, and were contrasted by their advocates with the 'Eurosclerosis' of Germany, France and Italy.

In regard to less developed countries, including the semiperiphery, the 1990s saw the heyday of the model of the developmental state,[9] articulated from the experience of South Korea and Taiwan in adapting the Japanese model to their own circumstances from the 1960s onwards. As neoliberalism tightened its grip the developmental state model seemed to provided the only viable alternative everywhere, and one that in some respect seemed closer to progressive norms on industrialisation, employment, land reform and income distribution. Unfortunately neither labour rights nor public welfare provision were part of the developmental state model in East Asia, while there were evident difficulties in translating the model to the very different historical, social, political and ethnic contexts of regions such as Eastern Europe and Latin America.

If neoliberalism was generally triumphant by the end of the century, there remained the history questions. Was this a substantively new form of capitalism (for example in Regulation Theory terms, a new mode of regulation), and if so, where had it come from? Would it in turn be historically

[7] See David Harvey, 'Neoliberalism as creative destruction', *Annals of the American Academy of Political and Social Sciences* (Vol. 610, March 2007), pp. 22-44.
[8] See notably Suzanne Berger and Ronald Dore (eds), *National Diversity and Global Capitalism* (Ithaca: Cornell UP, 1996) and Peter A Hall and David Soskice (eds), *Varieties of Capitalism: the Institutional Foundations of Comparative Advantage* (Oxford: Oxford UP, 2001).
[9] See Radice, *op.cit.* 2008, in note 4.

superseded, and if so, by what? Especially in the field of international political economy, Polányi's *The Great Transformation*[10] has been seen as offering some hope, with his concept of the 'double movement'. Polányi argued that the development of classical economic liberalism in nineteenth-century Britain was integral to her rise to global hegemony, but that the promise of a 'market society' foundered on the impossibility of extending the commodity form to land, labour and money. Since neoliberalism harbours the same ambitions, surely it too will founder on the same rocks, and lead in due course to the reemergence of social movements that would bring markets back under state control.

This argument has been eloquently made in relation to Latin America by Munck;[11] or as Margheritis and Pereira put it,

> What we have today is Polányi versus Hayek with a twenty-first-century twist, in which arguments about the effectiveness of state intervention in markets are intertwined with a debate about the role and prospects of nation-states in the 'globalised' world economy.[12]

Both the resource crises of the present decade and the credit crisis since 2007 seem to bear out Polányi's cyclical theory, and the authors cited are at pains to ground their optimism in actual analysis of recent economic and political developments in the continent. Rather than seeing the 'double movement' as automatic, they follow Polányi in identifying popular resistance to market regulation as the necessary source of change.

With regard to explaining the rise of neoliberalism, there are two distinct strands of argument among its critics. On the one hand, the traditions of Polányi, Keynes and the dependency school see free-market economics as both theoretically and practically flawed. Broadly speaking, most of the core goals of development may be taken as given: economic growth and stability, meeting basic physical, cultural and welfare needs, abolishing poverty and disease – even, today, environmental sustainability. But for these schools of thought, neoliberalism does not in practice deliver, because it is based on a flawed understanding of how markets function. From this standpoint, postwar Keynesianism and developmentalism were theoretically well-founded, but faltered when faced with new circumstances in the 1960s and 1970s – the slower growth, renewed imperial rivalries, peripheral re-

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[10] Karl Polányi, *The Great Transformation: the Political and Econopmic Origins of Our Times* (New York: Rinehart, 1944).

[11] Ronaldo Munck, 'Neoliberalism, necessitarianism and alternatives in Latin America: there is no alternative (TINA)?', *Third World Quarterly* (Vol. 24, No. 3, 2003), pp. 495-511, at pp.507-8; note however that Munck largely ignores the global dimension of neoliberalism

[12] Ana Margheritis and Anthony W. Perreira, 'The neo-liberal turn in Latin America: the cycle of ideas and the search for an alternative', *Latin American Perspectives* (Vol. 34, No. 3, 2007), pp. 25-48, at pp. 28-9.

volts, etc., already summarised. On the other hand, neoliberalism can equally be understood as a political project of the ruling classes, threatened by those new circumstances with the real possibility of revolutionary challenge. In this respect, the postwar order could be seen as 'proto-socialist' because it contained the potential for a much deeper assault on wealth, privelege and power, through the further extension of welfare rights and state regulation. In addition, for all their flaws, at that time the Soviet model and its Chinese variant offered functioning alternatives to capitalism that for workers and peasants were superior with regard to employment, basic welfare and relative equality.

Such a reading of history offers some guidance on how to challenge the present-day neoliberal hegemony, but history never really repeats itself. Any effective challenge must learn from the mistakes of the past, and also take account of how circumstances have changed; the much deeper integration of global capitalism, the rise of the service economy, and the looming resource shortages, to name but three changes. However, because of their salience in the present conjuncture, the next section concentrates on the nature of money and finance.

Money and finance, market and state

In the history of capitalism, money in general and its public and private management have always served as a crucial weapon in the dispossession of the direct producers and in the accumulation and reproduction of capital. The mainstream analysis of money treats it primarily as a means of circulation and a store of value; above all, money makes the exchange of goods more convenient than under a barter system, under which sale and purchase must occur at the same time and place. In Marx's first take on money in *Capital* vol. I ch. 3, he expresses these functions somewhat differently

> As *measure of Value*, and as *standard of price*, money has two entirely distinct functions to perform. It is the measure of value inasmuch as it is the socially recognised incarnation of human labour; it is the standard of price inasmuch as it is a fixed weight of metal.[13]

In the remainder of the chapter he follows the usual practice of analysing money as 'means of circulation', discussing the convenience of the metallic form, the importance of hoarding (sale without purchase), and its function as means of payment. Unusually, in the context of *Capital*, he extends his discussion to the international sphere.

While there is much to discuss in relation to money as means of circulation, what really differentiates Marx's approach is when he goes on to explore the transformation of money into capital, for it is here that he dis-

[13] Karl Marx, *Capital, Volume I* (Moscow: Progress Publishers, 1954), p. 100.

covers the secret of capital as self-expanding value, and labour-power as the source of that expansion. This is what distinguishes the role of money under capitalism from its role in other modes of production, past and future. For the necessary conditions under which hoards of money can function as capital are the securing of property rights that permit ownership of commodities in the form of means of production, and the availability of doubly-free labourers: freed of their own means of production, and free to sell their labour-power for money. The development of the credit system profoundly accelerates both capital formation and the dispossession of labour, allowing the pooling of hoards in the establishment of businesses beyond the reach of individuals. But at the same time, the growth of the credit system opens up the possibility of sharp interruptions in monetary circulation when hoards are withheld, or when competitive accumulation leads to temporary gluts that destroy profits and with them the willingness to spend. From an early stage in the evolution of capitalism, specialist credit providers appear in the form of banks, who extend credit on the basis of deposits placed with them. At once there appears also the need to regulate the expansion of credit, whether by prudent self-regulation (holding fractional reserves) or by establishing public control over monetary circulation by a monopoly of the issue of legal tender as means of settlement.

This introductory account tells us that once capitalism and its credit system are fully established, it is no longer possible to understand and analyse money except in terms of capital and its movements. And since capital is above all a class relation, so too is money, and so too is the capitalist state in relation to its function of regulating the property rights and markets within which money performs its roles.

The foregoing, summarising Marx's analysis first published in 1867, may seem to be a long way removed from the question of whether the present crisis is a crisis of neoliberalism. But the following decade saw the rise of neoclassical economics. This reworking of classical political economy sought to provide an ideology of capitalism, with solid ontological and epistemological foundations, which sharply demarcated economic relations from political relations and expunged the concept of class still so apparent in the classical school. The neoclassical school eventually developed at its heart a tradition of formal and ahistorical mathematical modelling that effectively protected it from social criticism, essentially by excluding all 'non-economic' factors. But in the hands of Marshall, Pigou and their contemporaries, they developed also a class-free approach to the analysis of how markets functioned in practice, and the role of the state in relation to them. The concept of market failure admitted the problems of monopoly and externalities that arose in the 'real world', while the unequal distribution of income and wealth was accepted as a legitimate concern in an era of much-needed social reforms. In this way, the intended self-regulation of markets was complemented by the recognition of the state as an economic actor.

With the Great Depression and the new thinking of Keynes[14], it became much harder to reconcile theory with practice, for Keynes' diagnosis of a systematic inadequacy of aggregate demand implied a much more fundamental type of market failure. Furthermore, by the time of the publication of the *General Theory* in 1936, he had pinpointed the immediate source of this failure as the pervasive condition of uncertainty that necessarily accompanies investments in assets other than money – in other words, assets whose value depends on the future determination of returns, and the present expectations regarding them. This is how Keynes describes the core problem of liquidity preference:

> So long as it is open to the individual to employ his wealth in hoarding or lending *money*, the alternative of purchasing actual capital assets cannot be rendered sufficiently attractive (especially to the man who does not manage the capital assets and knows very little about them), except by organising markets wherein these assets can be easily realised for money.[15]

In such circumstances, it is incumbent on the state, through the central bank, to take a *general* responsibility for credit provision. It becomes simultaneously both lender and borrower of last resort. But given how central money and credit are to the functioning of a modern capitalist economy, it is now no longer possible to see the state as standing outside that economy, correcting what are conceptualised as failures on the fringes of the system. Bear in mind, too, that Keynes himself was a deeply-committed liberal. After the abysmal failure of the world's most powerful states to cooperate in rescuing free-trade, free-market capitalism from itself, in 1933 he began to advocate a strategy of practical protectionism[16] with which he persisted for the rest of his life. This strategy centred on policies of greater national self-sufficiency[17], and strict control on international capital flows in order to permit each government to engage in active monetary (and to a lesser extent fiscal) intervention. At Bretton Woods in 1944, and later in negotiating an emergency loan for Britain, Keynes had to capitulate to US insistence on enshrining in the new order a more-or-less speedy return to free capital flows: in this victory of dogmatic liberalism, reflecting the interests of money capitalists in the new global hegemon, lay the seeds

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[14] Note that this is a heroically abbreviated account; Keynes had his precursors, notably in the Swedish School.

[15] John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), pp. 160-1 (his emphasis). This sentence more or less precisely describes what happened in global credit markets from the summer of 2007 (and as always the crisis of liquidity eventually became for many banks one of solvency also).

[16] See Hugo Radice, 'Keynes and the policy of practical protectionism', in John V.Hillard (ed.), *J.M.Keynes in Retrospect* (Cheltenham: Edward Elgar, 1988), pp. 153-71.

[17] John Maynard Keynes, 'National self-sufficiency', *The Yale Review* (Vol. XXII, No.4, 1933) (also in Keynes, *Collected Works*, Vol.XXI, pp. 233-46).

of the eventual restoration of unfettered private international capital movements. There is no question that dogmatic liberals were equally concerned at the implications of Keynes' analysis for the domestic role of the state and its right to override the interests of capital; by imposing freedom of capital movements, they ensured that governments with international debts would have to tailor their economic policies strictly to those interests.

Today, we are witnessing the same deep resistance of the moguls of money, both to decisive state intervention to restore liquidity and the supply of credit within each currency area, and to any serious effort to build a more effective and above all equitable regime of international currency adjustment and balance of payments management.[18] Domestically, in both the UK and the USA bankers are working hard to socialise losses, while retaining the right to their bonuses and fat pensions: this is one main source of the growing public anger, the other being the widespread view that it was the bankers' collective malfeasance that led to the looming global recession. But what is more important to them is to retain the subordination of lending practices to the self-regulation of private capital, and resist the roll-back of deregulation which is being seriously discussed: for they fear that government ownership stakes, and the restoration of firewalls between traditional retail banking and the modern activities of the creation and trading of securities, would presage a broader assault on the neoliberal model. This in turn would once again open up the prospect of a socialist alternative coming on to the agenda of political debate.

Internationally, there is similar resistance to reform. It is obvious that the Basel II regulatory structure for banks, as well as the application of modern international accounting standards[19], have been important contributory factors in the contagion spreading out from the sub-prime mortgage crisis. But equally, the cosy world of G7 summits, buttressed by the annual Davos shindigs as well as more shadowy networks of the global power élite, is seen as threatened by the growing demand to bring permanently on board the rising economic powers of Asia, Africa and Latin America. The paralysis of the WTO and the visible impotence of the UN system, both inter-state fora in which relatively powerless states are unavoidably present (however weak and uncertain their voices), are used as examples of what will happen if the G7 lose their grip on international coordination. Yet without some extension of the framework of global governance, and at least some measures to tighten the international norms of banking and financial regulation, it will be hard to ensure that in the interim, payments surpluses

[18] For more detail on recent and current developments see Hugo Radice, 'What kind of crisis?', *Red Pepper* (No. 163, December 2008 / January 2009), pp. 18-21.

[19] Especially damaging is the practice of 'marking to market' in stating the value of financial assets, in other words valuing them at their current market price. This is disastrous in present conditions where no buyers exist for complex derivatives, and the 'market' value is therefore zero.

are recycled and the global economy sustained without great damage not only to the global poor but also to the much-discussed middle classes.

Reform, but future reversion?

At the time of writing, much hangs in the balance. For the moment, reform is in the ascendancy, and with it has come a revival of Keynesian pragmatism, and a certain revulsion against the more egregious excesses of neoliberalism. But the consequences of casting the crisis as a crisis of neoliberalism depend, clearly, on one's understanding of neoliberalism. In present public debates the focus on finance reflects an acceptance of the underlying liberal philosophy in which economics and politics, markets and states, are seen as fundamentally distinct domains of ideas and power. This is reflected in the widespread view among Marxists that the crisis has resulted because of a 'financialisation' of capitalism. A critical evaluation of this view will help us to answer the broader question of neoliberalism's future.

Within the Marxist tradition, the idea of financialisation has its roots historically in Hilferding's important study *Finance Capital*, first published in 1910.[20] Hilferding identified finance capital as a new form in which industrial and banking capital, previously separately organised, were becoming fused through the growth of long-term holdings by banks in industrial companies, a phenomenon prevalent especially in Germany at the time, but also found in many other advanced industrial countries (with the notable exception of Britain). In addition, he analysed in great detail the mechanisms of the stock market and the issuance of securities, by which what he termed 'fictitious capital'[21] was mobilised. He linked the rise of finance capital to the broader transition from competition to monopoly in capitalist markets, to the accentuation of crisis tendencies, and to growing imperial rivalries. His work was a seminal influence on later writers, and especially on Lenin's *Imperialism*.

In recent work financialisation is less associated with Hilferding's specific form of finance capital, and more with the evolution of new forms of financial asset, their creation and their marketing.[22] The relevance of this for the present credit crisis lies broadly in the explosive recent development of markets in futures and derivatives, and more narrowly in the process of securitisation, under which lenders can quickly recoup their loans by bun-

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[20] Rudolf Hilferding, *Finance Capital: a Study of the Latest Phase of Capitalist Development* (Tom Bottomore ed.) (London: Routledge and Kegan Paul, 1981).

[21] By this Hilferding meant that the value of this form of capital was given not directly as the value of the labour-time expended in producing physical capital goods, but indirectly as the expected monetary return on the securities issued. It is thus not the form, but the *value* of the capital that is fictitious, liable always to change as a result of changes in expectations.

[22] See notably Gerald A. Epstein (ed.), *Financialization and the World Economy* (Cheltenham: Edward Elgar, 2005).

dling them up into tradable securities and selling them on. However, financialisation can be understood in two distinctive senses. The first is as a phenomenon of cyclical crisis, in which the top of a cycle is characterised first by feverish speculation, and then by a rush to money and a collapse in productive investment; this is consonant with the cycle theory sketched in various ways in the later parts of *Capital* vol.1, and also with Keynesian trade cycle theory. The rush to money extends to a preference for holding relatively liquid financial assets, and postponing fixed investment under conditions of uncertainty over future returns.

However, the second sense of financialisation, as a secular or long-term phenomenon that endures through one or more cycles, is more problematic. Across an entire period of decades, or for long wave theorists in a prolonged downward phase, capitalists face the prospect of slower growth in output and productivity, and therefore prefer to try to secure a larger share of the relatively smaller mass of total profits through transactions in financial assets. In recent decades this preference, it is argued, has been greatly encouraged by the financial liberalisation and privatisation that have been such a major feature of the rise of neoliberalism. Privatisation of state enterprises has increased the supply of financial assets in the form of shares and bonds, while the growth of private pension funds places a significant and in principle stable proportion of workers' earnings at the disposal of investment institutions. Meanwhile, the proliferation of financial derivatives allows the perception of risk – an obvious problem given the common need within financial intermediation to match up short-term deposits with long-term liabilities – to be assuaged by promises that such risks can be managed, or even completely annulled. The overall result is a significant growth in the relative size of the financial sector, whether measured by share of global business turnover, employment or profits, especially in the 'Anglo-Saxon' countries where greed is now said to be good.

As a *description* of developments in the financial sector over the last twenty years, at least in the 'Anglo-Saxon' heartlands, this is fair enough. What is questionable is whether proponents of the secular financialisation thesis are right in seeing this as a *new form of capitalism*, not at the level of patterns of state regulation, or the balance of national versus global circuits of capital, but in a more fundamental sense. Space and time preclude a detailed discussion of this, but an alternative approach would see the new financial instruments not as vectors of a new form of expropriation,[23] but simply as *commodities* that provide new opportunities for capital accumulation through their production and sale. As with any new commodities appearing in capitalism, there are opportunities for 'first movers' to obtain su-

[23] As in Costas Lapavitsas, 'Financialised capitalism: crisis and financial expropriation', *Historical Materialism* (forthcoming, 2009).

per-profits in various ways[24] but eventually competition will whittle them away. A further qualification is that the hypertrophy of the new finance is heavily concentrated, with London and New York providing the new products all over the world: taking into account also the ludicrous pyramid character of these products, in which the gross value of securities issued is a vast multiple of the underlying original asset, the true global scale of the new finance is far less than the UK/US headline figures suggest.

A further important feature of the financialisation literature is that by focusing on this particular aspect of capitalism, there is a consequent neglect both of production and of politics. With regard to production, there are three main elements to this neglect. First of all, financialisation is defined as the result of efforts by capitalists to switch their investments from 'real production' to trade in financial assets; this putative shift in the focus of capital accumulation tends to be reflected in the focus of intellectual enquiry. Secondly, the traditional Marxist view[25] is that merchants' capital, in its two forms of commercial and money-dealing (including banking) capital, does not produce surplus-value: because they undertake their activities only within the sphere of circulation, they merely entitle their owners to a share in the surplus value extracted from workers' labour-power in the sphere of production. Thirdly, all the critical schools of economic thought – Marxism, institutionalism, Keynesianism – tend to identify production as an economic activity with material production.[26] While services are of course bought and sold, the lack of a material *output* deflects attention from the materiality of the production process for such commodities. Yet when analysing specifically capitalist production, the hegemony of capital ensures that 'productive' means 'productive for capital', and this is the case *regardless* of the use-value characteristics of commodities. Financial services may be unusual and seemingly esoteric commodities, but they are commodities nonetheless, and the workers who produce them – even the traders with their multi-million-dollar bonuses – are therefore productive wage-labourers from the standpoint of capital and its accumulation.[27] The view of money and finance as somehow separated from the 'real world' of production means that the pro-

[24] Not least by flagrant mis-selling – much like patent medicines in the 19th century, their use-value turns out to be non-existent.
[25] Karl Marx, *Capital Vol.III* (Moscow: Progress Publishers, 1966), parts IV and V.
[26] This was reflected in the extensive concern among progressive economists in the UK and the USA with the phenomenon of 'deindustrialisation' in the 1970s and 1980s: see for example Robert Rowthorn and John R. Wells, *Deindustrialisation and Foreign Trade* (Cambridge: Cambridge UP, 1987) and Stephen S. Cohen and John Zysman, *Manufacturing Matters: the Myth of the Post-Industrial Economy* (New York: Basic Books, 1987).
[27] The idea that the new financial instruments should be treated as commodities like any other may be seen as conflicting with Marx's view that banking capital does not produce surplus value. Resolving this conflict requires a thorough discussion which will be undertaken in another paper.

gressive critique of finance all too readily becomes a moral critique, rather than one rooted in a historical materialist critique of capitalism.[28]

But there is also a neglect of the *politics* of money (and indeed the politics of production, as we shall see). Because the state appears to stand apart from the world of neoliberal finance – because, indeed, the former appeared to be obliged to retreat as the latter advanced – the implication is that the state can reassert a lost power. If the seventeenth-century English philosopher Sir Francis Bacon was right in saying that "money makes a good servant, but a bad master", then it would appear that the state both can and should exercise mastery on our behalf over money. But, as indicated in the previous section, the idea that the state is constituted separately from the market economy is central to the constitution of capitalism as such, not just a contingent phenomenon of phases of liberal hegemony. It is fundamentally for this reason that the critique of neoliberalism advanced both by the Marxian financialisation school, and more broadly the Keynesian/Polányian critics, does not get to the heart of the matter. Whatever reforms of 're-regulation', whether national or global, ensue in the coming period are likely not only to leave untouched the grotesque inequalities of wealth and power that capitalism continues to reproduce on a larger and larger scale, but also to leave open the likelihood of liberalism returning to the ascendancy in a further regulatory cycle.

Towards a socialist critique

A socialist critique starts from the perspective of a future society in which social relations are constituted consciously by the "free association of producers". This is not a recipe for utopian fantasies, but rather a necessary prophylactic against the ideological hegemony that aims always to naturalise capitalist social relations as eternal and unchangeable. No putative association of producers can possibly be free unless it is free to constitute not merely technical modes of production, but the social relations with which they regulate their society. Hence it is important to establish a terrain of debate which encompasses all the central traditional objectives of socialism – subject as they most certainly are to vigorous debate and disagreement - rather than being trapped in the ideological exclusions of conventional liberal thinking. To be quite clear: my purpose is not to aim for some sort of ideological purity, nor to dissolve all theoretical contradictions through *a priori* reasoning, and certainly not to apprehend in all their details the historically-contingent manifestations of capitalism in different regions and countries. Rather, it is to open up the given framework of thinking in order to widen the possible range of alternatives to neoliberalism. In particular, this final

[28] I do not intend in any way to deny the cultural importance of the moral critique (as the following paragraphs make clear), merely to object to its excessive colouring of the critique of political economy.

section focuses on two weaknesses in the current critique of neoliberalism: the concept of civil society as a source of alternatives, and the predominantly technocratic and indeed capitalist understanding of the sphere of production.

Partly because of the apparent 'rolling-back' of the state under neoliberalism, many of its critics have argued that the locus of effective opposition can no longer lie in the struggle to assert class interests in a politics centred on the state, but rather should shift to the realm of civil society. The reasons for this are partly negative, in that the state apparatus itself has lost its freedom of manoeuvre under the constraint of budgetary discipline, imposed not only internally along with changes in the mind-sets of both politicians and bureaucrats, but also externally through dependence on global capital markets. The so-called 'competition state'[29] may still be capable of effective initiatives in certain fields, notably skill formation and targeted welfare measures, but, at least until the very recent renunciation of monetarist rules on public debt and deficits[30], it has had to abandon important forms of state intervention that were available in principle during the Keynesian era. In parallel with this, the tradition of democratic contestation has been weakened, with all political traditions making their peace in different ways with the new orthodoxy. These twin processes have been as evident in Latin America as in other regions; most obvious has been the weakening of political parties based on organised labour, undermined not only by the reduced possibilities of state-led redistribution, but also by the deregulation of labour markets and the growth of informal employment.

In response, many oppositionists have turned their attention to civil society and to the social movements that are seen as its most active components. This shift is advocated not only at national level, but also under the rubric of 'global civil society' in initiatives ranging from the World Social Forum, through the greatly expanded range of global NGOs dealing with specific issues, to individual participation in the possibilities of cultural exchange – potentially enriching and diversifying, though in some respects destructive of difference – created by global communications and migration[31]. The more ambitious commentators propose the Kantian ideal of global citizen-

[29] See Philip G. Cerny, 'Paradoxes of the competition state: the dynamics of political globalisation', *Government and Opposition* (Vol. 32, No.2, 1997) pp. 251-74.
[30] This relaxation has thus far been restricted to the advanced capitalist countries and to others with large amounts of 'hard' currency reserves. The IMF has still been imposing the same neoliberal package to supplicants such as the Ukraine and Hungary.
[31] For a valuable discussion of the complex mix of convergence/difference and domination/resistance that arises from cultural globalisation, see Ahmed Gurnah, 'Elvis in Zanzibar', in Alan Scott (ed.), *The Limits of Globalization: Cases and Arguments* (London: Routledge, 1997), pp. 116-42.

ship, as a means of transcending the new limitations on the scope and effectiveness of 'political society' and the state.[32]

The problem lies in how the concept of civil society is deployed in this process. All too often, it is not appreciated that the apparently private and independent activities through which individuals participate in civil society are deeply shaped by cultures (or indeed cults) of consumerism and ('post'-)modernity that in turn reflect capitalist interests and practices.[33] Independence from stifling precapitalist cultural traditions, and geographical and cultural hypermobility, often promote the pursuit of crass materialism that directly contradicts the supposed concern of civil society with mutual respect and social intercourse, as well as with environmental sustainability and human rights. In short, the most significant and formative structures of civil society might more properly be called *bourgeois society*, today as much as in earlier periods of capitalist development. Indeed, by far the most powerful organisations in civil society are the giant 'public' (meaning private) transnational corporations, which now dominate not only the production and distribution of goods and services through which most human needs are met, but the production and circulation of ideas about the economy. After conceding the terrain of state-oriented politics, progressive forces are not automatically able to regroup effectively in civil society, not even to carve out 'zones of autonomy', let alone to contest on that basis once more for state power.[34]

But if civil society as presently constituted is fundamentally a realm of market forces and powerful private interests, there still remains an alternative terrain which, while apparently under the direct control of those private interests, can paradoxically be a genuine source of alternative visions and practical contestation. This is what Marx[35] memorably called "the hidden abode of production, on whose threshold there stares us in the face, 'No

[32] E.g. David Held and Daniel Archibugi (eds), *Cosmopolitan Democracy: an Agenda for a New World Order*, (Cambridge: Polity Press, 1995).

[33] Gareth Williams provides a thoroughgoing critique of the relation between popular-national culture and the neoliberal concept of civil society, in his *The Other Side of the Popular: Neoliberalism and Subalternity in Latin America* (Durham, NC: Duke UP, 2002). At bottom, "The 'culture-ideology of consumerism' serves to naturalize global capitalism everywhere" (George Yúdice, as quoted in Williams, *op.cit.*, p.109), and this transformation deeply affects also the relation of state to society.

[34] Béjar examines the fragmentation of populism as a political force in Mexico, highlighting the difficulty the left faces in defining an effective strategy; as in the case of Argentina, populism has been successfully harnessed to neoliberalism by the ruling élite. See Alejandro Álvarez Béjar, 'Mexico's 2006 elections: the rise of populism and the end of neoliberalism?', *Latin American Perspectives* (Vol. 33, No. 2, 2006), pp. 17-32. However, many have painted a more optimistic picture in the case of Venezuela under Chávez. This is perhaps because liberal democracy was previously so politically successful in Venezuela, making it harder to construct an alternative on the populist tradition alone: see Dick Parker, 'Chávez and the search for an alternative to neoliberalism', *Latin American Perspectives* (Vol. 32, No. 2, 2005), pp. 39-50.

[35] Karl Marx, *op.cit.* in note 14, p. 172.

admittance except on business'". Let us look inside, for in the subsequent 300 or so pages of his account, we may find this alternative.

Put briefly, the alternative lies not in the 'business' of producing value and surplus value, but the exchange between humans and nature that yields use-values, which also and necessarily constitutes the labour process in capitalist production. Marx[36] charts a historical evolution from simple cooperation, in which the new capitalist proprietors take over the inherited processes of peasant and artisanal production, through the increasingly detailed division of labour under manufacture, to the systematic application of science and technology to the collective labourer of machinofacture. This sequence has typically been understood as one of ever more complete capitalist authority and control, accompanied by the deskilling and direction of labour – to a condition illustrated by the production line in Chaplin's *Modern Times*, the enslavement of the operator to the directing mechanism of the factory in Fritz Lang's *Metropolis*, or Diego Rivera's Detroit murals. But in his account Marx makes perfectly clear that the implementation of this capitalist project is subject to constant contestation and contradiction: it is a realm of class struggle that in practice underpins and generates the struggles over wages, employment and (eventually) the state provision of health, education and welfare, which take place in the 'visible abodes' of the marketplace and public politics. There are steep hierarchies of responsibilities, training and of course pay, as much in the public sector as in private enterprise, but the workplaces also necessitates the association of producers bound to a common purpose, and the execution of that purpose continually requires the exercise of creativity and mutual respect.[37]

What is missing, of course, is freedom: not freedom from all mutual constraint, but freedom to shape the context and content of associated labour. The most vivid examples of the potential contained in this have come at times and in places where for whatever reason the compulsive authority of private property, or its mimicking by the state, ceases to function: typically, periods of economic and social collapse where necessity impels the producers to turn their collective power towards the direct meeting of social needs. Latin America has given us many recent examples of this, adding to the layers of experience built up from the Russian soviets of 1905 and 1917, Barcelona 1936, the liberated zones of Europe in 1944-5, Budapest 1956 and Solidarnosc in Poland in 1980-81. In the history of socialist thought, the cooperative movement, syndicalism, guild socialism and council communism

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[36] *Ibid.*, Chs. 13-15.

[37] Iñigo Carrera provides a solid analytical foundation for the foregoing claim, tracing the complex ways in which the capitalist ideal of the 'real subsumption' of labour remains open to contestation, and necessarily provides the only real ground upon which revolutionary consciousness can develop. See Juan Iñigo Carrera, 'Argentina: the reproduction of capital accumulation through political crisis', *Historical Materialism* (Vol. 14, No. 1), pp. 185-219.

all place production at the centre of struggle, albeit with important differences in their attitudes to workplace equality and democracy.

It is of course a long way from such experiments, often undertaken in conditions of acute social difficulty, to a sustained mass movement of opposition to neoliberal capitalism. Once people seek to extend such initiatives beyond the 'hidden abode', they necessarily confront not only the active opposition of property, but the inertia of social convention. This has been apparent, for example, in the marginalisation of factory seizures and other grassroots initiatives in Argentina, which flourished in 2002, but lost momentum during the fragile but rapid economic recovery under the Kirchners' conflation of Peronism and neoliberalism.[38] But the alternative to building on such initiatives is to repeat capitalism's regulatory cycle without challenging its real foundations: what we will then experience in the coming period is a crisis *within* neoliberalism, not a crisis *of* neoliberalism.

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[38] Iñigo Carrera (*ibid.*) incisively criticises the romantic interpretation of 'autonomous' responses to the Argentine crisis of 2001-2.