

UNDERSTANDING NEOLIBERALISM: FINANCE AND THE DYNAMICS OF GLOBAL CAPITALISM IN THE PRESENT CRISIS

(draft – please don't cite/quote)

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Abstract: The apparent origin of the present crisis in credit markets has been widely seen as confirming a close association between the recent worldwide trends of liberalisation, financialisation and globalisation: the crisis of one has led to the crisis of all, and thus a possible end to three decades of neoliberalism. This paper looks critically at how credit and finance have been theorised in responses to the present crisis. It is argued that there are close parallels between the discourses on financialisation and on globalisation: both are typically treated as historically contingent phenomena of recent origin, rather than immanent in the concept of capital. As a consequence, the crisis is misread as indicating a likely return to a more nation-statist form of capitalism in which finance is tamed once more. In the absence of a powerful working-class movement offering a real alternative, the prognosis is business as usual.

Unpacking the crisis: four perspectives²

In the summer of 2007, global inter-bank lending dried up in response to the growing awareness of massive over-lending, most famously to the so-called sub-prime household mortgage market in the USA. Over the following twelve months, financial institutions and monetary authorities struggled to contain the problem through providing emergency loans to rescue particular institutions, taking some into public ownership (notably Northern Rock in the UK), and providing liquidity to financial markets. The full extent of the credit crunch did not, however, become apparent until the collapse of the US mortgage banks Fannie Mae and Freddie Mac and the US insurance giant AIG, and finally the fateful decision by US Treasury Secretary Paulson to allow Lehman Brothers to go bankrupt in September 2008. This in turn triggered a wave of bank insolvencies and rescues around the world, and rapidly led to a general collapse of business and consumer confidence and the onset of a global recession.

A first take on the crisis can be sketched as follows. From the narrow standpoint of conventional measures of economic and financial activity, the global downturn has been by some way the most severe since the 1930s. Unemployment has risen substantially, especially since mid-2008, in the wake of sharp falls in both consumer and business spending. The consequential decline in tax revenues and increase in the level of statutory benefits paid out necessitated the abrupt abandonment of the limits almost universally imposed over the last twenty years on public borrowing as a proportion of national income, with levels of 10% and more becoming commonplace³. Although by mid-2009 most major economies had stopped shrinking in terms of aggregate expenditure, unemployment continues to rise, following the usual pattern of a 12- to 18-month lag. In all essentials, however, the downturn viewed from this perspective is the result of a conventional cyclical crisis, delayed by a credit expansion typical of the late stages of a boom. The widespread concern among politicians and the media over the ballooning public deficits is equally no different from previous cyclical episodes; it is as usual belied by the ease with which all but the most egregiously overextended governments

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² This section develops arguments made in Radice (2008) and (2009a).

³ In contrast, e.g., to the EU's Maastricht Treaty limit of 3%.

(Iceland, Latvia) have succeeded in borrowing to cover their deficits, the rare exceptions being provided with IMF support.

A second narrative has emerged, however, which sees the crisis in the context of the longer-term dynamic of global capitalism. Many Keynesian and Marxist scholars argue that the severity of the recession is the result of the repeated postponement of adjustments that should have been made when the great postwar boom came to an end in the early 1970s. From this standpoint, the postwar boom itself was contingent upon specific initial conditions: the clearout of excess capacity through depression and war, the delayed implementation of pent-up technological advances, the massive expansion of state expenditure unexpectedly maintained in the transition from war to peace, the new dynamism of trade and foreign investment under the Bretton Woods dispensation, the unchallenged hegemony of the USA, and the welfare/ warfare East-West competition of the Cold War. As these factors faltered or became exhausted, the embedded concessions won by workers during the boom made it difficult, so the story goes, for profitability to be restored and thus rapid economic growth resumed. In the narratives of Brenner and others, ‘the crisis’ has been going on for more than three decades, largely unaffected by assaults on workers’ wages and conditions, attempts to ‘roll back’ the state, or the expansion of industrial and consumer capitalism into East Asia, Latin America and Eastern Europe. From this standpoint, it has merely been a matter of waiting for the inevitable crunch, when the accumulated contradictions of capitalism finally broke through the sticking-plaster of easy money applied by the world’s central banks.

One common prognosis based on such analyses is that we are now ‘inevitably’⁴ entering a long period of stagnation, marked by persistent high unemployment and slow economic growth. On the one hand, this could be the consequence of the successful reassertion of the principles of sound finance: restoring balanced government budgets and cleaning out the ‘toxic’ debt mountains built up by both households and businesses will lead to a chronic deficiency of demand and sluggish investment in the manner of the 1930s. On the other hand, a more ‘political’ argument is that governments will find it politically impossible to impose austerity in the classical manner, with the resulting stalemate having much the same outcome.

There is, however, a third and broader narrative which begins from the characterisation of the last thirty years as the epoch of neoliberalism. In this view, the Thatcher / Reagan ‘revolution’ entailed a return to liberalism, including deregulation, privatisation, financialisation and globalisation. Neoliberalism then spread throughout the world by means of the third world debt crisis engineered in the 1980s, the 1990s refoundation of the EU and its absorption of former Soviet satellites, and the demise of the East Asian developmental state in the 1997 crisis. This was supposed to create a political-economic monoculture, a seamless global economy, and famously an end to ‘boom and bust’ once markets were truly free to work their magic. Many on the Marxist left and Keynesian centre alike have consistently dismissed this as ideological hype, intended to crush workers’ resistance under the banner of ‘TINA’ rather than as a genuine alternative path for capitalism: each of the elements listed above has been seen as riddled with contradictions and incapable of generating sustained growth. Accordingly, the 2007-8 credit crunch and current recession are seen as a crisis of neoliberalism, exposing its pretensions and necessarily ending the thirty-year experiment (e.g. Brenner 2009). More reckless commentators predict a return to strong nation-states, renewed state interventionism and a reining-in of free markets.

⁴ The frequent use of this word is always *prima facie* evidence of the lack of a convincing *argument*.

Money, credit markets and banking, and their regulation and management, lie at the heart of this third narrative, if only for their apparently central role in the aetiology of the crisis (see e.g. Nesvetailova 2007). At one level, the progressive response simply engages with critics within mainstream economics, where there have always been debates over the extent and nature of the state's role in securing financial stability (Toporowski 2005). At another level, however, the focus on finance reflects a hostility that goes back to the very dawn of money as an economic phenomenon.

Finally, a fourth perspective on the crisis is significant by its general absence, namely whether it presages a crisis of capitalism as such. From 1917 until the demise of the USSR in 1991, Marxists for the most part had this prospect at least at the back of their minds when discussing economic crises in any of the previous three senses, although all but the most simple-minded were always reluctant to predict capitalism's endgame once the post-WWI upsurges of the trade union and socialist movements subsided in Europe and elsewhere. In the current crisis, it is clear that the self-defined 'revolutionary' left has not only little public presence in debating its causes and consequences, but also little clear idea as to whether and how capitalism might be ended.

It is basically the challenge of this political absence – the crisis of socialism (Radice 2009b) - that underlies the analysis that follows. The next two sections explore the recent growth of the financial sector and the concept of financialisation, arguing that it should be understood as an intrinsic condition of capitalism, rather than one among a variety of possible capitalisms, or a contingent aberration. The following section then relates this account to the issue of globalisation, where it is argued that the current crisis provides strong evidence against the 'sceptical' position widely held among both mainstream and progressive scholars in international political economy. This is followed by an integrated discussion of the politics of neoliberalism and the possibility of substantive social change.

The age of finance?

The first three perspectives set out above see the crisis respectively as the end of a trade-cycle boom, the culmination of a long downturn or period of stagnation, and the demise of neoliberalism as a form of capitalism. In all three cases, the financial sector takes pride of place. In the *trade-cycle* view, the boom that began around 2001 after the so-called dot-com crisis was characterised by easy credit conditions that led to a rapid expansion of household debt; the financial sector found new ways to generate and sell on mortgage debt in particular, which served to conceal the growing fragility of the 'debt mountain' until it was undermined by rising interest rates and commodity speculation. In the *long downturn* case, much the same argument is developed in a reading of the entire period since the end of the post-war boom as a sequence of such cycles, each more intense and fragile than the one before. This perspective brings into play the secular growth of the financial sector, fueled by the gradual breaking-down of the legal and regulatory constraints initially established in the 1930s and enshrined in global norms under the 1944 Bretton Woods agreement. Finally, in the *neoliberalism* story, the liberalisation of finance is seen as closely connected to the demise of the Keynesian order that prevailed during (or even was responsible for) the postwar boom.

The idea of financialisation encapsulates the focus on finance in much the same way as globalisation does to the growing importance of international trade and investment during

the same period. It establishes a story in which initially, capitalism centres not on finance, but on the ‘real’ economy, the production of goods and services to meet the needs of households and businesses; through time, financial activities expand to the point where they displace real production as the driving force in capitalist accumulation. A capitalism that is financialised, or ‘finance-led’ (Guttmann & Plihon 2008), is in a narrow sense one in which financial transactions and processes play a greatly enlarged role. More broadly, however, it is seen as constituting a different form or variety of capitalism, which may or may not be synonymous with neoliberalism.

The evidence that finance has become more salient, say from the 1960s to the present, is substantial. In advanced capitalist economies, especially the USA and UK, the financial sector’s share of GDP, employment, stock market capitalisation, tax revenues, profits, etc., has increased through time across the sequence of trade cycles.⁵ The deregulation of finance – whether cause, effect or both – has extended alongside the sector’s expansion. Nationally, by the end of the 1980s most major economies had abandoned the functional compartmentalisation of finance exemplified by the USA’s Glass-Steagall Act of 1933. As well as ending the separation of commercial banking from investment banking, banks diversified into the management of investment funds, the provision of insurance products, and trading in securities, currencies and commodities, etc. The continued spread of consumer durables, and in many countries also home ownership, has led to a secular increase in household indebtedness. The (real) business sector, meanwhile, rediscovered the potential for making profits out of restructuring, mergers, leveraged buyouts, takeovers, etc., rather than the simple production of goods and services, and in the course of it all, ended up with generally higher levels of debt. The relative fiscal conservatism of the postwar boom period was succeeded by long-term increases in government debt levels also. In the 1990s, these trends spilled over from the core advanced capitalist countries into the ‘emerging markets’ of East Asia, Latin America and Eastern Europe, enshrined in the Washington Consensus so vigorously promoted by the newly-neoliberal World Bank and IMF.

Two more technical developments have taken place within the financial sector. The first is the process of *securitisation*. This happens when a bank ‘packages’ loans as securities which it then sells to investors, as with the securitisation of subprime mortgage loans that triggered the credit crunch. It is alternatively called ‘disintermediation’ because as a consequence the bank no longer ‘mediates’ between the source of funds and their recipients. Crucially, this means that the pooling of risk which traditionally was undertaken by the banks becomes the investor’s responsibility. The second is the extraordinary development of *derivatives*, which are financial instruments which generate contingent transfers of funds based on movements in the value of existing assets, real or financial. While in principle these do no more than redistribute claims, they can disrupt normal chains of transactions if holders of derivative contracts are unable to meet the terms of their contract – something that is made more likely by the widespread habit of borrowing on margin in order to trade.

Given these developments, the next stage in the argument is to point to the sequence of speculative ‘bubble’ crises, starting with the Japanese property bubble of the late 1980s, and proceeding through Mexico 1994, East Asia 1997, Russia 1998, dot-com 2000 and Argentina 2001, to the runup to the global 2007 credit crunch. The connection between financialisation and speculative crises seems confirmed by the intellectual justification for deregulation provided by mainstream economics: freed from the ‘financial repression’ of the

⁵ For reasons of space the data on these developments is not presented here; see the references in the bibliography.

1930s to the 1970s, market forces could take their natural course towards inevitably efficient outcomes. If the mainstream said that the growth of finance was the result of deregulation, the critics could only agree: the same cause, but with a radically different consequence.

The sources of the growth of finance

But why has financialisation happened? Kotz (2008) takes to task those who see the process as one in which the financial sector itself drives deregulation, promoting neoliberal ideology and policies with the express purpose of increasing its power vis-à-vis the ‘real’ economy. He argues, instead, that neoliberalism creates opportunities for the growth of finance, but originated in the crisis that brought the postwar boom to an end in the early 1970s. For capitalists, the key to resolving that crisis was to break the alliance with labour established after the war, and to block any further expansion in state expenditure and taxation, all in the context of intensifying international competition. The monetarist economic philosophy of Friedman and Hayek provided the basis for a broad assault on the claims of labour and the state, by restoring the legitimacy of private property rights and the freedom to trade. Privatisation, globalisation and deregulation then created new and expanding markets for financial products and services. For Kotz (*ibid.*, p.7), the turn to neoliberal policies from the 1970s was supported by big business in general, not just the financial sector.

This raises the crucial question of how ‘finance’ is constituted in relation to capitalists and to capitalism as a whole. Kotz cites Hilferding’s *Finance Capital* (1910) as the foremost analysis of this question within the Marxist tradition,⁶ but like many others he points out that Hilferding’s concept of finance capital was based on the particular model of *direct bank ownership and control* of industrial corporations, which was particularly prevalent in the late 19th and early 20th centuries, especially in Germany and the USA. Rather, the modern form of financialisation shows more continuity with the development of the corporation as such, which allowed the fusion of private capitals into the limited liability company based on share ownership, also known as the joint-stock company. What characterises the recent expansion is the sector’s ability to create and market legal claims on ‘shares’ in all manner of future income streams, such as repayment of student loans, rents on scarce natural resources, or future tax revenues.

In some respects, the ‘production’ of financial instruments should be seen as no different from the production of any other goods and services. The financial capitalist (meaning capitalists who invest in the production of financial products, *not* Hilferding’s more specific concept) establishes a business which hires workers to make and sell these particular commodities. Like all capitalists, financial capitalists seek to create and preserve competitive advantages so that the above-average profits obtained from innovation can be protected from new entrants. With financial instruments, the capitalist’s advantage may be based, as with industrial products, on proprietary production technologies or more cost-effective management methods, but the most important source of advantage is privileged knowledge of the future prospects for the revenue streams obtained from the given instrument. One of Hilferding’s greatest contributions is relevant here, namely his analysis of *promoter’s profit* (Hilferding 1910, ch.7): when a company is floated on the stock exchange, the promoter hypes up its prospects, thereby raising the price at which the share can be issued and pocketing the difference between the actual investment needs of the business and the sum

⁶ Indeed, within Marxism there has been remarkably little new thinking on the subject since Hilferding.

raised at issue. Bernie Madoff's fraudulent investment fund is a case in point: using Ponzi's technique of paying existing investors from the proceeds of new sales, Madoff convinced his clients that he had privileged access to information which underpinned the remarkable returns he offered. More commonly, financial capitalists engage in continuous innovation, usually more apparent than real, in order to replenish regularly their flow of above-average profits. It is this that explains the extraordinary high stock-market capitalisation achieved by banks like Royal Bank of Scotland in the run-up to the present crisis.

One major market for the financial sector is the business market. This has traditionally divided into (a) commercial banking services such as trade credit, revolving overdrafts, payments, etc., and (b) investment banking services⁷ such as securities issuance, advice on mergers and acquisitions, and purchase and sale of financial assets. The dismantling of barriers between the two is seen as a major source of innovations in the relations between finance and business, with the 'passive', very cheap retail deposits (by both businesses and households) being deployed in the more lucrative if risky investment-related activities.

But it is important to see this in relation to changes in capitalist enterprise as a whole, and especially in big business, that have largely been ignored in discussions of the neoliberal era. Forty years ago, it was widely held that big business had undergone a *managerial revolution*, in which shareholding owners had been displaced by a combination of the dispersal of share ownership, the shift to disinterested institutional shareholders, and the monopoly of technical and business knowledge accumulated by full-time executive managers. This view was shared by mainstream economists (then still broadly Keynesian), institutionalists like Galbraith (1972), and Marxists like Baran and Sweezy (1966). Apart from the direct evidence on ownership and control of large firms, their sheer size and power appeared to insulate them from effective competition. The household names of the day such as GM, Ford, ICI, or Dunlop had been dominant in their respective sectors for decades, and had reached comfortable accommodations with unions and governments alike; the rapid growth of foreign direct investment seemed merely to extend their dominance across the globe in the form of the transnational corporation.

However, by the early 1970s it was clear to close observers that as Western Europe and Japan caught up with the USA and economic and industrial powers, the rapid growth of international trade and investment was disrupting the cosy world of postwar big business (Radice 1975). Sharper competition in world markets led to the beginnings of world-wide sourcing: US firms set up 'runaway shops' to undertake labour-intensive production segments at greatly reduced cost in Mexico and East Asia, and their European and Japanese competitors responded quickly. Equally important were the much bigger flows of cross-investments between core states, often by takeover, which dramatically undermined the complacency of dominant national firms. Coupled with the effects of the sequence of economic, financial and political shocks from 1968 to 1973, by the mid-1970s even the biggest corporations found themselves in a new world of irreducible uncertainty. The result was a massive shareholder counter-revolution, in which size was no protection against management failure and consequential takeover or break-up. The loss of power among the corporate élites was sweetened by the rise of stock options, tying managers to shareholder interests. The credit squeeze that accompanied the early Thatcher/Reagan years merely accelerated this process.

⁷ Confusingly, in the UK these used to be offered by what were historically called 'merchant banks', their origin having been in the provision of trade credit.

The financial sector benefited enormously from the demise of managerialism and the return of ‘shareholder value’. On the one hand, the purchase or dismantling of big firms generated massive fees for financial advice and new issues of stocks and bonds, as well as great opportunities for speculation.⁸ On the other hand, the relentless pressure on corporate profits led to a revolution in management practices and culture within big business; the multi-divisional structures pioneered in the 1920s by GM and DuPont to deal with the complexity of running giant diversified companies became once again the basis for internal financial management systems that in effect reproduced stock market discipline within the firm: top management focused on making money, not particular products. Thus it was that General Electric, building on its early investments in consumer finance, became eventually a giant of the financial sector. More commonly, corporations no longer just held their liquid funds ‘in the bank’, but demanded that the bank actively sought to maximise the return on them. The imbrication of non-financial businesses and the financial sector make it questionable to argue, as Kotz does (2008, p.16), that during this period “the financial sector became, not dominant over the nonfinancial sector as it had been in J P Morgan’s day, but independent of it”. On the contrary, the symbiosis has returned, but in a new form.

At the same time, important changes have taken place in the engagement of households with the financial sector, as dos Santos (2009), Lapavitsas (2009) and Guttman and Plihon (2008) all note. Rising prosperity, first within advanced capitalist countries and more recently among wealthier households in emerging markets, has enabled a vast increase in the capacity to save. Through collective or individual pension plans, savings are directed to financial institutions for long-term investment, a process accelerated in recent years with the restriction or outright privatisation of state pension schemes. At the same time, the acquisition of assets, especially through home ownership, provides collateral against which households can borrow, whether to rebalance further their lifetime income and expenditure, or simply to engage in discretionary financial speculation aimed at increasing their wealth. From the early hire purchase system that fuelled consumer durable sales in the USA in the 1920s, through to today’s multiple credit-card holding, the amassing of debt has become a normal practice for so-called ‘middle-class’ households, creating behavioural norms that are emulated by lower-income groups and by aspirant consumers in less developed countries. The formerly personalised relationship between a head of household and his (usually) local bank manager has been replaced by the relentless, anonymised marketing of a bewildering variety of financial products, mediated perhaps by ‘independent financial advisers’ who sell their own specialised knowledge for a profit.

The new world of financial power and influence is thus emphatically not one in which the financial sector has become ‘detached’ from the real economy. Rather, it is one where the so-called real economy of businesses and households – and indeed government, through the rise of the ‘new public management’ philosophy⁹ – has become thoroughly ‘financialised’. We all make money now, not things.¹⁰

⁸ It is not widely realised that insider dealing is the entire foundation of modern stock markets.

⁹ See e.g. Rhodes (1994) and Power (1997).

¹⁰ For an interesting recent anthropological study of this change in the US working class, see Durrenberger & Doukas (2008).

Globalisation: once more, with feeling

What is more, financialisation in this sense has become universal, as a consequence of the relentless processes of global integration since the end of the postwar boom. Given the extensive and by now largely exhausted debate on globalisation, there seems little purpose in rehearsing the case that capitalism is today greatly more ‘global’ than it was in the 1960s. The crisis provides, however, a most important test for the contesting viewpoints on globalisation, and one that may ultimately prove more significant than any amount of historical or theoretical investigation. A common response from the ‘sceptical’ camp (the benchmark being Hirst & Thompson 1996) has been that globalisation has exacerbated and intensified the credit crisis, and that effective governmental efforts to address the resulting downturn would require a significant degree of ‘deglobalisation’. We have been told that foreign exchange speculation needs to be reined in through a Tobin Tax, that Britain is fortunate to have ‘its own currency’ which ‘it’ can manipulate to our advantage, and that we need to protect ‘British jobs’. Yet again, we are being peddled the myth of the national economy (Radice 1984).

But how have governments actually responded since the summer of 2007? Of course, they have sought to shore up their political support, at least within democracies, by presenting their decisions as motivated by the desire to preserve jobs, restore financial stability, punish the guilty, etc. But across all the range of responses it is hard to find any evidence of an about-turn with regard to the salience of global interests. In the first place, the network of central bank coordination, both informal and through the formal activities of the Bank of International Settlements and the IMF’s Financial Stability Forum, has continued to function effectively by consensus. There has been universal *de facto* support for dramatic increases in government debt and deficits, including the willingness of central banks to provide as much money as is required to fund these deficits, e.g. through quantitative easing. Apparent opposition to the return of ‘Keynesian’ deficits has been restricted to rhetoric for domestic consumption, as most notably in the case of Germany. There is universal acceptance, too, that the Basel II accords on bank capitalisation levels were a major if unanticipated contributor to the ‘irrational exuberance’ of banks before the crunch; although there is as yet no clear way forward, no major central bank or finance minister (let alone minor) has broken ranks to pursue a ‘national’ solution. The ECB and its Euro, so hated by the opponents of European integration, have proved to be a massive stabilising force (see e.g. Oakley & Atkins 2009), something evidently clearly apparent to Irish voters in the re-run Lisbon Treaty referendum.¹¹

The sceptics also expressed doubts about ‘global governance’. Not only would the dynamic Asian economies be revealed as incapable of offsetting the collapse in demand in the G7 economies, but the G7 itself would be torn apart by a resurgence of tensions between the USA, Europe and Japan. Instead, the continuing growth of India and China – assisted in the latter case by a massive fiscal stimulus – has indeed helped to sustain demand for industrial goods and commodities; trade tensions have been if anything lower than earlier in the decade; and the G7 is being replaced in remarkably short order by the G20.

Why has the response of governments been to deepen global coordination rather than retreat from it? The answer is very simple: for big business the world over, it would be catastrophic for them to take any other course. There is not a single large firm anywhere that can see anything other than a fleeting advantage to a return to protectionism, because *effective*

¹¹ That the EU has given only limited protection to its newer Eastern members simply tells us that global capitalism is profoundly unequal, not that it is disintegrating.

protectionism in 2009 would require not merely rebuilding the apparatus of tariff and non-tariff barriers that the world has spent sixty years dismantling, but the reconstruction of the immensely complex global chains of supply and sale in which they are enmeshed. Furthermore, the maintenance of an integrated global financial sector is especially important to big business, because its activities underpin global production and trade in so many ways. Indeed, the new wave of business mergers and acquisitions since late 2008 has provided a lifeline to global investment banks in generating revenues from which they can rebuild their capital.¹²

For globalisation sceptics, however, the clinching argument is the global trade imbalances that supposedly plague the world economy. These imbalances are seen as a major factor in holding back economic growth, in maintaining wasteful currency speculation, and in perpetuating tensions between the great powers. In Brenner's narrative (2009), two key moments in the last thirty years were the 1985 Plaza accord, in which the USA persuaded the main surplus countries (especially Japan) that the relative value of the dollar should fall; and what he terms the reverse-Plaza accord of 1995, where it was agreed that the dollar should rise. His critique is reminiscent of the 1970s critique of 'dirty floating', when free-marketeters and diehard Keynesians joined forces in condemning the practice of government intervention in currency markets following the abandonment of the fixed-rate Bretton Woods currency system. Violent swings in currency values are seen as creating great uncertainty, which encourages investors to engage in short-term speculation rather than long-term investment. The way to avoid both large currency movements, and the payments imbalances which accompany them, is ideally to return to Keynes' original pre-1944 proposals for addressing imbalances, under which surplus countries as well as deficit countries would be required to make adjustments in their domestic macroeconomic policies in order to restore equilibrium.

This viewpoint epitomises the deep-rooted *methodological nationalism* (Gore 1996) within contemporary political economy. Much of the objection to trade imbalances is that they are inevitably offset by imbalances on the capital account; most visibly, the vast trade deficits of the USA with East Asia are covered by the equally large return flows of investments to the USA, both indirect (in government and corporate securities) and direct (through the establishment or purchase of businesses, real estate, etc.). Despite all the evidence that it is US businesses and US governments that have directed the relentless assault on US workers' living standards over the last thirty years, it appears to be still widely believed among progressives that inward investment is a bad thing: and that because it contributes to the weakening of the US economy, and threatens the value of the dollar, the Chinese (etc.) will one day want to sell their dollar assets. Therefore, the US administration should seek to correct the trade imbalance so that the Chinese stop investing in the USA and are no longer able to hold the US to ransom.

There is however a radically different way to understand the trade imbalances. They have persisted over the last 50 years or so *precisely because capitalism has become globally integrated*. We do not concern ourselves with the fact that, within one country, some regions or population groups have 'surpluses' and others have 'deficits' – that is, some save and some borrow – for the simple reason that the resulting contractual obligations are considered to be legally enforceable. Whatever may have been the case regarding post-colonial expropriations in the 1960s and 1970s, over the last thirty years a dense network of interstate treaties and

¹² This is not to say that every proposal for restructuring goes through: witness the protracted and ultimately unsuccessful bid by minerals giant BHP Billiton for Rio Tinto in 2008-9.

international arbitration and enforcement practices have extended this to most parts of the world. In any case, the history of the capitalist world economy is one of almost universal trade imbalances offset by capital flows, in some cases (e.g. Canada) for a century or more, and even if in certain places and times there have been massive defaults on international debts, the capital flows that fuel global accumulation quickly resume. In addition, today the global distribution of assets and liabilities of most corporations (including banks) is managed, with the help of currency hedging, to reduce almost to vanishing point any serious risk to their liquidity or solvency from currency fluctuations. In the interwar period, the extent and depth of global integration was far less; after the breakdown of repeated efforts to achieve an international solution, the response of turning towards autarchy was still feasible, as the liberal Keynes reluctantly recognised (Keynes 1933).

In short, globalisation has indeed gone hand in hand with financialisation, because the geographical extension of the production and trade networks of the ‘real economy’ has entailed the parallel extension and integration of financial services provision. In the course of this double transformation, the greater interdependence of economic activities and economic policies across national borders has been matched by a growth in the coordination and management, both public and private, of that interdependence.

Neoliberalism and the crisis: the alternative story of capitalist dynamics

The conclusion to be drawn is that the present crisis is essentially just a normal cyclical crisis of capitalism. It is global in character because capitalism has become much more globally integrated; it has erupted in particular through a credit crisis because of the changing ways in which finance and ‘real’ economic activity are integrated. These dual processes of integration are key features of the neoliberal era, making for substantial changes in the configuration of world capitalism as compared to the period of the postwar boom. But from the point of view of the entire history of capitalism, it can be argued that this is *a return to normality*, or what Leys (2008) calls *total capitalism*.

In this alternative story of capitalist dynamics, the focus is on how the social relations of production are constituted under capitalism. Traditionally, social science – including Marxism after Marx – has located this constitution in the twin arenas of the market and the state, and viewed the political economy of capitalism in terms of how the two stand in relation to each other.¹³ It is the market/state relation that underpins both the diachronic stories of capitalism’s evolution, and the synchronic stories of comparisons between different varieties of capitalism. From such a perspective, the issues that arise in a major economic crisis centre on the balance between the public and private, that is between the market and state as regulatory mechanisms; and in the historically given conditions of multiple territorial states, that entails also the question of relations between states. The simultaneous presence of different varieties of capitalism within a common global context may also then be seen as offering a menu of choices for changing the existing order in response to the crisis.¹⁴ But does such an approach really allow us to grasp the aetiology of the crisis, and to identify the social choices available to us in order to resolve it? Insofar as the specificities of the current crisis are captured by the concept of neoliberalism and its various components, the answer to this

¹³ It should be noted that for the dominant neoclassical school of economics, there is no ‘political economy’ of capitalism in the sense used here.

¹⁴ In the vast ‘varieties of capitalism’ literature, Hart (1992) articulated this idea particularly clearly.

question must begin from an explanation of the reasons for the rise of neoliberalism; though as we shall see, it is vital not to limit our historical purview to the postwar period.

As already noted, it is widely held that neoliberalism arose as a reaction to the many problems that emerged in the later 1960s and brought the postwar boom to an end. Two important schools of radical political economy, the Regulation Theory school based in France and the Social Structures of Accumulation school in the USA, explicitly developed in the 1970s-1980s with the purpose of understanding how capitalism functioned after 1945, why it ceased to function, and what had replaced it.¹⁵ Although there are many disagreements about the details, the common story is that after the war, a Keynesian welfare-state capitalism emerged with three important features: a high-wage mass-production industrial economy that included an alliance between capital and organised labour; a massive growth in state intervention, especially through public ownership and welfare/warfare public spending; and a renewal of the liberal ideal of free trade within a framework of managed currencies under the Bretton Woods agreement. All three features are then challenged and constrained by the neoliberal revolution.

An immediate problem with this story concerns its empirical validity. It is not difficult to show the substantial continuities in capitalist institutions and practices between not only the Keynesian and neoliberal eras, but across the earlier (and very much more traumatic) change from liberalism to Keynesianism. And tracing the questions of agency – how were these changes actually effected and by whom – points up the enormous difficulty of distinguishing between the role of powerful market actors and that of states.¹⁶ Part of the reason for these difficulties is that, as Harman (2007) argues, there is constant confusion between the publicly-articulated *ideology* of neoliberalism, and its actual *practices*; by building the analysis around the ideology, the risk is that the elements abstracted for theoretical deployment are precisely those which, when elaborated through application to actual developments, tend to confirm that very ideology.¹⁷

Harman (2007) goes on to suggest that the sharp contrast posited between the Keynesian and neoliberal eras encourages the view among progressives that the present crisis can be mitigated by a return to the earlier system, thereby marginalising any more radical alternative. Harvey (2005) and many others have identified worker resistance to capital's initial attempts to resolve the crisis of the 1970s as the main factor causing the ruling classes to swing behind the neoliberal alternative. However, if the neoliberal ideology is seen as having *really* fragmented the working class then there appear to only two possible conclusions in terms of strategic opposition: either to seek to exploit contradictions 'within' capital by identifying and reintegrating elements of the old (nicer) postwar system, or to move firmly onto liberal terrain by abandoning any notion of class agency and instead searching for 'social movements' which directly embody our cherished political and social beliefs.

A critical analysis of neoliberalism can, instead, begin from two distinct platforms. First, it is vital to analyse the empirical changes that have actually taken place, as I have sought to do in earlier sections in relation to both financialisation and globalisation. But second, it is equally important to critique the ontological and epistemological standpoints that are, usually without explicit self-reflection, adopted when interpreting those changes. My own view is that the standpoint set out by Marx in *Capital Vol.I* remains both analytically

¹⁵ References can be provided – omitted for space reasons.

¹⁶ See, e.g., the comparative analysis of recent change within Western Europe in Schmidt (2002).

¹⁷ To put it another way: the sociology of knowledge is sorely neglected within political economy.

powerful and politically effective. However, ‘actually existing’ Marxist political economy has repeatedly slid back from Marx’s standpoint, both through the misinterpretation of Marx’s critique of political economy, and through the seductive attractions of a political practice oriented first and foremost to the state.¹⁸ The misinterpretation of Marx centres on the systematic reading of *Capital* from the standpoint of *capital*, seeing it merely as aiming for a more complete understanding of the workings of capitalism (notably price formation, circulation, accumulation and crisis), rather than an identification of the means for transcending it, namely the development of labour and of the working class. With the notable exception of the brief flowering of labour process studies in the 1970s, Marxist political economy has ignored a large portion of *Capital vol.1* that offers substantial insights into the condition of the working class and more importantly its potential for social action.

As for political practice, the orientation of radical politics towards the state has all too often been justified by acceptance of a central tenet of bourgeois ideology, namely the separation of state from society. This has been embodied most potently in the concepts of ‘state monopoly capitalism’ (in Soviet Marxism) and the ‘relative autonomy’ of the state (in Western Marxism). The detachment of state from society draws the analysis of the former inexorably towards Weberian themes and concepts of both state and society, and away especially from any concept of class.

The critical alternative is based firmly on a return to that concept. Central to the analysis of global change in the neoliberal era is the dramatic *expansion* of the working class, both through the continued transformation of peasants and petty bourgeois into proletarians, and through the rather newer proletarianisation of the intelligentsia, whether professional, administrative or governmental. Harman (2007) asks why Harvey and others place so much emphasis on marginality and flexibility, and rightly points to the lack of well-founded evidence for this change. But in addition too many progressive analysts have ended up working with a taxonomic occupational concept of class, based on the social division of labour.

Within capitalism, class is a relational concept centred on wage labour. That relational concept explains the origin of surplus value, and thereby of capital and its accumulation and reproduction; it also provides the key to understanding the historical specificities of capitalism as a mode of production, including the transformation of the absolutist state into the modern bourgeois state. From this starting point, a historical sociology of capitalism¹⁹ can in my view be constructed, within which the transition to neoliberalism in the 1970s does not appear only as an offensive to roll back the state and the material gains of workers after 1945, or at an international level to cope with a more integrated global economy, important though such motives undoubtedly were to particular powerful actors within the system. Instead, we can point to certain developments towards the end of the postwar boom which much more seriously threatened to provide the foundations for transcending capitalism. These developments included the following, among others.

First, the fiscal crisis of the state was not just a matter of the financial burden that ‘excessive’ state spending placed upon capital, but rather that democratic politics could not establish a firm boundary between the public and the private. The key response was not cuts in public spending or even privatisation, but the *depoliticisation* of economic policy, e.g. through central bank ‘independence’, fiscal rules and devolution to executive agencies. The

¹⁸ The arguments that follow are developed more fully in Radice (2009b).

¹⁹ In the sense of Sayer (1985).

depoliticisation also extended, importantly, to the international arena with the transfer of policy debate to unelected expert commissions and intergovernmental bodies such as the OECD and the BIS.

Secondly, the postwar period saw the steady growth of upper layers of the working class which tended to pursue their own interests within the system either by adopting the objectives and methods of the traditional labour movement, or by pushing for the economic and social status of the independent professional. In the former case, this ran the risk of greatly strengthening labour as a whole in collective bargaining on pay and conditions, with a further erosion of managerial control in the workplace. In the latter case, the differentiation and modernisation of cultural norms was undermining the professional intelligentsia's deference to and emulation of ruling classes old and new, raising the possibility – recognised in a variety of sociological propositions in the 1960s such as managerialism and postindustrialism – of a serious threat to the power of capital. Either way, under neoliberalism both the concept of class and the practices of class solidarity came under severe assault, in the academy and the legal system respectively. This links up also with the threat to workers' security posed by the new freedom to relocate production abroad, a threat that eventually has extended to skilled professional as well as unskilled manual workers.

Thirdly, drawing on the financialisation story presented earlier, neoliberalism has entailed responses to a number of other postwar trends. Rising real wages in core capitalist states threatened to lead to a progressive withdrawal of labour power from the market through the pursuit of shorter working hours and earlier retirements. The growing savings capacity of workers was also a threat, most visibly in the Meidner Plan in Sweden, under which the unions would progressively acquire ownership of their workplaces through stock purchase. Under neoliberalism, the worker tendentially becomes a self-exploiting citizen with the mentality of a capitalist, investing in his/her 'human capital' as well as in assets material and financial on the basis of a logic of monetary profit rather than particular material need. Cuts in state pensions and the encouragement of crass consumerism are among the phenomena that complement this development.

Fourthly is the problem, already well recognised by the end of the postwar boom, of natural resource limits on production and accumulation. This required a determined effort to demolish the idea that such resources 'belonged' to the people of whatever country they happened to be in, and therefore should be exploited by them however and to what extent they wished. Many of the changes in law, diplomacy and business practice under the general rubric of globalisation have been geared to this end, for example the proliferation of bilateral investment treaties that enshrine the private property rights of natural resource investors.²⁰ More recently, the push to extend the existing system of global governance is stimulated by the desire to address the pressing problem of anthropogenic climate change without doing anything about the existing grotesque inequalities of wealth and power in the world. Such apparently 'inclusionary' efforts are complemented by the demonisation of any resistance to the economic, social and cultural norms of global consumerism.

In the face of these and related developments, the present crisis provides a much-needed opportunity to ask whether existing approaches to understanding how capitalism has changed can actually provide a solid basis for transcending it – if that is what we wish to do. Long ago the Chinese communist Chou en-Lai was asked what he thought about the outcome

²⁰ Anyone still wondering what happened to the Doha round, incidentally, should realise that the purposes of that particular imperial endeavour have been achieved by other means.

of the French revolution, and reportedly replied that it was too soon to tell. In terms of that revolution's stated objectives, however, we have waited long enough. Freedom many of us have, if in the distorted form of bourgeois democracy; solidarity and equality seem however to be further off than ever. An understanding of capitalism that is firmly based on the concept of class directs us to the universal condition of labour and to the working class: through our awareness of our deep interdependence in the production of our means of subsistence, we can begin to think about other ways of being. Otherwise, the only likely long-term outcome of the present crisis is a return to business as usual.

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