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# The Crisis of the Finance-Led Regime of Accumulation and the Situation of Brazil[1]

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## Capitalist Reproduction According to the Theory of Regulation

The movement known as the "French School" of the regulation theory of economics, whose seminal work is Aglietta's (1976) and which is hereafter referred to simply as "regulation theory", seeks to forge a theoretical instrument that explains how the normal reproduction of contradictory social relationships takes place or, in other words, how capitalist economies are able to preserve a regime of accumulation seeing that they are socially constituted by immanent conflicts.[2] The theory assumes that, in each historical moment, the capitalist process of accumulation takes on a specific form. From this premise, it unfolds the Marxist concept of mode of production into two categories: a *regime of accumulation* (RA), comprising the economic and social regularities that assure long-term accumulation in each historical moment, and a *mode of regulation* (MR), which is the set of individual or collective procedures and behaviors capable of reproducing the fundamental relations of the accumulation process, of sustaining and guiding the current regime of accumulation, and of assuring the compatibility of decentralized decisions. This latter role of the mode of regulation implies that compatible decentralized decisions can be made by the economic players without them needing to interiorize the principles of adjustment of the system as whole. In other words, this set of procedures indicates that social factors are embedded in individual behaviors and, in this sense, the mode of regulation is the materialization of the current regime of accumulation.

The regime of accumulation involves five social and economic regularities, namely: how production is organized and how workers relate to the means of production; the temporal horizon of capital valuation, which defines the management principles; the composition of social demand; the distributive pattern of the dynamic reproduction of the various classes and social groups; and the articulation of non-capitalist forms (when they have a determinative role in establish the current economic milieu).

The mode of regulation, in turn, comprises a set of five institutional forms: the relations of work (how labor is divided technically, how workers are connected to their companies, the factors that determine worker income, the workers' way of life); the intercapitalist competitive relationship (the logic presiding the competition between capitals, the dominant type of competition); the monetary and financial regime (the prevailing type of currency, the framework of international payments, the role of finance); the form of organization of the State (the goals that guide its organization and means of intervention); and the international regime (the prevailing posture in the economic relationships between various national economies). By interacting, these five institutional forms establish the binomial RA-MR that determines the specific form that the accumulation of capital will take on in each historical moment.

Synthetically speaking, the regulation theory concerns the institutions, norms, calculations and procedures that assure the reproduction of capital as a social relation. Crises emerge because, albeit regulated and given its contradictory character, the reproduction process implies disruptions and discontinuities. In times of crisis, the MR and the RA become disjointed and challenge the institutional forms that had previously assured the functionality of the binomial.

## The Finance-Led Regime of Accumulation

Scrutinizing the characteristics that distinguished capitalism in the 1980s and early 1990s (slow growth of production, decrease in wages, unemployment in many countries, enormous growth in the value of financial assets, unstable conjuncture intermingled with monetary and financial jolts, and extensive contagion between countries), François Chesnais began to advocate in 1996 and 1997 that capitalism had been since the early 1980s a regime of accumulation dominated by financial valuation, and that it had actually established a mode of regulation to match this type of accumulation. Combining regulatory concepts with a Marxist approach, Chesnais (1997, p. 21) writes:

> Resulting from impasses brought about by [capitalist] accumulation during the "thirty glorious years,"[3] this mode is based on the changes that took place in "wage relations" and on the exacerbation of the degree of exploitation [...] but its workings are guided above all by the operations and the chosen forms of a more concentrated and more centralized financial capitalism than in any other period of capitalism.

The financial realm is therefore seen as the pivot an analysis of the accumulation process must be based. In the preface, he wrote for the Brazilian edition of *La mondialisation financière* in 1998,[4] Chesnais (1998, p. 7-8) says:

> The keystone of this construction is the financial realm [...]. The new regime of accumulation emerged in the 1980s, based on liberalization and deregulation

policies derived from the "conservative revolution" in the United States and the United Kingdom.

In a more recent work, Chesnais (2005)[5] states that, in this regime of accumulation, interest-bearing capital (a category Marx developed in *Capital*, Book III, section V) is at the vortex of economic and social relations, and that the most important consequence of this central position is that the externality that characterizes this type of capital is inserted into the very bosom of productive accumulation, generating what he calls "patrimonial capitalism", after Aglietta (1998). Thus,[6] through the stock market, institutions that specialized in "finance-led accumulation" (pension funds, collective investment funds, insurance societies, banks that manage investment partnerships, hedge funds) became owners of large and globally important corporate groups and imposed upon the accumulation of productive capital itself a dynamics guided by an external agent, namely, the maximization of "shareholder value."

[7]The basic idea is that holders of shares and large numbers of public and private debt instruments are, in effect, owners who were placed outside the production process – and not "creditors" as they are usually characterized. This leads to a distinction between "intermediated finance", typical of the previous regime of accumulation, and "direct finance" that prevails in the current regime. For Chesnais, the term "creditor" implies both "loan" and a specific role for finance (ultimately, to direct savings to those who wish to invest). Present-day finance, however, unlike this one, is not moved by the need to produce or create new wealth. Its central institution is the secondary bond market, which only deals with existing assets. Given the existence and dissemination of these markets, investors never learn who their debtors are and don't care who will foot the bill; they "only want know if the markets will remain liquid" (Chesnais, 2005, p. 49).

Patrimonial capitalism is aimed entirely toward transforming money from a "liquid asset" into a value that "produces", whereby Chesnais (2005, p 50) retrieves Marx's assertion by saying that "the pious vow of the hoarder is fulfilled in interest-bearing capital, because his savings acquire the property of yielding income as naturally as pear trees bear pears." To be sure, this is nothing new to capitalism. What Chesnais highlights as a novelty is the leading role taken on by property and rent-seeking, and the fact that their externality vis-à-vis production becomes embedded into the bosom of production itself. Thus, the congenital pathology of capitalism, i.e., the contradiction between capital and labor, now combines with other contradictions derived from the new central position of finance: accumulation, on one hand, is a slow process; finance, on the other, is insatiable in terms of its incitements.

The point highlighted by Chesnais allows us to qualify the financialization of capitalism. When referring to the primacy financial valuation, this doesn't mean that financial valuation is quantitatively more important that productive valuation – even with financial wealth having

increased exponentially over the last 30 years, as we will see. The primacy of financial valuation is more qualitative than quantitative. The fact that its externality vis-à-vis production has become embedded in the productive realm explains numerous changes that occurred therein – whether in labor itself (e.g., the increase of precarious and informal work, or the large number of temporary, autonomous and part-time workers), in the management of the work process (e.g., "flexible" workers, Toyotism) or even in the organization of the productive process as such (e.g., the dissemination of just-in-time, the customerization and displacement of production).

Thus, the production of income and real wealth now takes places under the imperatives of finance-led logic. Its processes must now comply with the need for quick turnovers and immediate realization of gains imposed by financial accumulation. Because the "minimum" real yield that production must generate is very high[8] (given the extreme appreciation of financial assets, which results in pressures for an even more violent exploitation of labor), cash operations must be such that financial accumulation ceases to be a support activity for production and becomes the very center and source of additional profit. As such, the managers of today's humongous capital groups are obliged to seek, first and foremost, the maximization of the shareholder value, doing whatever it takes (fraudulent financial statements, for instance, or share repurchase programs) to achieve it.

These processes are synergetic and, by promoting the growth of financial wealth, help to impose – and give additional weight to – the supremacy of financial logic. Derivative assets, the inexhaustibly creative financial engineering that is build around them and the extremely high levels of leverage (unsecured operations) that they make possible further enhance financial accumulation and its consequences and further highlight a second characteristic of the financialized regime (the first being its externality vis-à-vis production): the unparalleled growth of financial wealth and, alongside with it, of fictitious capital.

Marx calls fictitious capital everything that was not, is not and never will be capital, even if it functions as such. In general, fictitious capital includes ownership rights, rights over future appreciation (in stocks), income from interest on future appreciation (in private debt bonds) and resources from future taxation (in public bonds). In every one of these cases, any real-life increase of the fictitious wealth depends on the processes of productive valuation and extraction of surplus-value – in other words, on the continuous production of surpluses and on the allocation of part of these surpluses to enhance the value of fictitious capital. There are certain elements, however, that make the fictitious valuation of fictitious wealth possible, releasing it from the constraints and limitations of productive accumulation. Firstly, the fact that these assets can be traded in stock exchanges, or in secondary bond markets,

enabling their "valorization" to derive exclusively from their own circulation, with no heed to anything resembling productive accumulation. Secondly, the fact that profits are no longer the necessary source of interest, which can now be obtained from wages or from resources extracted by the State. Thirdly, the prolific character of fictitious capital itself, as attested by the "production of rights" and the "production of valorization" that derivatives assets make possible. To be sure, the fragility and vulnerability of the economy and its propensity to crises increase *pari passu* with the growth of financial wealth and the ensuing aggravation of systemic contradictions. The history of these liabilities needs to be retrieved.

## The Evolution of Financial Accumulation and the Current Crisis

One of the most important elements that substantiate the financial primacy in the current process of capitalist reproduction is the enormous growth of the worldwide inventory of financial assets. These have expanded much faster than real income (represented in principle by GDP growth) and, therefore, much faster than real wealth (instruments, machinery, equipment, premises, buildings, civil works, technology and everything else that enables the production of an increased flow of goods and services in the future). Table 1, prepared from data produced by the McKinsey Global Institute and by the IMF, shows how the relationship between real and fictitious wealth has evolved since 1980.

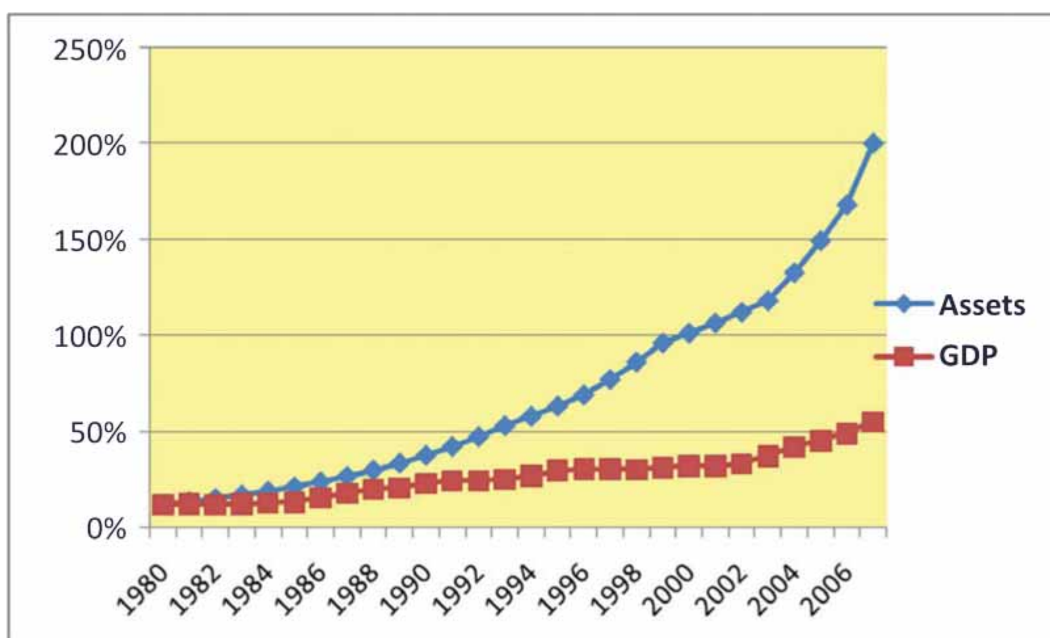
Table 1 – Fictitious Wealth and Real Income

| Year | World inventory of financial assets (US$ x trillion)[a] | Word GDP (US$ x trillion) | Ratio financial assets/GDP |
|---|---|---|---|
| 1980 | 12 | 11.8 | 1.02 |
| 1993 | 53 | 24.9 | 2.13 |
| 1996 | 69 | 30.3 | 2.28 |
| 1999 | 96 | 31.1 | 3.09 |
| 2003 | 118 | 37.1 | 3.18 |
| 2006 | 167 | 48.8 | 3.42 |
| 2007 | 195[b] | 54.8 | 3.56 |
| 2010[c] | 209 | 55.9 | 3.74 |

*Sources:* McKinsey Global Institute (Assets) and IMF (GDP); author's development.

* Includes stocks and debentures, public and private debt bonds, and bank investments. does not include derivatives.
** Estimate.
*** Projections.

Let us examine the period from 1980 to 2007. As the table shows, world GDP grew 464% (4.6 times) in those 27 years, while world financial wealth grew 1,525% (16,2 times) in the same period – and this doesn't include the value of derivative assets. The non-inclusion of derivatives makes it more difficult to visualize the true impact of financial wealth, but including them is no easy task. There is no consensus as to how much they are actually worth. It certainly makes no sense to ascertain them by the notional value of the contracts, particularly in the case of futures and options, because these are usually liquidated for a much lower price. But how, then, should they be rated? No one knows for sure. Existing estimates of world financial wealth indicate that in 2000, when non-derivative financial assets were deemed to total US$ 200 trillion by the McKinsey Institute, derivatives amounted to US$ 674 trillion (US$ 595 trillion in over-the-counter contracts and US$ 79 in contracts registered in the Bank of International Settlements). Regardless, what must be stressed are the enormous differences in how fast each aggregate has grown, made even clearer on Graph 1. What can explain this?




*Sources:* McKinsey Global Institute (Assets) and IMF (GDP); author's development.

*Obs.* To build the graph, the values of the world inventory of financial assets of the years for which there are data available were taken to grow at a constant rate.

Graph 1 – Fictitious wealth (world inventory of financial assets) and real world income (GDP) (US$ x trillion)

The history of the shift from a regime of accumulation toward a regime of prevailing financial valuation begins in the mid-1960s. After 20 years of vigorous growth all over the world (a result of Keynesian-style policies: control of effective demand, Welfare State, reconstruction of Europe and Asia, industrialization of Latin America), cyclical reversion takes place and growth slows down. The process is more intense in Europe, as it coincides with the end of postwar reconstruction. It is when American multinationals in Europe, seeing that the perspectives for gain were not as good as before, decide not to reinvest all their profits in production. However, they also choose not to remit their non-invested surpluses back to the United States, because tax laws at the time were considered too strict. So these resources (Eurodollars) began to pile up in The City, in London – which for all purposes had become an offshore district (a.k.a. Euromarket) in the early 1950s.

Although international flows of capital were highly regulated at the time, the growing American trade deficits also contributed to fatten those resources, thanks to the convertibility of the current account of the balance of payments that takes place, still under the influence of Bretton Woods, in the mid-1950s.[9] With the oil and other shocks of late 1973 (amidst inflationary pressures, low American interest rates and the offshore circuit's increasing ability to create credit),[10] the world enters into full-blown recession. As profit expectations worsen, capital starts to flow in even greater amounts to the London circuit already fattened by petrodollars.

It is this huge mass of wealth seeking ever-greater financial returns outside the realm of production that lies at the root of all the clamor for deregulation and financial opening of the markets, which will be implemented by Thatcher and Reagan. In the 1970s, Latin American countries, desirous of carrying on their growth plans but curtailed by the oil shock, provided the demand for credit that these capitals were seeking. The abrupt changes in American monetary policy in 1979, including a steep increase in interest rates (aimed at recovering the then-threatened world hegemony of the U.S. currency),[11] led to the first crisis of financialized capitalism, the debacle of Mexico in 1982. In addition, several banks filed for bankruptcy in the United States in the early 1980s.[12] In this more unregulated environment, the increasing frailty of Latin American debtor countries leads investors to channel part of this wealth to the American stock markets. The process culminated with the Wall Street crash of 1987[13] and was followed by the real estate crisis of 1990. Although those crises destroyed part of the very same financial wealth that caused them, the world inventory of financial assets did not stop growing (as shown by the data presented above).

By then, as hedge funds and institutional investors in general became increasingly powerful, crises could often be "produced" intentionally. The assault on the British pound in 1992, carried out by the hedge fund of the famous investor George Soros, is a case in point.[14] Although localized, the

collapse of the pound was a portent of the serial crises that would victimize Asian currencies later in the decade, this time with worldwide impact. After the bust of the U.S. stock and real estate markets, and even more so after the collapse of the Mexican currency in 1994, a substantial part of these capitals flowed toward the emerging economies of Southeast Asia (known as "Asian tigers"). The increased inflow of money led to an enormous expansion of credit, which increased the volume of investments, which attracted more capital and so on. When Japan finally managed to devaluate its currency in 1995, after the so-called "Inverted Plaza Accord",[15] the event combines with mushrooming imports from Thailand, induced by the country's vigorous growth, and leads to a quick deterioration of its foreign accounts.

As confidence on the Thai currency decreases, the financial asset bubbles that had been vigorously expanding in the region since 1994 begin to burst. The devaluation of the baht in early June 1997 triggers a chain reaction of crises that, one by one, depreciates the currency of every Asian nation, even South Korea's, considered the region's most powerful economy. The process is furthered by the devaluation of the yen, worsening the foreign accounts of all the "tigers". In this process, the interference of institutional investors, and particularly of the hedge funds, accelerated the upward and downward oscillations. Unlike the world of intermediated finance (comprising, essentially, bank loans) in which the Latin American debt crises had taken place little more than a decade earlier, the world of direct finance that prevailed at the time (marked by institutional investors, the existence of secondary markets and forceful asset derivatives) made the bubble creation and bubble bursting process even more acute, spreading the impact of crises throughout the world. As an aftermath of the Asian crisis, Russia (1998), Brazil (1999) and, finally, Argentina (2001) faced extreme turbulences and were obliged to steeply devalue their currencies.

The Asian crisis, because of its impact on practically every financial market of the world, seemed at first liable to cause an extended downturn in the world economy. However, the unfathomable perspectives brought about by the dissemination of the internet, which was being consolidated at the time, and the exceptional growth in consumption propped by debt spending and the wealth-effect turned the American economy into a safe haven for investors frightened by the goings-on in Asia.[16] This was the onset of yet another phenomenal asset bubble, this time in the stock markets,[17] that would culminate in the crises of the American stock exchanges of 2000/2001. The American government prevented the bursting of the bubble from having much more serious consequences on economic growth by, once again, increasing liquidity. The Federal Reserve, under the helm of Alan Greenspan, thrashed interest rates from 6% to 1.75% in just 12 months (over the course of 2001).

The American economy responded well and the strategy proved successful: after growing only 0.8% in 2001, it grew 1.6% in 2002, 2.4% in

2003 and 3.6% in 2004. The price to be paid, however, was the creation of yet another bubble in yet another type of asset – the real estate market. This time, however, the impact of the bubble went much deeper, given the increased importance of hedge funds and financial derivatives and the invention of a new instrument that would be known as "securitization". Securitization, i.e., the issuance of mortgage-based bonds, not only injected tremendous liquidity in this market but also prevented the growing risks of such operations to become visible, because the collateralized debt obligations (CDOs) included "privileged quotas" that gave bearers preferential treatment in cashing them, should any problem arise. For this, they received excellent ratings from the agencies, and even pension funds, which only invest on AAA bonds, were willing to carry these assets. In early 2005, the American government, concerned with inflation and seeking to contain some of the speculative fever, decided to raise interest rates.[18] Unperturbed, the wealth-effect on consumption, the euphoria of the stock exchanges and the inflated value of the assets themselves maintained the pace of American growth. The crisis only reached full maturity in 2007, when the first signs of default became irreversible and laid bare the frailness of the system and, in particular, of the so-called shadow banking system that created credit and currency without any kind of regulation.

As can be seen, the most striking trait of a finance-led regime of accumulation are the crises generated by recurring asset bubbles that make it structurally fragile. Over the last 30 years, the power of financial wealth has molded institutions in order to create a regulatory system compatible with the process of capitalist reproduction under its command. Ironically, as this materializes, the system reaches the height of fragility. This helps to explain why the current crisis is of different kind: it has to be fought in much more adverse circumstances than previous ones (i.e., a completely deregulated operating environment, high level of contagion and truly global amplitude). Making the scenario even less auspicious is the fact that the recurrent expedient of increasing liquidity to save the so-called real side of the economy seems to be reaching its limit.[19] Indicative that a certain threshold has been reached is the difficulty to reverse the negative signs brought on by the crises, in spite of the enormous amounts of dollars poured into the main economies of the planet. Any resemblance to the liquidity trap is not mere coincidence, but there is something else that makes the current situation even more complicated than the one that inspired the Keynesian find: an eventual success in overcoming the crisis will only magnify and hurl into the future the same vulnerabilities that were the source of the current crisis.

## The Situation and Outlook of Brazil in the Crises of the Regime of Financial Accumulation

Brazil has been a player in the history of financialized capitalism since the very beginning. For instance, the country was responsible for a major part

of the demand for credit that led to this system's first global asset bubble, consubstantiated in the Latin American debt crisis of the early 1980s. In the latter half of the 1990s, Brazil became an emerging financial power, having performed all the requisite structural overhauling – from monetary stabilization to unconditional financial opening, from reforms in welfare to changes in bankruptcy legislation. Thus, the country positioned itself as an international platform for financial valuation,[20] that is, as an emerging economy where it was possible to obtain extremely high gains in strong currency (oftentimes the highest in the world). When exchange rates were determined by government decree (fixed exchange rate regime), huge gains were possible because of sky-high interest rates, and after the crisis of 1999 (and particularly after 2003), with the floating exchange rate regime, also because of the recurring and self-referenced appreciation of the Brazilian currency – leveraged, as it could not be otherwise, by reckless gambling on derivatives.

This manner of engaging the Brazilian economy in the world economy strengthened the domestic rentiers and imposed the financial logic upon the national accumulation process. Bruno et al (2009) offer several illustrative indicators of this trend. The rate of accumulation of productive fixed capital, for instance, fell approximately 40% in the early 1980s and stayed in this paltry tier for nearly a quarter of a century, whereas profit rates recovered after 1994 and grew firmly thereafter. On the other hand, the ratio between the inventory of financial assets[21] and the inventory of productive assets[22] grew vigorously – from 15% in 1992 to approximately 75% in 2008. Over the last 30 years, financial power was exerted through various different means, but whatever the situation, it always increased. In years of high inflation, two-currency model (one used as unit of account and means of exchange, the other as reserve of value) was the foundation of rent-seeking accumulation and the financialization of wealth. After monetary stability was achieved, inflation was replaced by extremely high interest rates, by even greater differences in the interest rates paid and charged by the financial and banking sectors, and by the imperturbable growth of public debt as percentage of GDP (Bruno et al, 2009, p. 16-21).[23]

Not by chance, the first impacts of the crisis on the Brazilian economy were felt by the financial sector. At the onset, a crisis of confidence completely stanched credit and practically froze interbank loans. A succession of bubbles then burst – stock bubbles, bubbles of exchange rate derivatives, bubbles of the exchange rates themselves that somehow induced the others.[24] As it happened, in a wholly self-referenced movement, the appreciation of the Brazilian currency itself became an integral element of the strong currency valuation game of high finance that became possible in the country after 2003. And a vicious circle was established, whereby high interest rates brought in foreign currency, upped the ante on further appreciation of the Brazilian currency, generated even better dollar results for foreign investors, which brought

even more dollars into the country, and so forth. In this context, exporting companies, that managed to outweigh their losses with the appreciation of the Brazilian currency  with financial gains from derivatives, suffered the direct impact of the crisis when the game changed.

Impacts on the real economy have been felt little by little and result mainly from a deterioration of expectations. They may reverse the indicators of the gross formation of fixed capital (i.e., investment) that, with great difficulty, were recovering after two decades of stagnation. Government investments – such as the Growth Acceleration Program (PAC) and the housing development package – may replace private investment in part, but will hardly be enough to compensate fully the latter's reduction. With regard to consumption, credit was not affected, in spite of a certain retraction in the beginning, particularly for high-value goods such as automobiles. It is impossible to overstress the importance that credit, and specially paycheck-secured credit [known as "consigned credit" in Brazil], has today in sustaining the level of consumption – but this only confirms the preeminence of the financial dimension, that is, of productive accumulation that takes place only under the auspices and command of financial accumulation. The maintenance of the level of consumption has led Brazil to be seen today as a haven for multinationals:[25] given the size of the Brazilian domestic market and a certain enrichment of the lower classes (today 20 million more people have enough income to consume more than essential goods), the country's economy is being seen as a profit alternative in a retracting world. The great problem is that, unlike investment, consumption is not dynamic enough to fully invigorate the economy – not to mention that credit-driven consumption is not sustainable in the long run, as the American mirror clearly shows. This macroeconomic arrangement, by which investment is once again in danger of stalling and in which credit-driven consumption appears as the dynamic element, is clearly inverted. Nevertheless, it is an arrangement typical of an accumulation process with finance at the helm, promoting the expansion of fictitious wealth.

References to capital from non-residents entering the Brazilian economy forces us to analyze what the reappearance of foreign capital in the last few months means in the context of the crisis. First of all, it must be remembered that, in spite of the latest cuts, Brazilian interest rates are still among the highest in the world. To be sure, with the restoration of minimum levels of confidence, this evidently helps to attract foreign currency into the country, especially since interest rates in many parts of the world are now negative. This brings to mind the myth of a supposed "Bretton Woods 2" that began going the rounds in international financial circles in 2005. According to that fable, disseminated among other by Ben Bernanke (current chairman of the Fed), the growing American current account deficit was the natural consequence of "excessive global savings". In a nutshell, the chimerical thesis stated that emerging economies would have to absorb dollars (through exports) until

their systems were mature enough to be grounded on the internal market. Meanwhile, they would use the excess dollar to build the capital base for later. It was also said that this was all taking place through natural market forces, which would "coalesce to create a stable, integrated system of trade and investment flows, with the United States and the dollar at its center" (Morris 2009, p. 139). This arrangement, according to the same myth, brought to memory the outcome of the famous 1944 conference, thus its name.

This putative theory held that such a state of affairs was likely to last a long time (an assumption shattered by the crisis), but that countries such as Brazil would not be fully destroyed. And here we find a new role for the Brazilian economy in finance-led capitalism, namely, that of absorbing the lack of American savings. In this manner, financial command would remain relatively unshaken at the center of the system and relatively firm here. The inflow of dollars would once again turn the wheel of the appreciation of the *real* and re-inflate the bubble that had wilted with the crisis. The sustainability of this "arrangement" and, even more so, its ability to recreate here, through a virtuous circle of capitalist growth, are as safe a bet as the reverse macroeconomic disposition that emerged from post-crisis Brazil.

## Notas

1 This essay is part of a broader research project funded by a CNPq productivity in research grant, and was developed as part of the activities of CAFIN, "Institutions of Financial Capitalism Research Group", registered in the same institution.

2 The brief theoretical reconstruction sketched here is based on Boyer (1990) and Bruno (2004).

3 Chesnais is referring to the period between the end of World War II and the mid-1970s.

4 The original French edition is from 1996.

5 The original French edition is from 2004.

6 This point is further developed in Almeida and Paulani (2009).

7 Much as in the capital markets, the magic number would be 15%, an yield that is very hard to achieve by any non-fictitious process of capital valuation.

8 On this, see Teixeira (2007, chapter 3); specifically on wages (and the so-called personal indebtedness), see Lapavitsas (2009).

9 On this, see Eichengreen (2000, chapter 4).

10 On this, see Serrano (2004).

11 On this, see Gowan (2003, chapters 3 and 4).

12 On this, see Chesnais (2008).

13 Morris (2009) exposes another essential element in the crash of 1987: the ubiquity of new financial technologies, particularly the ludicrous idea of providing hedge (i.e., portfolio insurance) for large investors, something that can conceivably work on an individual basis, but becomes a disaster if made available to all.

14 See Krugman (2009) for more details.

15 On this, see Brenner (2003, p. 195-82).

16 On this, see Chesnais (2003) and Brenner (2003, p. 272-7).

17 In early 1994, the Dow Jones was at 3,600. In early 2000, it had reached 11,675 points, a 225% increase, whereas profits of companies listed in the NYSE grew no more than 60%.

18 The prime rate was 2.25% in January 2005, jumped to 4.25% one year later and reached 5.25% in January 2007.

19 Morris (2009, p. 133) is of the same opinion: "The sad fact is that there isn't much the Fed can do. All the years of working the liquidity pump has sucked out everything but the brine."

20 This thesis is further developed in Paulani (2007, 2008a).

21 The variable in question is total of non-monetary financial assets, calculated by the difference between the monetary aggregates M4 and M1, properly deflated by the IGP-DI index.

22 This variable is estimated by the value of the total inventory of productive fixed capital net of depreciation, that is, machinery, equipment and non-residential buildings.

23 Data in Bruno et al (2009) indicate that an investor who purchased a treasury bill indexed by the Selic [Brazilian prime rate] in January 1991 would have multiplied his investment by seven in January 2009, which translates into an annual appreciation rate 28.4% throughout the entire period. This outcome is virtually unattainable by any project from the real economy, anywhere in the world, at least by legal means.

24 On this, see Paulani (2008b).

25 Title of an article published in *IstoÉ Dinheiro* on May 22, 2009.

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*Abstract* – There seems to be no doubt about the fact that capitalism has undergone drastic transformations over the last thirty years. Among critics, theses on the financial nature of the process of accumulation have been prominent. One of these is the theory by French economist François Chesnais (1998, 2005) whose main proposition is that, as of the late 1970s, capitalism would be reproducing itself by means of an accumulation regime in which financial valuation prevails. In this article, we attempt to show that the current crisis is a crisis of this regime of accumulation, and to reflect upon the situation and prospects for Brazil in this context. In order to do so, we will first present a brief theoretical review of concepts involved (first section), then present the main features of the financialized regime (second section), recall the history of the way this regime has operated in the last three decades (third section), and, finally, reflect upon Brazil's present situation and prospects in this context (fourth section).

*Keywords:* Regime of accumulation, Mode of regulation, Financialization, Crisis, Brazilian economy.

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Received on 6.22.2009 and accepted on 6.24.2009.

Translated by Carlos Malferrari. The original in Portuguese is available at http://www.scielo.br/scielo.php?script=sci_issuetoc&pid=0103-401420090002&lng=pt&nrm=iso.