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Finanzkapital in the 21st Century

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Abstract

Drawing inspiration from the 1910 book *Finanzkapital* by Rudolf Hilferding, this paper explores the nature of financial capital in early 21st century from a political-economic and culture theory perspective. It offers suggestions for transcending the crises-prone contemporary economic systems. The paper reconceptualises the notions of Finanzkapital in the contemporary context, drawing selective evidence from current and 20th century economic and business history. The nature of contemporaneous Finanzkapital is elaborated by presenting seven ‘theses’ that probe the nature of Finanzkapital prior to, during, and after the Great Recession of 2007-9. Through succinct articulation of the major characteristics of contemporary Finanzkapital, the paper suggests some ways to resist and transcend politico-economic and business systems based on massive but quicksand-like foundations of financial capital.

Keywords:

Financial Crisis; Finanzkapital; Financialization; Hilferding; Marx; Great Depression; Great Recession.

Introduction

The economic crisis triggered by the 2008 failure of the Wall Street firm Bear Stearns (Cohan 2009), often characterized as the Great Recession, warrants a contemporary renewal and extension of the ideas about the increasing centrality of Finanzkapital, or financial capital. The idea of Finanzkapital as the (then) latest stage of capitalism was introduced a century ago by Rudolf Hilferding (1910) – the controversial socialist theorist who was also briefly Germany’s finance minister (Coakley 2000).¹ This paper presents a contemporary perspective on Finanzkapital. The capitalized German term Finanzkapital is used in this paper rather than the bromidic English phrases “finance capital” or “financial capital” because the original German

term captures the integrative, centripetal, and increasingly totalizing nature of this form of capital.

The political and cultural machinations of Finanzkapital tend to fade into the background during relatively normal economic periods (Panitch and Konings 2009), but come to the fore in perspectival writings that review and analyze periods of economic crises such as the Great Depression (Ahamed 2009) and the contemporary Great Recession (Johnson and Kwak 2010, Patterson 2010, Sorkin 2009). Similar to the peeling off of the curtain that revealed the manipulative Wizard of Oz, the curtain gets pulled open just a little during a crisis – and even non-experts get a brief glimpse into the workings of Finanzkapital. The problem in America following the Great Recession...

... may be not economic illiteracy but its opposite: Americans understand all too well what has happened. Financial crises have a way of revealing aspects of our economic system that otherwise remain obscured, such as the symbiotic relationship between Wall Street and Washington, the hidden subsidies that financial firms sometimes receive from the Fed and other government agencies, and the fact that the vast profits that firms like JP Morgan Chase and Goldman generate depend on an implicit guarantee from the taxpayer. When ordinary Americans are confronted with these realities, they get angry (Cassidy 2010, p. 30).

Before the curtain closes and obfuscates the workings of Finanzkapital again, it is useful to delve into the ways in which this type of capital has been transforming capitalism for more than a century. The next section defines Finanzkapital and summarizes those key arguments of Hilferding's 2010 classic *Finanzkapital* that retain relevance even after the lapse of a century. This is followed by a short section that suggests the strong and renewed relevance of Finanzkapital for the globally debilitating contemporary crisis, the crisis that nearly brought

down capitalism (and may yet do so) and is being characterized as the Great Recession. The contemporary tendencies of Finanzkapital are elaborated in seven sections in the form of 'theses' that probe the nature of Finanzkapital prior to, during, and after the Great Recession. The paper ends with concluding remarks that are integrative and forward looking.

Summarizing Hilferding from a Contemporaneous Perspective

Hilferding's *Finanzkapital* was a product of its time – of Germany and Europe at the dawn of the 20th century, warily watching an ascendant America. Watershed events such as the two World Wars and the interwar Great Depression had not yet occurred. And yet, some key ideas from Hilferding's book *Finanzkapital* – when viewed in its core conceptual categories – have withstood the test of time. Even in the nascent stages of the march of financial capital, Hilferding was able to identify the key features of this rising form of capital – especially in contrast to variable industrial capital that creates wage employment.

Hilferding observed, in the period and context of his writing – that of early 20th century Germany, the mutual dialectic of industrial concentration and financial concentration:

The development of capitalist industry produces concentration of banking, and this concentrated banking system is itself an important force in attaining the highest stage of capitalist concentration in cartels and trusts... the effect of advanced cartelization is that the banks also amalgamate and expand in order not to become dependent upon the cartel or trust...The control of those funds which are indispensable to industry rests with the banks, and consequently, with the development of capitalism and of the machinery of credit, the dependence of industry upon the banks increases... An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represent the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry

and in this way become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital ... [such Finanzkapital] appropriates to itself the fruits of social production at an infinitely higher stage of economic development (Hilferding 1910, chapter 14).

Of course, the context of operation of Finanzkapital has changed vastly from Hilferding's time – the arena of operation has become global, the applications of capital go considerably beyond manufacturing industries, and (aided by technology) economic development in the affluent enclaves has reached stages undreamt of a century ago. But the key insights – about the concentration of capital in and control by highly amalgamated banks, the stark dependence of all productive activities on the credit system, and the creation of conduits that channel the lion's share of the fruits of (now worldwide) social production into global financial centres – hold today, perhaps with greater urgency and force than in early 20th century Germany. The locus of control of global Finanzkapital has become primarily Wall Street and secondarily London's Financial District, with rapidly rising satellite centres of financial control in Tokyo, Shanghai, Hong Kong, Singapore, and Mumbai.

The very specificities of the early 20th century German economic context – universal and all-pervasive banking institutions that obviated stock markets in major ways, worked closely with cartelized industries, and influenced State policies – have resurrected, in a manner, under neoliberal policies forged in America and Britain, policies that have diffused globally. And this is why Hilferding's *Finanzkapital*, which had become an interesting historical curiosity before the rise of neoliberalism, regains relevance – as a conceptual category that describes capitalism rather than as a specific account of the period and context of its writing.

Finanzkapital and the Great Recession of 21st Century

Economic and social theorists – the minority who write from critical perspectives – make distinctions among concepts such as finance capital (Sweezy 1994), monopoly-finance capital (Foster 2006), and financialization (Epstein 2005, Kotz 2010, Orhangazi 2008). While the nuanced distinctions are important from economic theory perspective, in this article – from a business studies perspective – the term Finanzkapital is employed metaphorically. The term is *not* used in the classic sense available to Hilferding in 1910 (at that time, the term referred to growing merger of financial and industrial capital, under the direction of German banks) but as a renewed, contemporary term that captures the growing and deep penetration of very large financial institutions and their investment processes into all aspects of globalized capitalism – and of people’s lives in general.

The relationship of Finanzkapital and the Great Recession – the sharp downturn as well as the reasons behind the concerted and massive international response led by the U.S. government (Green 2010, Stewart 2009) – are captured dramatically in Figure 1, the widely circulated chart on profits of U.S. financial and nonfinancial institutions for the 1970-2008 period (Alloway 2010). Attributed to the London-based Deutsche Bank analyst Jim Reid, the chart shows the dramatic rise in the profit rate of financial institutions from the late 1980s.

As Figure 1 shows, the fast-rising tides of profits of Finanzkapital were clipped precipitately by the Great Recession, throwing into question the very legitimacy of the scaffolding that supports the capitalist system. As pivotal financial institutions crumbled or

teetered on the brink of collapse, the heads of governments of major global economies and their finance ministers faced a stark choice: orchestrate a gut-wrenchingly painful (in terms of sharply escalating public debt) bailout of the institutions at the commanding heights of Finanzkapital, or let burn (and *not* douse) the fuse that could blow up the edifice of capitalism. It is little surprise that the first option – the one representing immense public pain but preventing a systemic collapse – was chosen (Stewart 2009). The blisteringly fast climb back of financial sector profits to supernormal pre-crisis levels (see 2008 part of Figure 1) indicates the continuing centrality of Finanzkapital in the advanced economies. Even as massive unemployment and anaemic corporate performance of the nonfinancial sectors persisted, banks were back in business and eye-popping bonuses were awarded to top financial executives, albeit tempered with some minor restraints to staunch the massive public criticism of such greed. The political power and cultural quintessence of Finanzkapital – while they got mildly dented and faced some future possibilities of regulatory encroachments – remained basically intact during the Great Recession.

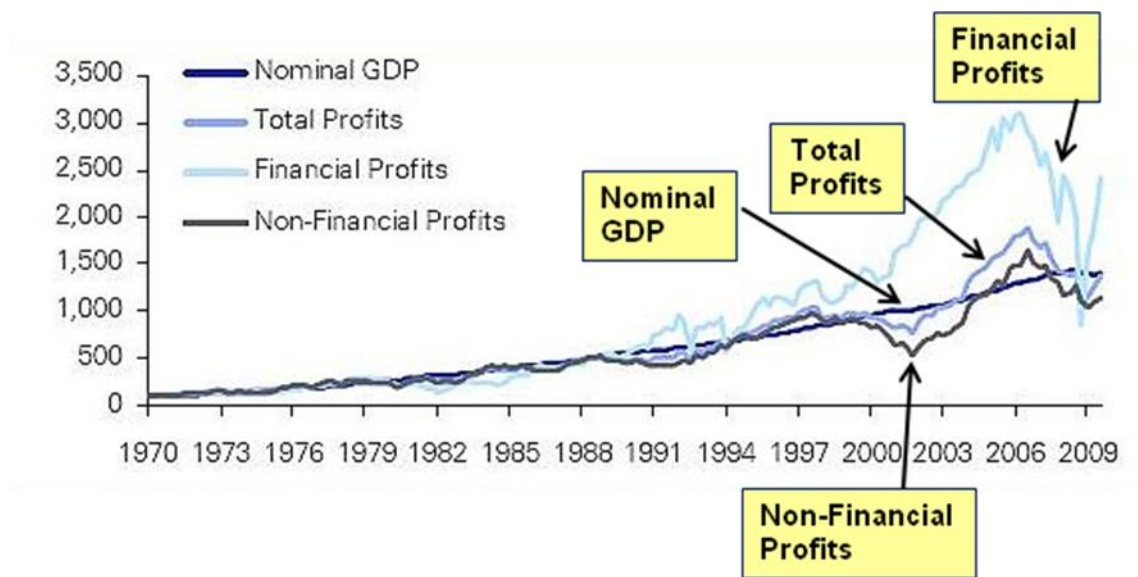


Figure 1: Rapid Rise in Financial Profits after 1990

Source: Adapted from Alloway (2010). All the series are index numbers, rebased to 1970 = 100

What, then, is the nature of contemporary Finanzkapital that makes it omnipotent – the very abstract yet the seemingly sovereign conceptual entity of our times? The remainder of the paper presents seven theses that explore the character and connections – to economy, polity, and culture – of Finanzkapital.² The seven theses about Finanzkapital that follow are intertwined in a braid like fashion. While the theses are not mutually independent, each thesis examines a specific aspect of Finanzkapital. Taken together, these interrelated theses present a nuanced view of contemporary Finanzkapital.

Thesis One: Inexorable Rise

Hilferding (2010) foresaw the steady rise of Finanzkapital in his native Germany, also in Europe – especially in the still-dominant imperial power Britain, and finally in America – the ascending global power. He also foresaw the compelling need of Finanzkapital to seek foreign markets and investment opportunities. What Hilferding could not have imagined is the pervasiveness, totality, and inexorability of Finanzkapital in all aspects of economic, political, and social life of nations and peoples.

The transfusion of Finanzkapital into all aspects of global economy has proceeded via political, economic, and cultural processes that constantly open new avenues where capitalist forms of investments become feasible. These include globalization of markets for branded products (Levitt 1983) as well as financial securities and assets (Appadurai 1990), privatization of public services (Hacker 2006), securitization and conversion of non- or less-tradable financial assets into tradable forms (Colander et al 2008, Orhangazi 2008, Wade 2009), and injection of branded marketing forms into consumption contexts that were previously not parts of the market economy (Prahalad 2006).

Leading up to the 2007-2009 crisis, the great Finanzkapital move was to engage in a form of gamble that dwarfed all historical expansionist financial moves by an order of magnitude – the invention and expansion of risk diversion derivatives called Credit Default Swaps (CDS). In a retrospective television interview, Brooksley Born – a very senior financial

regulator who warned of the impending “house-of-cards” crisis of CDS and was hounded out of government for her warnings (see Schmitt 2009) – had this to say (Born 2009):

So let's start with September 2008 as we all sat there and watched the economy melting down and heard about things called credit default swaps [CDS]. It wasn't the first time you'd heard of these sophisticated financial instruments. What did you think when you were watching it happen?

It was like my worst nightmare coming true. I had had enormous concerns about the over-the-counter derivatives [OTC] market, including credit default swaps, for a number of years. The market was totally opaque; we now call it the dark market. So nobody really knew what was going on in the market.

And then it became obvious as Lehman Brothers failed, as AIG [American International Group] suddenly appeared to be on the brink of tremendous defaults and turned out had been a major credit default swap dealer and needed hundreds of billions of dollars to keep it alive, the contagion in the marketplace from those failures brought many, many of our biggest financial services companies to the brink of collapse. And it was very frightening.

... How did it happen?

I think it happened because there was no oversight of a very, very big, dynamic, growing market. Market participants don't look out for the public interest. Traditionally, government has had to protect the public interest by overseeing the marketplace and keeping the extreme behavior under some check.

We had no regulation. No federal or state public official had any idea what was going on in those markets, so enormous leverage was permitted, enormous borrowing. There was also little or no capital being put up as collateral for the transactions. All the players in the marketplace were participants and counterparties to one another's contracts. This market had gotten to be over \$680 trillion in notional value as of June 2008 when it topped up. I think that was the peak. And that is an enormous market. That's more than 10 times the gross national product of all the countries in the world.

The Great Recession showed the outer limits that Finanzkapital is capable of reaching in search of opportunities for expansion – the creation of a secondary, “dark” market ten times the size of the entire global economy. While the 2007-2009 crisis deflated this balloon

temporarily – by rendering most of these contracts worthless or “toxic”, it will not be long before Finanzkapital invents other avenues that are comparably enormous in terms of the size of circulating capital and equally toxic in terms of risks taken.

Finanzkapital needs to grow in an inexorable manner. The growth may not be continuously in one direction – dips, even sharp ones, may occur – but the trend has to be upward (Harvey 2010).³ Dual imperative arise from such growth of Finanzkapital – an imperative for resources to flow into the global centres of finance and an imperative to constantly find new avenues for investing capital. The theses that follow reflect one or the other, or a combination, of these imperatives. When Finanzkapital experiences a lull in the invention or expansion of investing avenues, there is consternation among the analysts and watchers of financial markets. In March 2010, *The Economist* magazine observed that (Economist 2010b, p. 79):

Securitisation’s boom and bust was spectacular. The packaging of mortgages, car loans, credit-card receivables and other debt to sell to capital market investors began to take off in the 1980s. By 2006 it was being used to channel around two-thirds of all residential mortgages and half of all consumer credit in America... As the boom reached fever pitch, however, the quality of the loans being pooled into securities dived... When losses started to mount, asset backed issuance dried up... Ralph Dalorio, chairman of the American Securitisation Forum, talked of an “existential” crisis... [and] wondered what Jean-Paul Sartre would make of it.

With the curtain slightly parted at the present juncture – revealing the linkages of Finanzkapital to the levers of politics – it becomes clear later in *The Economist* story that the problem facing Finanzkapital is that the discredited previous government rules (or, more accurately, the steady

dismantling of rules) about private capital have not paved the way for new rules. The game, therefore, is stymied (Economist 2010b, p. 80):

In testimony this week Timothy Geithner, America's treasury secretary, said that he was committed to encouraging private capital back into the market... But no details were offered. Amid such uncertainty "only a madman would ramp up securitisation efforts now," said one banker.

What Finanzkapital faces in the aftermath of the Great Recession is an uncomfortable period of uncertainty, when regulatory rules are rewritten. We can expect to see intense lobbying by the financial sector, especially in Washington, to keep the rules as favourable to bankers as possible – and then the unleashing of a new wave of financial innovations by the experts in Wall Street and elsewhere that would allow Finanzkapital to neutralize, obviate or dampen the new rules.

Thesis Two: Pervasive Globality

From the dawn of the 20th century, Hilferding noticed the tendency of capital to turn to foreign targets whenever domestic factors were unfavourable to profits, and this tendency accelerated due the cartelization brought about by growing interpenetration of financial and industrial capital. He observed:

The commercial policy of the entrepreneur is... directed primarily to the foreign market, that of the workers to the domestic market, manifesting itself primarily in the form of a wage policy... [there is rise of] protective tariff [that] becomes a tariff for cartels... Cartelization [an inevitable concomitance of Finanzkapital]... strengthens the employers' position on the labour market and weakens that of the trade unions. Furthermore, the cartel tariff provides the strongest incentive to increase capital exports, and it necessarily leads to the expansionist policy of imperialism. We have seen that the export of capital is a condition for the rapid expansion of capitalism. In social terms, this expansion is an essential condition for the perpetuation of capitalist society as a whole,

while economically it is a condition for maintaining, and at times increasing, the rate of profit. The policy of expansion unites all strata of the propertied class in the service of finance capital (Hilferding 1910, chapter 25).

Of course, with decolonization, the dynamics have shifted – it is no longer possible to export capital through imperialist fiat.⁴ What has emerged instead is a complex framework of national and international government agencies, orchestrated from Washington and New York, overseeing the world of finance, and working very closely with financial giants – to seek global avenues for export of capital as well as devise numerous channels for flow of (some of the) profits back into metropolitan centres.⁵

While the essential tendency of Finanzkapital, even from the time of its initial conceptualization by Hilferding (2010), has been to *transcend nationality* and seek investment avenues and returns in a global space, there is also the reality of the long historical overhang of prominent national institutions of Finanzkapital. Financial institutions that ascend to supernal states during the global dominance of a nation – via truculent imperialism or economic hegemony – continue to retain their dominance decades after the nation that spawned these institutions slips from its hegemonic perch. For example, although by 2010 Asian stock markets accounted for 34% of global market capitalization (vs. 33% for America and 27% of Europe), and Asian central banks held 2/3rds of all foreign exchange reserves, only 3% of worldwide reserves were held in Asian currencies (Economist 2010a, p. 79). In the early 21st century, the currency of the 20th century hegemon United States held dominant sway in the sovereign reserves and even the currency of the 19th century hegemon Britain continued to be important. Because of such historical overhang, banks of the declining or even faded hegemonic nations hold

substantial clout over the flows and allocations of Finanzkapital. That is why the locus of the Great Recession of 2007-2009 was primarily in Wall Street in New York and secondarily in London's financial district. The galloping globality of Finanzkapital is nonetheless subject to the long historical yoke of the financial institutions of declining and even faded hegemonic nations.

The mechanisms by which Finanzkapital seeks global avenues – of accumulation and growth – are becoming numerous. Each decade seems to bring at least one new mechanism for globalization of Finanzkapital. This is a topic worthy of several studies (of the types represented in Panitch and Konings 2009), and is not treated here, except to list some of the main mechanisms: (a) privatization (moving activities of the state into financial realm), (b) global listing of stocks via instruments like American Depository Receipts (ADRs) and Global Depository Receipts (GDRs), (c) funds (including hedge funds) created to seek international opportunities, (d) private equity and venture capital routes, (e) real estate investment trusts with international reach, (f) various forms of asset-backed securities and derivatives, (g) index funds linked to global markets. A major factor behind such mechanisms is the crafting, testing, and vetting of powerful political ideologies such as deregulation and privatization first in the global financial centres of USA and UK, and then the export of such ideologies to the rest of the world. Some of these mechanisms and instruments receive greater attention in the remaining five theses about Finanzkapital in this paper.

Interesting dialectics are created by the centrifugal quest for globalization of Finanzkapital and the centripetal imperative for maintaining the levers of Finanzkapital in the

big financial centres. While the contemporary surging economies and companies are often in locations such as China, India, and Brazil that are distant from global financial centres of New York and London, companies in these surging economies seek international legitimacy by listing their shares in the stock markets of New York and London. As an example, in terms of their capitalization, two of India's biggest and best-known private sector banks – ICICI and HDFC – are only “Indian” in a nominal sense because three-quarters of the ownership of these banks is in the hands of investors in New York and London.

Thesis Three: Escalating Scale

When industrial capital was the source of investment, the scale of investments was constrained by the amount of retained earnings available for investment – monies that were not taken out as shareholders' dividends or owners' personal profits could be invested. The scale of investments depended on the size of retained and accumulated earnings of the enterprise. As Finanzkapital started becoming important in the development of capitalism, in the initial stages, the scale increased but was still constrained by industrial growth possibilities. Even when financiers provided some or all of the funds for the expansion of an enterprise or to start a new enterprise or to acquire an enterprise, the scale was constrained by the size of the market. It usually made no sense to invest excessively to build unused capacity (unless the intent was to monopolize a sector by undercutting competitors).

As Finanzkapital increased in size relative to other forms of capital, it could no longer find sufficient avenues of investment that were industrial in nature. For any particular

enterprise, the demand for its products could not be expanded fast enough to absorb the investments funds available from financial institutions.

Many of the patterns of capitalism from 1900 onwards reflect the unquenchable quest for investment avenues for Finanzkapital: direct and militarily imposed imperialism in nations inhabited by non-European races, economic imperialism, investment flows (direct and portfolio), and neoliberal policies designed to weaken and dismantle barriers to the flow of Finanzkapital.

Foreign direct investment (FDI) offers, paradoxically – at least in semantic terms – a rather *indirect* channel for Finanzkapital. By investing in firms – usually in advanced nations – that seek foreign direct investments abroad, Finanzkapital is able to channel funds into corporate entities in multiple countries. Being illiquid and relatively long term, however, FDI flows do not offer the rapidity and ephemerality of investments that holders and controllers of Finanzkapital typically seek. That is why, while the flow of FDI continues to grow it is accompanied by other private global flows of capital such as portfolio investment, and, more recently, flows of various types of debt instruments. Taken together, FDI and portfolio investment flows from advanced countries climbed from under 20% of GDP in 1970 to over 120% of GDP in 2004.⁶

By the dawn of 21st century, Finanzkapital had exhausted at least the readily-available avenues of global foreign direct and portfolio investment. While the so-called “emerging markets” were growing fast, they were not growing fast enough to offer lucrative investment

opportunities to the growing corpus of Finanzkapital worldwide. This is because, at the end point of the investment chains of FDI and portfolio flows, there were *industrial* investment projects that – even with rapid growth of an economy – were constrained in size and scope by physical factors, human resources, local cultural dynamics, and politics. Ultimately, Finanzkapital had to turn to investment channels that were *not constrained by the variable industrial characteristics of investment projects*. Physical investment projects represent some ceilings in terms of achievable “scale of investments” – but non-physical and abstract avenues do not pose such ceiling barriers.

This is the reason Finanzkapital started employing a variety of contracts that could be bought and sold in transactions that were mostly invisible in the stock and commodity markets – leading to the explosive growth in the “dark markets” that were at best translucent, and often opaque to the regulators and the general public. Complex and volatile though they may be, the investments in visible markets are constrained in size (except in “bubble” conditions) by the trading activities. As risks rise, many would divest and the markets would pull back. Such constraints are less of a problem under the translucency or opacity of dark markets – and scale of investments in such markets could be expanded constantly, even giddily, through creative packaging and marketing of contracts and derivative products. Of course, when a crisis happens, the astronomical scale of such “dark investments” becomes a colossal liability.

To employ a macabre analogy, the toxicity (due to rising risks) of *visible markets* is comparable to tear gas that clouds the atmosphere and stings harshly – and impels people to

move away from the source. The toxicity of *dark markets* is comparable to carbon monoxide – it is odourless, colourless, and deadly.

Thesis Four: Spiralling Speculation

Hedge funds provide a prime vehicle for channelling Finanzkapital into financial instruments that are speculative and risky but that offer high potential for financial return. From 1990 to 2006, assets under management by hedge funds increased 28-fold to \$1.1 trillion, controlled by 9000 hedge funds (Rappeport 2007). The asset base of such funds climbed to nearly \$2 trillion by 2008 (Armour and Cheffins 2008).

Through careful balancing of investment strategies, hedge funds ensure that returns remain high – even during financial downturns. Figure 2 shows a major hedge fund index (the EH Global index) plotted against Dow Jones USA stock index, for the period 1999 to 2010. As is evident, hedge funds (top series in Figure 2) continued to rise, even during the lean Dotcom Crash years of 2001-2003 and suffered only slightly during the 2007-2009 Great Recession.

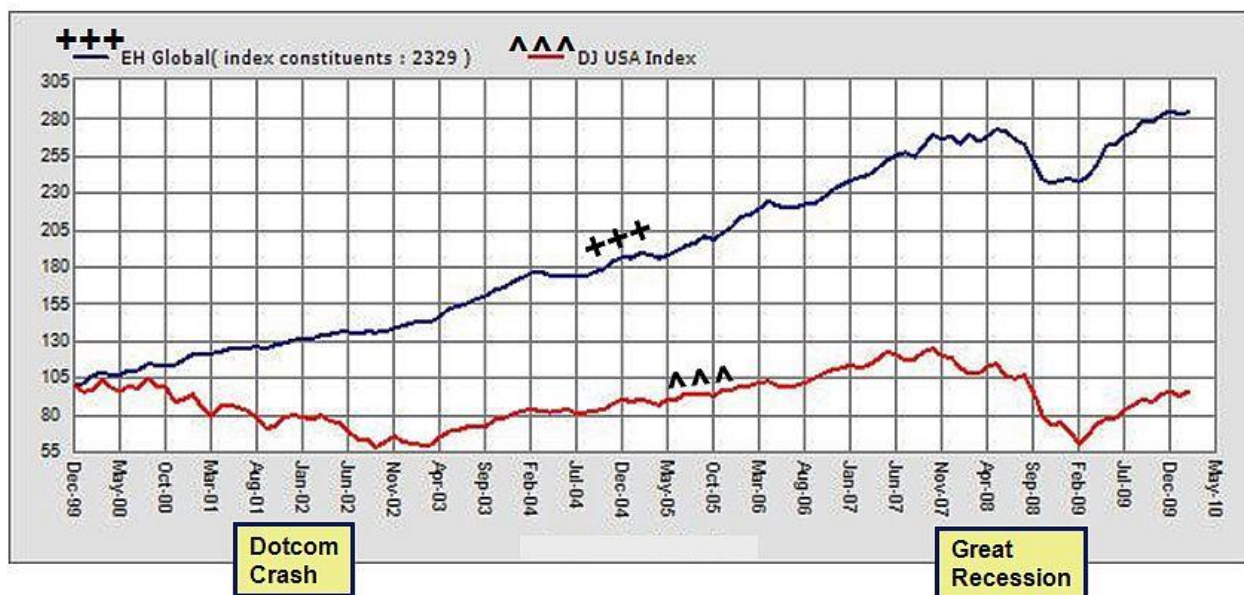


Figure 2: Resilience of Hedge Fund Values during Economic Downturns

Source: Based on chart from EurekaHedge: <http://www.eurekaHedge.com/indices/default.asp>. Reproduction permitted with source attribution.

While hedge funds are riskier than ordinary stock funds, they also are more adept at managing risks – by strategies such as collaring and inverse betting. The underlying sources of risks are the investments themselves. The constant quest for higher returns leads Finanzkapital – including hedge funds and many other categories of pooled monies under the control of the financial centres – to seek ever-new investment avenues. At first, the result is the expansion of financial markets (hence, for example, the growth in emerging markets and new types of bourses). When opportunities in new (visible) markets are not sufficient, there is the development of dark markets.

The natural limits on leveraging that exist in visible markets are less onerous in dark markets, and hence risks can be escalated steeply in search for super-normal returns. Along with risk escalation there is also risk obfuscation. The raging red flags of risks in instruments such as financial derivatives were evident early on to savvy investors such as the legendary Warren Buffet, but largely invisible to the mass investors and the government regulators:

The derivatives genie is now well out of the bottle, and these instruments will almost certainly multiply in variety and number until some event makes their toxicity clear. Central banks and governments have so far found no effective way to control, or even monitor, the risks posed by these contracts. In my view, derivatives are financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal (Buffet 2002).

Evidence emerging after the Great Recession shows the collusive and clever manipulation of investment ratings to make a variety of derivative financial products look far safer than they were (Harper 2010, Taibbi 2010).

The corrosive effects of high speculation on the non-financial economy have been known for long. Invoking a Keynesian perspective, and examining the rising role of finance capital in the U.S., Niggle (1988) wrote...

... speculators focus on forecasting the expectations of other speculators, rather than on the long-run returns to the ownership of assets, which must ultimately validate the securities traded, no matter how exotic they may be. As speculation increases in importance, the potential for financial instability increases, since portfolios must increasingly be adjusted on the basis of factors other than fundamentals... such as long-run profit potential... (p.583).

Has the financial crisis of the Great Recession curbed the appetite for risk taking and reined in the speculative aspects of Finanzkapital? There is certainly some rethinking and retrenching, but only to bide time so that regulatory frames can readjust and new and innovative risk-shifting instruments can emerge. Aquanno (2009) concludes his study of the risk dynamics of international financial markets from 1945 to the contemporary period with this observation:

The specificities of the credit crisis... are such that while US commercial and investment banks have suffered significant monetary losses, global market makers are unlikely to question the patterns of security risk attached to Wall Street in the long run. In part, this is because the types of securitized assets that were widely abandoned following the appreciation of subprime [mortgage-backed] delinquencies are not critical to the continued success of American finance, which may emerge strengthened by the elimination of vulnerable institutions, the unwinding of excess leverage positions and the enhancement of government supervision (p. 133).

It is a fair bet that – unless radical alternatives to a world dominated by Finanzkapital are found – the risks associated with the next financial crisis would be hedged very carefully to protect the centres of Finanzkapital, and the impacts will be deflected to vulnerable and politically marginal segments of the world’s population.

Thesis Five: Increasingly Organic

Even before the portentous centrality of banks in economic affairs became apparent, Karl Marx had made a note of the increasing “organic composition of capital” – the portion of capital invested in means of production in relation to the portion employed to pay wages. Marx understood that the organic composition of capital – the portion devoted to productive assets –

would keep rising and this would lead to falling rates of profit and ultimately a crisis of capitalism (Meacci 1992). What Marx did not foresee, and what Hilferding began to discern by early 20th century, were the multiple ways capital – increasingly as Finanzkapital – would find to keep raising the organic composition of capital. It is no longer necessary for capital to find *physical assets* to invest in that represent the productive assets of industrial enterprises: money has figured out increasing ways to beget money. In many of these avenues, labour and variable capital have minimal roles because investments are in paper (electronic, really) assets rather than in physical assets. In the quest for new asset forms that link to industrial capital but not chained to physical assets, innovative asset-class management devices such as equity leverage and equity inverse have been created – increasing the organic composition of capital and also increasing the flexibility of Finanzkapital.

In the classical Marxian view – which continued to inform Hilferding’s work, increasing organic composition of capital sets up conditions for a crisis of capitalism because the proportion spent on wages of labour – and labour being the ultimate source of value creation in Marxian view of capitalism – keeps declining. Pervasive globalization of production and consumption (something that Marx and even Hilferding could not have foreseen), however, has minimized the risk of such crisis. Even with labour as smaller and smaller portion of the cost of products (and services), industries supported by Finanzkapital are usually able to keep shifting production to low wage locations in ways that keep profit rates at reasonable levels. And when specific industries fail in this – such as the US-based automobile manufacturing industry – the result is a transforming of the global character of the industry (production activities and

markets shift to places like China and India). By adjusting its global investment practices, Finanzkapital ensures that it continues to extract its “pound of flesh” – by setting up investment channels to the fast-rising markets. The problems of devastated “rust belts” in America or Europe are not of particular interest to Finanzkapital, as long as political leaders (elected with support of Finanzkapital) are able to “contain the fallout” from such problems.

Thesis Six: From Profits to Assets

Falling rates of profits were supposed to be the *bête noire* of capitalism. While – like all capital – Finanzkapital seeks high returns and profits, in the contemporary context it seeks even more to increase its own stock. The shift of emphasis in capitalism – from the size of profits to the size of assets – makes Finanzkapital less susceptible to periodic downturns (and to falling profits), and resilient in terms of sustaining its power over long term (revisit Figure 1, comparing financial and non-financial profits). For example, the two downturns shown in Figure 2 – the Dotcom Crash and the Great Recession – wiped out enormous amounts of capital, but ultimately did not damage in major way the centres of Finanzkapital, the asset bases of the surviving financial houses in Wall Street and London’s Financial District. Figure 3 shows the changes in market capitalizations of USA, UK, France and Germany due to the Great Recession – with the “top of the market” in October 2007 indexed at 100. It can be observed here that while all markets suffered severely in this downturn, the markets in USA and UK suffered slightly less than those in France and Germany. Also, the American market bounced back stronger and somewhat faster than in other countries.

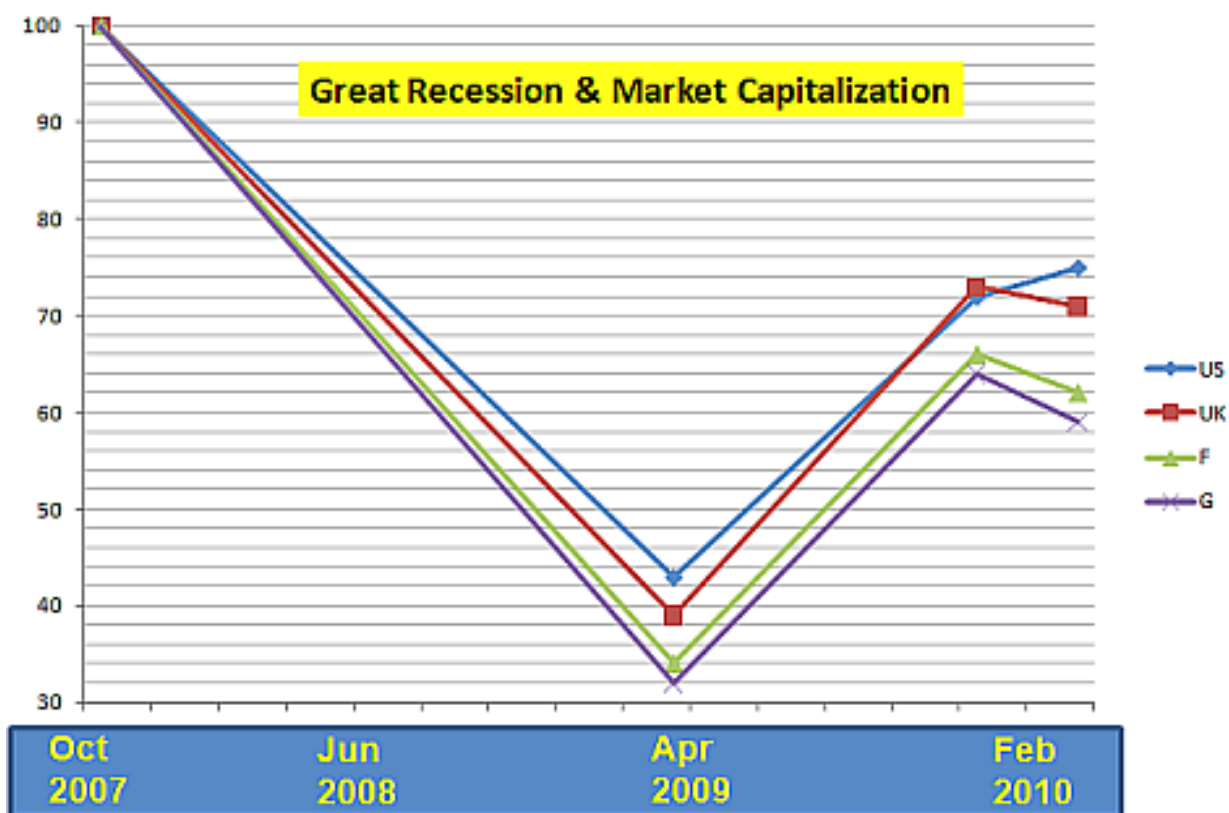


Figure 3: Great Recession & Market Capitalization in Four Major Economies

Source: Chart developed by author, based on original Bloomberg data reported by Bespoke Investment Group at <http://bit.ly/cYTzZp>

The rising asset base of Finanzkapital endows it with a massive political muscle. In the United States, financial institutions have long held sway over the Republican Party. In the 21st century, the assets under direct control of Finanzkapital expanded enormously, allowing financial institutions to extend their sway over the (formerly antagonistic) Democratic Party as well:

The financial industry was anything but a bystander [during the Great Recession]. Its size relative to other sectors of the economy exploded, increasing its Washington heft. The

assets of securities brokers and dealers, for instance, which represented less than 2 percent of gross domestic product in 1980, grew to 22 percent in 2007... In the 2006 election cycle, Democrats got more money from financial interests than Republicans did – an amazing development given the [Democratic] party’s historic [negative] disposition toward Wall Street, and a significant factor in its takeover of Congress and the White House soon after (Green 2010, p. 44).

Thesis Seven: Transformed Class Structure

In the era when industrial capital dominated, the class structure of the industrially advanced countries was relatively simple to understand. The capitalists owned the means of production and the proletariat laboured in workplaces that housed these means of production. The capitalists controlled all the revenues, and the proletariat had claims on the portion that constituted wages of labour. When industrial capital dominated the economy, the owning and working classes were separated clearly by the relations these classes had to the means of production: owning/controlling vs. using/labouring.

In the era of Finanzkapital, means of production have become globally mobile, transferable, substitutable – entities that can be outsourced. Except in industries that deal with state security (such as manufacture of armaments), there are no longer any means of production that are anchored to a nation’s geography or tied to the nation’s industrially prominent families. Capital of course is still needed to acquire and control the means of production, but this function of capital is gradually diminishing in importance. Increasingly located in low-cost nations such as China and Vietnam, contemporary “means of production” are factories that work on contract. There is all around substitutability – brand-owning

corporations can substitute the factories that make branded goods; and factories can substitute the brands they would manufacture.

The classic “means of production” have simply become supply chains. The imperatives of Finanzkapital – Wall Street – demand continuous reassessment of the efficiency of supply chains by brand-owning corporations. The resulting class relations are global and complex: owners and controllers of Finanzkapital invest (flexibly and ephemerally) in brand-owning entities that contract out to factory-owning classes in peripheral and semi-peripheral nations, who in turn usually employ non-unionized replaceable workers to labour in these factories. Substantial portions of the profits of the metropolitan brand owners and the semi-peripheral and peripheral factory owners get ploughed back into the centres of Finanzkapital – after all no one wants their capital to remain idle when there is money to be made.

In these complex global nexuses, the group that achieves centrality and apogee is the one that has ownership of and – even more importantly – exerts executive control over Finanzkapital. The moniker plutonomy has been coined by Citigroup analysts to characterize those countries where this super-elite “class”⁷ is highly concentrated and wields enormous financial power (Kapur, Macleod and Singh 2005):

The World is dividing into two blocs - the Plutonomy and the rest. The U.S., UK, and Canada are the key Plutonomies - economies powered by the wealthy... In plutonomies the rich absorb a disproportionate chunk of the economy and have a massive impact on reported aggregate numbers like savings rates, current account deficits, consumption levels, etc. ... There is no “average consumer” in a Plutonomy.

These Citigroup financial analysts then go on to profile the enormously concentrated financial power of the top 1% super-elite in the United States:

...the top 1% of households in the U.S... account for 33% of net worth, greater than the bottom 90% of households put together. [And they] account for 40% of *financial* net worth, more than the bottom 95% of households put together.

With the steady deregulation of the financial sector since the 1980s, the financial class has become gradually independent of the larger capital owning class in general (Kotz 2010). Finanzkapital not only controls massive amount of financial resources but all other forms of capital, including industrial forms, are tied to and dependent on Finanzkapital through the pervasive securitization of all forms of equity and most forms of debt. This renders vast sections of populations of the advanced economies as well as the elite in developing nations into at least reluctant allies of Finanzkapital. The large penumbra of non-financial capital may not enjoy the power and high rewards that Finanzkapital does, but it does get to keep the crumbs from major financial gains, especially when financial markets are strong and rising. With the massive neoliberal shift of the social safety nets into private, market-linked systems (Hacker 2006), the majority of people in the advanced nations come to depend on financial markets for the maintenance of their basic lifestyles. The segments that manifestly lose ground – and therefore have it in their interest to oppose Finanzkapital – keep shrinking in the advanced nations and in the expanding elite classes in the developing world. The interests that are essentially opposed to Finanzkapital get pushed farther and farther into the disorganized and vulnerable “outer periphery” of global capitalism. Contemporary Finanzkapital thus has in place substantial

mechanisms that keep expanding the circle of comprador classes that support the interests of Finanzkapital.⁸

Concluding Observations

The reasons why the workings of Finanzkapital remain obscure during normal economic periods are not conspiratorial, although the conventional secrecy in the processes of high finance – in private and state institutions – does aid in shielding such processes from public and even scholarly scrutiny. The main reason the processes of Finanzkapital remain invisible is ideological: financial processes have been accorded an apolitical status. In introducing a set of studies on American influence on global finance, Panitch and Konings (2009) observe that (p.3):

...scholars have experienced considerable difficulty conceptualizing the sources of these [financial] phenomena and the mechanisms through which they are produced. They are certainly invisible to mainstream economics, premised as it is on the assumption of markets as neutral structures. But it seems the foundations of America's financial power have been so thoroughly buried in the depoliticized realm of economic mechanisms that they tend to elude even those who study finance in its political aspects.

This paper offers some ways to unmask some of these mechanisms, not in the empirical sense of exploring specific financial relations or political processes (Panitch and Konings 2009), but from a critical theoretical perspective of generalizing and extending the concepts of Finanzkapital to the 21st century context. The paper locates the 21st century processes of Finanzkapital in their ideological frame, as processes of advanced capitalism that first received theoretical and empirical attention a century ago (Hilferding 2010). What has happened in a hundred years is a curious mix of far-reaching globalization and sophistication, while at the

same time deep concealment and obfuscation, of the processes of Finanzkapital or financialization.

Finally, then, are there ways out of the enveloping and global miasma of Finanzkapital? In the 21st century, the search for alternatives, in fact, should be the public agenda of 99% of the world's population that does not enjoy the high rewards of Finanzkapital, and is at best offered some cake crumbs and at worst is subject to unconscionable exploitation. What is unlikely to work is direct confrontation – the juggernaut of Finanzkapital is likely to roll over most forms of direct confrontation.

In terms of exploring alternatives, some economic theorists suggest ways of injecting strong “democratic voice” – the voice of working people rather than elite – in the design and running of financial and nonfinancial corporate entities (see, for example, Pollin 1995). For these politico-economic alternatives to take shape, the polities of the world have to start distancing from the neoliberal dogmas and start asserting ways of governance that reflect the interests of their populations rather than of financial institutions. Also promising are emergent cultural explorations of finance and its relationships to organizational and household life (Beverungen, Dunne and Hoedemaekers 2009). The cultural change for this has to happen in systems of knowledge – in liberal as well as professional disciplines – that motivates people to think not instrumentally but creatively, in ways that enhance communities rather than corporate goals. A journal like this offers one of the best forums for enacting and exploring all such alternatives.⁹

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Endnotes

¹ Hilferding's career as a writer, socialist, and politician was chequered. It ranged from the apogee of publishing the influential *Finanzkapital* to various types of internecine socialist squabbles and Lenin's characterization of him as an "ex-Marxist" who had become a sort of bourgeois capitalist roader. While no definitive knowledge of Hilferding's death is available, it is believed that he was handed over to Gestapo by collaborationist French government; and Gestapo probably tortured and executed him.

² Analytical approaches rooted purely in economics are inadequate to understand the contemporary financial crisis, as many economic thinkers themselves have indicated (Colander et al. 2008, Lawson 2009, Krugman 2009). Multidisciplinary approaches – of which the present paper seeks to be a part – are just beginning to tackle the

hydra-headed character of the crisis (see the introduction to a special issue of *Ephemera* by Beverungen, Dunne and Hoedemaekers 2009). More such multidisciplinary perspectives are needed.

³ David Harvey (2010) gives a specific number to the “inexorability” of growth of global capital: 3% a year. This growth imperative, according to Harvey, shapes all social relations and even nature.

⁴ The role of tariffs has also changed from the time of Hilferding’s writing. Then, to keep away products of rival imperialist powers and the handcrafted fine imports from colonies, and to protect their national industrial cartels, UK and others employed high import tariffs. Today, with globalization of markets, the neoliberal recommendation emanating from Washington, London and Berlin is to eliminate or lower tariffs – so that industries that Finanzkapital supports can have free access to markets worldwide.

⁵ Leo Panitch and his scholarly associates provide detailed evidence of how global financial systems are orchestrated from the imperial axis of financial power that links Washington, DC and New York City. See especially Felder (2009), Rude (2009) and Konings and Panitch (2009).

⁶ The figures cited are estimated percentages calculated by the author from the Foreign Direct Investment (FDI) data from UNCTAD (see <http://bit.ly/drpejA>) and portfolio investment flow data from World Bank (see <http://bit.ly/bv69EJ>).

⁷ The term “class” – in the sense of classical political economy or Marxian analysis – is not applicable strictly to this super-elite group. Other terms such as “group” or “segment”, however, are even weaker – and hence the term “class” is used at some places in this article to characterize those at the pinnacle of Finanzkapital.

⁸ There is of course some risk for Finanzkapital here. If the comprador classes expand too fast, then there may not be enough people left on the planet to do low-wage (and hence high value-adding) work; and this could have some adverse impact on the growth of Finanzkapital. Given the huge inequities across nations, this is unlikely to happen in the foreseeable future.

⁹ See the “Editorial” by George Cairns and Joanne Roberts (2009) to the combined special issues of this journal on “Reflections of a global financial crisis”. The two issues together presented a collection of 14 papers on the contemporary financial crisis, representing perhaps the most extensive early collection of academic reflections on the crisis in a single published source.