Looking at the Crisis through Marx: Or Is It the Other Way about? [1]
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At times of crisis, Marx is always dug up and paraded for popular consumption, much as neo-liberals suddenly rediscover a love of the state to rescue themselves from themselves, something that Marx, incidentally, pointed out in his study of banking legislation that was sacrosanct only between crises. But my favourite quotation of all time, unimaginably appropriate for the current crisis, does not come from Marx, Karl or Groucho. It originates with Sir Josiah Stamp, possibly the more rounded and penetrating George Soros of his day, reputedly the second richest man in Britain in the 1930s as a result of his financial and other interests, and a member of the Board of the Bank of England.[2] This is what he has to say about his ill-gotten gains:

> Banking was conceived in iniquity and was born in sin. The bankers own the earth. Take it away from them, but leave them the power to create money, and with the flick of the pen they will create enough deposits to buy it back again. However, take it away from them, and all the great fortunes like mine will disappear and they ought to disappear, for this would be a happier and better world to live in. But, if you wish to remain the slaves of bankers and pay the cost of your own slavery, let them continue to create money.

A moment's reflection will reveal the striking affinity between this judgement and dependency theory – once replacing notions of core-periphery/development-underdevelopment with those associated with banking versus the rest. There is not only the moral opprobrium associated with surplus (wealth) transfer but also the presumption of a mechanism by which such transfers are realised (dependency of some sort as opposed to the flick of the pen) and irrespective of efforts to the contrary unless they run very deep (sufficient detachment from the world system or abolition of right to create money). But, whether for finance or underdevelopment, despite its power as metaphor on its own terms and as a starting point for investigative purposes, there are more questions raised than answered. First of all, for finance at least, the metaphor refers exclusively to the redistribution of wealth. Even so, what are the mechanisms by which wealth is retrieved through the capacity to create money? What are the implications for the nature and rate of accumulation, and the levels and distribution of employment and/or rewards amongst those outside the banking system? And what is the broader impact on social and economic reproduction? It is to Marx's theory of finance that we can look for answers to these questions.

From Accumulation to Finance

As is universally recognised, Marx's political economy is based upon the notion of capitalism as a mode of production (of surplus value), and Volume I of Capital is primarily focused on how capitalists do this and with what consequences. One way of interpreting his contribution is in terms of the restructuring of capital – as accumulation proceeds, more machine-intensive and large-scale techniques of production tend to be deployed requiring the centralisation of capital in larger blocs of capital. Such restructuring, however, extends far beyond the sphere of production as such, involving economic restructuring more generally (in markets, finance, and distribution of income), spatial restructuring (both nationally and internationally, with Marx pointing to relations between town and country),[3] and social reproduction and transformation (with Marx emphasising impoverishment of certain sections of the workforce, for example). For Marx, a major lever for bringing about economic restructuring is the credit system since it is capable of both gathering together lesser units of finance and redistributing them on a larger scale.

In contrast to Volume 1, Volume 2 of Capital is concerned with the circulation of (surplus) value through the exchange system on the basis of given value relations within production. What is involved is the simultaneous, but structured and sequenced, balancing (if not equilibrium) of values, exchange values, and use values. The circulation of commodities and money is the single most important mechanism for coordinating developments in the accumulation process. What is demonstrated by Marx's schema of reproduction in Volume 2 is both that capital accumulation can proceed under its own dynamic despite the economic and social tensions that it creates and that, equally, the balances of reproduction are consistent with depressed or even crisis levels of activity.

Volume 3 of Capital seeks to bring Volumes 1 and 2 together, but at a more concrete if still abstract level, exploring how the accumulation and circulation of capital give rise to more complex economic forms through which the tensions in the accumulation process are at most temporarily resolved and which result in crises from time to time. In this respect, most attention in the literature has understandably been focused upon the law of the tendency of the rate of profit to fall. This has been variously interpreted (and rejected) but the perspective offered here is that the law (and counteracting tendencies) are primarily a shorthand way of pointing to the tensions generated by the accumulation process and a questioning of whether and how the processes of exchange can accommodate these, Fine and Saad-Filho (2004). In particular, can both the restructuring and accumulation of capital proceed without crisis and, if not, in what form do crises appear? Necessarily, Marx's theory of finance and of capital in exchange more generally is of paramount importance in addressing these issues.

From Finance to Financialisation

Marx's theory of finance takes the structural separation between spheres of production and spheres of exchange as starting point. Apart from being used by (industrial capitalists) to produce surplus value, money capital can also be utilised within the sphere of exchange purely for the purpose of facilitating exchange and drawing a profit by doing so (but without creating any surplus value). This is most obvious in case of merchant capital, for which specialised traders buy and sell at different prices, the difference covering costs and profitability. For Marx, merchants buy commodities below value and sell commodities at value since they themselves produce no value. There is no reason why the rate of profit for merchant capital should not be equalised to that of industrial capital since, if otherwise, there would be flows of capital in or out of merchanting just as between sectors of industrial capital. Not surprisingly, though, the rate of profit is reduced by presence of merchant capital, and would be higher if it were less. This does not mean that it is advantageous to eliminate it. The point of merchant capital is that there is a division of functions between capitalists, and this can reduce the costs of circulation relative to industrial capitalists managing it for themselves. Nonetheless, there is the logical possibility of over-extension of merchant capital, of replicating costs as merchants seek both to appropriate and create opportunities for sale. This is transparent in the numbers of estate agents (realtors) competing for the same business or in competitive advertising to the extent that it leaves overall sales and (imagined) use values unchanged.

With merchant capital as a logically distinct category for Marx, with the emergence of finance, money capital can be used in exchange for other purposes, not least in being made available to investors in the form of what he calls interest-bearing capital. This is a generic term for the money capital that is loaned for the specific purpose of undertaking or extending an industrial circuit of capital. Marx's theory of interest-bearing capital has eight fundamental features. First, whilst they are mutually interdependent, with industry producing surplus value and interest-bearing capital financing it to do so, there is a conflict of interest between the two. This is reflected, second, in the division of surplus value between profit of enterprise and interest. One can only gain at the expense of the other. Third, as industrial capitalists compete by accumulating, by scale of operation and, hence by access to interest-bearing capital, so

competition <u>within</u> the sector of finance is different. For, whilst there can be formation of new financial institutions, this will be tempered by the unwillingness of those operating in the financial sector to offer the capital to create a rival. Fourth, competition within the financial sector depends upon gathering surplus money capital and loaning it to industrial capitalists (or others). Competitiveness of individual and blocs of finance, national financial systems for example, depends upon how restricted or not on the conditions under which loans can be made. Greater restrictions both decrease the vulnerability to crises and the capacity to undertake financial operations profitably.

This point bears further discussion as it is universally recognised across the financial literature and practice. But its significance within Marx's approach is distinctive. In case of interest bearing capital, a loan is made in order to initiate a circuit of industrial capital for which the production and realisation of surplus value is prospective and, by no means, guaranteed. The division of that surplus value between interest and profit of enterprise depends upon the successful completion of the circuit, without which one, other or both of interest and profit must suffer, a reflection of the conflict of interest between the two fractions of capital.

Fifth, then, in this light, Marx argues that interest bearing capital necessarily gives rise to what he terms fictitious capital. This is not a capital that does not exist but a paper claim to the ownership of capital that exists independent of the capital itself in material terms. Of course, there is the possibility that interest bearing capital will be advanced on the basis of entirely corrupt and fictional schemes with no possibility of generating the rewards anticipated. This is not generally the case. Nonetheless, the financial system does proceed on the basis of paper claims to rewards that have yet to be realised. And, such fictitious capital is itself traded in financial markets.

Sixth, this leads Marx to ask the question under what circumstances is an accumulation of fictitious capital a real accumulation of capital. It is, of course, not possible to give an answer since this depends upon outcomes and not upon intentions. A genuine attempt to make profit out of an industrial loan may fail. And loans made for non-commercial purposes, to fund consumption for example, may allow an industrial enterprise to reap its own and other's financial returns from the realisation of commodities produced. More generally, as emphasised by Marx himself, the financial system can be extraordinarily powerful in mobilising and allocating finance for the purpose of real investment. But, by the same token, it can both trigger and amplify monumental crises.

Seventh, this needs to be situated in the context of Marx's theory of accumulation and reproduction. For this, commodities are always being reduced in value as accumulation generates productivity increase, and this means that capitals are being devalued even as they are expanded through accumulation. So devaluation is the consequence of the production of surplus value. But, to the extent that the latter fails, the accumulation of fictitious and real capital diverge, and the capital is what Marx terms depreciated, effectively destroyed or reduced by the failure to produce surplus value rather than because it has done so in a world of declining values. Generalised devaluation of capital is synonymous with a period of successful accumulation. Generalised depreciation is the result of financial or other crisis. It sharply raises the issue of whether real or fictitious capital, industry or finance, will bear the costs of adjustment.

Last, it should be emphasised that this is a highly abstract analysis in the sense that it focuses exclusively on the pure relations between finance and industry exclusively for the purposes of initiating circuits of industrial capital. Marx is well aware that, in practice, this process is embedded in a whole range of other ways in which borrowing and lending take place, including a credit system with the payment of interest without involvement of production. For this reason, he offers the term loanable money capital to represent the

ensemble of credit relations to which interest bearing capital is attached, into which it is embedded. In a sense, this embeddedness of interest bearing, and fictitious, capital in other forms of commerce is the embryonic form of what I take to be what has increasingly been the defining characteristic of the capitalist system over the past forty years, its financialisation, and which accordingly sheds light on the nature of the current crisis.

From Financialisation to Contemporary Capitalism

Significantly, the explicit literature on financialisation is both limited and marginalised from mainstream thought although this may change in light of current events. For Epstein (2005, p. 3), "financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies". Stockhammer (2004, p. 720) offers an overview of financialisation, acknowledging that it "is a recent term, still ill-defined, which summarises a broad range of phenomena including the globalisation of financial markets, the shareholder value revolution and the rise of incomes from financial investment". His own focus is upon "changes in the internal power structure of the firm". Others have emphasised the extraordinary rewards that have accrued to those working with on in finance. From Keynes' euthanasia of the parasitic rentier, we are suddenly confronted with the heroic financial entrepreneur, who creates nothing but fictitious value, Erturk et al (2006). And, from a labour movement perspective, the restructuring of productive capital is sacrificed for realisation of short-term gains or shareholder value. As Rossman and Greenfield (2006, p. 2) put it, citing Stockhammer:

> Of course, companies have always sought to maximize profit. What is new is the drive for profit through the elimination of productive capacity and employment. Transnational food processors, for example, now invest a significantly lower proportion of their profits in expanding productive capacity. Financial markets today directly reward companies for reducing payroll through closures, restructuring and outsourcing. This reflects the way in which financialization has driven the management of non-financial companies to "act more like financial market players".

But similar developments are to be found across each and every aspect of our (or others') economic and social lives. Indeed, as the Financial Times journalist, Martin Wolf has put it:[4]

> The US itself looks almost like a giant hedge fund. The profits of financial companies jumped from below 5 per cent of total corporate profits, after tax, in 1982 to 41 per cent in 2007.

On the other hand, a point taken to be crucial in arguing for the presence of financialisation itself, non-financial corporations have been accruing increasing proportions of their profits from financial activity. Stockhammer (2004, p. 720), in particular, defines financialisation as "the increased activity of non-financial businesses on financial markets", and finds that, "For France, financialisation explains the entire slowdown in accumulation, for the USA about one-third of the slowdown. Financialisation, therefore, can potentially explain an economically significant part of the slowdown in accumulation", p. 739.

There is no reason to treat these definitions as competitive or mutually exclusive. By financialisation here is meant that finance has penetrated across all commercial relations to an unprecedented direct extent. I emphasise direct here because the role of finance has long been extensive both in promoting capital accumulation and in intensifying its crises, most notably in the Great Crash of 1929 and the ensuing recession. But finance is different today because of the proliferation of both purely financial markets and instruments and the corresponding ranges of fictitious capitals that bridge these to real activities. Most obviously, and a major element in the financialisation literature, especially in the United States, is the drawing in of

personal finance in general and of pension funds in particular. Yet the breadth of financialisation goes much further than institutionalised investment funds, as finance has inserted itself into an ever-expanding range of activities, not least in managing personal revenues, as emphasised by Lapavitsas (2008) and dos Santos (2008). Think of your own finances, not least as they pass in and out of your bank account on an almost automatic basis once put in place, whether it be payments in or, more frequently, out to fund credit cards, mortgages, standing orders, and so on.

Before turning to the effects of financialisation, three further elements need to be added. The first is the role of the state (and international organisations) as regulator of the monetary and financial systems, and itself as a major agent in the provision of financial instruments, not least through its own indebtedness, paper bonds as a form of fictitious capital. Second is the nature and role of world money, how it is that the relations, properties and functions of money in general are realised on a global scale in light of the presence of numbers of national currencies and assets. And third is historical specificity in relation to both of the previous two elements and their interaction, reflecting particular patterns of accumulation at a global level. In this respect, there are generally identifiable and agreed historical periods in which the role of nation-states and of world money are distinct, most recently the rise and fall of the Bretton Woods system, Arrighi (2003) for a deeper and longer account for example.

Now we are all too familiar with the way in which speculative booms and busts are mutually reinforcing, Efficient Market Hypothesis, see below, to the contrary. It is important to emphasise, however, that this is a source of inefficiency and constrained investment and growth, the more so as financialisation spreads and deepens. Of course, we see it in the Stock Exchange, as in the dot.com bubble where genuine innovation is seized upon and developed prodigiously in a frenzy of speculative logic, sucking in finance without due regard to the efficacy of the technological developments that do or might accrue. I need say no more about the rise and fall of the housing market and its financial derivatives other than to point to the irony of the rescue of HBOS by Lloyds in the UK to create a mortgage provider that takes 30% of the market, a higher share than was disallowed in a proposed merger just a year before. Both competition and state withdrawal are neo-liberal sacrificial lambs in a crisis. As the politician, and perhaps a neo-liberal, says these are my principles and if you don't like them, I will change them, and perhaps the audience was made up of bankers. Historically and ironically, HBOS had been a building society or not-for-profit mortgage provider until it demutualised in 1997. The same was true of Bradford and Bingley, now nationalised like Northern Rock, by the British government as its share prices has collapsed towards nothingness.[5] Significantly, the billions of state funding being thrown at the mortgage sector to stem the crisis could have been used directly to fund the provision of housing.

And, in commodity markets, we have futures trading at its most bizarre with carbon offsets. Commodity fetishism has surely arrived at perfection when we can buy and sell in a market for not producing something in the future (especially when, in fact, carbon trading is about allowing that undesirable carbon to be produced for you by someone else as well as yourself on the grounds that they might produce less of it than you would if you were producing what they produce as well as what you yourself will carry on producing). Down on earth, futures trading and speculation more generally in "commodities" is endemic. In 2006, the US Permanent Senate Committee came to the view that at least a third of the then $60 price of a barrel of oil was due to speculative futures trading. Presumably, we may well have to have added a further $40 since then, Davidson (2008a). And, futures trading in commodities more generally has increased by twenty times since 2003 alone to a level of $260 billion. But, as this is a trade in which you only have to lay out a small proportion of the cost of what you buy (you are, after all, never going to consume it), the actual trades are ten or more times larger. It is tragic that, alongside other triggering factors, the speculative ebb

and flow of trading in commodities futures should so inflate the prices of food that hundreds of millions will be added to those at risk from starvation.

At the broader, macroeconomic level, what is apparent empirically, irrespective of how it is situated analytically, is that the current world financial system has become even more dependent on the US dollar as world money even as the US economy itself has experienced relative decline at a global level with peculiarities of its own. Financialisation of the US economy has been attached to a domestic consumer-led boom based both on a housing asset bubble and extraordinary levels of indebtedness to the rest of the world. Although China has been to the forefront, other developing countries ironically have been safeguarding themselves against currency volatility by accumulating dollar reserves at great expense to themselves, having been enforced to relinquish exchange controls under US-led neo-liberalism.

From Financialisation to Neo-liberalism

From Marx's analysis, especially within Capital, it is possible to tease out the analytical categories appropriate to address the current crisis – with financialisation explaining both the slowdown of growth over the last thirty years or more, and why the crisis should be able to originate within housing and not be amenable to state control and intervention. As dos Santos (2008, p. 2) dramatically puts it for the sub-prime mortgage crisis:

> By many historical measures the current financial crisis is without precedent. It has arisen from neither an industrial crisis nor an equity market crash. It was precipitated by the simple fact that increasing numbers of largely black, Latino and working-class white families in the US have been defaulting on their mortgages.

Financialisation as economic restructuring will now proceed with a vengeance, the exact course of which will be almost impossible to predict.

It will, however, be contingent upon the role of the state as it both seeks to hold back the collapse of the financialised pack of cards and the real accumulation of capital to which it is attached. Does this mean that neo-liberalism is dead or, more broadly, what ideological restructuring is on the agenda? When it first emerged, neo-liberalism seemed to be able to be defined relatively easily and uncontroversially. In the economic arena, the contrast could be made with Keynesianism and emphasis placed on perfectly working markets. A correspondingly distinctive stance could be made over the role of the state as corrupt, rent-seeking and inefficient as opposed to benevolent and progressive. Ideologically, the individual pursuit of self-interest as the means to freedom was offered in contrast to collectivism. And, politically, Reaganism and Thatcherism came to the fore. It is also significant that neo-liberalism should emerge soon after the post-war boom came to an end, together with the collapse of the Bretton Woods system of fixed exchange rates.

This is all thirty or more years ago and, whilst neo-liberalism has entered the scholarly if not popular lexicon, it is now debatable whether it is now or, indeed, ever was clearly defined. How does it fair alongside globalisation, the new world order, and the new imperialism, for example, as descriptors of contemporary capitalism. Does each of these refer to a similar understanding but with different terms and emphasis? And how do we situate neo-liberalism in relation to Third Wayism, the social market, and so on, whose politicians, theorists and ideologues would pride themselves as departing from neo-liberalism but who, in their politics and policies, seem at least in part to have been captured by it (and even vice-versa in some instances)?

These conundrums in the understanding and nature of neo-liberalism have been highlighted by James Ferguson (2007) who reveals how what would traditionally be termed

progressive policies (a basic income grant for example) have been rationalised through neo-liberal discourse. At the very least, he closes, "We will also need a fresh analytic approach that is not trapped within the tired 'neo-liberalism versus welfare state' frame that has until now obscured many of the key issues from view". The tensions within the notion of neo-liberalism have also drawn the attention of human geographers, not least because of their sensitivity to how a general and abstract term should allow for differences in time and place (or context) even to the point of inconsistency and, thereby, undermining itself. In surveying the literature, Castree (2006, p. 6) concludes, "'neo-liberalism' will remain a necessary illusion for those on the geographical left: something we know does not exist as such, but the idea of whose existence allows our 'local' research finding to connect to a much bigger and apparently important conversation", emphasis added. Are we, then, alongside globalisation for example, to accept "neo-liberalism" for its investigative and polemical purchase despite knowing that it is conceptually flawed to the extent of not existing at all?

Given its diversity and elusiveness, does neo-liberalism exist or not. If it does exist, what is it? If it does not exist as such, does it still remain a useful and progressive term for the purposes of political and ideological engagement? The salience of these questions is particularly powerfully brought to the fore as the United States takes into public ownership the bad debt of its financial institutions to the tune of what will ultimately be in excess of a trillion dollars, even more remarkable for emanating from those across Bush as President, through Treasury to the Federal Reserve, who might previously and still be considered to be ideal representatives and guardians of neo-liberalism. Yet here we have state ownership and intervention to such an extent that we might refer to a creeping if not galloping socialism albeit confined to the bankers. Marx himself might be chuckling in his grave. In Volume I of Capital, he polemically asserts that, "The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is - their national debt", Chapter XXX. Now it seems we are to own the private debt as well! To put this figure in proportion, a mere $45 billion was required to calm the markets after 9/11, Davidson (2008b). And, remarkably, whilst in a crisis, there is no difficulty in finding billions to support finance. Yet, in more normal times, such funding for health, education, welfare and poverty relief would be viewed as the height of fiscal irresponsibility.

So, in the capitalist market, we are all equal although some are more equal than others when it comes to finance and crisis. For finance must be saved in order to save the economy as a whole. But strip out all those financial services and would the rest of the economy need to go to the wall. There does not seem to be a compelling reason why production, distribution and exchange should not continue as before in the absence of so many financial instruments which are, after all, of relatively recent vintage and without which even advanced capitalist economies could previously prosper. There are, of course, the inflated and distorted demands for goods that derive from the expenditure of those who have made their fortunes out of finance. A little redistribution of that demand to the poor and needy should surely be both manageable and warranted.

But I digress from my theme of the uncertainties that surround the notion of neo-liberalism. To the extent that they can be, I seek to resolve the corresponding conundrums attached to neo-liberalism through a two-pronged assault upon them. The first, in characterising neo-liberalism, is to distinguish between its rhetoric (advocacy or ideology), its scholarship and its policy in practice. Each of these is shifting in content and emphasis (across time and place) and, whilst they have connections with one another, these too are shifting and by no means mutually consistent. In addition, there is a complex and shifting relationship between neo-liberalism across these three elements and the reality that they purport both to represent and influence. And the shifts can be both dramatic and acrobatic. There are those, increasingly rare, who continue to blame the current crisis on too much state intervention. It might even be claimed in a perverse way that the state has got in the way of finance spontaneously creating its own regulatory safeguards and that, as now overtly revealed, as

lender if not subsidiser or nationaliser of last resort, it has positively encouraged undue risk taking and speculative activity. Such neo-Austrianism and its belief in the natural order that springs from individual freedom, not least through the market place, is understandably less than popular amongst the banking fraternity currently as it clamours for more not less state intervention. By the same token, if from an entirely different analytical perspective of beneficial, as opposed to spontaneous, harmony, the Efficient Market Hypothesis of finance is also keeping a low profile in these troubled days. As the variously infamous former US Treasury Secretary, Chief Economist at the World Bank, and Head of Harvard, Larry Summers has put it Summers and Summers (1989, p. 166) cited in Davidson (2008a):

> The ultimate social functions are spreading risks, guiding investment of scarce capital, and processing and dissemination the information possessed by diverse traders … prices always reflect fundamental values … The logic of efficient markets is compelling.

The reality is, of course, somewhat less compelling than the logic, especially today and not least to the bankers themselves who have deployed the logic to rationalise what is now being revealed to be a reality of inefficient, dysfunctional and parasitical markets.

Even before the current crisis, the idea that finance efficiently mobilises and allocates resources on behalf of the real economy borders on the ridiculous. In the UK, formerly the workshop of the world, does it take half a million workers to do this and 25% of GDP? Perhaps this can be excused on the grounds of the weight of international financial services provided. That cannot be said of South Africa. Financial services has been its fastest growing sector since the overthrow of apartheid, now taking up 20% of GDP. Yet, 40% of the population do not benefit from any financial services at all which have, in any case, been deployed to financialise and globalise the operations of previously internationally constrained, highly concentrated, domestic conglomerates – that is to export domestic capital and surplus generated within the economy. Effectively, far from contributing 20% of GDP, finance has appropriated a quarter of it, claiming this to be a contribution to what has been produced.

Neo-liberalism, then, both lavishes praise on the market at the expense of the state and, yet, calls upon the state to rescue the markets from themselves and not just provide an orderly environment in which to operate. So, unpicking neo-liberalism's chameleon-like character, around its shifting diversity across rhetoric, scholarship, policy and realism, is a challenge, one that can best be met by acknowledging the significance of financialisation. As already emphasised, financialisation has extended finance beyond the traditional to the personal and broader elements of economic and social reproduction. For the latter, it is not simply that neo-liberalism is associated with privatisation, commercialisation and commodification but, where these do prevail, financialisation will not be far behind and even in the lead.

But it is not merely a matter of the extent to which financialisation has thereby rendered contemporary capitalism subject to crises of potentially greater depth and breadth, of both origin and incidence. Financialisation is also complicit in the persistence of slowdown of accumulation since the end of the post war boom. It has created a dynamic in which real accumulation is both tempered and, ultimately, choked off by fictitious accumulation (although this may be preceded by bubbles of excessive accumulation, fictitious or real); it has undermined the role of the state as an active agent of economic restructuring; and it has also undermined the role of the state as an agent in furnishing the more general economic and social conditions conducive to accumulation, in health, education and welfare, for example, that alongside industrial policies underpinned the post-war boom as opposed to Keynesianism as such.

In this light, it is possible to suggest in broad terms that neo-liberalism has experienced two phases. The first, following upon the collapse of the post war boom was akin to a sort of shock therapy of greater applicability than to the transition economies of eastern Europe at a later date. This phase is marked by the state intervening to promote private capital in general as far as possible and financial markets in particular. The second phase exhibits two aspects. One has been for the state to intervene to moderate the impact of this financialisation, most notable now in the support given to rescuing financial institutions themselves. But, as is thereby evident, the second and more important aspect is for the state to be committed to sustain the process of supporting private capital in general and of financialisation in particular.

Where does this leave "neo-liberalism"? Here, the distinctions around rhetoric, policy, scholarship and realism are imperative if subject to subtle application. For, of course, opponents of neo-liberalism but proponents of capitalism will claim that the second phase is a departure from neo-liberalism. And, in a limited sense, they are correct for the rhetoric and the scholarship are not neo-liberal even if swayed in that direction by comparison with Keynesian/welfarism. Indeed, the new market and institutional micro-foundations within orthodox economics that emphasises the need for targeted correction of imperfections to the market and its governance, and Third Wayism as its political expression, are ideal complements for the new phase of neo-liberalism since they rationalise piecemeal, discretionary intervention in deference to moderating and promoting the market in general. And, making markets work in general increasingly means making financial markets work in particular. What is going on now in support of financial markets is both an acute and a striking illustration of these postures.

For, the era of financialisation entrenches new modes of corporate governance and assessment of performance, privatisation and state support to it rather than public provision, lack of coherent and systematic industrial and agricultural policy, pressure for user charges for health, education and welfare, and priority to macroeconomic austerity to allow for liberalisation of financial capital. In this context, market imperfection economics is not only weaker than Keynesian/welfarism it is so in a context where it needs to be much stronger to be effective. As Stiglitz (2008, p. 2) puts it:

> The left now understands markets, and the role they can and should play in the economy … the new left is trying to make markets work.

But where we see "markets", we should read "capital in general", and where we see "capital in general" we should read "finance in particular".

What Is to Be Done?

The policy dilemmas posed by this situation were beautifully anticipated by Sir Josiah Stamp some seventy years ago as revealed in our earlier quote. How does Stiglitz and his left know that by making markets work, they will do no more than hand the flick of a pen back to finance. What we can recognise is that the current plans to rescue finance from its predicament in the second phase of neo-liberalism do not even get as far as Stamp's first step of taking wealth away from bankers. Indeed, they seem to be a step in the opposite direction as the state is throwing money at the financial institutions in order that they can continue to create money. In this light, the issue is not the more or less orderly and justifiable rationale upon which such funds are allocated. Instead, it is the question of whether levels of economic and social provision should be subject to the dictates of a financial system that is so dysfunctional. Yet, whilst, financialisation has shifted the modes of interaction and balance of power across vested interests, it does not rigidly determine outcomes. These remain contingent, especially in the wake of the continuing weight of state intervention, upon struggles to sustain alternatives, not least in seeking insulation against the logic of finance. If

neo-liberalism is not a temporary illusion, it is only because it is inextricably linked both to the state and to financialisation.

It is surely time not only to reverse rather than to sustain the financialisation of our lives but also to throw off the chains of slavery that reside in the banker's flick of a pen. Indeed, we need to turn this neo-liberal world upside-down if not inside-out. If socialism is good enough for the bankers without regard to the rest of us, surely it is good enough for us without regard to the bankers?

Footnotes

[1] This paper in part draws upon Fine (2007 and 2008a-c).
[2] See http://en.wikipedia.org/wiki/Josiah_Stamp,_1st_Baron_Stamp
[3] On which see the work of, and inspired by, David Harvey, but also Fine (2006).
[4] "Why It Is so Hard to Keep the Financial Sector Caged", Financial Times, February 6, 2008, cited in Michael Perelman, "How to Think about the Crisis", http://www.monthlyreview.org/mrzine/perelman131008.html
[5] Bradford and Bingley demutualised in 2000 and aggressively entered the buy-to-let market which has depended heavily for its viability on continuing capital gains on properties purchased as far as scarcely monitored borrowers are concerned. Northern Rock demutualised in 1997, and equally aggressively entered both the UK mortgage market and US sub-prime market (the latter in 2006 in partnership with Lehman Brothers). In a wonderful example of soccer, if not art, imitating life, Northern Rock is the shirt sponsor of Newcastle United whose playing fortunes have also collapsed!

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