ResearchGate

See discussions, stats, and author profiles for this publication at: https://www.researchgate.net/publication/330719577

Is the Financialization Hypothesis a Theoretical Blind Alley?

Article · January 2018

DOI: 10.13169/worlrevipoliecon.9.4.0451

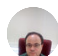
CITATIONS
5

READS
282

2 authors:

Stavros Mavroudeas
Panteion University of Social and Political Sciences
112 PUBLICATIONS 326 CITATIONS

SEE PROFILE


Demophanes Papadatos
National and Kapodistrian University of Athens
7 PUBLICATIONS 18 CITATIONS

SEE PROFILE

Some of the authors of this publication are also working on these related projects:

Marxian Labour Theory of Value View project

Economic Policy View project

All content following this page was uploaded by Stavros Mavroudeas on 11 March 2020.

The user has requested enhancement of the downloaded file.

IS THE FINANCIALIZATION HYPOTHESIS A THEORETICAL BLIND ALLEY?

Stavros Mavroudeas and Demophanes Papadatos

Stavros Mavroudeas (*left*) is Professor of Political Economy at the Economics Department of the University of Macedonia, Greece. His publications include "Duration, Intensity and Productivity of Labour and the Distinction between Absolute and Relative Surplus-Value" (in *Review of Political Economy*), "Regulation Theory: The Road from Creative Marxism to Post-Modern Disintegration" (in *Science & Society*), "Periodising Capitalism: Problems and Method—The Case of the Regulation Approach" (in *Research in Political Economy*), and "Henryk Grossmann's Falling Rate of Profit Theory of Crisis: A Presentation and a Reply to Old and New Critics" (in *Indian Development Review*). Email: smavro@uom.gr

Demophanes Papadatos (*right*) teaches Economics as Adjunct Faculty in the Department of Economics of the National and Kapodistrian University of Athens. He received his PhD in Economics from the School of Oriental and African Studies (SOAS) of the University of London. Email: dfp75@hotmail.com

Abstract: The Financialization Hypothesis is a popular argument in contemporary heterodox and also mainstream economics. It maintains that capitalism has undergone a radical transformation over at least the past three decades. The financial system, through a series of innovative mechanisms, has conquered the commanding heights of capitalism and has changed the whole system according to its own prerogatives. Concomitantly, the global capitalist crisis of 2008 is considered to have been a financialization crisis. This article disputes the Financialization Hypothesis and argues that instead of casting light on the actual workings of modern capitalism, it misconstrues them and leads into an explanatory blind alley. The spectacular ballooning of the financial system during the recent decades of weak profitability and accumulation does not constitute a new epoch, let alone a new capitalism. Instead, it represents a familiar capitalist response to periods of weak profitability. This does not preclude the proliferation of new financial instruments, which lend specific new forms to a well-known capitalist process. The Marxist theory of crisis and fictitious capital offers an analytically and empirically superior understanding of this process.

Key words: financialization; Marxism; financial system; classes; fictitious capital

1. Introduction

The Financialization Hypothesis (FH) is a popular argument in contemporary heterodox economics and also, we will argue, in mainstream economics. Its basic thesis is that over the past three decades at least, modern capitalism has undergone

a radical transformation, with the financial system, through a series of innovative mechanisms, conquering the commanding heights of capitalism and transforming the whole system in line with its own prerogatives. This new financialized (or financial, finance-dominated, or fiduciary) capitalism, the FH contends, operates in a completely different fashion compared to traditional capitalism.

As empirical substantiation of its argument, the FH proposes four stylized facts:

1. The increased weight of the financial sector in contemporary advanced capitalist economies, exhibited in the increased share of this sector in GDP and profits, along with the proliferation and widespread use of complex new financial instruments (e.g., derivatives);
2. The recent trend among big firms to finance themselves through retained earnings and capital markets (rather than through banks), and the emergence of "shadow banking";
3. The widespread adoption by firms of policies of shareholder value maximization; policies that focus on enriching shareholders rather than addressing the productive prospects of the enterprise. This reflects the rise in prominence of institutional investors;
4. The increased indebtedness of working- and middle-class households in several advanced capitalist economies.

The combined result of these processes is twofold. First, productive enterprises depend almost totally on the financial system, and transform their modus operandi according to the latter's requirements. Second, working- and middle-class households depend directly on the financial system, which exploits them through usury and also transforms their modes of consumption in line with its prerogatives.

This new finance-dominated capitalism, as a result of its inherent financial instability, is prone to crises. Concomitantly, the global capitalist crisis of 2008 is considered to have been a financialization crisis. This crisis is held to have resulted from financial speculation and excessive leverage, and to have had no roots in real accumulation; it affected the sphere of production only subsequently, as the financial system contracted and deleveraged, thus stifling finance for productive investment.

Since its launch, the FH has achieved wide popularity and has become something of a leitmotif, often at the expense of analytical coherence. Different theoretical currents offer a variety of definitions and analyses of financialization, rendering the concept very fluid and problematic.

This article disputes the FH, arguing that it misconstrues the actual workings of modern capitalism and leads into an explanatory blind alley. The spectacular ballooning of the financial system during the recent decades of weak profitability and

accumulation does not constitute a new epoch, let alone a new capitalism. Instead, it represents a familiar capitalist response to periods of weak profitability. This does not preclude the proliferation of new financial instruments that lend specific new forms to a well-known capitalist process. Contrary to the FH, it will be argued that the classical Marxist theory of crisis and fictitious capital offers an analytically and empirically superior understanding of this process.

A focal point of our critique of the FH is that it renders money capital (that is, the fraction of capital that operates in the financial system) completely autonomous from productive capital, and moreover, superimposes it on the latter. Furthermore, the FH maintains that money capital also acquires its means of existence and operation quite independently of productive capital. This FH argument creates no problems for mainstream financialization theory, as neoclassical economics considers the financial system to be an independent creator of wealth. However, the argument represents a big leap for those FH currents that subscribe to political economy. Both the classical and Marxist schools of political economy regard productive capital (that is, capital engaged in the sphere of production) as the locus of surplus value creation. The other two main capitalist fractions (money and commercial capital) operate in the sphere of circulation and do not produce surplus value; they only reap parts of the surplus value created under productive capital as payment for their necessary functions. In rejecting this perspective, the FH does not posit a new epoch of capitalism, but a new capitalism with different classes and different functions. This is a scenario far removed from reality.

The remainder of the article is structured as follows. The next section analyzes the birth and evolution of the FH. Section 3 presents a critical analysis of the main currents of the FH, pinpointing their common elements and also their differences. The fourth section offers an alternative, based on the Marxist theory of crisis and of fictitious capital, to the FH explanation of the recent phase of capitalist development. The last section provides a conclusion.

2. The Birth and Evolution of the FH

The notion that some structural break occurred in the historical evolution of capitalism, after which the financial system conquered the system's commanding heights, is not new in economic thought. Beginning with the watershed that emerged during the last quarter of the 19th century, many theories have espoused the notion that finance has acquired strategic dominance in the operation of the capitalist system. This contrasts with the previous position that located at the center of the system the entrepreneur (productive capital in Marxist terminology), whereas the financier and the merchant (money and commercial capital respectively) are necessary appendages on the system's periphery. During the

free-competition stage of capitalism, the degree of concentration and centralization of capital was low, enterprises were to a great extent self-financed, and ownership was concentrated mainly in the hands of family members and close associates. The structural capitalist crisis of 1873–1875, together with the subsequent systemic restructuring, transformed this landscape significantly. The concentration and centralization of capital increased, and with this came the predominance of joint-stock companies and the augmented financial needs of enterprises. These two developments boosted the role of the financial system (in both its banking and capital-market forms) as a provider of funds for capitalist accumulation. The result was the expansion both of the banking sector and of the stock exchange (the latter was aided immensely by legislation providing for small-denomination shares).

Mainstream economics branded this new stage of capitalism as "financial" or "finance" capitalism (DeLong 1991), in which financial markets directed the outcomes of goods and factor-of-production markets (Neal 1990, 4). According to Chandler (1977), a century ago, at the dawn of the corporate industrial age, theorists on both sides of the Atlantic described a new system of "finance capitalism" in which banks effectively controlled large-scale industry. Industry had become concentrated due to cartels and trusts, on one hand, and the advent of large-scale production, on the other.

Mainstream economics has an unsubstantial theory of stages (if it has any such theory at all, apart from Rostow's, 1960, formalistic scheme), simply discovering and discarding economic stages at whim and on the basis of superficial elements. Thus, most mainstream accounts consider the increased role of the financial system at the end of the 19th century and the beginning of the 20th century to have been a chance development. They have been equally at ease in pronouncing it dead, especially in the United States. Chandler (1977) and Roe (1994), for example, consider that bank-centered finance capitalism fell apart around the time of the First World War for a variety of accidental reasons (including an increased reliance by enterprises on retained earnings rather than debt provided by banks, and a political backlash against bankers' power, taking forms that ranged from the 1933 Glass–Steagall Act to the many subsequent regulations limiting ownership and influence by banks and funds). What followed, according to their account, was an era of managerialism characterized by the separation of ownership and control.

Marxist political economy employed a much more meticulous and nuanced approach in studying the changes that followed the 1873–1875 crisis. Beginning with Hilferding's ([1910] 1981) seminal work, it took up the idea that the financial system was acquiring a new strategic importance for capitalist accumulation and reproduction.

In his *Finance Capital* Hilferding argued that because of the increased concentration and centralization of capital and the augmented financial requirements, a new hybrid form of capital (finance capital) had emerged. This involved the fusion of productive capital with banking capital (a section of money capital) under the dominance of the latter. Implicitly, Hilferding considered that this represented a new era of capitalism, though he never ventured to state this outright. With the emergence of finance capital, he contended, finance dethroned productive capital from its dominant position in the total circuit of capital. There are well-known deficiencies in Hilferding's thesis of finance capital. First, he implicitly sidestepped Marx's labor theory of value (LTV) and proceeded with a problematic theory of monopoly pricing. Second, the empirical validity of the concept of finance capital has been disproved (Bond 2010; Harris 1988). The fusion of productive with banking capital materialized only in a minor segment of the advanced capitalist world. Significantly, it did not emerge in several crucial Anglo-Saxon economies where the stock exchange rather than the banking system remained the principal source of finance for private enterprises.

Hilferding's thesis was later relaunched by Sweezy (1942). Neither of them, however, broke from the classical Marxist relationship between surplus value and interest. In Marx's analysis, surplus value is extracted by productive capital in the sphere of production, and is then redistributed between profits (accruing to productive capital), interest (accruing to money capital), and commercial profit (accruing to commercial capital). Hence, money capital may dominate productive capital strategically, but it cannot live independently of the latter.

Hilferding's idea of this strategic dominance was taken up by both friends and foes within the Marxist tradition. It was Lenin ([1917] 1948), in his *Imperialism*, who recast this concept within a formal theory of capitalist stages. Lenin argued that a new stage of capitalism, monopoly capitalism, had emerged. One of the main features of this monopoly capitalism is the problematic concept of strategic dominance that Lenin adopted from Hilferding. Lenin nevertheless adhered to the Marxian LTV and always considered money capital an appendage of productive capital, since interest is part of surplus value and money capital has no independent source of wealth. Meanwhile Lenin's theory of stages, despite some shortcomings and ambiguities, offers a coherent and valuable toolkit through which Marxist analysis is able to apprehend transformations in capitalism.

In sum, Marxist political economy with its theory of stages argues that under monopoly capitalism the financial system acquired strategic dominance over the total circuit of capital, but also never ceased to depend economically on productive capital. In a nutshell, the financial system was a dominant and also necessary parasite. This conception, despite having problematic aspects such as finance capital, was both realistic and analytically coherent.

The theoretical landscape changed once again after the 1973 global crisis that signified the exhaustion of the stage of monopoly capitalism. The 1973 economic crisis, and the falling profitability that led to several waves of capitalist restructuring, succeeded only partially in restoring the profitability of capital; the rate of profit, in other words, never regained its 1973 levels. This incomplete recovery drove the system to go on the attack, making vigorous use of fictitious capital to sustain and invigorate capital accumulation. The rapid deregulation and internationalization of finance during the 1990s began the process that has been termed *financialization*. To improve their profitability, productive sector capitals that were suffering from overaccumulation shifted their activity to fictitious capital operations. These developments have led to interpretations according to which a new epoch in capitalism has opened up, an epoch in which financial capital is released from the governance of productive capital, and pursuing an autonomous course, dominates the whole of the capitalist economy. These important changes that took place during the last decades of the 20th century had a crucial influence on views of the role played by the financial system, as well as on the continuing debate surrounding the relationship between productive capital and finance.

Mainstream theorists began by discovering a beneficial role for a hypertrophic financial system. They abruptly dropped the inhibition of general equilibrium theory concerning a large financial sector, preaching instead that such a phenomenon contributes to economic growth (e.g., King and Levine 1993). They also extolled the expanded role of capital markets by arguing that market-based financial systems are more efficient and less risky than bank-based ones. In addition, they praised the spectacularly increased participation in the stock market by private households—even though this took place through mutual funds rather than direct ownership—as the "democratization of ownership," and as "shareholder" capitalism. Only some more reserved analyses cautioned against the widespread deregulation of the financial system, and the possible instabilities of market-based systems. Some even disputed the democratic character of these changes, and argued that the surprising reconcentration of corporate ownership in the United States over the previous 20 years had led to a small number of investment funds having substantial ownership positions in hundreds of corporations simultaneously, causing them to eschew active participation in corporate governance (Davis 2008). Both believers and disbelievers, however, agreed that this new state of affairs amounted to a "new finance capitalism" (Davis 2008). The 2008 global crisis again changed the situation, as the hand of the disbelievers was strengthened; much of the blame for the crash was laid on the preachers of financial deregulation. Contrary to the initial praise of financial growth for its positive role in economic development, the new problematic focused on whether financialization had gone too far (e.g., Arcand, Berkes, and Panizza 2015).

In the heterodox field the FH made a spectacular appearance, and the term "financialization" was soon coined, proposed first by the Monthly Review (MR) school. Sweezy (1994, 1997) in his last papers referred to "the financialization of the capital accumulation process" as one of the three tendencies at the turn of the century (the other two being monopoly power and stagnation). Financialization as such was inaugurated in a collective volume, edited by Epstein (2005), that included a paper by Krippner (2005). The latter introduced the term "financialization" as the trademark of recent transformations in the capitalist system. Notwithstanding, Krippner (2005, 199) had reservations as to whether financialization constituted a new phase of capitalism, arguing that it did not necessarily represent "an entirely novel phase of capitalism." Nor, she continued, did these data make it possible "to draw any conclusions regarding the *permanency* of the trends documented here" (Krippner 2005, 199; italics in the original).

It was not, however, the MR school but the post-Keynesians who adopted the term enthusiastically (Stockhammer 2004, 2009; Hein 2013), seldom treating it as their exclusive property (e.g., Van Treeck 2008). There was already a significant post-Keynesian tradition (H. Minsky) that focused on financial instability, considering it not only a locus of crises independent of real accumulation, but actually *the main such locus* in contemporary capitalism. The Minskian tradition has had well-known links to the MR school, and constitutes one of the modern FH currents. Some post-Keynesians posit financialization within a stages theory, arguing that a new "finance dominated capitalism" (Hein 2013) or "finance dominated regime of accumulation" (Stockhammer 2009) emerged at the end of the 20th century; one of the features of this stage, they maintain, is that the financier has assumed primacy over the industrialist. In typical Keynesian fashion, they argue that the financier represents a new form of *rentier*, that is, a member of an "unproductive" social stratum who collects various rents that are subtracted from the profits available for productive investment, and who thus constitutes a drag on capital accumulation.

The term "financialization" began to appear in Marxist and Marxisant analyses somewhat later. It was introduced in connection with other popular leitmotifs such as neoliberalism and globalization, either in a "loose" manner (e.g., Fine 2009, 2010) or in a stricter sense, as denoting a new stage of capitalism (e.g., Bryan, Martin, and Rafferty 2009; Lapavitsas 2008). The MR school, despite having been the first to introduce the term, took even longer to embrace it (e.g., Foster 2010). The first two instances in which the FH was adopted in Marxist literature differ significantly. Fine does not regard financialization as a new stage but simply as a phase of neoliberalism. Additionally, he analyzes it through the Marxist LTV and its monetary theory; thus, he identifies it with the operation of fictitious capital. The second perspective, by contrast, considers financialization a new stage (or

essentially a new capitalism), and rejecting the Marxist LTV, implicitly or explicitly adopts a post-Keynesian monetary theory in which fictitious capital is redundant. A crucial feature of this perspective is that it maintains that finance has acquired an independent channel for the exploitation of workers (and perhaps other classes as well) through usury. In this case, money capital not only dominates productive capital (by holding the keys to satisfying the increased financial needs of the latter) but has also acquired a mechanism of exploitation that is independent of surplus value (since it can exploit workers and also other social strata through usury, not in the sphere of production but in that of distribution).

The crisis of 2008 represented both a plus and a minus for the FH. Most of the proponents of the FH claimed that the crisis proved their theory correct. On the other hand, the deleveraging that followed placed a question mark over the theory, and led some of its adherents to argue that the end of financialization had arrived (less than 30 years after its formal inauguration!).

3. Currents of the FH

The FH has been advanced by three currents of economic thought: mainstream economics, post-Keynesianism, and Marxist and Marxisant views. Each of these currents has its own specifics, but also has elements in common with the others.

3.1. Mainstream FH

The mainstream FH argues that the last decades of the 20th century and the beginning of the 21st century saw a return of "financial capitalism," marked by the increased size and role of the financial system (e.g., Greenwood and Scharfstein 2013), but this time with new characteristics. Financial capitalism, according to this view, is no longer based on the banks but on the stock exchange. Its main pillars are (1) shareholders' value policies and (2) shadow banking, although some attention is also paid to household indebtedness. These two contemporary phenomena, it is argued, signify a new financial capitalism or finance capitalism (Davis 2008), fiduciary capitalism (Hawley and Williams 1997), or simply financialization (Bhaduri 2011; Kedrosky and Stangler 2011; Taylor 2012). This mainstream FH is reinforced by the fact that mainstream crisis theory nowadays focuses almost exclusively on financial accidents. The very term "economic crisis" has been replaced by "financial crisis." The latter, implicitly or explicitly, denotes that modern capitalism depends almost exclusively on its financial system, and that this system is the main locus of "accidents" that result in disequilibria.

In analytical terms, the mainstream FH is founded on the new Keynesian "Credit View," which regards money as endogenous and claims to embody a better understanding of credit than standard neoclassical monetary theories. This, it is

argued, permits a superior understanding of financialization. Adherents of this view begin by introducing asymmetric information, thus invalidating the classical dichotomy and establishing the non-neutrality of money that is incorporated in credit agreements. This new Keynesian emphasis on the credit market and the role of financial intermediaries is expressed in the "Credit View," which argues that in the era of financialization the credit market causes economic fluctuations through the endogenous allocation of existing liquidities by the financial system. This phenomenon is termed the "financial accelerator."

New Keynesians thus propose a "balance sheet channel" of the transmission mechanism, which operates through the "frictions" existing in credit markets. These "frictions," proposed initially in the literature on credit rationing, are the result of problems with information incentives and enforcement in credit relationships such as adverse selection and moral hazard (Bernanke and Gertler 1989). An important implication of these credit market imperfections is that borrowers with strong financial backing can obtain credit more readily and at lower cost than others. Credit market "frictions" imply that cash flows and balance sheet positions are key determinants of an agent's ability to borrow and lend. The existence of credit market "frictions" implies that firms and households use some of their assets as collateral in borrowing activities, to ameliorate the "frictions" referred to above. Consequently, these "frictions" create an environment in which external finance is more expensive than internal finance, if the former is not covered by collateral. This environment gives rise to the "external finance premium" (i.e., the difference between the cost of external funds and the opportunity cost of funds internal to the firm). This premium affects the overall stock of capital, thereby influencing investment decisions and aggregate demand. Under such circumstances, a change in asset values can potentially have substantial effects. For example, a decline in asset values reduces available collateral, which impedes the access of potential borrowers to credit. At the same time, the ratio of capital to assets of lenders is reduced, thereby decreasing potential lending and/or discriminating against certain bank-dependent sectors such as small business. Deteriorating balance sheets and reduced credit flows inevitably have an impact that in the short run primarily affects spending, and thus aggregate demand. In the long run aggregate supply may very well be affected, since capital formation is adversely influenced along with working capital. Accompanying these impacts are significant multiplier effects, referred to as the "financial accelerator" and affecting output dynamics (Bernanke and Gertler 1989; see also Bernanke, Gertler, and Gilchrist 1996, 1997). The "financial accelerator" also includes feedback effects on asset prices; stemming from reduced spending and income along with forced asset sales, these produce "debt deflation."

To sum up, the "financial accelerator" mechanism relies on endogenous developments in new Keynesian credit markets that work to propagate and amplify shocks to the macro economy. Within this context, the mechanism relies heavily on the link between the "external finance premium" and the net worth of potential borrowers. In the presence of credit market "frictions," the "external finance premium" is inversely related to the net worth of borrowers. The lower the net worth of borrowers, and thus the weaker their ability to provide collateral, the higher are the required agency costs (e.g., monitoring costs); lenders must therefore be compensated for higher agency costs, implying a higher "external finance premium." The whole process, however, is nonlinear. If balance sheets are initially strong, with low leverage and strong cash flows, then even rather large declines in asset prices are unlikely either to push households and firms into the region of financial distress, in which normal access to credit is jeopardized, or to lead to severe capital problems for banks. Put another way, the extent to which an asset price contraction weakens private sector balance sheets depends on the degree and sectoral distribution of initial risk exposure (Bernanke and Gertler 1987; Gertler 1988).

In this context, the new Keynesian "balance sheet channel" explanation is used to analyze such contemporary financialization phenomena as "shadow banking." The modern financial system, it is argued, is built around repo-based money-dealing activities organized through intermediaries who deal in the risks involved with foreign exchange, duration, and credit. With derivatives separating the flows of risks from the flows of funds, the dealers make most of their profits through this intermediation process. Moreover, in this context institutional developments cause the notion of a "bank" to become elastic, as the term "bank" denotes an institution whose assets are loans of longer term duration than the money liabilities that fund them (a maturity transformation always subject to liquidity risk). Prior to the 2008 crisis, only a subset of such institutions had access to complete liquidity insurance provided by central bank backstops, and the remainder, which had to purchase private insurance, came to be called "shadow banks." According to "Credit View" advocates, this is the distinguishing characteristic of contemporary finance. The core of "shadow banking" is the repo-market, which also provides a crucial link with the rest of the financial system, meaning commercial banks and finally, the central bank (Mehrling 2011, 26–31).

Although the repo-market is a market for short-term (mainly overnight) collateralized loans, it functions much like banking. Repo-lenders, playing the role of the "depositors," are largely institutional investors (e.g., pension funds and large corporations) that need somewhere to invest large amounts of money for short periods. While wanting to lend the money safely, they also seek higher yields than those offered by regulated commercial banks. One alternative is the repo-market. A lender can make an overnight loan to a borrower. To make the loan safe, the

lender receives collateral usually in the form of government bonds, which are liquid and fluctuate little in value over short periods. If the borrower is unable to return the funds, the lending party will simply seize the collateral. Provided that the value of the underlying collateral does not change significantly over the periods involved, a repo transaction is safe for the repo-lender.

Like a bank depositor, the repo-lender has real access to its money and is able to reallocate its funds toward other uses on a daily basis. When the repo-borrower repurchases the security from the repo-lender, it also pays interest to the lender. As long as the repo is collateralized by a Treasury security, it is not fragile in the same sense as traditional banking, because the asset that collateralizes the repo is highly liquid and can easily be sold. If the repo-borrower cannot repay on time, the repo-lender simply takes the collateral and sells it for cash. According to "Credit View" advocates, this is how "shadow banking" works.

3.2. The Post-Keynesian FH

The post-Keynesian FH is based on the theory of credit money endorsed by its proponents, who regard credit money as money's dominant form. Credit money is an outstanding debt obligation owed by one economic agent to another, and is created in the process of financing ownership or production of goods, services, and assets. Thus, credit money bridges a time gap, allowing one to purchase today and pay later. It is created as part of an agreement for money today in return for money tomorrow.

Credit money is created endogenously via the operation of the banking system. Banks transform inputs of retail and wholesale deposit liabilities into outputs of retail earning assets (loans) and wholesale defensive assets (cash, securities; Moore 1988, 1989). Banks charge a mark-up on the cost of their funds; they are price-setters and quantity-takers in the retail markets, and the opposite in the wholesale markets. The volume of loans made by modern commercial banks is determined entirely by their customers. This is justified by the relationships between (a) firms and banks, (b) banks and the central bank, and (c) the residual demand of households for money (net hoards).

As long as banks advance loans at a similar rate to each other, loss of deposits through the clearing reflux is balanced out by equivalent gains; when one bank loses some of the deposits created directly through lending, another bank acquires them. The total extant amount of credit money increases directly as a result of the advancing of loans, a process necessarily supported by the advancing of reserves by the central bank. For Moore, the supply of credit money is thus endogenous. In a credit-money economy (as opposed to a commodity-money economy), much spending involves both sides of two balance sheets: that of the spender, whose liabilities increase by the value of the goods, services, or assets purchased, and that

of the banker, whose assets increase by the amount of the borrower's IOU, and whose liabilities increase the amount of the demand-deposits issued to finance the spending of the borrower. The value of the liabilities on each of these balance sheets is fixed by contract. As long as the balance sheets expand, and in the absence of any constraint or disturbance (such as inflation), the supply of credit money thus expands in harmony with the "needs of trade" (which means that the circulating medium expands and contracts "elastically" as production and trade expand and contract).

Some post-Keynesians perceive endogenous money primarily as endogenous finance (e.g., Wray (1992) who links endogenous money to Minsky's (1975, 1982) theory of financial instability; Palley 1996, 126–143; and Toporowski 1999, 2000, 2005). The gist of their argument is that although the focus on the endogenous money supply has concentrated attention on the banking sector, banks represent only one among many financial intermediaries, and financial intermediaries are only one source of finance. This suggests that an understanding of the interaction between financial markets and goods requires the inclusion of wider forms of finance than just bank credit (Toporowski 2000, 41–46).

The post-Keynesian FH is based on a theory of classes that dichotomizes capitalists into two separate classes: industrialists and financiers. The former are considered the operational center of the system, while the latter are considered rentiers (that is, constituting a drag on capital accumulation). These two essentially different classes have opposing interests. Post-Keynesians argue that in the financialization era financial rentiers drive capitalist accumulation, and that this has created both instability and low performance. Needless to say, this conception of class structure is inherited from Keynes (1930, 217) himself.

The core of the post-Keynesian FH is that the advent of neoliberalism in the 1980s opened the floodgates for a radical transformation of capitalism. Liberalization, and especially financial liberalization, led to financialization as finance was deregulated and globalized. This in turn brought about a tremendous increase in financial leverage, and benefited finance, but at the expense of growing instability. The result of this instability was the 2008 crisis, which was simply financial in nature. Needless to say, post-Keynesians argue that de-financialization and a return to prudent Keynesian regulation is necessary to stabilize capitalism.

3.3. Marxist and Marxisant FH

There are four FH versions in Marxist literature. Two of them keep within the Marxist analytical framework (B. Fine and MR), whereas the other two have a rather Marxisant flavor in the sense that they abandon Marxism and flirt with post-Keynesianism (Lapavitsas and Bryan).

Fine (2009, 2010) considers that the growth of finance and the advent of new financial forms during the last 30 years mark a special phase of neoliberalism (which he defines more as a policy trend than as a stage per se). He frames this new phase theoretically in terms of the Marxian LTV and its theory of money. Financialization occurs when the accumulation of interest-bearing capital (IBC—to be defined below) in the economy becomes extensive and intensive. "Intensive" growth and proliferation of financial assets signifies their increasing distance from production, while "extensive" means the extension of IBC to new areas of economic and social life as hybrid forms of capital (Fine 2013–2014, 55). Under such conditions, finance can acquire a dominant position as regards capital accumulation only in the structured environment of "shadow banking." In the context of the latter, exchange can be facilitated by the intermediation and dominant presence of fictitious capital. In Fine's view, finance cannot acquire autonomous channels of exploitation of the working class. New forms of operation of money capital and novel institutional arrangements are policies that are used by capital to surmount its problems and contradictions. In brief, Fine follows the Marxian logic of relating finance to the sphere of production and considering financial profit as part of surplus value. What is missing from his analysis is how the current emergence of financialization relates to profitability.

The MR school, despite being the first to pose the concept of financialization, was a latecomer in adopting it. Engulfed in its Marxo-Keynesian underconsumptionism, it strived to prove the latter in the face of clearly negative empirical evidence (the 2008 crisis was not accompanied by underconsumptionist signs). The MR school adopted financialization in conjunction with the arguments that (1) increasing income inequalities lead to the growing indebtedness of private households (a form of covert underconsumption) and (2) increased financial leverage and speculation is part of the neoliberal era of deregulation. This era is identified by adherents of the school as a new stage of capitalism, branded as neoliberalism, globalization, or later, as financial globalization. The MR school, however, does not argue that financial profit has become independent of surplus value. The Social Structures of Accumulation (SSA) approach resembles the MR path in identifying financialization with the neoliberal SSA (Tabb 2010), while adding its own emphasis on institutions.

Bryan, Martin, and Rafferty (2009) argue that since the early 1980s finance has become commodified through a range of financial innovations (securitization, derivatives, etc.). Although Bryan (2010) avoids characterizing these forms as a new capitalist stage, he implies in essence that this is the case, claiming that (a) increased leverage and derivatives and (b) the financial exploitation of workers through usurious loans change capitalism's functions and class structure radically. Bryan and his co-authors argue that the wage relationship (i.e., labor-time) and its relationship to

money have lost their related but separate status, and that the latter has subsumed the former. Concomitantly, labor is said to have become a form of capital, as the reproduction of labor is now a source of surplus value transfer in the form of interest payments and the "financialization of daily life." With their very peculiar formulation, Bryan, Martin, and Rafferty suggest that behind the Marxist terminology (surplus value etc.) there lies an exploitation that is not confined to unpaid labor-time but extends to usury. Moreover, the argument that labor is now a form of capital implies directly a new class structure different from typical capitalism.

Lapavitsas (2008) adopted financialization directly from post-Keynesianism. He argues, in the spirit of "shadow banking," that typical banking is almost redundant, and that the financial system is coming to be based totally on stock exchange operations. Fictitious capital, according to Lapavitsas, is a redundant concept, and new financial developments are not related even distantly to the sphere of production, but need to be analyzed independently. Thus, the LTV and its money theory are essentially discarded. Lapavitsas introduces the vague concept of "finance" as the new master of the system. To avoid the charge of having proposed two separate capitalist classes, he argues that "finance" subsumes and reshapes productive capital according to its prerogatives; between financial and productive capital, this would indicate, no meaningful distinction can be made. Additionally, "finance" acquires a mechanism for the direct exploitation of workers through the provision of usurious loans: "These practices are reminiscent of the age-old tradition of usury, but they are now performed by the formal financial system" (Lapavitsas 2009, 111). Lapavitsas initially branded this new source of financial profit "financial exploitation," but after criticism (e.g., Fine 2009) for having confused capitalist exploitation with the precapitalist exploitation of usury, made an inconsequential face-lift and changed the term to "financial expropriation." This, he argues, enables financial institutions to boost their profits independently of surplus value and possibly to exploit "us all" (Lapavitsas 2014), alluding to other social strata apart from labor. For Lapavitsas, this new structure constitutes a new stage of capitalism (or a new "social order," as he describes it in more graphic but less theoretically coherent terms). Furthermore, he contends that there is no general theory of capitalist crisis (as Marxism argues), but that the crisis of the system is historically specific. With Stathis Kouvelakis, he declares that the crisis of 2008 was a financialization crisis with no relation whatsoever to profitability (Lapavitsas and Kouvelakis 2012), maintaining without proof that the latter remained constant.

Finally, the forerunners of FH include some of the remaining adherents of the old Regulation Approach (e.g., Aglietta 2000; Aglietta and Breton 2001). These people abandoned Marxism long ago, and having recourse to institutionalism, they argue that the economic system is now centered on finance; in their view, the system has become capitalist only in name, and in reality is something totally

new. Their emphasis is on the role of institutions, of stock exchanges and especially, of shareholder value (Boyer 2000), all analyzed from an institutionalist and Keynesian perspective.

There are significant affinities among all FH currents. With the notable exception of Fine's interpretation, all of them share the contention that the financial system has become independent from and dominant over productive capital. More specifically, the mainstream and post-Keynesian FH currents endorse similar theories of endogenous money, while the post-Keynesian and Marxisant FH trends share similar theories of endogenous money and classes.

The initial grounds for this curious convergence were provided by Minsky, who was the first to argue that financial crises have become the dominant form of crisis in modern capitalism, and that they occur independently of real accumulation. This idea, along with other elements of Minsky's theory, was adopted both by members of the neoclassical and new Keynesian mainstream, and also by adherents of the post-Keynesian and Marxisant FH. Rochon (1999, 271) recognizes that "the current New-Keynesian model of financial intermediation and credit is almost identical to that of the early Post-Keynesians, especially Minsky (1963, 70)." Palley (2013, 31) accepts that aspects of Minsky's (1982) construction of the business cycle have been incorporated in the financial accelerator theory of Bernanke, Gertler, and Gilchrist (1996) and Kiyotaki and Moore (1997). The relationship between Minsky and the MR school is well known, and equally familiar is the influence he exerted on the post-Keynesian and Marxo-Keynesian literature.

The new Keynesian and post-Keynesian confluence in endogenous money theory has had a curious result. Members of both schools agree that the monetary sector affects the real sector, while on the other hand they maintain that it is only from the monetary sector that disequilibria arise. They differ, of course, in their theories of capital. Post-Keynesians correctly criticize neoclassical general equilibrium theory, because it treats capital either as a homogeneous entity (Wicksellian general equilibrium) or as nonexistent (new-Keynesian/neo-Walrasian general equilibrium). The interest rate is treated as either a real variable in the Wicksellian case, or by the neo-Walrasians, as unrelated to profits (see Rogers 1989; Walsh and Gram 1980, 243). The post-Keynesian theory of capital and interest is equally problematic. Although the members of this school accept the heterogeneity of capital, they are unable to form a coherent view of its nature, and as a result, the concept of capital in their work remains indeterminate. One of the consequences of this indeterminacy of capital is the different manner in which various post-Keynesians interpret the rate of interest as a monetary variable. Their endogenous money theory thus faces problems similar to those of the Banking school during the Banking–Currency Schools controversy. Due to these

inadequacies, both mainstreamers and post-Keynesians analyze the supply of and demand for credit money erroneously, finishing up with a mistaken integration of real and monetary factors.

The problems that mar post-Keynesian endogenous money theory also affect the Marxisant and Marxo-Keynesian supporters of the FH, as they adopt this perspective. Thus, they sacrifice—or deform beyond recognition—the crucial Marxian concept of fictitious capital, and end up with the same argument as the mainstreamers and the post-Keynesians, that is, that the monetary sector dominates the real sector and has sources of profit independent of the latter. But what is exceptionally striking is the essential confluence of the Marxisant FH with the post-Keynesian theory of classes. As already explained, Keynesian and post-Keynesian thought inherits the notion of the rentier from classical political economy. In practice, however, it deforms this concept. In earlier times, the rentiers (who in the case of landowners, represented a transformed remnant of feudalism) were a separate class whose members did not conduct business but who appropriated rent that was subtracted from entrepreneurial profits, and that thus diminished investment. This dichotomy, which characterized the capitalism of the time of Adam Smith and David Ricardo, has long since ceased to exist. Landowners have been assimilated into the capitalist class and have lost their independent existence and function. Keynesianism redefined the distinction between capitalists and rentiers as that between industrialists and financiers, viewed essentially as separate classes. Keynesianism does not face analytical problems here, since it argues that savings and other investment are affected by other factors. Marxism, however, conceives of money and productive capital as forms of total capital, both of which take part in the formation of the general rate of profit (which, along with other processes, serves to unify the bourgeoisie against the proletariat). Because interest is a part of surplus value, and financial profits depend on the general rate of profit, Marxism does not elevate the distinctiveness of money and productive capital to the point of regarding their owners as belonging to separate classes.

Last but not least, the Marxisant FH currents have a weak theory of crises. These schools do not offer a general theory of capitalist crisis, but instead opt for a conjunctural one. Each historical epoch and each particular crisis has its own specificities. But essentially, as Tomé (2011) clearly shows, the FH ultimately subscribes to a Keynesian possibility theory of crisis. This is a very insubstantial theoretical position, especially on the part of those FH currents that refer passim to Marxism. Lapavitsas (2014, 37) is again a typical example. He states that the development of financialization has nothing to do with Marx's tendency of the profit rate to fall. Moreover, he asserts that falling profitability in capitalist production was never a key factor behind the rise of finance.

4. Classical Marxism versus the FH

The FH purports to offer a superior analytical framework for comprehending the economic transformations of recent decades. The empirical side of the FH is beyond the scope of this article, although there is compelling evidence that real accumulation remains at the center of the capitalist system, and that falling profitability a-la-Marx was at the core of the 2008 crisis (e.g., Mavroudeas and Paitaridis 2015; Shaikh 2010). There are also forceful rejections of the empirical applicability of the FH to specific economies (e.g., Mavroudeas 2015). This section offers an alternative, based on the classical Marxist perspective, to the FH analysis of recent developments in capitalism.

Classical Marxism analyzes the relationship between money and real accumulation through the lenses of the total capital circuit, revealing the modus operandi of the various forms of capital in unified fashion and within the context of real accumulation. This unified exposition is absent from both the mainstream and post-Keynesian perspectives, and allows Marxism a superior understanding of the relationship between finance and production, a relationship in which the sphere of production has a structural (and historically permanent) primacy over finance. This viewpoint spares Marxism from falling prey to questionable stylized facts that create false impressions about new stages, while enabling it to analyze new phenomena within the contours of the fundamental mechanisms of operation of the capitalist system.

The Marxian total capital circuit sets out the manner in which capital operates, assuming different forms to extract surplus value:

$$
\begin{array}{ccccc}
M & \rightarrow & C \ldots P \ldots & C' & \rightarrow M' \\
 & & \downarrow & \downarrow & \\
 & & c+v & c+v+s &
\end{array}
$$

where

M: money

C: commodities (means of production [c] and labor power [v])

P: production process

C′: commodities of greater value produced (via the inclusion of surplus value [s])

M′: increased money return (in the form of profit) for C′.

The circuit begins with circulation (the advancing of M to buy C) and ends with circulation (the payment of M′ for C′). Between C and C′ the production process takes place, circulation is interrupted, and surplus value is extracted. Within this circuit, the three fundamental forms of capital (money capital, productive capital, and merchant capital) function differently, but are also entwined. Money capital and commercial capital, which operate in the sphere of circulation,

function at the beginning and at the end, while productive capital operates at the center. The sphere of production (and thus productive capital) has primacy over the others, as surplus value (the goal of the capitalist system) is extracted under its auspices (Fine and Harris 1979). This surplus value is subsequently redistributed between productive, money, and commercial capital, because the former needs the support of the two others.

Money plays a crucial role in this circuit, of which it is the most mobile element. It has its greatest fluidity when it represents value, having not yet become capital; when it enters the production process and becomes capital (which is necessary for claiming surplus value), it becomes less fluid. Capital regains its fluidity when the commodities produced are sold in exchange for M′. Part of that money is reinvested in the production process, becoming less fluid capital, while another part is consumed or hoarded by the money owner.

There is a tension between the inherent mobility of money and the bounds within which the production process necessarily confines it. The money owner views production as a process that takes time and is risky. This makes it undesirable, and it will only be undertaken if the expected returns are likely to be significantly greater than those of other capitalists involved in the process who retain their flexibility, such as the money capitalist who operates at the M stage or the commercial capitalist who functions at the C stage. As capitalists see themselves as free riders on the system (that is, they try to leave to their peers the costs which capitalism incurs for its functional operation), they seldom try to disentangle themselves from the bounds of production. There are phases within the economic cycles when this tendency becomes stronger, and others when it is weaker. For example, greater returns to productive capital were evident throughout much of the 19th century, but particularly after the 1873 crisis, this changed and the tendency to fluidity returned. Transferable shares and their commodification became the dominant means through which capitalists tried to reduce the risks of their involvement in the production process.

Marxism grasps the unity and the internal strife of capital, and the complex functions of money capital, through the distinction it draws between the use of money as credit and the use of money as capital. Borrowing is different from the use of money as capital, since in the latter case the money is used not just to buy a good or to meet a payment, but to make more money. From the perspective of capitalist production, this occurs when money is borrowed to expand accumulation, with the expectation of a future profit. Marx distinguishes carefully between the different functions of money capital. Money involved in the lending and borrowing activities of the capitalist financial system is defined as loanable money capital (LMC). LMC is subdivided into two generic forms: money-dealing capital (MDC) and IBC. MDC advances credit in general for buying and selling in the

sphere of circulation. IBC uses credit relations to advance money capital to appropriate surplus value.

Traditionally, the capitalist financial system collects idle funds and channels them to investment through the credit and capital markets, which operate differently. Credit markets involve both MDC and IBC, while capital markets involve solely IBC. The novelty of recent hybrid forms (such as "shadow banking") is that they combine in complex ways the operation of both banking and capital markets. Hence, they combine MDC and IBC.

The credit system begins with trade credit, which arises through trade relations that are mostly tied to similar and/or related sectors and in geographical proximity. Next comes banking credit (the collection and advancing of LMC by banks); arising through the discounting of trade bills, this is based on the collection of idle money from a variety of sources, and thus overcomes some of the particularities of trade credit. By collecting idle money from a range of sources in the economy, banks partly homogenize credit and begin to give it a less individual character. The next instance is the money market (where LMC is traded among banks). At the apex of the credit system is the central bank (the leading bank of the money market).

The capital market complements the credit system. Unlike the latter, it mobilizes idle money on the basis of property (equity) rather than credit (debt). Nevertheless, the credit market is connected with the stock market, since both draw funds from the same pool of LMC, and lending by the former sustains operations in the latter.

Because IBC is money capital traded as a commodity commanding interest, it has a dual character in the context of the total circuit. On one hand, it is immediately related to the sphere of real accumulation for interest payment, and on the other, it is immediately related to the form of credit money. IBC thus has a certain degree of freedom in relation to the sphere of real accumulation, since the interest rate which determines IBC is formed outside the total circuit by the supply of and demand for LMC. This gives IBC a second duality. First, because it is a relationship between a capitalist possessing money ("monied" capitalist) and a capitalist possessing an investment project ("functioning" capitalist), it can give rise to speculation (i.e., rent-seeking). Second, money capital derives from the generation of sums of money in the turnover of total social capital, sums that are transformed subsequently into LMC by the credit system.

IBC differs from productive capital because its owner, through lending, claims a part of surplus value (in the form of interest) without any direct involvement in production. Where there are unwelcome developments (conflicts between labor and capital in production and distribution, falling profitability, etc.), the lender of IBC withdraws it and invests in other sectors, instead of having to intervene directly in the industry. This characteristic of IBC is crucial for money capital

(banks) because it enhances the liquidity of their liabilities. Their deposits, which at least for commercial banks form the basis of their money-dealing operations, are highly liquid since depositors are not tied to any particular bank. In well-developed banking systems personal knowledge and trust do not enter the relation, so that deposits and other monetary instruments are nonspecific and anonymous forms in which capital can be held. The money-dealing that banks carry out, along with competition within banking, facilitates this distancing of money and deposits from specific ties. However, the freedom of IBC has limits, since in lending directly to industry it cannot be totally indifferent to the outcomes of the latter's operations.

Fictitious capital is a form of IBC. IBC has already been defined as money capital which is loaned to be used in the sphere of production for the purpose of extracting surplus value, in contrast to a simple loan of money (money as such), which facilitates transactions in general. However, since there is an obligation to repay a loan (which takes the form of debt), it is possible for this debt to acquire a life of its own. Consequently, the obligation (which takes the form of securities, for example, shares, bonds) can be bought and sold autonomously at some money value, which might or might not correspond to the ability of its sum of money (if used as capital in the production sphere) to realize an appropriate quantity of surplus value. This autonomous circulation of IBC in the form of securities is called by Marx *fictitious capital*. "Fictitious" does not imply that it does not exist, or that it is artificially created. It denotes that its circulation is distinct from the circulation or the yield of capital which it represents (Fine 2013–2014, 49–50). Therefore, fictitious capital is related to the financial activities of capital in general, and it becomes more crucial as the financial system becomes more complex.

In practice, fictitious capital represents an uncertain bet on surplus value that might be extracted in the future but which is being discounted in the present. Its operation is closely related to the expansion of joint-stock companies, the negotiation of their assets on the stock exchange, and the expansion of credit money (a process that greatly facilitates the transactions and valuations of the companies involved). Periods of economic euphoria usually foment high expectations about the future, and can thus engineer waves of robust economic growth, as they have a positive effect on investment. These expectation-led booms usually have a tendency to overshoot, that is, to create increasingly overoptimistic future expectations. But once the "real economy" can no longer keep pace with those expectations (i.e., when investment does not lead to the expected profits), its growth starts faltering. In other words, the so-called fundamentals reimpose the strictures of reality on the unsustainable growth engineered by fictitious capital. The busts that follow also have a tendency to overshoot, this time on the downside, usually leading to an economic crisis due to the bursting of the so-called bubble.

Marxist economists recognized these phenomena long ago. As H. Grossmann ([1929] 1959, 158) showed, Marx included among the factors counteracting the breakdown the fact that a progressively larger part of social capital takes the form of share capital:

> . . . these capitals, although invested in large productive enterprises, yield only large or small amounts of interest, so-called dividends, once costs have been deducted. . . These do not therefore go into levelling the rate of profit, because they yield a lower than average rate of profit. If they did not enter into it, the general rate of profit would fall much lower. (Grossmann [1929] 1959, 240)

This pinpoints the ability of the credit system, when real accumulation starts facing difficulties, to continue making profits and thus to delay the fall of the general profit rate. But despite the relative autonomy of the credit system, its operations ultimately comply with the essential motion of capitalist accumulation. Thus, the crisis phase of the capitalist business cycle typically begins when speculation by wholesale merchants in stockpiled commodities collapses, and when rising interest rates affect the debt structure, at some point causing its collapse and bringing on a crisis that is followed by depression.

Itoh (1988, 303–342), following the Uno school of Japanese Marxism, embedded this function within the phases of economic cycles. He argued that as the upswing nears its end and overaccumulation begins, the profit rate declines and commodity prices tend to rise. Speculative trading and stockpiling of commodities then takes place in expectation of further price rises. Speculative trading also appears in the stock market, as the share prices of firms in various industries begin rising in response to the increase in their commodity prices.

In sum, classical Marxism provides a coherent and sophisticated framework for grasping the phenomenon of prolonged financial euphoria without separating it from real accumulation. This framework also makes it possible to explain the recent financial innovations satisfactorily.

The most dramatic contemporary change is that the "repo" (sale and repurchase agreement) has been substituted for the bill of exchange (with its direct links to the financing of production and trade) as the dominant financial asset. A repo involves a borrower of cash selling a bundle of securities to a lender for a certain amount of money, with the agreement that after a fixed period the borrower will repurchase the securities for another amount of money. The securities thus act as collateral for the cash loan. In the event that the cash borrower defaults on the repayment, the lender owns the securities to keep, sell, or use again as collateral. In this context, institutional developments have led to the notion of a "bank" becoming elastic, and to the emergence of the phenomenon of "shadow banking" (Papadatos 2017).

This trend has tended to merge the two pillars of the financial system (credit and capital markets), mainly through securitization. However, securitization transforms property into tradable financial assets against a promise for repayment, that is, turns it into fictitious capital. Through this process, the modern financial system has become more unstable as traditional institutional mechanisms and trust have been disturbed.

The whole financial house of cards depends on the extraction of surplus value in the sphere of production. In the aftermath of the 1973 profitability crisis, the subsequent waves of capitalist restructuring failed to resolve the crisis of overaccumulation. Despite the dramatic increase of labor exploitation (that is, the increase in the rate of surplus value), governments shied away from a decisive destruction of unviable capitals. Thus, profitability never recovered sufficiently. The last trick—together with the "globalization" that never extinguished the national economy, but increased pressure on both labor and unviable capitals—was the expansion of fictitious capital operations. But as argued above, this stratagem has definite limits. Expansion through financial doping soon met the boundaries set by real accumulation, and the 2008 crisis erupted. The financial collapse was strictly geared to the problems of real accumulation.

The other pillar of the Marxisant FH currents—the argument that through usury, finance acquires a mechanism of "direct exploitation" that is independent of surplus value—has met with a robust rejection. Fine (2009) argued accurately that it misinterprets the Marxist analytical framework. The financial revenues from loans extended to workers can be (1) an additional appropriation of a part of the value of their labor power or (2) a part of the value of their labor power that is being expended for the acquisition of socially necessary commodities. In the first case, if this appropriation becomes permanent, it will lead to a new lower value of labor power. In the second case, the current value of labor power is actually lower than it appears. In neither of these two cases exists extra (or normal) financial profits that are independent from surplus value. When these Marxisant FH currents argue otherwise, they effectively posit a theory of the determination of labor power and of the operation of the labor market different from that of Marxism. Their theory identifies direct power relations, instead of indirect economic mechanisms, as the only mechanisms that can enable the financial system to garner extra profits. Again, this view misinterprets capitalism, assimilating it to precapitalist forms.

5. Conclusion

The FH errs on five counts.

First, it interprets short-run and conjunctural phenomena as long-run structural changes. In methodological terms, the FH is a middle-range theory (for a critique of this methodology, see Mavroudeas 2012, ch. 3).

Second, it promotes the false perception that the post-1990s financial expansion was a totally new phenomenon without historical precedent.

Third, its argument concerning the financial system's novel "direct exploitation" mechanism unwarrantedly equates capitalism with the precapitalist era of transition from feudalism to capitalism.

Fourth, it proposes an unrealistic class analysis.

Fifth, the FH leads to unjustified analytical fuzziness, as it blurs the understanding of capitalism's fundamental economic and social processes.

In short, the grandiose proposition put forward by the FH, of a new stage or even a new model of capitalism, fails to account either analytically or empirically for the evolution of contemporary capitalism. Classical Marxism offers a superior analytical and empirical perspective.

References

Aglietta, M. 2000. "Shareholder Value and Corporate Governance: Some Tricky Questions." *Economy & Society* 29 (1): 146–159.

Aglietta, M., and R. Breton. 2001. "Financial Systems, Corporate Control and Capital Accumulation." *Economy & Society* 30 (4): 433–466.

Arcand, J. L., E. Berkes, and U. Panizza. 2015. "Too Much Finance?" *Journal of Economic Growth* 20 (2): 105–148.

Bernanke, B., and M. Gertler. 1987. "Banking and Macroeconomic Equilibrium." In *New Applications to Monetary Economics*, edited by W. Barnet and K. Singleton, 89–111. Cambridge: Cambridge University Press.

Bernanke, B., and M. Gertler. 1989. "Agency Costs, Net Worth, and Business Fluctuations." *American Economic Review* 79 (1): 14–31.

Bernanke, B., M. Gertler, and S. Gilchrist. 1996. "The Financial Accelerator and the Flight to Quality." *Review of Economics and Statistics* 58: 1–15.

Bernanke, B., M. Gertler, and S. Gilchrist. 1997. "The Financial Accelerator in a Quantitative Business Cycle Framework." *NBER* Working Paper No. 6455. www.nber.org/papers/w6455.

Bhaduri, A. 2011. "Financialization in the Light of Keynesian Theory." *PSL Quarterly Review* 64 (256): 7–21.

Bond, P. 2010. "A Century since Hilferding's 'Finanz Kapital'—Again, Apparently, a Banker's World?" *Links International Journal of Socialist Renewal*, November 19. http://links.org.au/node/2007.

Boyer, R. 2000. "Is a Finance-Led Growth Regime a Viable Alternative to Fordism? A Preliminary Analysis." *Economy & Society* 29 (1): 111–145.

Bryan, D. 2010. "The Duality of Labour and the Financial Crisis." *Economic and Labour Relations Review* 20 (2): 49–59.

Bryan, D., R. Martin, and M. Rafferty. 2009. "Financialization and Marx: Giving Labor and Capital a Financial Makeover." *Review of Radical Political Economics* 41 (4): 458–472.

Chandler, A. 1977. *The Visible Hand: The Managerial Revolution in American Business*. Cambridge: Belknap.

Davis, G. F. 2008. "A New Finance Capitalism? Mutual Funds and Ownership Re-concentration in the United States." *European Management Review* 5: 11–21.

DeLong, B. 1991. "Did J. P. Morgan's Men Add Value? An Economist's Perspective on Financial Capitalism." In *Inside the Business Enterprise: Historical Perspectives on the Use of Information*, edited by P. Temin, 205–250. Chicago: University of Chicago Press.

Epstein, G, ed. 2005. *Financialization and the World Economy*. London: Edward Elgar.

Fine, B. 2009. "Financialization, the Value of Labour Power, the Degree of Separation, and Exploitation by Banking." *SOAS Research Students, Summer Seminar Series*. www.eprints.soas.ac.uk/7480/2/BenFine_FinancialisationlabourPower.pdf.

Fine, B. 2010. "Locating Financialization." *Historical Materialism* 18 (2): 97–116.

Fine, B. 2013–2014. "Financialization from a Marxist Perspective." *International Journal of Political Economy* 42 (4): 47–66.

Fine, B., and L. Harris. 1979. *Rereading Capital*. London: Macmillan.

Foster, J. B. 2010. "The Financialization of Accumulation." *Monthly Review* 62 (5): 1–17.

Gertler, M. 1988. "Financial Structure and Aggregate Economic Activity: An Overview." *Journal of Money Credit and Banking* 20 (3): 559–588.

Greenwood, R., and D. Scharfstein. 2013. "The Growth of Finance." *Journal of Economic Perspectives* 27 (2): 3–28.

Grossmann, H. (1929) 1959. *The Law of Accumulation and Breakdown of the Capitalist System*. Leipzig: Hirschfeld.

Harris, L. 1988. "Alternative Perspectives on the Financial System." In *New Perspectives on the Financial System*, edited by L. Harris, J. Coakley, M. Groasdale, and T. Evans, 7–35. London: Croom Helm.

Hawley, J., and A. Williams. 1997. "The Emergence of Fiduciary Capitalism." *Corporate Governance* 5 (4): 206–213.

Hein, E. 2013. "Finance-Dominated Capitalism and Redistribution of Income: A Kaleckian Perspective." Levy Institute Working Paper No. 746. http://www.levyinstitute.org/pubs/wp_746.pdf.

Hilferding, R. (1910) 1981. *Finance Capital*. London: Routledge and Kegan Paul.

Itoh, M. 1988. *The Basic Theory of Capitalism*. London: Macmillan.

Kedrosky, P., and D. Stangler. 2011. *Financialization and Its Entrepreneurial Consequences*. Kaufman Foundation. https://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/financialization-and-its-entrepreneurial-consequences.

Keynes, J. M. 1930. *Collected Writings on J. M. Keynes*. Vols. 5 and 6. London: MacMillan for the Royal Economic Society.

King, R., and R. Levine. 1993. "Finance and Growth: Schumpeter Might Be Right." *Quarterly Journal of Economics* 108 (3): 717–737.

Kiyotaki, N., and J. Moore. 1997. "Credit Cycles." *Journal of Political Economy* 105: 211–248.

Krippner, G. 2005. "The Financialization of the American Economy." *Socio-economic Review* 3 (2): 173–208.

Lapavitsas, C. 2008. "Financialised Capitalism: Direct Exploitation and Periodic Bubbles." *SOAS* Working Paper. http://www.leftlibrary.com/lapavitsas1.pdf.

Lapavitsas, C. 2009. "Financialisation, or the Search for Profits in the Sphere of Circulation." *EKONOMIAZ. Revista vasca de Economía*, Gobierno Vasco/Eusko Jaurlaritza/Basque Government, 72 (03): 98–119.

Lapavitsas, C. 2014. *Profiting without Producing: How Finance Exploits Us All*. London: Verso.

Lapavitsas, C., and S. Kouvelakis. 2012. *Crisis and Left Vent*. [In Greek.] Athens: Livanis.

Lenin, V. I. (1917) 1948. *Imperialism, the Highest Stage of Capitalism*. London: Lawrence and Wishart.

Mavroudeas, S. 2012. *The Limits of Regulation: A Critical Analysis of Capitalist Development*. Cheltenham: Edward Elgar.

Mavroudeas, S. 2015. "'Financialization' and the Greek Case." In *Greek Capitalism in Crisis: Marxist Analyses*, edited by S. Mavroudeas, 82–102. London: Routledge.

Mavroudeas, S., and D. Paitaridis. 2015. "The Greek Crisis: A Dual Crisis of Overaccumulation and Imperialist Exploitation." In *Greek Capitalism in Crisis: Marxist Analyses*, edited by S. Mavroudeas, 153–175. London: Routledge.

Mehrling, P. 2011. *The New Lombard Street: How the Fed Became the Dealer of Last Resort*. Princeton: Princeton University Press.

Minsky, H. 1963. "Comment on Friedman and Schwartz's Money and Business Cycles." *Review of Economics and Statistics* 45: 64–78.

Minsky, H. 1975. *John Maynard Keynes*. New York: Columbia University Press.

Minsky, H. 1982. *Can "It" Happen Again?* Armonk, NY: M.E. Sharpe.

Moore, B. J. 1988. *Horizontalists and Verticalists: The Macroeconomics of Credit Money*. Cambridge: Cambridge University Press.

Moore, B. J. 1989. "A Simple Model of Bank Intermediation." *Journal of Post-Keynesian Economics* 12 (1): 11–28.

Neal, L. 1990. *The Rise of Financial Capitalism*. Cambridge: Cambridge University Press.

Palley, T. 1996. *Post-Keynesian Economics: Debt, Distribution and the Macro Economy*. London: MacMillan Press.

Palley, T. 2013. *Financialization: The Economics of Finance Capital Domination*. London: Palgrave Macmillan.

Papadatos, D. 2017. "Is the Current Crisis of Greek Capitalism a Crisis of a Financialized Economy?" *EAST-WEST Journal of Economics and Business* XXI (1–2): 21–42.

Rochon, L. R. 1999. *Credit, Money, and Production: An Alternative Post-Keynesian Approach*. London: Edward Elgar.

Roe, M. 1994. *Strong Managers, Weak Owners: The Political Roots of American Corporate Finance*. Princeton: Princeton University Press.

Rogers, C. 1989. *Money, Interest and Capital: A Study in the Foundations of Monetary Theory*. Cambridge: Cambridge University Press.

Rostow, W. W. 1960. *The Stages of Economic Growth: A Non-communist Manifesto*. Cambridge: Cambridge University Press.

Shaikh, A. 2010. "The First Great Depression of the 21st Century." *Socialist Register* Fall: 44–63.

Stockhammer, E. 2004. "Financialization and the Slowdown of Accumulation." *Cambridge Journal of Economics* 28 (5): 719–741.

Stockhammer, E. 2009. "The Finance-Dominated Accumulation Regime, Income Distribution and the Present Crisis." Institut für Volkswirtschaftstheorie und -politik, WU Vienna University of Economics and Business, Department of Economics Working Paper Series, no. 127. https://ideas.repec.org/p/wiw/wus005/136.html.

Sweezy, P. 1942. *The Theory of Capitalist Development*. New York and London: Monthly Review Press.

Sweezy, P. 1994. "The Triumph of Financial Capital." *Monthly Review* 46 (2): 1.

Sweezy, P. 1997. "More (or Less) on Globalization." *Monthly Review* 49 (4): 1.

Tabb, W. 2010. "Financialization in the Contemporary Social Structure of Accumulation." In *Contemporary Capitalism and Its Crises: Social Structure of Accumulation Theory for the 21st Century*, edited by T. McDonough, M. Reich, and D. Kotz, 6–34. Cambridge: Cambridge University Press.

Taylor, A. 2012. "The Great Leveraging." *NBER* Working Paper No. 18290. http://www.nber.org/papers/w18290.

Tomé, J. P. 2011. "Financialization as a Theory of Crisis in a Historical Perspective: Nothing New under the Sun." *PERI* (Political Economy Research Institute) Working Paper Series No. 262. https://www.peri.umass.edu/publication/item/431-financialization-as-a-theory-of-crisis-in-a-historical-perspective-nothing-new-under-the-sun.

Toporowski, J. 1999. "Monetary Policy in an Era of Capital Market Inflation." *Levy Institute* Working Paper No. 279. http://www.levyinstitute.org/publications/monetary-policy-in-an-era-of-capital-market-inflation.

Toporowski, J. 2000. *The End of Finance: Capital Market Inflation, Financial Derivatives and Pension Fund Capitalism*. London: Routledge Frontiers of Political Economy.

Toporowski, J. 2005. *Theories of Financial Disturbance: An Examination of Critical Theories of Finance from Adam Smith to the Present Day*. London: Edward Elgar.

Van Treeck, T. 2008. "The Political Economy Debate on 'Financialization'—A Macroeconomic Perspective." *IMK* (Macroeconomic Policy Institute) Working Paper No. 1. https://ideas.repec.org/p/imk/wpaper/01-2008.html.

Walsh, V., and H. Gram. 1980. *Classical and Neo-classical Theories of General Equilibrium*. New York: Oxford University Press.

Wray, L. R. 1992. "Alternative Theories of the Rate of Interest." *Cambridge Journal of Economics* 16 (1): 69–89.

View publication stats