Financial Claims on the World Economy

François Chesnais, *Finance Capital Today: Corporations and Banks in the Lasting Global Slump*, Brill, Leiden, 2016

This book is well worth reading. It is written in a clear and accessible style and discusses key points about the limitations of capitalism and the role of contemporary finance. Perhaps its most important point is how the financial system has accumulated vast claims on the current and future output of the world economy – in the form of interest payments on loans and bonds, dividend payments on equities, etc. These claims have outgrown the ability of the capitalist system to meet them, but government policy has so far managed to prevent a collapse of financial markets with zero interest rate policies, quantitative easing, huge deficits in government spending over taxation, and so forth. The result is an unresolved crisis, a 'lasting global slump', in which economic growth remains very weak and vast debts remain in place.

There are two related points in his approach to the world economy and finance that distinguish Chesnais from many other writers, and for which he deserves to be commended. Firstly, he states clearly that we are in a crisis of capitalism *tout court* (pp1-2), not a crisis of 'financialised' capitalism – the latter being one that could presumably be fixed if only the evil financiers were dealt with by a (capitalist) reforming government. Secondly, he takes 'the world economy as the point of departure' for his analysis, although that is 'easier said than done' (p11). While he shows the central role of the US, he avoids the wholly US-centred analysis common to radical critics of contemporary capitalism, and instead highlights how the other powers also play a key part in the imperial machine.

Finance Capital Today helps the reader's understanding of the realities of contemporary global capitalism by providing a wealth of material evidence. It also helps one to clarify views about what is going on by discussing the theoretical context. In this review I will highlight the key points raised in the book and also discuss where I have a number of differences with Chesnais. These differences are sometimes merely of emphasis, or what may look like simply an alternative definition of a commonly used term. However, poor formulation of an argument can also lead to theoretical problems.

Chesnais begins by outlining the origins of the 2008 crisis, arguing that this had been postponed since 1998 by the growth of debt in the US and elsewhere, and by the surge of growth in China. In 2008, 'the brutality of financial crisis was accounted for by the amount of fictitious capital accumulated and the degree of vulnerability of the credit system following securitisation'. The backdrop to the latest phase of crisis was also one that has made this crisis a global one to a degree unknown to previous crises (p25). It involved a far more integrated world economy, following the break up of the USSR and the incorporation of many more countries into the world trade and financial system. The crisis is one characterised by 'over-accumulation of capital in the double form of productive capacity leading to overproduction and of a "plethora of capital" in the form of aspiring interest-bearing and fictitious capital'. But major governments tried to prevent the crisis from running its course in the way that occurred in the 1930s (p35).

Within the global set up, Chesnais has an interesting view of China, which he characterises as not suffering national domination by the major powers (p43). He notes its subordinate position in the world division of labour, having offered its cheap labour workforce up to the world market, but includes this as part of the development of the world market rather than being a sign of its oppression in the Leninist sense. This reflects the mixed dimensions of China's economic and political status, and one that I would also characterise as being in transition to the premier league of major powers (China is actually number three in my ranking of countries by global power).[1]

Chapter 3 is titled 'The Notion of Interest-Bearing Capital in the Setting of the Present Centralisation and Concentration of Capital'. This is an important topic, but one in which Chesnais's commendable approach is let down by his exposition. He starts by arguing that 'the channelling of surplus value in contemporary capitalism, through both the holding of government loans and the possession of stock, by a single small group of highly concentrated financial and non-financial corporations and private high-income-bracket asset holders, requires that several features of interest-bearing capital that were treated partly separately by Marx now be approached *in toto*' (p67). I would certainly agree with this, especially since the relevant section in *Capital*, Volume 3, is a complete mess, one that Engels found extremely difficult to edit and to try and salvage. However, Chesnais does little to develop the argument at this point, and he tends to keep it focused on banks. Only later in the book does he explain better how interest-bearing capital is a more universal phenomenon for modern capitalism. Even then, I would argue that the forms it takes, especially in proprietary trading, are not fully or well explained by taking interest to be the source of revenue, or, as he notes from Hilferding, by taking one speculator's gain as a loss to another speculator.[2]

This chapter also contains a discussion of two issues of Marxist theory on finance. One is the difference of opinion between myself (and others) and Costas Lapavitsas on the question of banks 'exploiting' workers through the charging of interest on loans, etc (pp76-77). He correctly notes that this interest is, in any event, only a small portion of bank profits, not the big event claimed by the 'exploiting' school. However, citing Rosa Luxemburg, he comes down on the side of the view that these deductions are a *reduction* of the value of labour-power. I disagree, and not only because Luxemburg's judgements in matters of economic theory, let alone political strategy, leave very much to be desired. My argument, which Chesnais cites, is that the charging of interest does not by itself suggest a lowering of the value of labour-power. If this interest deduction became a significant part of workers' incomes, then wages would tend to rise to offset this, making it effectively a deduction from corporate profits. This is not to exclude that the value of labour-power can be forced down, but it is in the febrile imagination of the anti-finance populists that this process results from banks charging workers interest on loans.

A second issue of theory raised in Chapter 3 is on the question of bank lending. In contrast to many other Marxists, Chesnais recognises that banks can themselves create new deposit assets. However, he confusingly calls these 'fictitious capital' (p84). This is a relatively common perspective, as seen also in David Harvey's *The Limits to Capital*, but it is not consistent with Marx's definition. A bank loan can be created out of thin air by a bank, and is not dependent upon a 'real' deposit of cash, so in that sense it is indeed fictitious. But it should then simply be called a 'fictitious' deposit or asset of the bank. Fictitious *capital*, by contrast, can most easily be described as a financial security that is traded in the market and which has a price that is a function of interest rates and future expectations of returns to the buyer of that security.[3] That is not true of bank deposit or loan assets, which remain on the bank's books. Only if the loan assets later became *securitised* – that is, when the loans are the basis for payments made to owners of a tradeable security – would they become fictitious capital This was the gist of Marx's definition of fictitious capital, although one that was not clearly spelled out in *Capital* (and neither was his view of bank loans/deposits). To call bank loans or deposits 'fictitious capital' can only lead to confusion when analysing developments in contemporary financial markets.

Chapter 4 is my favourite of the whole book. Titled 'The Organisational Embodiments of Finance Capital and the Intra-Corporate Division of Surplus Value', it does not bend to media demands for a snappy one-liner, but it does provide the reader with valuable information and analysis. Chesnais discusses the different forms of the evolution of capitalism in today's major powers, focusing on Germany, the US, the UK and France. He examines the relations between the state, private corporations, banks and imperial power. While noting the importance of pension funds from the 1990s as major equity owners of big corporations, he argues that 'rather than bankers, it is industrialists with financial connections that form the core of the European corporate community' (p108). Despite some views that there is an 'international' capitalist class, his view, with which I agree, is that the main groups of 'finance capitalists' are domiciled within single countries.

One important point he makes, and one that he could have developed more, is how in contemporary capitalism, by contrast to the views of Marx and Hilferding, merchant capital (essentially commercial capital and finance) is not subordinate to industry, although it is dependent upon industrial profit, (p113). However, he does discuss the role of large commodity traders and retailers. In my view, this reflects the way in which the major powers have used the financial/commercial system to consolidate their economic privileges, something that was true for the UK even from the mid-late nineteenth century. Today, as most people should be aware, it is the poorer, subordinated countries that do most of the producing, at least in the non-monopolised fields of production.

In Chapters 5 and 6, Chesnais covers global oligopolies and the operations of international companies. He reviews theories of monopolisation and how the development of the European single market was favourable both for European and for US corporations. There is some overlap in this material with that covered by John Smith's book, *Imperialism in the Twenty-First Century* (Monthly Review, 2016), with a predatory appropriation of value by the 'buyer-driven global commodity chains' of the major corporations (p161). However, Chesnais disagrees with Smith's earlier work on a number of points, and argues that China, India and Brazil are not in the classical position of being oppressed countries, having a different, and higher, status in the world market. On a separate, important point regarding data on the global economy, Chesnais notes UNCTAD's estimate that about 80% of global trade is linked to the international production networks of international companies, and that it would be wrong to focus on foreign direct investment data as giving a complete picture of international investment. This is due both to the blurring of lines between FDI and portfolio investment and to the importance of offshore centres as the apparent location of the headquarters of many companies.

Chapter 7 discusses the globalisation of financial markets and new forms of fictitious capital. This is a useful review of the growth of financial markets, although it relies very much on secondary sources, so the data is already several years out of date, and his coverage of financial derivatives misleadingly characterises them as being 'claims on claims', when derivatives are better described as difference contracts based on the price of the underlying security to which they refer. The fundamental point he makes is nevertheless that the apparent diversion of investment to financial markets has been prompted by the decline in profitable investment opportunities (p174). The chapter concludes with a review of financial and (foreign) debt developments in Ecuador, Brazil, Argentina and South Africa, including the role of 'vulture funds' dealing in Argentina's defaulted debt.

Chapters 8 and 9 discuss contemporary developments in financial markets, focusing on banking and credit. This is well-covered ground, but is useful for those who are less familiar with recent history, and especially so in explaining the development of mortgage-backed securities, 'universal banks' in Europe, the monopolisation of banking, shadow banking, etc. There is also a discussion of how 'leverage' – ie borrowing to fund the growth of assets – rose to extreme levels due to the decline in profitability among financial companies (pp221-). I would note, however, the publisher's poor proofreading: 'over-the-counter' (OTC) securities dealing is described as 'off the counter' in Chapter 7 and here has the designation 'ODT'.[4]

Chapter 10 highlights 'global endemic financial instability' and points out that there is a 'plethora of capital in the form of money capital centralised in mutual funds and hedge funds, bent on valorisation through the holding and trading of fictitious capital in the form of assets more and more distant from the processes of surplus value production. Financial profits are harder and harder to earn' (p245). I would go further and also note how asset managers, pension funds and insurance companies – far more important investors in financial markets than hedge funds or mutual funds – are now finding their mountain of assets unable to generate the returns they have, implicitly or explicitly, promised, although Chesnais does mention this later in the chapter.

The 'plethora of capital in the form of money capital' is related to the declining profitability of capitalist investment. Chesnais notes how official reports, from the Bank for International Settlements, for example, allude to this problem, but also how they also mix in a description of low productivity growth and low economic growth in general. He correctly makes the point that the fall in interest rates long preceded the 'quantitative easing' policies that occurred after 2008.[5]

It is difficult to spell out these relationships empirically, given the available data, and Chesnais does not try to do this. It is also important to distinguish the rate of interest from the rate of profit on capital investment, which are two different things. However, I would suggest a measurement of how much global financial assets have accumulated – meaning principally equities, bonds and bank loans – against some measure of absolute global profitability over time. This would measure how far the financial claims on social resources have grown, in the form of interest and dividend payments, compared to the surplus revenues available to pay off these claims. My initial work on this suggests a decline in the rate of return from 2007 to 2014, whatever the more distorted profitability figures available for the US alone might say, data that are often used by people wanting a ready calculation of the 'rate of profit'. The rate of return I suggest is not a 'Marxist rate of profit', as traditionally understood, but it would better reflect the malaise of the global capitalist system, especially from the perspective of the major claimants upon its resources, the ones based in the rich powers!

Chesnais finishes his book with two themes. One is a lament on the lack of Marxist study in universities and the lack of journals in which Marxist studies of capitalism can be published. This is true enough, and I am glad not to have been an undergraduate university student in the past few decades! Even apparently radical journals such as the UK's *Cambridge Journal of Economics* are basically rather conservative in outlook, and are dominated by a facile Keynesian approach that dismisses a Marxist perspective out of hand if it upsets their advocacy of 'progressive' policies for the capitalist state to consider. Repeating radical consensus nonsense will get a pass; revealing the imperial mechanism of power has to jump a hundred hurdles to be an acceptable journal article. Such is the almost universal climate in academia today, despite the evidently destructive outcomes from the system they claim to be analysing.[6] Ironically, this is why the most trenchant and incisive critiques of capitalism today – at least from a descriptive point of view – often come from analysts working in the financial markets. They have to tell their clients what is really going on!

Friends have suggested to me that the situation for critical academics is even worse in the US, something I find easy to believe. I have some knowledge of, and better hope for, the development of a more critical intellectual climate coming from outside the Anglosphere. This should not be too difficult to achieve.

The second concluding remark by Chesnais is the question of how a new phase of capital accumulation might emerge. There is the plethora of (fictitious) capital with its claims on social revenue that cannot be met, but which, on the other hand, has not been devalued in a crisis collapse, because the major governments have done their best to prevent it, fearing the consequences. Chesnais discusses technical innovation to some extent, but sees this as being overshadowed by capital's degradation of the environment. One is left with the 'notion of barbarism, associated with the two World Wars and the Holocaust' (p267). That is a downbeat but telling point about the progress of opposition to imperialism today. In the main imperial countries, the answer to the question of 'Socialism or Barbarism' is biased in favour of the latter.

Finishing on a more general comment, my own preference is to avoid the term 'finance capital' completely, whereas the book is titled *Finance Capital Today.* The term is associated with Hilferding and used by Lenin, but the definition is too bound up with Hilferding's notion that banks control industry. This was not a good description of the situation in the early 20th century, and is far less true today. Chesnais would accept this and instead defines 'finance capital' as the 'simultaneous and intertwined concentration and centralisation of money capital, industrial capital and merchant or commercial capital as an outcome of domestic and transnational concentration through mergers and acquisitions' (p5). He explains how the different forms of finance capital evolved in different countries, making an important distinction between the privileges of the major powers and the subordinate position of others. I would go along with this definition, but I would argue for putting *fictitious capital* at the centre of attention, not 'finance capital'. This would show more clearly that what Marx called the 'law of value' is today mainly expressed, or at least expressed more *directly*, via the markets for financial securities, rather than in the markets for commodities, although the latter are of course important. A company's ability to access funds and at what cost, via the equity market or bond market, or a government's ability to borrow and spend, is each signalled by the markets for their securities. These markets show what is good, bad and acceptable in the imperialist world economy today.

Tony Norfield, 24 November 2016

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[1] See my book, *The City: London and the Global Power of Finance*, Verso, 2016, p111.
[2] *The City*, pp144-147.
[3] For an explanation, see *The City*, pp83-92.
[4] The book is expensively priced, so order it for your library! The book will be cheaper when later published in paperback, however.
[5] See the note on this blog from a Bank of England report here.
[6] It works like this. Academic journals are graded according to their supposed value, and getting an article published in a highly ranked journal is the objective of all academics. Think what you like about the journal's real worth, these grades are important for the scores achieved by contributors in the assessment they get from their universities, and, most importantly, in the assessment of their universities for government funding purposes. Over recent decades, this has led to a small group of mainstream, conservative, uncritical journals becoming the favoured destination for research articles, which in turn means that academics orient their work to what these journals will accept. It is a machine for generating very little worth reading, and also a system for maintaining a conservative status quo. That system is further maintained by a journal editorial board and a group of 'peer reviewers' with the same general outlook. A similar mechanism also leads academics to have absurdly long bibliographies and excessive citations in their articles, since citing their friends will encourage the return favour, and citations are another means by which academic value is assessed.