FINANCE AND GLOBALISATION: TOWARDS A POLITICAL ECONOMY APPROACH

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1.Introduction: the post-1974 downturn and Brenner's explanation

Globalisation is not a particularly clear concept, but it has become established in theoretical discourse and is widely deployed by political and other organisations. In this article it is simply taken as code for the notion that the world economy has undergone a system-wide transformation during the last three decades. Finance has been a leading component of this transformation. The article takes as its point of departure the influential work of Robert Brenner (1998, 2002), and identifies key aspects of finance in the course of globalisation that are not adequately analysed by Brenner. Theoretical principles are then suggested which are necessary for analysis of finance from the perspective of Marxist political economy.

It has long been argued by radical political economists that the capitalist world economy entered a new phase following the recession that followed the first oil shock of 1973-4. [1] As with all broad historical generalisations, it is very hard to pin down the exact characteristics of the new period and its points of difference with the old. But it is a stylised economic fact that average growth rates in the advanced capitalist countries, USA, Japan, Germany, UK, France, and so on, have been considerably worse during the post-1973 period compared to the 'Golden Era' of 1950-1973. Real wages have also failed to rise, in contrast to the preceding period. Profitability, meanwhile, has been variable and economic crises have become more frequent, deeper and general.

The post-1974 period has been called a 'long downturn' by Brenner (1998), for whom it constitutes a distinct phase in the historical development of the capitalist world economy. His account rests on showing that persistent overcapacity and overproduction emerged in world manufacturing in the 1960s, which coincided with intensified international competition among US, German, and Japanese manufacturers. As a result, there was a secular decline in profitability that brought reduced investment growth in manufacturing and led to the emergence of the 'long downturn'. In the course of the 'downturn', productivity and wage growth have declined, and persistent mass unemployment has emerged.

On this basis, Brenner has discussed the post-war performance of the US, German, and Japanese economies, paying particular attention to movements of

[1] The best-known theoretical position is probably that associated with 'post-Fordism' and the work of Aglietta (1979).

exchange rates as determinants of competitiveness of national capitals. In a subsequent contribution, Brenner (2002) has argued that, in the 1990s, there was a partial recovery of US manufacturing profitability resting on credit expansion that led to a bubble in the New York Stock Market that burst in 2000. Some successful restructuring has apparently taken place in US manufacturing but this was largely due to under-valuation of the dollar and stagnant real wages. Consequently, the counterpart to US success was worsening of competitiveness in Germany and Japan. In short, for Brenner, the latest phase of the 'long downturn' is a period of speculative bubbles created by the financial system, while the underlying conditions of accumulation have not decisively shaken off the weight of stagnation.

Brenner's analysis has generated a lively debate, much of it highly critical, though little of it directly relevant to our purposes. [2] It has been argued elsewhere that Brenner's analysis of capitalist crisis has more in common with Smith than Marx. [3] But one strongly positive outcome of Brenner's contributions is that Marxist political economists now increasingly accept that that the post-1974 period is a distinct 'era' - a 'long downturn' or 'long depression'. Prior to this debate it was far from obvious to many that the period could be thus characterised, despite general agreement that there has been a 'long boom' or 'golden era', lasting approximately during 1950-1973.

In this light, globalisation can be seen as a set of interrelated economic and political trends that have emerged during the 'long downturn, and which have tilted the balance of class power in favour of capital. Finance has been extraordinarily important in the process of globalisation, though there is no general agreement on its precise role. In this respect too, Brenner's emphasis on 'financial bubbles' can serve as point of departure for a theoretical framework of finance and globalisation, though mostly by omission. To be specific, Brenner's account of the 'long downturn', despite its emphasis on exchange rates and financial bubbles, does not adequately discuss the structural transformation of money and finance during this period. Six key aspects of this transformation - fundamental to globalisation - are discussed in the following section.

2.Finance and the long downturn.

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[2] Two entire issues of the journal Historical Materialism (volumes 4 and 5, 1999), for instance, were given to debating Brenner's contribution.

[3] See Fine, Lapavitsas, and Milonakis (1999).

i) Technological change and finance

Any characterisation of a long historical period, such as the 'long downturn', must include analysis of technologies, productive inputs, labour skills and general infrastructure, which Marxist political economy calls forces of production. As far as technology is concerned, there is no doubt that a profound change has taken place since the mid-1970s, associated with microelectronics, information and telecommunications. However, the effect of new technology on the productivity of labour is neither clear nor indisputable. Indeed, new technologies failed to raise labour systematically productivity for at least two decades, a feature of the post-1974 period that contrasts sharply with previous historical periods of technological change.

This paradox troubled policy-makers and mainstream economists, and their relief became apparent when the US economy started to present significantly improved productivity evidence after 1995. [4] The frequently triumphant announcements by the Federal Reserve regarding the 'New Economy' during the US bubble of 1999-2000 were further signs of nagging concern regarding productivity and new technology. Despite continuing productivity gains in the USA after 2000, there is still considerable doubt that new technologies have started to exercise a significant impact on productivity, and therefore on profitability and investment. One great merit of Brenner's (2002) contribution was to show that, for the 1990s at least, there was no productivity 'miracle' in the US economy, and that the 'golden era' of 1950-73 presented significantly better productivity results.

There is more that needs to be said on this issue, however, and not simply as a matter of historical narrative. If productivity has not risen substantially during the last three decades, this indicates that the impact of microelectronics, information technology and modern telecommunications on the sphere of production has been weak and spasmodic. On finance, however, the effect of new technologies has been dramatic from the beginning: communications, completion of financial transactions, documentation, transmission and safekeeping of money, settlement of transactions in real time and so on are now both cheaper and faster. Globalisation and the attendant remarkable growth of finance would have been impossible otherwise. In the realm of

[4] Noted by Jorgenson and Stiroh (2000) and then by a host of others, for instance, Fernhald and Ramnath (2004).

financial derivatives, in particular, the effect has been catalytic since, in the absence of new technologies, it would have been impossible even to price the new instruments efficiently and rapidly. The Black and Scholes model of derivatives pricing that is commonly deployed by market practitioners across the world, for instance, relies absolutely on existence of computer power.

New technologies, therefore, appear to have had an asymmetric impact on contemporary capitalist economies since the mid-1970s: on the one hand, they have not systematically raised productivity (thus also creating new fields of profitable production for industry) but, on the other they have lowered costs and facilitated global growth of finance. This asymmetry has been deeply problematic for the world economy, since finance does not produce fresh profits but merely reallocates those generated in the sphere of production. It is probable that the asymmetric impact of new technology on the sphere of production and the sphere of circulation (dominated by financial institutions) lies at the root of the frequent financial 'bubbles' of the present period. A growing and relatively autonomous financial sector operating against a background of halting productivity growth in the productive sector would tend to result in unsustainable financial expansions. [5]

ii) Enterprise and personal finance

There has been continuous restructuring of capital during the 'long downturn', which has had implications for the borrowing requirements of enterprises. On a net basis, industrial capitals today finance their investment almost exclusively through their own funds. Reliance on external funds - be they bank debt, bonds or equity - has declined systematically. [6] The change is most dramatic for Japan, whose industrial corporations relied heavily on bank borrowing to finance their investment sprees during the 'golden era'. On a gross basis, on the other hand, financial transactions undertaken by industrial enterprises have expanded unabated. This has had apparently perverse effects, whereby involvement of enterprises in stock market transactions has increased substantially, but the net result has been provision of funds by enterprises to the stock market rather extracting funds from it to use for investment. The reason is,

[5] Some aspects of this asymmetry for the behaviour of finance are discussed in Itoh and Lapavitsas (1999, ch. 8).
[6] This is well established in mainstream literature, see, for instance, Corbett and Jenkinson (1996, 1997).

of course, that stock markets have acted as main terrain for the concentration of capital, through merger and acquisition, as well as for pure speculation.

At the same time, credit and finance have penetrated deeply into the realm of personal income, in contrast to the reduced role of finance in supporting capitalist investment. Casual observation alone indicates that retail banking has expanded, including loans for private consumption and mortgage lending for working class housing. The social implications of these developments are profound. Housing and personal finance affects the proportion of personal income paid to financial institutions as interest and commissions. A large part of aggregate money income is transformed into loanable capital regularly and directly. Moreover, the modest houses of workers are transformed into financial assets. In the USA, Britain, Japan, and elsewhere, working class housing has participated in real estate bubbles, previously the domain of commercial property and more expensive housing.

Easy availability of consumer credit facilitates the immediate acquisition of material goods against pledges of future money income, reversing the practice of saving out of current income to acquire goods in the future. The ability to obtain personal credit depends on money income, assets held, track record of repayment, as well as a host of tacit social factors, such as place of abode, ethnic and racial origin, gender and kinship. Thus, access to personal credit is a measure of the social trust and power invested in the recipient. On the other hand, when personal credit dries up, individual workers face loss of material goods, restricted mobility, and collapse of social status. It is important to note that both financial institutions and capitalist corporations participate in earning interest out of individual money income and assets. This has become apparent during the financial bubbles (stock market and real estate) that have punctuated the last three decades. The losers have typically included the small buyers, whose losses represented once-for-all transfers of money assets to financial, industrial and commercial capitalists.

The implications of changes in the financing of aggregate investment have been equally profound for banks. To find new avenues of profitability banks have moved into new areas, including real estate, private banking and consumer finance. Functional specialisation has lessened among financial institutions as banks have been gradually allowed to do securities business in the stock market. The balance between interest and commission income has shifted in favour of the latter. In political economy terms, the mediating role of banks, collecting funds for industrial investment,

has declined in favour of a facilitating role, making possible the allocation of loanable capital across society, often directly between lender and borrower. Not least in this respect has been the tendency of international banks from the mid-1980s onward to support, rather than generate, waves of capital export across the world. As a result, international bank competition has intensified. Intensified competition together with the change in bank activities has contributed to deep trouble for some national banking sectors, most prominently in Japan. [7]

iii)Bank-industry relations and the character of the financial system

As a consequence, there appears to have been a change in the character of financial systems internationally. Financial systems have been traditionally distinguished between market-based, or Anglo-American, and bank-based, or German-Japanese (Allen & Gale, 2001 and 2000). The distinction between the two types of financial system is often concretely analysed in terms of differences in the bank-industry nexus (Mayer, 1988; Levine, 1997; Stiglitz, 1994). Theoretical analysis of the bank-industry nexus is typically undertaken in information-theoretic terms. The services provided by financial institutions in the two types of system are usually assessed in terms of gathering, assessing and utilising credit-related information (Levine & Zervos, 1996 and 1998). Analytical focus is on the monitoring properties of financial institutions (Bencivenga & Smith, 1991; Greenwood & Jovanovic, 1990; Stiglitz, 1996).

Globalisation seems to have been accompanied by a shift in the direction of market-based systems in recent years, partly due to institutional change imposed from above at the behest of the IMF and the World Bank. The implications for bank-industry relations are profound. In bank-based systems there are typically close relations between banks and industry sustained by exchange of personnel at the highest level and even mutual holding of shares. Banks also support industrial capital by tolerating lapses in interest payments, or by making fresh advances. The Japanese 'main bank' relationship exemplifies bank-based 'commitment', with potentially decisive effects on volumes and efficiency of industrial investment (Aoki & Patrick, 1994; Hoshi, 1994; Hoshi and Kashyap, 2001). In stock-market-based systems, on the

[7] The parlous state of Japanese banks is such that there have been calls for wholesale nationalisation even from within the financial policy establishment, see Fukao (2003).

other hand, relations are more arms-length and banks are less constrained in making companies fail, though doubt has also been cast on this point (Yafeh, 2003).

The bank-industry nexus, as is well known, is at the heart of the classical Marxist debates on imperialism. For Hilferding (1910), who provided the most sophisticated Marxist analysis of this issue, industrial capital relies increasingly on bank lending to finance fixed investment as capitalist develops. Consequently, banks and industry tend to develop close links, creating 'finance capital', with banks in the ascendant. Lenin (1916) used Hilferding's insights, added his own stress on monopoly, and claimed that finance capital systematically exported loanable capital to dominated countries in the periphery. Political imperialism was a consequence of these underlying trends. It is notable that the 'long downturn' has gradually produced phenomena that are similar in form to classic imperialism. There is, at the level of politics, a resurgence of classical forms of imperialist intervention - Yugoslavia, Afghanistan, now Iraq. Moreover, banks play a prominent role in determining the overall performance of the world economy.

But there seems to be no return to 'finance capital' in the sense in which Hilferding and Lenin used the term [8]. There is little evidence that banks dominate industrial capital. Indeed, as previously mentioned, industrial capital relies less and less on banks to finance fixed investment. The wave of capital export in the 1990s, moreover, was driven by equity rather than bank lending. Industrial capital appears to participate in the expansion of finance but on its own account and often at arms-length from banks. Finance is used to effect industrial restructuring (mergers and acquisitions, in particular) but the imperatives of banking capital are not necessarily dominant. By participating in the fluid and speculative activities of finance, moreover, industrial capital appears to be sustaining its own profitability.

iv) Export of capital

The export of capital was a characteristic feature of finance in the classic imperialist era, and justifiably stressed by Lenin (1916). International banks - mostly British, German and French - facilitated the sale of government securities in the London and Paris stock markets by a host of countries, as well as advancing loans to

[8] For a fuller analysis of this point, see Lapavitsas (2004).

them directly. Substantial volumes of capital also flowed across borders as direct investment in mines, plantations, railways, ports, and so on. The export of capital reached unprecedented magnitude during 1910-3 and left its stamp on capitalism before World War I. Nonetheless, it is worth stressing that in the case of Britain - the leading capitalist power of the era - the great bulk of those flows went to other developed capitalist countries as well as Latin America and the Dominions, rather than the colonies. [9]

The 'long boom' after World War II did not witness comparable international flows of capital. To be sure, capital export occurred in the 1950s and more significantly in the 1960s, typically associated with the spread of US transnational corporations across the world. But flows of loanable money capital were constrained by controls over the capital account as well as by Keynesian 'repression' over interest rates and credit allocation. The 'long boom' - without question the most successful period of accumulation in the history of capitalism - occurred without free flows of capital across borders.

Things changed as a result of the emergence of uncontrolled markets in dollars in Europe in the 1960s, the removal of capital account controls in the late 1970s, the general advance of financial liberalisation in the 1980s and the tremendous impact of new technology. In the 1990s the export of capital eventually reached proportionately the same level as in 1913. Indeed, two significant waves of capital export took place after the mid-1970s – the first was associated with bank lending in the late 1970s and early 1980s, the second was associated with the purchase of securities (including equities) and foreign direct investment in the 1990s. [10] The bulk of capital export was directed toward other developed countries. Nevertheless, both waves resulted in dramatic crises for developing countries - a lost decade of poverty and stagnation for Latin America and a nearly-lost decade for South East Asia.

But the export of capital in volumes comparable to Lenin's time has not been accompanied by a reconstitution of formal empire – or not yet, at any rate. Territorial protection and the aggressive exclusion of competitors by means of the extra-economic power of the state are not required by contemporary financial capital. Moreover, capital export has taken place in the absence of reliable world money, such

[9] See, for instance, Barratt Brown (1970).
[10] This is well-established in mainstream literature, see, for instance, Eichengreen and Fishlow (1998).

as gold was for the earlier period. This has dramatically exacerbated instability, as is shown in vi) below.

v) Central banking

During the long downturn the vestigial links between money in use and commodity money (gold) were severed. Contemporary money is overwhelmingly credit money resting on central bank money (banknotes and deposits) which is backed primarily by state instruments of debt. The leading central banks continue to hold vast hoards of gold, but the money commodity does not exercise a regular controlling influence on the value of central bank notes and deposits. Freed from the need to guard their gold reserves, central banks possess fuller discretion in making loans, issuing their own money and, above all, determining interest rates. Consequently, stability of the value of central bank money depends on two factors: first, on the central bank's management of aggregate credit flows and, second, on central bank money being legal tender for the settlement of commercial and other debts.

The central bank's monopoly over money that acts as legal tender is a fundamental component of contemporary finance. Modern central bank money (banknotes and deposits) functions as obligatory means of payment, backed mostly by state debt. Consequently, it has clear aspects of fiat money, that is, money with arbitrary circulation backed by the power of the state. Nevertheless, modern central bank money is still issued by a bank, i.e. it is fiat money that has mutated out of credit money. Thus, it bears little resemblance to the crude fiat monies of the past created directly by the state's printing presses, such as French *Assignats* or Prussian paper Thalers. Put differently, the management of modern fiat money draws on the social power and trust invested in the central bank.

There are economic, social, political and customary aspects to the central bank managing its own money and, more broadly, the credit money created by other institutions of the financial system. To perform its managing function, the central bank must be a repository of reliable information on the flows of credit across the economy, on the overall rhythm of accumulation, and on the habitual and customary patterns of spending and debt settlement in the country. It must use this information to balance the interests of industrialists, merchants and financiers affected by its decisions. All sections of the capitalist class apply moral pressure onto the central

bank through both public and private channels. The central bank must also weigh the social implications of changes in the volumes of credit, especially in housing and personal consumption. Finally, it is obliged to consider the broad political implications of its actions.

Managing modern credit money is a continuously evolving process. The global inflationary crises of the 1970s and 1980s, for instance, represented failure to defend the value of credit money. That failure had social and political implications at the very least because rapid inflation meant losses for creditors as well as because wage bargaining was disrupted as workers' attempted to obtain compensating increases in money wages. It is a sign of the ability of the capitalist class to learn from experience that 'independent central banking' became the byword for credit money management in the 1990s. [11]

'Central bank independence' is a convenient legal fiction that separates the bourgeois electoral process from the continuous juggling of economic and social factors by the central bank in forming monetary policy. It allows the central bank to issue its own money and influence interest rates without submitting even to the feeble scrutiny of parliamentary elections. Credit decisions that have profound consequences across society appear to be taken by disinterested experts on objective 'technical' grounds. Meanwhile, the various sections of the capitalist class continue to apply pressure on the central bank in a thousand furtive ways. The social trust invested in the central bank is thus mobilised in the interests of capital, while society is prevented from exercising even electoral accountability over its use.

The pre-eminence of central banks in contemporary finance has few precedents in the history of capitalism. Their current dominance over the credit system derives to a large extent from the monopoly they enjoy over legal tender. Thus, central banks systematically place the power of money - buttressed by the power of the state - at the service of capital. This development represents a paradox for neo-liberalism, the prevalent economic ideology of the last three decades. Neo-liberal policy has preached the virtues of free markets, but on money it has opted for completely the opposite course. Far from allowing free creation of credit money by competing financial institutions, neo-liberal policy-makers have strengthened the central bank's monopoly over legal tender. This is presented as a socially beneficial

[11] The satisfaction of arriving at 'independent central banking' is expressed very clearly by Goodhart (1994; 1995) the doyen of British central banking.

step because, presumably, the central bank is an omniscient and benevolent monopolist of money. In practice, the central bank has been given room to use money's power in the interests of capital in general, without regard for the bourgeois electoral process.

vi) World money

Global expansion of finance and generalised export of capital have given rise to a succession of international financial crises. The problems that the sphere of finance creates for the world market are associated, above all, with lack of a reliable means of hoarding and international payments, or, in Marxist parlance, world money (Marx, 1867: 240-4). This has been true since the collapse of the Bretton Woods Agreement in 1971 and the abandonment of convertibility of the dollar with gold. The implications for capitalist accumulation have been severe. At one remove, the collapse of Bretton Woods has meant freely floating exchange rates for the leading capitalist countries. But exchange rates are pure prices; they have neither necessary links with the sphere of production, nor intrinsic equilibrium. In the absence of the gold anchor, they have exhibited enormous fluctuations with corresponding effects on domestic economies. These effects have been uneven on particular capitals and particular national economies. Exchange rate volatility across the world, furthermore, has spurred development of derivatives markets and provided additional scope for industrial involvement in finance. With fixed exchange rates there is far less scope for derivatives and related speculative activities.

The absence of well-functioning world money is a weakness for the world market. World money provides a reliable means of payment for the settlement of commercial obligations and the transfer of value among nations and corporations present in the world market. But the world market has specific features that set it apart from other markets.

Domestic markets are buttressed by, and give rise to, customs and habitual practices that have (or acquire) a national character. They are supported by a legal framework and enforcement practices that draw on institutions and traditions which have evolved in the course of national history. Similarly, the customary and legal practices of domestic markets reflect the historical evolution of class struggle and the homogenising role of state power in particular countries. These complex influences -

customary, hierarchical, historical and political - are fundamental to securing the buying and paying ability of domestic money. Similarly, the structured mechanisms of the credit system also support domestic money, particularly when central bank money receives the imprimatur of the state in the form of legal tender.

The world market is different. It certainly contains processes of exchange that make money necessary for purchases and payments among trading participants. It also gives rise to customs and practices of exchange that sustain the world use of money. However, international trading customs and practices do not necessarily coincide with domestic, thus giving rise to conflicts of probity and reliability, as well as means and methods of payment. The laws that underpin the operations of the world market, moreover, depend on compromises among several states. There is no lawmaker and enforcer in the world market with a position analogous to that of the national state in the domestic market.

Equally, no state has the power to impose a single legal tender across the world market, and nor is there a structured world credit system capable of creating universal credit money. The international financial system is an anarchical whole of flows, assets and markets. It constantly creates credit money but lacks the coherent structure necessary for emergence of dominant credit money analogous to central bank money in the domestic context. Consequently, political and military interaction among states influences the use of particular monies in the world market. World money is also the ‘sinews of war’, the means of pursuing conflicts among states by financing armies, bribing allies, or paying off enemies. A nation state could improve its position in the balance of state power, if others used its money as means of hoarding and payment, or as unit of account.

The typical form of world money in the history of capitalism has been commodity money - gold and silver. Commodity world money has immediate implications for national currencies – it is a common anchor that fixes exchange rates, as long as national monies are convertible into it. Exchange rate fluctuations automatically induce transfers of gold or silver, which in turn prevent exchange rates from rising or falling beyond narrow limits. The value of the money commodity, moreover, functions as external stabilising influence on the price systems of countries participating in the world market. Flows of metallic world money have historically been the trigger of major financial, commercial and industrial crises but, by the same token, provided some automatic order to the world market.

The link between gold and world money was first loosened when Britain suspended convertibility of sterling into gold at the outbreak of the First World War in 1914. Thus, it immediately became necessary to manage world money, but such management during the interwar years was a catastrophic failure. The Bretton Woods agreement of 1944 dealt with the problem of world money by imposing convertibility of the dollar into gold at $35 to the ounce, for official transactions. The link between the dollar and gold provided an anchor for the international monetary system, and fixed exchange rates. Critical to the agreement was a battery of controls over international flows of money capital, as well as the large hoard of gold held by the USA. The collapse of the Bretton Woods agreement in 1973 finally removed the link with gold, ushered in floating exchange rates, and posed the problem of world money with renewed urgency.

During the last three decades the world market has been struggling to generate world money able to discharge its functions adequately. The US dollar has gradually emerged as quasi-world-money, an unprecedented development in the history of capitalism. Dollars are created through credit processes largely specific to the US economy and their domestic acceptability is assured by being legal tender backed by US state instruments of debt. In the international arena, on the other hand, the acceptability of the dollar rests on regular practices that have both economic and non-economic aspects. These practices include using the dollar as unit of account in key global markets, such as the market for oil; as means of payment among nations; as means of transferring official funds, especially in times of crisis; as unit of account and means of payment among financial institutions. As a result, dollar reserves are customarily held by nation states, but also by international corporations operating beyond the boundaries of individual states.

The role of the US dollar as quasi-world-money gives insights into the relations of power and trust within the world market. The international uses of the dollar are partly associated with the preponderance of the USA in the world economy. The USA, for instance, is a large importer of oil and the largest (gross) exporter of loanable money capital. Similarly, US corporations are the largest transnational corporations and US financial institutions play a dominant role in the international financial markets. However, the world role of the dollar also draws directly on the political and military power of the US, sharply accentuated after the collapse of the Eastern bloc. The extent to which the world role of the dollar depends on the active

exercise of power by the US state was demonstrated in the course of the Asian crisis of 1997-8. When Japan offered crisis finance to Asian countries, also proposing the setting up of a separate fund to manage regional financial flows, the USA rapidly scotched the proposal and forced use of the dollar in dealing with the crisis.

The benefits to the USA from the world role of the dollar are easy to see. First, the country can maintain a structural deficit in its balance of trade, effectively buying commodities from foreigners with US legal tender. Second, it can borrow from the rest of the world by promising to repay in money generated by its own central bank at the stroke of a pen. Third, since it can create quasi-world- money at will, the USA gains considerable freedom in pursuing domestic monetary policy. The benefits to other countries, meanwhile, are far more difficult to ascertain. The existence of world money is beneficial to all market participants since payments can be made and value transferred smoothly and reliably. But for the dollar these benefits are created by the very practice of using it, i.e. from the actions of the foreigners themselves. Even more strongly, the resultant practice of accumulating dollar reserves has the effect of further tying foreigners to using the dollar as world money. The greater the hoards of dollars and of dollar-denominated debt instruments held by foreign institutions and corporations, the stronger the compulsion to maintain the international role and value of the dollar. For, should the world function of the dollar be damaged, the losers will certainly include the nations that have lent to the USA and hold large amounts of dollars.

The dollar as quasi-world-money, therefore, is deeply contradictory. It purports to be a universal means of payment and hoarding but bears no necessary relation to produced value. It aims to be a global promise to pay, but remains created by national credit mechanisms. It draws on the economic forces, customs and legal practices of the world market, but cannot secure complete monopoly of global role by excluding other monies from world use. It relies on state power, but is not global legal tender. It aims to be an impersonal servant of all world market participants, but is also structurally biased in favour of the hegemonic state. The hegemon, moreover, is the largest (net) borrower in the world and has the largest trade deficit.

Managing the dollar as quasi-world-money requires systematic use of political and economic power. In the 1980s, dollar management involved ad hoc gatherings of representatives of the leading capitalist states, as in the Louvre and Plaza Accords. Things changed in the 1990s as the hegemonic power of the USA increased

significantly. The input of lesser capitalist powers to managing the dollar as world money became more informal and indirect. At the same time, complex economic and political mechanisms evolved to facilitate world money management, including regulatory and prudential intervention over international banks and financial markets. The Bank of International Settlements is important in this respect, collecting information and enforcing regularity on the practices of international banks across financial markets. The International Monetary Fund is even more important, making funds available and influencing the pattern of accumulation of entire countries. Nevertheless, success has been elusive, and certainly not comparable to that of national ruling classes in managing domestic money.

Repeated financial crises have accompanied the rise of the dollar as quasi-world-money. They are typically associated with expanding flows of loanable money capital that currently dwarf international flows of commodities. By the same token, exchange rate instability has assumed historically unprecedented dimensions. Developing countries that attempt to maintain a degree of stability in their exchange rates by shadowing the dollar, while also allowing for free movement of loanable money capital across their borders, have been subjected to major crises – as in several Asian countries, Turkey and Argentina most recently. Typically, the lack of relative modest sums of world money catapults developing countries into turmoil. At the same time, the mechanisms of dollar management have had more success at protecting the core of the developed capitalist world from monetary and financial turmoil, with the critical exception of Japan. Within US circles of economic ideology and policy-making the view has gradually begun to emerge that profound economic instability is a thing of the past, an attitude that is strangely reminiscent of Keynesian policy-making confidence in the 1960s.

3.Toward a Marxist theoretical framework for the analysis of finance and globalisation

The financial and monetary developments outlined in the previous section are defining aspects of contemporary capitalism and globalisation. They also constitute major analytical challenges for political economy. In this section of the paper I will

indicate some theoretical points that seem to me vital for a Marxist analysis of these developments. A fill analysis of these points is integral to a more accurate characterisation of contemporary capitalism that that offered by Brenner and several others. It is important to note, furthermore, that Anglo-Saxon Marxist political economy has been historically deficient in analysis of money and finance, for reasons that are not altogether clear. Considerable progress has been made during the last two decades, but it does not yet amount to a distinct current and it will not be reviewed here. On the other hand, Austro-German Marxism and the distantly related Japanese Uno Marxist tradition have many valuable insights to offer into the issues outlined above. This section draws on some of these results, though inevitably through the prism of my own reading and work.

For Marxist political economy, finance should be analysed as a 'system', i.e. as an integral whole of institutions, markets and assets that generates outcomes which could be contrary to the aims of individual participants in financial transactions. This is an important point of difference with mainstream economics, and it is worth some elaboration. In recent years, especially after the failure of early financial liberalisation to foster growth and development, mainstream economics has increasingly concerned itself with the design and peculiarities of the financial system. Theoretical interest has also been aroused by the rise of neoclassical institutionalism, information-theoretic analysis and the increasing emphasis on norms and customs in economic life. Endogenous growth theory, moreover, with its emphasis on market imperfections as spur to differential growth, has laid much importance on the role of finance in capitalist development. The debate on bank-based versus market-based systems, mentioned in the previous section, draws on all these sources. Other currents and eddies in the current literature reflect similar concerns, for instance, the attention paid to the legal regime as determinant of the character of the financial system (Beck, Demirguc-Kunt and Levine, 2002). Despite this interest, mainstream economics still lacks a theory of spontaneous development of the financial system that rests on necessary links among the system's component parts as well as between finance and industry.

In contrast, the Japanese Marxist Uno tradition, also drawing on the work of Hilferding (1910), has put forth an analysis of finance as integral whole with a defined place in capitalist accumulation. Elements of this approach have been

discussed in detail elsewhere, [12] thus suffice it to sum up its key features here. Briefly put, the financial system comprises a pyramid-shaped credit system together with a capital market. The pyramid-like shape of the credit system is created by successive layers of credit relations that comprise, from the bottom up, trade credit, banking credit, money market credit and central bank credit. These relations are seen as qualitatively different from each other regarding the terms on which credit is advanced, the mode of its repayment, and the determination of interest. But they are interconnected in the sense that each underlying layer sustains and shapes the layer above it. According to this view, trade credit is the most elementary form of capitalist finance, generated spontaneously and continuously among capitalist enterprises without need for intervention by financial enterprises, banks or other. Trade credit roots the capitalist credit system directly in capitalist accumulation, unlike banking credit, which can also secure profits by engaging in lending to agents that are indirectly connected to accumulation.

This is already a significant difference with mainstream theory, which has paid comparatively little attention to trade credit compared to banking credit. It is certainly recognised that trade credit is a broader source of short-term external funds than bank credit (Rajan & Zingales, 1995; Petersen & Rajan 1997). It is also acknowledged that the information relevant to trade creditor and debtor is likely to be different from that between money lender and borrower and to be collected in the normal course of enterprise operations. Thus, trade credit could offer monitoring advantages over banks (Brennan, Maksimovic & Zechner, 1988; Biais & Gollier, 1997; Jain 2001). But there is far less analysis of the opportunities offered by trade credit to financial institutions to come into contact with enterprises without necessarily engaging in provision of investment loans, for instance, through letters of credit or discounting of receivables. Such operations generate information flows and create relations between financial institutions and enterprises that could facilitate more straightforward bank lending. Thus, trade credit can act as foundation and support of banking credit, as well as influencing the character of the bank-industry nexus. The informational and 'commitment' aspects of bank lending, for instance, are likely to be affected by the character of trade credit advanced by enterprises to each other.

[12] See, Itoh and Lapavitsas (1999, ch. 5) and Lapavitsas (2003, ch. 4).

A related way of putting this point is that the credit system comprises social mechanisms that transform trust among counterparties into an increasingly social relation. The trust that exists between two capitalist enterprises, for instance, is transformed into broader-based trust between financial institutions and enterprises, or between financial institutions themselves. By the same token, instruments of trade credit issued between two enterprises are based on more narrowly focused trust than instruments of the money market issued among financial institutions. If financial institutions are to create the requisite trust for their operations, they have to gather information about enterprises and industrial sectors as well as about each other and the economy as a whole. Information-gathering by the credit system sustains the transformation of essentially private trust between two capitalist enterprises into more social trust between and among banks. Thus, financial institutions are the nerve centres of the capitalist economy, possessing economic as well as personal and social information about enterprises, sectors, private agencies and individuals.

The capital market, in contrast, is characterised by relations of equity and is far less structured than the credit system. Nevertheless, capital markets are closely connected to the credit system in the following ways. First, stock prices (including prices of financial derivatives) are formed on the basis of the rate of interest determined in credit markets. Second, capital markets also contain bond markets, both state and corporate, which are based on credit relations. Long-term interest rates, formed in bond markets, have a complex relationship with short-term interest rates, formed in the markets of the credit system. Third, credit institutions, typically banks, acquire functions specific to the capital market and earn significant parts of their profits through facilitation of equity and bond transactions. Investment banking is a bridging form of activity between the two main components of the financial system.

In this light, the spontaneously emerging form of the financial system has a market-based character. Banks lending is typically short-term, often associated with trade credit instruments, and banks are concerned with liquidity and reserves, to which they commit their own capital. Capital markets, in contrast, are sources of finance for large and longer-lasting projects, and complement the services provided by banks. In bank-based systems, on the other hand, banks engage in longer-term lending for fixed investment, and solvency is guaranteed (implicitly or explicitly) by the authorities. Bank-based systems represent institutional transformations wrought on the spontaneously-emerging financial system by the state. The purpose of the

transformation in to facilitate mobilisation of loanable funds for fixed investment, for which banks are more suitable than capital markets in late developing countries. By the same token, the creation of 'commitment' and of a tight bank-industry nexus require constant intervention by the state. [13]

Closing this brief outline, it is worth stressing that financial system also draws on and reproduces power relations among enterprises and banks as well as between economic and non-economic institutions, including the state. The information gathered and evaluated by financial institutions, and the credit decisions correspondingly taken, are not narrowly economic. This is ultimately due to the nature of credit as trust that inevitably also relies on social and political power. It is also due to the peculiar character of loanable money capital, discussed briefly below. Any assessment of the role the financial system in the course of capitalist development must take explicit cognisance of the power relations inherent to finance. By the same token, theoretical analysis of the financial system must also be historically specific and aware of the political and institutional aspects of finance in particular countries.

This structured theoretical treatment of the financial system rests on the view that financial institutions are not directly engaged in producing and circulating surplus value (profit), and hence differ qualitatively from industrial and commercial enterprises. The income of financial institutions is primarily generated through interest. Following Marx (1894), interest represents a conventional division of profit between lender and borrower, and there is no 'natural' rate of interest. By implication, the market rate of interest does not reflect any deeper processes of capitalist production, such as the productivity of labour, technology and the rate of capital turnover. The non-interest income of financial institutions, on the other hand, arises partly from managing the money reserves and transactions of non-financial enterprises, especially those relating to foreign exchange. These are money-dealing, and not money-lending, activities that earn average profits on capital invested to cover wages and technological costs. Finally, financial institutions earn profits through mediating transactions in the capital markets, as well as through capital market trading on their own account. This is commission-type profit and derives as a share of

[13] Hilferding (1910) similarly saw the spontaneous form of the financial system as market-based but argued that it would tend to become bank-based in the course of capitalist development. This expectation has not been borne out by historical development and probably reflected Hilferding's reliance on the Austrian and German development experience (see Lapavitsas 2004).

surplus value generated in production. There are complex theoretical problems in this respect, briefly mentioned below.

More fundamentally, for Marxist political economy, the rate of interest is the price of loanable money capital, which is a special type of capital characteristic of the financial system. Loanable money capital is traded as a commodity in financial markets and commands interest determined purely by its demand and supply. Unlike ordinary commodities, demand and supply of loanable money capital are not immediately dependent on the division of labour, preferences, technologies, and labour skills. Instead, they depend on the generation of idle money funds across society, which is then put to use by capitalists and others. [14]

An important implication in this respect is that loanable money capital possesses inherent fluidity and flexibility with regard to volumes available and particular activities financed. Loanable money capital can be easily extricated from specific activities, and this can be an advantage compared to industrial or commercial capital. By the same token, the operations of loanable money capital are more susceptible to institutional and customary influences than those of industrial and commercial capital. It follows that financial system analysis must necessarily have a country-specific character, reflecting the institutional, customary and historical factors relevant to each country. There are significant differences in operation among financial systems, even when they contain formally similar financial institutions.

Finally, a strong, but also disputatious, claim of Marxist political economy of finance is that the average rate of interest tends to be below the average rate of profit. [15] Absence of return equalisation is not accepted by mainstream economics, for which rates of return are uniformly equalised. Justifying this Marxist view is not easy but can be done two levels. [16] At a high level of abstraction, interest is a share of profit and does not reflect fundamental aspects of capitalist accumulation, as already stated. Capitals remunerated through interest earn returns in qualitatively different ways from capitals directly engaged in production and circulation, which earn returns as profit. At a lower level of abstraction, the rate of interest is typically below and moves in the opposite direction to the rate of profit in the course of the capitalist business cycle.

[14] See Itoh & Lapavitsas, 1999, ch. 3, 4.
[15] See, for instance, Marx (1894, 482).
[16] For a fuller discussion, see Itoh & Lapavitsas, 1999, ch. 6.

Only at exceptional times of crisis the rate of interest exceeds the rate of profit, leading to destruction of productive capital

The excess of the rate of profit over the rate of interest has important implications for analysis of finance. At one remove, the excess could be a source of fictitious capital, since the valuation of enterprises in the capital market is larger when projected returns are discounted with the rate of interest instead of the rate of profit. [17] Such fictitious capital could be a source of income for investment banks that manage capital market flotations. At a further remove, the gap between the rate of interest and the rate of profit creates room for state intervention. If returns to loanable capital are not spontaneously equalised with returns to industrial and commercial capital, there is greater scope for the state to alter the demand and supply of loanable money capital, in the process also altering the rate of interest. Finally, the tendency of the rate of interest to be below the rate of profit should not be confused with the profitability of banks or other financial institutions. Banks represent capital investments subject to capital mobility, which earn returns competitively. Bank profit rates (comprising returns earned from the several sources) tend to be equalised with industrial and commercial returns.

4.Conclusion: Implications for analysis of contemporary finance and further questions.

When finance and globalisation are approached as suggested above, four important analytical issues arise naturally. First, it is necessary to establish empirically the changes in trade credit relations among industrial and commercial enterprises during the last three decades. This is a country-specific issue that does not easily admit of generalisation. Japanese company practices, for instance, appear to rely still on widespread use of bills of exchange, unlike British practices that make fuller use of bank credit. Changing patterns of trade credit, moreover, could provide insights into the emergence of new international finance centres, which takes place at the nodal points of international trade.

[17] This is the source of Hilferding's (1910, 112) 'promoter's profit'.

Second, the extent to which industrial enterprises currently rely on the financial system for their investment needs fuller elaboration. Globalised finance appears, paradoxically, to be a period of financing investment through retained profits. On a gross basis, on the other hand, industrial enterprises are significant suppliers of finance, probably helped by the new information technology. The implications are profound for the bank-industry nexus. The composition of international bank revenue, moreover, seems to have shifted away from interest toward commission from money-dealing and investment banking activities. In this respect, the impact of new information technology, such as ATMs, and clearing, has been dramatic. Despite the prominent role of finance in the world economy, Hilferding's finance capital seems to have little relevance to current developments. At the same time, much of the shift toward market-based finance appears to be due to international capital flows. As globalisation has proceeded, banks seem to have become less involved as direct lenders and more as facilitators (earning commissions). Has this development renewed the relevance of Lenin's analysis of imperialism as economic phenomenon?

Third, fragility and system risk appear to have increased in the course of globalisation. Two sources of crisis stand out: first, financial bubbles in stock markets and real estate; second, financial expansion connected to international capital flows. The interaction between domestic economy and international finance appears to generate crises, related to the absence of reliable world money to replace gold. Financial innovation, partly induced by technological progress and the spread of information technology, has encouraged emergence of new instruments and markets, such as options and derivatives. The spread of such assets is partly the result of instability, since they rely on unstable and flexible exchange rates and interest rates, but also appears to create fresh sources of instability. Marxist political economy, with a few honourable exceptions, has not offered a coherent analysis of these phenomena.[18]

Finally, fourth, regulation of finance, both domestic and international, has gradually returned to the forefront of theoretical and policy concerns. Mainstream economics increasingly discusses it, for instance, regarding prudential controls and capital adequacy requirements for banks, or controls on the international flows of capital. Such debate tends to be one-sided, for instance, attempting to minimise moral

[18] The most developed relevant work is Bryan and Rafferty (1999, ch. 3).

hazard among borrowers by limiting the rescuing interventions of international organisations. But regulation could also shift some of the burden of international default toward the lender. Regulation might also impose aggregate restraint on capital flows through taxation or administrative imposition. More fundamentally, regulation could also be used to serve broader social interests, rather than simply securing the stability of the financial system.

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