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# “Financialization Hypothesis: A Creative Contribution or a Theoretical Blind Alley?”

**Stavros D. Mavroudeas**

Professor (Political Economy)

Dept. of Economics

University of Macedonia

156 Egnatia

54006 Thessaloniki

Greece

e-mail: smavro@uom.edu.gr

# ABSTRACT

The Financialisation Hypothesis is a popular argument in contemporary Heterodox but also Mainstream Economics. It maintains that capitalism has undergone a radical transformation during at least the last three decades. The financial system, through a series of innovative mechanisms, has conquered capitalism's commanding heights and has converted the whole system according to its own prerogatives. Concomitantly, the 2008 global capitalist crisis is considered as a financialisation crisis with no roots in real accumulation. This paper disputes the Financialisation Hypothesis and argues that it miscomprehends the actual workings of modern capitalism; thus, leading to 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 constitutes a well-known capitalist reaction in periods of weak profitability. This does not preclude the proliferation of new financial instruments which give new special forms of appearance to a normal capitalist process. The classical Marxist theory of crisis in conjunction with its monetary theory offers an analytically and empirically superior understanding of this process. By employing the notion of fictitious capital, it can both explain the advent of new financial instruments and their dependence upon real accumulation and profitability.

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# Situating financialisation

- **Financialisation Hypothesis (FH)**
  - Popular; Adopted by diverse approaches and journalistic analyses at the **cost of analytical clarity**
  - It is founded on the broad idea that in contemporary capitalism the financial system has conquered the commanding heights of the system and has dethroned industrialists
  - Leaving aside vague uses of 'financialisation', the economic traditions that adopt pinpoint the following **'stylised facts'** (empirical beliefs supposed to be unquestionable):
    1) increased **weight of the financial sector** (share in GDP, profits, new complex financial instruments)
    2) increased **indebtedness of working and middle-class** households in several advanced capitalist economies
    3) corporate sector finances itself through **retained earnings, capital markets** and **'shadow banking'** and not through banking (making it almost redundant)
    4) firms seek to maximize **shareholders' value** in the stock-market (prominence of institutional investors, supposed democratization) rather than long-term profit through investment ((stakeholders' value))

- Some definitions:

- **‘Shadow banking’**: non-bank financial entities (hedge funds, structured investment vehicles (SIV), special purpose entity conduits (SPE), money market funds, repurchase agreement (repos)) provide services similar to traditional commercial banks but without normal banking regulations.
- **Repo**: a form of short-term borrowing, where the owner of a security (the ‘borrower’) transfers temporarily its possession to a ‘lender’ against a sum of money and at the same time agrees to buy it back shortly afterwards; normally at a higher price; akin to a secured loan, where the buyer (the ‘lender’) receives securities as collateral for protection against a ‘borrower’s’ default.
- **Shareholders’ value (maximization)**: the ultimate measure of a company's success is the extent to which it enriches shareholders (increasing dividends, capital gains [increase of share prices in stock market]) and not its profitability and its long-term growth (stakeholders’ value)

- FH approaches argue that:
  - these secular processes constitute a **radical structural break**: a **new stage of capitalism** or a **new capitalism** has been created
  - older analytical tools cannot grasp these developments; **new tools** are required

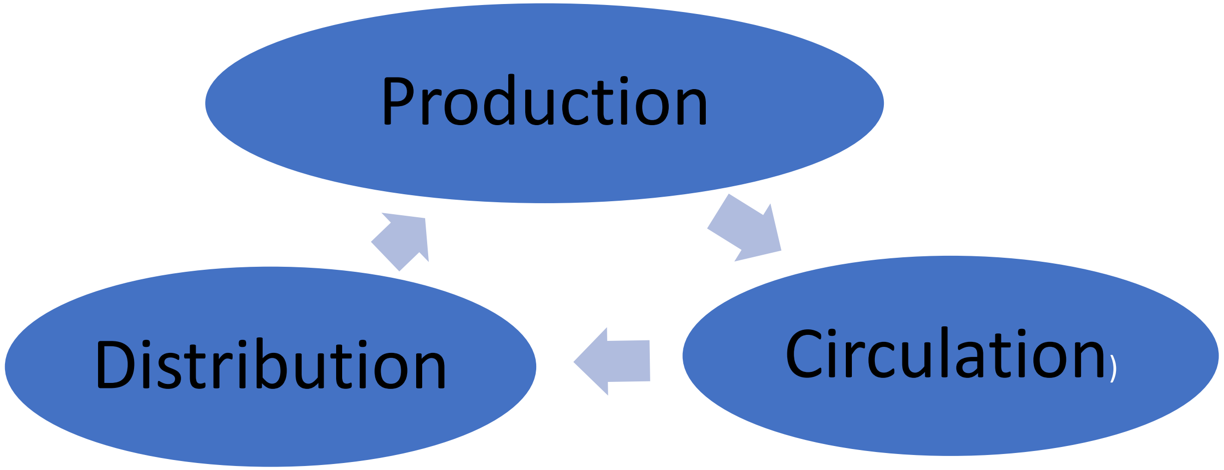
- Especially popular radical FH perspectives argue that financialisation is a new villain (simplistically identified with banks), which is (a) different from typical capitalism and (b) has to be exterminated or regulated (depending on the degree of radicalism)

- Particularly several of the Radical FH approaches argue that financialisation has created **new processes of wealth creation and exploitation** that operate on the basis of **expropriation in circulation** rather than **exploitation in production**

- Consequently, finance's profits do not derive from profit (surplus-value) in production but from usury in circulation

## ❑ Some necessary clarifications (from Classical and Marxist Political Economy):

- The **economy as a circuit**: three basic **spheres** of economic activity
- **production** (of wealth or more strictly value), then it changes hands (**circulation**) and finally results in **distribution**




- Production is the **dominant** sphere (determines the functions of the others); there are **feedback** relations

- In capitalism, capital takes three generic forms: **productive-capital** (sphere of production), **merchant-capital** and **money-capital** (sphere of circulation)
- **Labour Value Theory (LTV)**: wealth (products) is created by human labour in production: (Labour) value (practically workhours)
- Value (and **surplus-value** [new value] which is the source of profit) is produced in the sphere of production by labour under the auspices of productive-capital (**labour exploitation** argument)

$$\boldsymbol{\beta = c + v + s}$$

where **β**: value of the product
**c**: constant capital (fixed investment of capitalist)
**v**: variable capital (wages paid to workers)
**s**: surplus-value (profit of capitalist)

- Subsequently, products are exchanged in the market through prices (barter, ultimately monetary prices): these **(monetary) prices are determined by the (labour) values**

**value** → **price**

- this is a **production-centered approach**
- **A corollary: wealth is created in production (not in circulation)**
  **in circulation wealth is only redistributed**

- Labour exploitation is **non-violent** (in principle): labour is obliged to sell its ability to work to the capitalist because otherwise it cannot sustain itself. The negotiation of the labour contract is a process between nominally equal participants. However, once concluded it results in a hierarchical relationship: the capitalist acquires the **managerial privilege** (directs the labourer's work) and the labourer becomes his subordinate.

- Surplus-value is subsequently redistributed between productive-capital (industrial profit), merchant capital (merchant profit) and money-capital (financial profit [interest])

- Hence, financial profit is a redistribution of surplus-value

# The main argument of this talk

- Indeed, from the mid-1980s onwards there is a ballooning of the financial system
- However, this **does not constitute a radical structural break** (i.e. FH stylized facts are transitory elements, some existed int the past)
- Hence it is not different from typical capitalism
- In order to comprehend this financial ballooning (and its limits) we must **analyse it relation to the sphere of production** (the so-called **'fundamentals'**) and not independently of it (as FH argues)
- Classical Marxism offers a realistic and concise framework: modern financial developments are always related to production and, hence, cannot be understood independently from the latter
- This explanation that **relates financial forms to real accumulation** explains better the emergence of contemporary new financial instruments and practices ('shadow banking', shareholders' value etc.) than FH

# Sections of the lecture

- **The prehistory of FH**

- **The currents of FH**

- **A Classical Marxist explanation of the contemporary financial ballooning**

- **Conclusions**

# The prehistory of FH

- The notion that there was some structural break in capitalism's historical evolution after which the financial system conquers the system's commanding heights dates back in the **beginning of the 20th century**:
  - ❑**R.Hilferding (Marxism): finance capital**
  - ❑**Mainstreamers: finance capitalism** (end 19th century, USA, Morgan; **reversed**)
  - ❑**Keynes, Veblen: industrialist vs financier**
- **Hilferding's 'finance capital':** merger of productive and banking capital (a section of money-capital) under the latter's dominance:

**Monopolisation** (concentration and centralization of capital [fewer and bigger firms])

↓

**Joint-stock companies** & **Big Banks**

↓

**Big banks dominate** joint-stock companies

- **Problems in Hilferding's analysis**:
  - A limited empirical case (not in the Anglo-saxon economies)
  - Abandons LTV (price detnd by monopoly power [not by value])
  - Promoter's (or founder's) profit: a mark-up (disguised as fees etc.) favouring 'finance capital' at the expense of small shareholders
  - Implicitly, a new stage of capitalism
  - However, although banking dominates productive capital, it never assumes an independent existence: interest derives from the redistribution of s-v

- **Hilferding's thesis relaunched by the MR:** Sweezy (1997) **'**financialisation of accumulation', breakout Krippner (2005) 'financialisation' (although not a new stage)

- **Mainstreamers & Post-Keynesians follow** (the latter: exclusive property)

# The currents of FH

- **FH currents**
  1) **Mainstream** economics (Neoclassical and New Keynesian)
  2) **Post-Keynesianism**
  3) **Marxist and Marxisant** views

- **Mainstream FH**
  - beginning of the 21st century: a return of 'financial capitalism'; not bank-based but stock-exchange-based
  - mainly New Keynesian
  - Abandon Neoclassical inhibition about finance: Levine (1994), finance as a source of growth
  - Credit theory of money (money created by banks)
  - Financial accelerator (finance has beneficial multiplier effects on the economy)
  - Shareholders' value: democratization of the firm

- **Post-Keynesianist FH**
  - Credit theory of money
  - Extend credit money creation to financial intermediaries in general (not only banks but also investment and hedge funds, derivatives etc.)
  - This was facilitated by Neoliberalism’s deregulation of the financial system: proliferation of new, unregulated financial instruments
  - However, faithfully following Keynes, Post-Keynesianism considers this financial ballooning a burden on capital accumulation:
  - **Financier** [new rentier] **vs industrialist**: the ballooning of financial profits reduces investment in production
    - Excursus on the ‘rentier issue’: from A.Smith and D.Ricardo to Keynesianism/ two different social classes
    - For Keynesianism it is not a matter of exploitation but of functionality
  - This new financialized capitalism is inherently unstable and prone to financial crises: a forerunner (Minsky’s Financial Instability Hypothesis): financial crisis independent from (real) economic crisis
  - Hence, a return on financial regulation is required (to control the unleashed and destructive finance)

- **Marxist and Marxisant** views

- The following four are representative versions of FH in Marxist literature:
  **1)C.Lapavitsas**
  **2)D.Bryan**
  **3)Monthly Review (MR)**
  **4)B.Fine**

- The first two have a rather Marxisant flavour in the sense that they essentially abandon Marxism and flirt with Post-Keynesianism

- The other two keep within the Marxist analytical framework

- Lapavitsas (2008) adopts finacialisation directly from Post-Keynesianism
  - ‘shadow banking’ makes typical banking redundant and the financial system stock-exchange based
  - Fictitious capital is redundant, new financial structure unrelated to the production sphere, must be analysed independently. The LTV and its monetary theory are essentially discarded
  - ‘finance’ is the master of the system
  - To avoid criticisms of proposing two separate capitalist classes he argues that ‘finance’ subsumes and reshapes productive-capital according to its prerogatives
  - ‘Finance’ directly exploits workers through usury: ‘These practices are reminiscent of the age-old tradition of usury, but they are now performed by the formal financial system’ (Lapavitsas (2009)).
  - initially ‘financial exploitation’, after criticism (e.g. Fine (2009)) for confusing capitalist exploitation with the pre-capitalist usury ‘financial expropriation’
  - this boosts finance’s profits independently of surplus-value and enables it to exploit ‘us all’ (Lapavitsas (2014)
  - a new stage of capitalism (a new ‘social order’)
  - no general theory of crisis but each crisis is historically-specific. The 2008 a financialisation crisis unrelated to profitability (it remained constant (Lapavitsas & Kouvelakis (2012)).

- Bryan et.al (2009): since the early 1980s finance has become commodified through several financial innovations (securitization, derivatives etc.)

  - (a) increased leverage and derivatives and (b) workers' financial exploitation through usury change radically capitalism's functions and class structure
  - the wage relationship (i.e. labour-time) ceases to determine money and the latter has subsumed the former
  - labour became a form of capital as the reproduction of labour is now a source of surplus-value transfer in the form of interest-payments and the 'financialisation of daily life'
  - behind the Marxist terminology (surplus-value etc.) exploitation is not confined to unpaid labour-time but extends to usury
  - Since labour is a form of capital this implies directly a new class structure different from typical capitalism.
  - Derivatives become almost money

- MR – Marxo-Keynesian approach: although financialisation was initiated under its auspices, was a latecomer in adopting it (e.g. Foster (2010))
  - It adopted financialisation in conjunction with the arguments that (a) increasing income inequalities lead to the increasing indebtedness of private households (which is a form of covert underconsumption) and (b) that increased financial leverage and speculation is part of the neoliberal era of deregulation
  - It identifies the latter as a new stage of capitalism, branded as Neoliberalism, or Globalisation or later as Financial Globalisation
  - It does not argue that financial profit has become independent from surplus-value
  - weaker (descriptive, non-coherent e.g. Foster (2010)) and more coherent versions (e.g. Guillen (2014), financialisation as fictitious capital generating promoter's profit)
  - The Social Structures of Accumulation (SSA) approach follows a similar to the MR path identifying financialisation with the Neoliberal SSA (Tabb (2010)) and adding their own emphasis on institutions.
  - A fundamental problem: explanations based on monopoly ultimately refute the LTV (and its s-v exploitation mechanism)

- Fine (2009, 2010): the recent growth of finance is a special phase of neoliberalism (which is a policy trend, not a stage)

  - He analyses this new phase through the Marxian LTV and its theory of money
  - Financialisation occurs when the accumulation of interest-bearing capital (IBC) in the economy becomes extensive and intensive
    - ‘Intensive’ growth and proliferation of financial assets signifies their increasing distance from production
    - ‘Extensive’ growth means the extension of IBC to new areas of economic and social life in hybrid forms of capital
  - Finance acquires 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
  - Finance cannot acquire autonomous channels of exploitation of the working class (critique of Lapavitsas regarding the value of labour-power)

- New forms of operation of money-capital are policies used by capital to surpass its contradictions

- He follows the Marxian logic of relating finance to the sphere of production; financial profit is part of surplus-value

- A major problem: missing from his analysis is how the current emergence of financialisation relates to profitability.

- Marxisant and Marxo-Keynesian FH adopt the post-Keynesian endogenous money theory (cannot define coherently ‘capital’ and misconceives the relation between interest and profit)
- Their approach is akin to that of the old Banking School and faces similar problems
- They abandon – or misunderstand – the Marxian fictitious capital; end up converging with Mainstreamers and post-Keynesian: the monetary sector dominates the real sector and has independent from the latter sources of profit
- Marxisant FH currents have a weak theory of capitalist crisis: No general theory but only a conjunctural one
  - ➢Tome (2011): FH ultimately ascribes to a Keynesian possibility theory of crisis. This a very insubstantial theory of crisis especially from those FH currents that refer even in passim to Marxism
- MR relies heavily on monopolization (and versions of it merge with Keynesianism [underconsumption])
- B.Fine does not show the link between the current financial ballooning and profitability (and, especially for crises) the Tendency of the Profit Rate to Fall [TRPF])

- Marxisant FH end up with the Post-Keynesian theory of classes:

  - Keynesian and Post-Keynesian notion of the’ rentier’ inherited from Classical Pol. Economy but also deformed: from the landowners (transformed remnant of feudalism, a separate class, not doing business but appropriating rent) to the Keynesian distinction between industrialists and financiers, essentially seen as separate classes. Keynesianism does not have analytical problems with this as it argues that other factors affect savings and other investment.
  - Marxism conceives money and productive capital as forms of total capital that both take part in the formation of the general rate of profit (which among others is a process unifying the bourgeoisie against the proletariat). Because interest is part of surplus-value and financial profits depend upon the general rate of profit, Marxism does not elevate the distinctiveness of money and productive-capital to the point of being separate classes.

# A Classical Marxist explanation of the contemporary financial ballooning

- FH's empirics beyond the scope of this paper; although compelling evidence that real accumulation continues to be the centre of capitalism that falling profitability a-la-Marx is at the core of the 2008 crisis (e.g. Shaikh (2010), Mavroudeas & Paitaridis (2015
- Classical Marxism: the relationship between monetary and real accumulation through the **total capital circuit** (reveals the modus operandi of the various forms of capital, in the context of real accumulation)

$$\mathbf{M} \rightarrow \underset{\displaystyle \mathbf{c+v}}{\overset{}{\underset{\downarrow}{\mathbf{C}}}} \ \mathbf{.... \ P \ ......} \underset{\displaystyle \mathbf{c+v+s}}{\underset{\downarrow}{\mathbf{C'}}} \rightarrow \mathbf{M'}$$

- The three fundamental forms of capital (money-capital, productive-capital and commercial-capital) function differently but are also entwined in this circuit
- The sphere of production (and thus productive-capital) has primacy over the others as surplus-value is extracted under its auspices
- Surplus-value is redistributed between productive, money and commercial capital

- Money plays a crucial role: the most mobile element of the circuit.
- When:
  - represents value (it has not become capital) most fluidity
  - enters the production less fluid
  - when commodities produced are sold regains fluidity
- Tension between money's inherent mobility and its necessary bound in production process:
  - takes time and is risky
  - each capitalist sees himself as a free-rider
  - phases of the economic cycles that this tendency becomes stronger and phases that it becomes weaker
- Marx distinguishes carefully between money-capital's functions:

**money as money (and credit)** different from **money as capital**

- the capitalist financial system collects idle funds and channels them to investment through the banking (credit) and the capital markets (which operate differently)

- Money involved in the lending and borrowing is defined as loanable money capital (LMC) an is sub-divided in two generic forms:

$$\begin{tikzcd} & \textbf{MDC} \\ \textbf{LMC} \arrow[ur] \arrow[dr] & \\ & \textbf{IBC} \end{tikzcd}$$

1)money-dealing capital (MDC): credit in general for buying and selling in the sphere of circulation

2)interest-bearing capital (IBC): credit to advance money capital in order to appropriate surplus-value

This is a crucial difference of Marxist monetary analysis from Neoclassical and Keynesian views (see Fine’s (1985-6) critique of Panico). The latter consider all forms of money-capital receiving interest as the same. Several Marxisant FH theories (e.g. Lapavitsas (1997, p.85)) reject the Marxian analysis, side with the Neoclassical and Keynesian one and identify IBC with LMC. This stems from their - implicit or explicit - rejection of the difference between financier and merchant.

- Credit markets involves both MDC and IBC
- Capital markets involve solely IBC
- The novelty of recent hybrid forms (e.g. ‘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 mostly tied to similar and/or related sectors and geographical proximity
- Next comes **Banking credit** (collection and advance of LMC by banks), which arises in the discounting of trade bills and is based on the collection of idle money from several sources and thus overcomes some of the particularities of trade credit. By collecting idle money from several 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)
- The top of the credit system is the **central bank** (the leading bank of the money market)
- The **capital market co-operates with the credit system**. Contrary to the latter, it **mobilises idle money on the basis of property (equity) rather than credit (debt)**. Nevertheless, the credit market is connected with the stock market, as both draw funds from the same pool of LMC and as lending by the former sustains the operations in the latter.

- Because IBC is money-capital traded as a commodity commanding interest, it has a dual character:
    1) it is **immediately related to the sphere of real accumulation for interest payment**
    2) it is **immediately related to the form of credit-money**

Hence, it has certain degrees of freedom towards the sphere of real accumulation, as the interest rate which determines IBC is formed outside the total circuit by the supply and demand for LMC.

- This gives to IBC a second duality:
    1) 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)
    2) IBC comes out from the generation of sums of money in the turnover of total social capital, which are transformed subsequently into LMC by the credit system

- **IBC differs from productive-capital because its owner through lending claims part of the surplus-value (in the form of interest) without any direct involvement in production**
- In cases of unwelcomed developments IBC's lender 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 (for commercial banks at least) form the basis of their money-dealing operations are highly liquid since depositors are not tied to any particular bank
- However, **IBC's freedom has limits because by lending directly to industry it cannot be totally indifferent to the latter's outcomes**

- **Fictitious capital** is a **form of IBC** generated through the process of capitalization:
  - Firms issue **stocks, shares and bonds** in order to get money-capital and proceed with the production of surplus-value
  - These titles represent **claims to property rights or future income** and can be traded in stock markets and derivative markets. Essentially, they are marketable claims to a share in future surplus-value
  - Their existence leads to a **multiplication of actual existing capital** as the value of the latter is multiplied by the issuance of fictitious capital.
  - **Through this multiplication financial profits can be generated** – especially when there is speculation on these titles
  - **This multiplication is illusory** in the sense that it does not actually exist at the present moment but, instead, it is a precarious bet on future surplus-value. This bet might succeed – in which case fictitious capital is taking material substance – or not. In the latter case there is a financial bubble that its increasing distance from real accumulation will lead to its burst at some point in time.
  - In this sense **fictitious capital is illusory but not totally immaterial**. This linkage of fictitious capital through IBC with real accumulation (and its profitability) is rejected by Marxo-Keynesian approaches that adopt the Keynesian notion of the financial rentier and consider fictitious capital as totally immaterial.

- Periods of **economic euphoria usually foment high expectations** about the future and, thus, can **engineer waves of robust economic growth** (as they influence positively investment)
- These expectations-led booms have usually the **tendency to overshoot**; that is to create increasingly over-optimistic future expectations
- But **as soon as the 'real economy' cannot keep pace with those expectations** (i.e. investment does not lead to the expected profits) **then its growth starts faltering**. In other words, the so-called 'fundamentals' recall to reality the unsustainable growth engineered by fictitious capital
- The **busts** that follow have also the tendency to overshoot; but this time to the downside. These usually lead to the eruption of an economic crisis because of the burst of the so-called 'bubble'

- This role has been recognized long ago by Marxist economists:
- **H.Grossmann (1929)** showed that the fact that a progressively larger part of capital takes the form of share capital **counteracts the falling profitability** because '…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'
- This pinpoints the **credit system's ability to continue making profits when real accumulation starts facing difficulties in a way which delays the fall of the general profit rate**. However, despite the relative autonomy of the credit system, ultimately, its operations broadly comply with the essential motion of capitalist accumulation. Thus, the crisis phase of capitalist business cycle typically begins with the collapse of speculation in stockpiled commodities by wholesale merchants, and the rise of the interest rate which affects the debt structure at some point causing its collapse, bringing the crisis phase to be followed by depression.

- **Itoh (1988),** embedded this function within the **phases of economic cycles**: towards the upswing's end and in the beginning of over-accumulation the profit rate declines and commodity prices tend to rise. Then, speculative trading and stockpiling of commodities take place in expectation of further price rises. Speculative trading also appears in the stock exchange as the share prices of some industries begin to rise in response to the increase in their commodity prices.

❖ Capitalism is characterized by fluctuations of its economic activities which are called economic cycles

## *How can novel financial processes and instruments be analyse?*

- The most dramatic cotemporary change is that **the bill of exchange (with its direct links to the financing of production and trade) is substituted as the dominant financial asset by the 'repo' ('sale and repurchase agreement').** In a repo, a borrower of cash sells a bundle of securities for an amount of money to a lender with the agreement that the former will repurchase the securities for another amount of money after a fixed period. The securities thereby act as collateral for the cash loan. In the event that the cash borrower defaults on repayment, the cash lender owns the securities to keep, sell or use again as collateral. In this context institutional developments led to the notion of 'bank' to become elastic and the phenomenon of 'shadow banking' emerged.

- **This trend tends 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 into **fictitious capital**. In this way the contemporary financial system became more **unstable** as traditional institutional mechanisms and trust were disturbed.

- All this contemporary financial house of cards **depends upon 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 overaccumulation crisis.
- Despite the dramatic increase of labour exploitation (that is the increase of the rate of surplus-value), they shied away from a decisive destruction of unviable capitals.
- Thus, **profitability never recovered sufficiently**. The last trick, together with the **'globalisation'** (that never extinguished the national economy but increased pressure on both labour and unviable capitals), was the **expansion of fictitious capital** operations.
- Nevertheless, as argued above, this stratagem has **definite limits**. Expansion through financial doping soon met its limits **set by the real accumulation**.
- Thus, the **2008 crisis** erupted. The financial collapse was strictly geared to the problems of the real accumulation.

- The other pillar of the Marxisant FH currents (that finance acquires an independent from surplus-value mechanism of 'direct exploitation' through usury) is easily analytically disproved:
  - ➢The financial revenues from loans given to workers can be (a) an **additional appropriation of a part of the value of their labour-power** or (b) a **part of the value of their labour-power that is being expended for the acquisition of socially necessary commodities**
  - ➢In the first case, if this appropriation becomes permanent, then it will lead to **a new lower value of labour-power**
  - ➢In the second case, the current value of labour-power is actually lower than what it appears
  - ➢In both cases there are **no extra – and moreover independent from surplus-value – financial profits**. To argue otherwise means that these Marxisant FH currents propose a different theory of the determination of the labour-power and of the operation of the labour market than that of Marxism. In such a theory, direct power relations instead of indirect economic mechanisms are the only mechanism that can enable the financial system to garner extra profits. Again, this view misinterprets capitalism as a pre-capitalist system.

# Conclusions

- The FH errs on five counts.

1) 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).
2) it promotes the false perception that the post-1990s financial expansion was a totally new phenomenon without any previous historical precedent.
3) its argument about the financial system's novel 'direct exploitation' mechanism equates unwarrantedly capitalism with the pre-capitalist era of transition from feudalism to capitalism.
4) it proposes an unrealistic class analysis.
5) It leads to unjustified analytical fuzziness as it blurs the understanding of capitalism's fundamental economic and social processes.

- In a nutshell, FH's grandiose proposition about a new stage of capitalism or even a new brand of capitalism fails to account both analytically and empirically for the evolution of contemporary capitalism. On the contrary, Classical Marxism offers a superior analytical and empirical perspective.