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The Age of Finance Capital—and the Irrelevance of Mainstream Economics

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Despite the fact that the manufacturers of ideas have elevated economics to the (contradictory) levels of both a science and a religion, a market theodicy, mainstream economics does not explain much when it comes to an understanding of real world developments. Indeed, as a neatly stylized discipline, economics has evolved into a corrupt, obfuscating and useless—nay, harmful—field of study. Harmful, because instead of explaining and clarifying it tends to mystify and justify.

One of the many flaws of the discipline is its static or ahistorical character, that is, a grave absence of a historical perspective. Despite significant changes over time in the market structure, the discipline continues to cling to the abstract, idealized model of competitive industrial capitalism of times long past.

Not surprisingly, much of the current economic literature and most economic "experts" still try to explain the recent cycles of financial bubbles and bursts by the outdated traditional theories of economic/business cycles. Accordingly, policy makers at the head of central banks and treasury departments continue to issue monetary prescriptions that, instead of mitigating the frequency and severity of the cycles, tend to make them even more frequent and more gyrating.

This crucially important void of a dynamic, long-term or historic perspective explains why, for example, most mainstream economists fail to see that the financial meltdown of 2008 in the United States, its spread to many other countries around the world, and the consequent global economic stagnation represent more than just another recessionary cycle. More importantly, they represent a structural change, a new phase in the development of capitalism, the age of finance capital.

A number of salient features distinguish the age of finance capital from earlier stages of capitalism, that is, stages when finance capital grew and/or circulated in tandem with industrial capital.

One such distinctive feature of the age of finance capital is that, freed from regulatory constraints, finance capital at this stage can and often does grow independent of industrial or productive capital. Prior to the rise of big finance and the dismantlement of regulatory constraints, the role of finance was considered to be largely *greasing the wheels of the economy*. Commercial banks consolidated people's savings as bank deposits and funneled them as credit to manufacturing and commercial enterprises. Under these circumstances, where regulatory standards stipulated the types and quantities of investments that commercial banks and other financial intermediaries could undertake, finance capital largely shadowed industrial capital; they grew or expanded more or less apace.

Not so in the age of finance capital where buying and selling of ownership titles, instead of producing real values, has become the primary field of investment, and asset price inflation constitutes the main source of profit making and (parasitic) expansion. Not only has this slowed down the traditional flow of national savings (through the banking system) into productive investment in the real sector of the economy, it has, indeed, reversed that flow of funds into productive investment. Today, there is a net outflow of funds from the real into the financial sector.

> The financial sector, properly functioning, primarily recycles idle balances into additional capital formation. Years of financial deregulation fostered the creation of new instruments, ever more reliant on Ponzi-like methods of profit acquisition, by reversing this dynamic and sucking profits out of production to expand the financial sector at the expense of productive investment. . . . The relationship between the financial sector and the nonfinancial sector had effectively morphed from symbiotic to parasitic [1].

A clear indication of this ominous trend of capital flight from the real to the financial sector is reflected in the glaring divergence between corporate profitability and real investment. Prior to 1980s, the two moved in tandem—both about 9% of GDP. Since then whereas corporate profits have increased to about 12% of GDP, real investment has declined to about 4% of GDP [2].

This obviously means that as larger and larger portions of corporate earnings are funneled out of the real sector into the financial sector (mostly through stock buybacks, dubious mergers and predatory takeovers), real investment has been dwindling accordingly.

A closely related hallmark of the age of finance capital is that the draining mechanism of the real by the financial sector is facilitated by monetary policy, which is crafted by the financial aristocracy's proxies at the head of central banks and treasury departments. Every sign of a market downturn is met with generous injections of cheap money into the banking and other financial institutions—ostensibly to stimulate production and employment by extending low-cost credit to real sector businesses/producers. In reality, however, the nearly interest-free funds thus bestowed upon the financial sector hardly leaks out to the real sector. Instead, it is invested in asset price inflation, or creation of market booms and busts. Each bust is "remedied," once again, by injections of larger doses of public money and, thus, creation of a bigger bubble that, in turn, would entail higher social costs of bailing out the next bust—and so on.

Thus, when the so-called Third World debt bubble burst in the 1980s, big finance abandoned the debt-burdened nations in South–Central America and moved to new markets in Russia, Turkey, Indonesia, Thailand, South Korea and others in South-East Asia in search of fresh speculative ventures. After blowing a series of financial bubbles in these new markets, which were followed by bursts and economic crises in the second half of the 1990s, international financial speculators, once again, packed and hurriedly left the scene of their crimes, so to speak, in the hunt for newer fields of speculation. Technology sector was considered a favorable candidate for this purpose. Following the implosion of the tech- or dot-com bubble in the early 2000s, speculative finance moved to yet another market, the housing/real estate market, whose fantastically huge bubble burst in 2008, with disastrous consequences for the 99%.

It is therefore no exaggeration to argue that, in the age of finance capital, central banks have evolved as institutions designed to subsidize the powerful financial interests with public money. Win-win gambling is, of course, an oxymoronic expression. Yet, that's exactly what Wall Street banks and other financial institutions are enjoying nowadays: they win as long as the financial bubbles they create continue expanding, but they also win when the bubbles burst; as they are then compensated for their losses with bail-out monies and all kinds of other shady rescue plans.

And who would ultimately pay for the blackmailing moneys thus bestowed upon the *too-big-to-fail* banks and other financial entities?

The answer is, of course, the people—through extensive measures of austerity cuts. Under liberal capitalism of the competitive industrial era, a long cycle of economic contraction would usually wipe out not only jobs and production, but also the debt burdens that were accumulated during the expansionary cycle that preceded the cycle of contraction. Although such massive debt destructions were often painful, especially to giant financial speculators, they also occasioned much larger salutary effects of unburdening the society/economy of unsustainable debts and, thus, bringing about a fresh start, or a *clean slate*.

By contrast, in the age of finance capital debt overhead is artificially propped up through its monetization, or socialization. Indeed, due to the influence of powerful financial interests, national debt burden is often exacerbated by governments' generous bailout plans of the bankrupt financial giants and the transfer or conversion of private to public debt.

It follows that, in the age of finance capital, monetary policy has turned into an instrument of redistribution of income and/or wealth from the bottom up. This is, of course, diametrically opposed to conventional monetary (and fiscal) policies of the New Deal/Social Democratic era where such policies were designed to temper income/wealth inequality in favor of the grassroots. Not surprisingly, in all the core capitalist countries inequality became slightly less lopsided from the late 1940s to late 1970s but has become increasingly more uneven since the late 1970 and early 1980.

It also follows that, in general, financial capitalism is more conducive to inequality than the earlier stages of capitalism, or even the pre-capitalist socioeconomic formations. Under pre-capitalist modes of production as well as in the earlier stages capitalism, that is, under manufacturing or industrial capitalism, profit making required commodity/industrial production and, thus, employment of labor force. This meant that although labor was still exploited, it nonetheless benefitted from production—poverty or subsistence levels of wages notwithstanding.

In the age of finance capital, however, profit making is largely divorced from real production and employment, as it comes mostly from speculative investment, or through parasitic extraction from the rest of the economy. As such, it employs no or a very small percentage of labor force, which means that the financial sector generates income/profits without sharing it with the overwhelming majority of labor force and/or society.

Not surprisingly, chronic stagnation and chronically high rates of unemployment signify another hallmark of the age of finance capital. As the financial sector systematically appropriates the major bulk of a society's economic surplus, it thereby undermines that society' productive capacity. At the heart of the persistent stagnation, as mentioned earlier, is an acute decline in productive investment. By steadily absorbing a society's economic surplus and engaging in financial manipulations to augment their own personal wealth at the expense of the public, the financial elites deprive the society of expanding its productive capacity and providing employment and income for its citizens. The result is protracted economic sluggishness, chronically high rates of unemployment, steadily declining standards of living, and growing poverty and inequality.

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