THE TRIUMPH OF FINANCIAL CAPITAL

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The announced subject of this conference is "New Trends in Turkey and the World." I shall not try to say anything about new trends in Turkey, partly because of my ignorance but more importantly because Turkey is very much part of the world, and in this period the mother of all new trends is global in nature. To understand what is happening in any part of the world, one must start from what is happening in the whole world. Never has Hegel's dictum "The Truth is in the Whole" been as true and relevant as it is today.

In an oft-quoted passage written in 1936, John Maynard Keynes said:

> Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.

Keynes was presumably alluding to the situation that existed in the late 1920s in the United States, the world's most advanced capitalist country. Today it has the ominous sound of a prophecy that was to be fully realized more than half a century later, in the 1980s and 1990s—not only in the United States but in the whole world.

This article was originally a lecture presented at a conference organized by the Association of Graduates of the Faculty of Economics of the Unversity of Istanbul, Turkey, on April 21, 1994.

Financial capital, once cut loose from its original role as a modest helper of a real economy of production to meet human needs, inevitably becomes speculative capital geared solely to its own self-expansion. In earlier times no one ever dreamed that speculative capital, a phenomenon as old as capitalism itself, could grow to dominate a national economy, let alone the whole world. But it has.

This is the reality we face today. Its dire consequences are visible on all sides, from 35 million unemployed in the advanced industrial countries to deepening poverty and destitution in the Third World and unchecked ecological deterioration everywhere.

What is at issue here and what needs to be explained is how all this came about. Capital accumulation has always been the driving force of the capitalist system and has been treated as such by all the major schools of economic analysis—classical, Marxian, and neoclassical. It has been generally taken for granted that capital accumulation adds to wealth, income, and the standard of living of the countries in which it takes place. There has of course always been another side to the accumulation process—the periodic panics and breakdowns to which it is prone, the unequal benefits conferred on various segments of the population, etc. But on the whole it has been and still is looked upon as a necessary process the positive aspects of which far outweigh the negative.

It is not my present purpose to call this into question as a judgment on the functioning and consequences of capital accumulation seen in the perspective of its centuries-long history. What I do want to argue is that recent changes, mostly occurring since the Second World War, have so modified the modalities of capital accumulation that it has ceased to be on the whole a positive and benign force and instead has turned into a terribly destructive one.

The history of capitalism as we know it today begins with the industrial revolution in the second half of the eighteenth century. The main actors were small enterprises operating in competitive markets. Technological advances, beginning in

and spreading from the textile industries, touched off what soon became a self-reproducing and self-expanding process of accumulation and economic growth. It was this process that was the empirical basis of the first real social science, classical political economy.

In the early stages of industrial capitalism markets were still largely local, a fact that not only limited their size but also acted as a restraint on the competitive behavior of the participants. Later on with the development of the means of transportation and communication (canals, steamboats, railroads, telegraphs) markets grew enormously in size, impersonality, and the fierceness of the competition they engendered. By the second half of the nineteenth century, capital accumulation and economic growth had reached a feverish pitch.

From one point of view this was splendid. Capitalism was doing precisely what was expected of it. But from another point of view, that of the profitability of capital, things looked rather different. The trouble was that in industry after industry, capitalists trying to get the better of one another expanded their capacity and production far beyond the point of maximum profit, in many cases beyond the point of any profit at all. Weaker firms fell by the wayside in droves, and even the strongest had to struggle to survive. For the United States, already contending for a leading place in the capitalist world, one figure tells the story. The index of wholesale prices (1910-1914 = 100) stood at 185 at the end of the Civil War in 1865. By 1890 it had fallen to 82, a decline of 57 percent in twenty-five years. Both capital and labor were severely squeezed; industrial unrest and violence reached new heights; the economic literature of the period is full of pessimism and dire forebodings.

It was in these circumstances that history took a fateful turn. In all the advanced capitalist countries, the last two decades of the nineteenth century witnessed an intense process of concentration and centralization of capital. Stronger companies gobbled up weaker ones and joined together in various forms of combinations (cartels, trusts, holding com-

panies, giant corporations) aimed at eliminating cut-throat competition and getting control of their price and output policies. It was in this period too that the capitalists of the core countries, eagerly seeking new markets and cheaper sources of raw materials, reached out to colonize or otherwise gain control of the weaker countries of Africa, Asia, and Latin America. By the turn of the twentieth century what had been the small-scale, predominantly domestically oriented capitalism of the nineteenth century became the monopolistically controlled imperialist system of the twentieth.

It is important to understand the role of finance in this historic transformation. Up until the last quarter of the nineteenth century, banks and other dealers in money capital had two main functions: on the one hand providing the short-term credit needed to keep the wheels of industry and trade turning, and on the other hand catering to the long-term requirements of governments (especially for raising armies and waging wars), utilities whether private or public (canals, railroads, waterworks, etc.), and large insurance companies. After the Civil War (1861-1865), in the financing and provisioning of which many fortunes had been made, many capitalists turned their attention increasingly to industry and became prime movers in the whole concentration process, often winding up owning or controlling vast holdings in what would later come to be called the commanding heights of the economy. In all this the career of J.P. Morgan, America's most famous financier, became paradigmatic in a way that rarely occurs in the case of a single individual. I should also mention the extensive literature, both analytical and artistic, that was stimulated by capitalism's historic transformation. Three outstanding examples come to mind: in the United States, Thorstein Veblen's *The Theory of Business Enterprise* (1904); in Germany, Rudolf Hilferding's *Das Finanzkapital* (1910); and in Russia, Lenin's *Imperialism* (1917).

From our present point of view, that of new global trends at the end of the twentieth century, it is important to understand that what happened a hundred years ago set the stage

for the ultimate triumph of financial capital but fell short of that outcome. During the first half of the twentieth century the capital accumulation process continued to be focused on *industrial* capital, as it had been from the beginning of the industrial revolution. Financiers played a greater role as partners, and frequently dominant partners, of industrial capitalists. The two groups shared the goal of maximizing the profits of productive capital (steel, oil, chemicals, utilities, paper, etc.) however much they may have fought over the division of the spoils. There were of course specialists like commercial bankers, stock brokers, and bond dealers who lived in a financial world where speculation was always a temptation and on occasion, as throughout the history of capitalism, could take on a life of its own involving wide segments of society with disastrous results for many. But on the whole finance was still subordinate to production.

In the capital accumulation process itself a significant change took place in the early years of the twentieth century following the stormy period of concentration and centralization that had preceded. Wholesale prices which, as noted earlier, had been falling since the Civil War, turned up with the cyclical upturn of the mid-nineties and thereafter continued on a rising trend (with a big bulge in the First World War) into the 1920s. The obverse of this price movement was a slowdown in capital investment as the newly emergent oligopolistic corporations learned how to adjust their production policies to the absorptive capacity of their markets. Historians of this period have generally noted that the decade before the war was sluggish, with a rising level of unemployment and unusually long downturns and short upturns.

In retrospect it seems clear that the beginning of the twentieth century was also the beginning of a long period of stagnation like that which actually characterized the 1930s. What prevented this from happening sooner was the First World War. After that came an aftermath boom which in turn was sustained by a number of special factors, most notably the first surge of the automobile revolution with its ripple effects.

But deep-seated depressive forces had been implanted in the capitalist economy during the transformation of the late nineteenth century, and it was only a matter of time before they would rise to the surface as the dominant factor in the system's functioning. This finally came to pass as the spectacular financial crash of 1929 gradually gave way to the Great Depression of the 1930s.

The Great Depression was something new in the history of capitalism, a whole decade in which there was no growth at all: the capital accumulation process simply came to a halt. In the United States, by then the leading capitalist country, unemployment reached 25 percent of the labor force in 1933. A cyclical upturn which most economists, judging from past experience, expected would lead to full employment, stalled with the unemployment rate still at 14 percent in 1937. There followed a recession within the depression. Joblessness shot up to 19 percent in 1938, and the decade seemed destined to end with not only the economy but the whole society in a profound crisis. Roosevelt's New Deal which had introduced long overdue reforms and saved millions from starvation through emergency relief programs, was losing support and for the first time in U.S. history the future of capitalism itself began to be seriously questioned.

What brought this period to a close of course was the Second World War. As John Kenneth Galbraith so aptly expressed it, the Great Depression never ended, it just merged into the war economy. In the five years 1939-1944 the country's Gross National Product increased by some 75 percent and unemployment practically disappeared. But that was not part of the internal logic of the capitalist system. That logic had been exposed in its purest form in the Great Depression: the normal condition of the mature capitalist system is stagnation. To the extent that this is not the actual state of the advanced capitalist countries, the explanation has to be sought in external, non-economic forces.

For about a quarter of a century after the Second World War, i.e., from the mid-1940s to the 1970s, these external

forces were in ample supply: repairing war damage, making up for shortages caused by wartime diversion of resources from civilian production, taking advantage of technologies developed for military purposes such as electronics and jet planes, above all a new round of wars, hot and cold. During two decades, the 1950s and 1960s, the conditions for capital accumulation were extremely favorable. Capitalism entered a new golden age, reminiscent of the best years of its youth. But this could not and did not last for long. It is the nature of accumulation to eliminate the demand that stimulates it. And unless new stimuli emerge, the process subsides, and the tendency to stagnation takes over. This is what was beginning to happen as the 1960s drew to a close, culminating in the sharp recession of 1974-1975, by far the most serious since the end of the Second World War.

A new stimulus was badly needed, and it emerged in a form which, while certainly unanticipated, was nevertheless a logical outcome of well established tendencies within the global capitalist economy.

I must interrupt the story here by confessing that the territory we are about to enter, if not exactly unknown, is in large part unexplored and very inadequately mapped—in addition to which I am not particularly well qualified by training or experience to play the role of explorer. Still the subject is so important that anything that stimulates interest and debate may prove to be useful.

What I am talking about is the development in the last twenty years or so of a relatively independent—relative, that is, to what went before—financial superstructure sitting on top of the world economy and most of its national units. It is made up of banks—central, regional, and local— and a host of dealers in a bewildering variety of financial assets and services, all interconnected by a network of markets, some of which are structured and regulated, others informal and unregulated. Such an entity is multi-dimensional, and there is no conceptual unit that could be used to measure its size. But that it is very large and growing is not only intuitively

evident but clearly reflected in statistics that relate to important measurable aspects of the whole.

I said that this financial superstructure has been the creation of the last two decades. This means that its emergence was roughly contemporaneous with the return of the stagnation in the 1970s. But doesn't that fly in the face of all previous experience? Traditionally financial expansion has gone hand-in-hand with prosperity in the real economy. Is it really possible that this is no longer true, that now in the late twentieth century the opposite is more nearly the case: in other words, that now financial expansion feeds not on a healthy real economy but on a stagnant one?

The answer to this question, I think, is yes it is possible, and it has been happening. And I will add that I am quite convinced that the inverted relation between the financial and the real is the key to understanding the new trends in the world with which this conference is concerned.

I would like to be able to explain all this in simple, understandable terms. But I can't and not only for lack of time. These are very complicated problems, and I know of no one who has come up with satisfactory solutions. Mainstream economists for the most part simply deny their existence and in so doing, in my opinion, lose touch with reality. All I can do is try to suggest the underlying logic of the argument.

The real economy, the one that produces goods and services that enable people to live and reproduce, is owned by a tiny minority of oligopolists. It is structured to yield them large profits, far beyond what they could or would even want to consume. Being capitalists, they want to invest most of their profits. But the very same structure that yields these profits puts strict limits on the incomes of the underlying population. They can just barely buy the current level of output offered to them at prices calculated to yield the going rate of oligopoly profit. There is therefore no profit to be made from expanding the capacity to produce the goods that enter into mass consumption. To do so would be to invest in excess capacity,

a patent capitalist irrationality. What, then, are they to do with their profits?

In retrospect the answer seems obvious: they should invest in financial, not real productive assets. And that, I think, is just what they began to do on an increasing scale as the economy sank once again into stagnation in the 1970s. On the supply side, too, the situation was ripe for change. Financial activity, mostly of a traditional kind, had been stimulated by the postwar boom of the 1950s and 1960s, suffering something of a letdown with the return of stagnation. Financiers were therefore looking for new business. Capital migrating out of the real economy was happily received in the financial sector. Thus began the process which during the next two decades resulted in the triumph of financial capital.

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When I started preparing for this talk, I had grandiose notions about what I wanted to include. First would come a statement of the central theme, the rise to dominance of financial capital; next, a sketch, both historical and analytical, of the origins and development of this process; finally, and most important, thoughts on the implications for understanding what is happening in the world and what to expect as we look forward to the future. I even thought I might find time to say something about what could or should be done by those of us who are not happy with the way things are going.

Alas for illusions. I soon realized that trying to deal with such an agenda in one short talk could only result in hopeless superficiality. So I was obliged to cut back and focus on the historical aspect. But I don't want to end without at least a few notes on implications.

(1) The locus of economic and political power has shifted along with the ascendancy of financial capital. It has long been taken for granted, especially among radicals, that the seat of power in capitalist society was in the boardrooms of a few hundred giant multinational corporations. While

there is no doubt about the role of these entities in the allocation of resources and other significant matters as well, I think there is an added consideration that needs to be stressed. The occupants of these boardrooms are themselves to an increasing extent constrained and controlled by financial capital as it operates through the global network of financial markets. In other words, real power is not so much in corporate boardrooms as in the financial markets. Here a footnote: the giant corporations are also major players in these markets and help to give them their importance. It looks as though Adam Smith's invisible hand is staging a comeback in a new form and with increased muscle.

(2) What holds for corporate CEOs also holds for the wielders of political power. More and more, they too are controlled in what they can and cannot do by the financial markets. This is pretty obvious with respect to the economically weaker members of the international community, most of which are directly under the thumb of the IMF and the World Bank. But it is hardly less true of the stronger members, including the United States. Everything of consequence undertaken by the Clinton administration, from fiscal policy to healthcare reform, must pass the test of acceptability to the financial markets. Just a couple of weeks ago the *New York Times* ran a long story by one of its top reporters entitled "Stock Market Diplomacy" with a subhead "Clinton's Foreign Policy Includes a Regard for How a Move Plays in Global Trading." As far as the intermediate powers are concerned, those that are between the weaker and the stronger, one need only point to the experience of France in the early 1980s. The French people elected a socialist government by an impressive majority. The new government, responding to the electorate, embarked on a course of mild social reforms and fiscal expansion. The result was not long in coming: a severe balance of payments crisis followed by a hasty retreat. As between democracy and financial capital in the world as structured today, there is little doubt about which is the stronger.

(3) What is to be done? If my analysis is correct, that neither the global economy, operating under its present rules, nor government constrained to abide by these rules, can deliver what the great majority of the people in the world need—decent jobs, security, livelihood—it seems clear that they have no choice but to challenge the structure itself. I am confident that they will—eventually. The human species is long suffering, but it is not likely that it will tolerate forever what looks like a slide into ungovernability and chaos. Meanwhile, portents of things to come may be visible here and there. I am particularly impressed by the uprising of the poorest peasants in the poorest state of Mexico, a country under a regime that has enthusiastically embraced the brave new world of financial orthodoxy. The Chiapans are not getting ready to seize power, far from it. But they have shaken the whole society to its foundations, and Mexico may never again be what it was before January 1, 1994. Similar things are likely to occur elsewhere. I hope so.

"This is another sad example of the Administration's callous response to a terrible human tragedy. . . . If I were President, I would—in the absence of clear and compelling evidence that they weren't political refugees—give them temporary asylum until we restored the elected government of Haiti."—Democratic Presidential candidate Bill Clinton, responding to President Bush's decision to repatriate fleeing Haitians without screening them for claims of political asylum, May 27, 1992.