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Julian Müller

Theses on Financialisation and the Ambivalence of Capitalist Growth

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Humboldtstraße 34
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Internet:
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Redaktion/Layout:
Christine Schickert
christine.schickert@uni-jena.de

Die DFG-KollegforscherInnengruppe „Landnahme, Beschleunigung, Aktivierung. Dynamik und (De-)Stabilisierung moderner Wachstumsgesellschaften" – kurz: „Kolleg Postwachstumsgesellschaften" – setzt an der soziologischen Diagnose multipler gesellschaftlicher Umbruchs- und Krisenphänomene an, die in ihrer Gesamtheit das überkommene Wachstumsregime moderner Gesellschaften in Frage stellen. Die strukturellen Dynamisierungsimperative der kapitalistischen Moderne stehen heute selbst zur Disposition: Die Steigerungslogik fortwährender Landnahmen, Beschleunigungen und Aktivierungen bringt weltweit historisch neuartige Gefährdungen der ökonomischen, ökologischen und sozialen Reproduktion hervor. Einen Gegenstand in Veränderung – die moderne Wachstumsgesellschaft – vor Augen, zielt das Kolleg auf die Entwicklung von wissenschaftlichen Arbeitsweisen und auf eine Praxis des kritischen Dialogs, mittels derer der übliche Rahmen hochgradig individualisierter oder aber projektförmig beschränkter Forschung überschritten werden kann. Fellows aus dem In- und Ausland suchen gemeinsam mit der Jenaer Kollegsgruppe nach einem Verständnis gegenwärtiger Transformationsprozesse, um soziologische Expertise in jene gesellschaftliche Frage einzubringen, die nicht nur die europäische Öffentlichkeit in den nächsten Jahren bewegen wird: Lassen sich moderne Gesellschaften auch anders stabilisieren als über wirtschaftliches Wachstum?

Julian Müller

Theses on Financialisation and the Ambivalence of Capitalist Growth

Abstract

This working paper examines the ambivalence of capitalist growth and accumulation, that is, the simultaneous combination of dynamic and restrictive tendencies. At the most abstract level, this ambivalence is related to the existence of three different forms or circuits of capital. At a more concrete level, the accumulation regime of financialised capitalism is outlined. In comparison to Fordism, this accumulation regime is characterised by a weak propensity to invest and therefore by lacklustre accumulation. On this basis, I look at financialisation and the crisis in the Eurozone in particular and what it means for those societies that are currently being subjected to a regime of austerity. Finally, this view of capitalism is contrasted with the discourse of growth critique which exaggerates the dynamism of capital and produces a simplistic view of capitalist societies as 'growth societies'.

Zusammenfassung

Das Working Paper beleuchtet die Ambivalenz kapitalistischen Wachstums und Akkumulation, d.h. ihre gleichzeitige Kombination dynamischer und restriktiver Tendenzen. Auf der abstraktesten Ebene wird diese Ambivalenz auf drei verschiedene Formen des Kapitalkreislaufes bezogen. Auf einer konkreteren Ebene wird das Akkumulationsregime des finanzialisierten Kapitalismus umrissen. Im Vergleich zum Fordismus ist dieses Akkumulationsregime durch eine schwache Investitionsneigung, und daher schwache Akkumulationsdynamik, geprägt. Auf dieser Grundlage betrachte ich Finanzialisierung und die Krise in der Eurozone im Besonderen sowie deren Bedeutung für die Gesellschaften, die sich derzeit einem harschen Austeritätsregime unterwerfen müssen. Zum Abschluss wird diese Sicht der kapitalistischen Entwicklungsdynamik dem wachstumskritischen Diskurs gegenübergestellt. Letzterer übertreibt die Dynamik des Kapitalismus und produziert dadurch eine simplistische Deutung kapitalistischer Gesellschaften als ‚Wachstumsgesellschaften'.

Adress of the Author

Dr. Julian Müller
Email: julianporto@gmx.de

The following thoughts and arguments are, in part, a critique of the most recent wave of growth critique, the *degrowth* or *décroissance*-movement, whose most prominent representative is the French economist Serge Latouche. The aim is not to deny the movement's legitimacy, but to point out a weakness that may impair its capacity for social and counterhegemonic mobilisation and hamper the formation of alliances with other social forces, above all the labour movement. In other words, this critique of growth critique is made in a spirit of friendship and solidarity; it is based on the firm conviction that a better society, and any movement(s) leading to such a society, must address the injustices and social problems of crisis-ridden capitalism as well as the ecological destruction it causes, and that they must do so by empowering the popular masses to take matters into their own hands.

1. Introduction

The discourse of growth critique sometimes resembles a sort of negative mirror image of that same growth obsession it criticises. Staunch advocates of economic growth (such as Paqué 2010) see growth as the fundamental cause of the peculiar dynamism of capitalist societies, and they also believe that the solution to social and ecological problems is more, not less, of it. The critique also sees growth as the dominant economic and social dynamic, but emphasises its ecological and, less frequently, social destructiveness. This notion of capitalism as a growth system that is driven by ceaseless expansion and ignores all boundaries is manifested in, among others, the movement slogan 'You cannot have infinite growth on a finite planet', or Serge Latouche's assertion that we live in a *growth society*, i.e. one 'that has been swallowed up by an economy whose only goal is growth for the sake of growth' (Latouche 2009: 3).[1]

This view is accurate insofar as it describes the general tendency of those societies in which the capitalist mode of production prevails, especially when they are compared with pre-capitalist societies or when the focus is on capitalism as a global system. The stupendous increase in the use of resources as well as the production of waste and emissions since the industrial revolution clearly demonstrates that (see tables in Exner et al. 2008: 42, Karathanassis 2003: 73), as does the growth of world population. However, a less generalising perspective that pays more attention to the geographic and historical differences and peculiarities of capitalist development suggests a more nuanced and ambivalent picture. This is the approach taken in, for instance, comparative political economy, especially the *varieties of capitalism* school (Hall/Soskice 2001), and the more Marxist-influenced political-economic discussion about the post-Fordist mode of regulation. The latter has shown that capitalism has so far failed to produce a regime of accumulation that matches the coherence and universality of Fordism (and probably never will). It is also the perspective that dominates the literature on *financialisation*. In other words, political economy also focuses on the malaise and sluggishness of capitalist development in those countries that are associated with *Atlantic Fordism* (Jessop 2002: 55-8) as well as peripheral European countries that underwent a delayed Fordist development (e.g. Greece or Portugal). In that spirit the main hypothesis advanced here is that financialised capitalism is characterised by a regime of sluggish accumulation in which GDP growth is supported through a vast financial expansion, or *was* until the economic and financial crisis that broke out in 2007. The critique of growth, inasmuch as it also aims to be a social critique, tends to ignore this sluggishness and thus the ambivalence of recent developments. What it appears to refer to instead, when it claims that we live in a growth society, is the unambiguousness of Fordist capitalism where key variables of socio-economic development – wages, productivity, investment and GDP growth – were tightly coupled and moved in unison, mostly upwards.

In what sense then are the following thoughts and arguments a critique of that most recent wave of growth critique? To answer that it is necessary first to disaggregate the various dimensions of growth critique. Without claiming to provide an exhaustive list, one can discern at least three such dimensions. These are not exclusive but emphasise different aspects. They are probably connected to different conjunctures or stages in the development of capitalist societies and the varying types of critique that have been formulated

[1] Many more examples could be given, but one shall suffice here: in their book 'Limits to Capitalism', Exner et al. (2008: 10) state that the society we live in is based on growth that knows no boundaries and can therefore be labelled a 'system of growth'.

in response to them. First, there is a social-ethical critique that targets the culture of consumerism in the affluent societies of Western Europe and North America. It decries the vacuity of a life filled by an endless stream of material goods and the banal materialism this engenders. In this context, the idea of a simple(r) but better life is frequently invoked, or it is claimed that, once a certain level of material wealth is reached, additional income or goods do not increase human happiness (Jackson 2009: 35-47, 143-156). The second, and currently probably dominant, motive of growth critique is ecological: it denounces the destructive consequences of a growth dynamic in the face of the Earth's limited natural resources and capacities for absorption. Third, growth critique can also be a weakly normative social critique that points to the potential dysfunctions and crisis tendencies of societies in which social integration and systems integration depend on economic growth. In this view, contemporary societies are growth societies in a profoundly structural sense insofar as they are 'addicted' to growth (Latouche 2009: 16-20) and suffer from withdrawal symptoms when it ceases. This last type of critique is different from the first insofar as it focuses less on culture and the life-world and does not necessarily entail a strong idea of the good life, but that does not mean that the two cannot go together; in fact, they reinforce each other.

The ecological critique is not touched by this paper. The argument developed here is only relevant to the first and third dimension of growth critique because it presents a different account of the role and universality of growth in the countries associated with Atlantic Fordism, casting doubt on the adequacy of the term 'growth society'. More importantly, it has implications for growth critique as *political project*, because the less than dynamic, crisis-ridden capitalist societies in which we live in Europe and North America are the terrain on which the movement associated with growth critique must act, strategise and form broad-based counterhegemonic alliances if it ever wants to see its ambitious agenda become reality. The reality of this terrain, however, is very different from the one it has in mind when it imagines these societies as growth societies. Progressive red *and* green politics needs to take that into account, and the following hypothesis is advanced in that regard: The ongoing crisis and the dominant mode of crisis management in Europe (and the Eurozone in particular) sharpen the tension between financialisation on the one hand and renewed accumulation and GDP growth on the other, thus posing a strategic dilemma for a progressive left that shares the concerns of growth critique but is also supportive of the struggles of organised (and unorganised) labour and that advocates an equitable way of resolving the crisis.

Theoretically, my argument rests on two main pillars. First, on a *periodisation* of capitalism in the countries associated with Atlantic Fordism that refers to Marx' analysis of the different forms assumed by capital in its circuit (or 'metamorphosis', as Marx called it). I assume that different phases of capitalist development are characterised by specific hierarchical configurations of these forms of capital insofar as some have their dynamic potential restricted while that of others is allowed to unfold. Second, I draw on regulationist (or regulationist-inspired) analyses of the accumulation regimes in financially dominated and Fordist capitalism. Accumulation – i.e. the tendency of capitalist enterprises, unlike the more stationary economic units of precapitalist times, to grow by reinvesting the proceeds from the previous business period (expanded reproduction) – is crucial as a concept because this is where the interests of growth critique and regulation theory intersect. For regulation theory, a relatively stable pattern of accumulation is the precondition of coherent development in capitalist economies, whereas, from the point of view of growth critique, unbridled accumulation is the principal cause of environmental destruction. Both perspectives are, in fact, brought together in Karathanassis (2003) on whom this paper draws heavily.[2]

In a much broader sense, the view presented here draws on a traditional theme in the Marxist critique of capitalism. By focusing on the ambivalences of capitalist accumulation, the juxtaposition of dynamic and restrictive factors, it takes up something that is doubtlessly one of the major strengths of Marx', though not always Marxist, thought: the consciousness of the profound ambivalence of capitalism. This is nowhere clearer than in the *Communist Manifesto*, which, in the same breath, praises and condemns bourgeois civilisation, celebrating it as liberator and denouncing its ruthless exploitation. More importantly, the *Critique of Political Economy* is steeped in this consciousness of ambivalence: that, to give an example, capital in general undermines the conditions of its own accumulation because individual capitalists seek to improve theirs is the reason for Marx' notorious *tendency of the rate of profit to fall*. In that context, the general observation is made that

> 'The *true barrier* to capitalist production is *capital itself*. It is that capital and its self-valorization appear as the starting and finishing point, as the motive and purpose of production; production is production only for *capital*, and not the reverse, i.e. the means of production are not simply means for a steadily expanding pattern of life for the *society* of the producers.' (Marx 1981: 358)

Latouche accuses the 'Marxist critique of modernity' of remaining 'terribly ambiguous' (2009: 89-90), but this ambiguity is a strength, not a weakness. One can ignore the fundamental ambivalence of capitalist development, but it will come back and bite you in the arse! The following thoughts and arguments are, of course, much less ambitious, but I hope they stand in the tradition of this consciousness of ambivalence. Whereas growth critique talks about capitalism only as an incredibly dynamic system of disembedding and transgression of boundaries, as something that disregards all social and natural limits, the Marxist critique of capitalism also sees its restrictive tendencies and how it creates barriers for economic and social development.

The paper proceeds as follows. Section 2 will set out the theoretical framework and explain the concept and centrality of accumulation as well as the forms and circuits of capital and their relevance to the periodisation of capitalism. Section 3 explains what financialisation is all about, but with a view to the combination of dynamic and stagnant factors in what I prefer to call financially dominated capitalism. The focus is on the development of fixed investment in non-financial corporations (i.e. accumulation) and the sources of aggregate demand, especially households. On this basis, the accumulation regime of financially dominated capitalism (pre-crisis) is outlined, and this paper's core hypothesis advanced: that this particular stage of capitalism is characterised by a conspicuous combination of restrictive and dynamic tendencies, namely weak accumulation on the one hand and financial expansion on the other. Section 4 narrows the geographic focus by briefly looking at the centre-periphery structure at the heart of the Eurozone and the development of current account balances. On this basis, Section 5 discusses and also makes some predictions regarding the consequences of the crisis and the austerity-focused mode of crisis management in Europe. I argue that these undermine the accumulation regime of financially dominated capitalism by weakening demand and fixed investment even further, and that the strategic goal of crisis management

[2] Cf. Latouche (2009: 90): '[...] de-growth can only mean the contraction of accumulation, capitalism, exploitation and predation. The point is not just to slow accumulation down but to challenge the concept of accumulation itself so as to reverse the destructive process.'

seems to be to turn the Eurozone as a whole into one large net exporter, thereby making up for lost demand. I also argue that this may create a strategic rift between ecologically motivated critics of growth, i.e. 'green' politics, and those who favour a strategy of 'growing out' of the current crisis, i.e. 'red' politics. Section 6, finally, turns to the social consequences of these economic and political developments. The (somewhat speculative) hypothesis is advanced that we are probably seeing the end of the Fordist era of inclusive growth – and thus of the growth society. The future is more likely to be characterised by *decoupling*, which will especially affect those that are already struggling, but also those who deemed themselves secure in their social status until very recently. An appendix briefly mentions a nascent research area that has drawn attention to mechanisms that may make financialisation become directly relevant to nature and thus to ecological growth critique.

2. Accumulation, capital forms and periodization

Capital accumulation at the level of individual industrial businesses is at the heart of growth and development in the capitalist mode of production, but when it is sluggish stagnation ensues. Accumulation is more than simply making a profit, for that would not be specific to the capitalist mode of production. What it means is that product market pressures create incentives for industrial capitals[3] to reinvest all or some of the surplus accrued during the previous business period; this is what Marx termed '*expanded* reproduction'. Mere profit, on the other hand, can already be had after only one period of being in business; the trading ventures of early modern merchants would be a case in point.

Growth at the level of companies has to be distinguished from growth at the level of an entire economy commonly measured now as GDP. Typically, the aggregation of the former also entails the latter, but that is not necessarily the case (Exner et al. 2008: 105-6). Aggregate growth is *not* an operational goal for capital, but merely a by-product. Therefore, *accumulation ≠ GDP*.

From the viewpoint of ecologically motivated growth critique the expansionary dynamic inherent to accumulation also escalates the use of natural resources as well as environmental destruction (Karathanassis 2003). In the last instance, money may be the decisive form of capital because it is only as money that an individual capital can compare its outlays to its proceeds and thus determine whether it has successfully valorised itself by earning at least an average rate of profit. However, capital also goes through the forms of productive and commodity capital (more on this soon), therefore the monetary turnover corresponds to a physical, material, energetic turnover. (Usually they are not directly proportional because their quantitative relationship is determined by a whole range of variables.) This constitutes a peculiar *economy-nature relation* ('ökonomisches Naturverhältnis') for the capitalist mode of production in general. An economy-nature relation is the specific form in which nature and the labour process are coupled, in other words, 'a coherent relation between natural processes and laws on the one hand, and […] economic activities and laws on the other' (Karathanassis 2003: 33). In those societies in which the capitalist mode of production prevails, said relation is marked by incongruence. The accumulation of capital is, in principle, an open-ended process that is only limited by the rate of profit and the capital sum invested in the previous

[3] In the Marxist context, this does not just refer to the manufacturing sector, but also to the agricultural and parts of the service sectors.

period, while on the other side we have 'systems of fossil energy sources and materials' that are, for all practical purposes, finite (op. cit: 98). This particular kind of coupling of monetary and physical turnovers is the fundamental cause of the capitalist tendency to exceed systematically the limits and regenerative capacities of natural systems. The connection between the two sides is asymmetric because one of them possesses what might be called an excess of dynamism, which makes it the dominant side in the relation.

At an abstract level, accumulation appears as a relatively straightforward growth dynamic of industrial capital through the continuous reinvestment of profits, i.e. as a unitary 'logic of capital', but at a more concrete level the various forms of industrial capital come into view and the 'logic of capital' turns out to be more diverse. This allows us to paint a more differentiated picture of capitalist development. Not only can we explain the coexistence of dynamic and stagnation within concrete capitalist formations, we also get a grip on the periodisation of capitalism.

In *Capital*, Marx uses formulas to describe economic cycles (or circuits). The best-known is M-C-M', the general and abstract formula of capital. At more concrete levels it has to be varied to take into account the peculiarities of functionally differentiated components of total social capital. For instance, the form of interest-bearing capital, which also represents the viewpoint of the *proprietors* of capital, is M-M', 'money that produces more money' (Marx 1981: 515). In *Capital II*, Marx argues that the 'metamorphosis' of industrial capital comprises three stages, each starting from one of its distinct forms: the circuit of *money* capital, *productive* capital and *commodity* capital respectively .

The formula for the circuit of money capital is M-C...P...C'-M' (Marx 1978: 109). ('M' is money, 'P' denotes the stage of production, 'C' the commodity form of capital. Apostrophes indicate a quantitative increment at the end of a full circuit. Here they indicate that the value of commodity outputs exceeds that of commodity inputs and that revenues exceed money invested at the beginning.) Here, production appears as mere mediation or temporary interruption. In the circuit of money capital

> '... it is the exchange-value, not the use-value, that is the decisive inherent purpose of the movement. It is precisely because the money form of value is its independent and palpable form of appearance that the circulation form M...M', which starts and finishes with actual money, expresses money-making, the driving motive of capitalist production, most palpably. The production process appears simply as an unavoidable middle term, a necessary evil for the purpose of moneymaking.' (Marx 1978: 137)

The circuit of money capital could also be called the liquidity- or exit-form of capital, because it is only in its money form that it can be withdrawn and invested in another industry (Marx 1978: 140, 171-2). The circuit of money capital, like that of interest-bearing capital, thus begins and ends with liquid capital.

Conversely, for productive capital (P...C'-M'-C...P)

> '...the entire circulation process of industrial capital, its whole movement within the circulation phase, merely forms an interruption, and hence a mediation, between the productive capital that opens the circuit as the first extreme and closes it in the same form as the last extreme, i.e. in the form of its new beginning." (Marx 1978: 144)

> 'The general form of the movement P...P is the form of reproduction, and does not indicate, as does

M...M', that valorization is the purpose of the process.' (172)

Marx provides no equivalent formulation for the circuit of commodity capital. Like the circuit of productive capital, the circuit of commodity capital points to the necessity of reproduction; but, in contrast to the former, it also takes into account the integration of each individual business into product markets and the social division of labour (Marx 1978: 173-7). Nonetheless, one commonality across all three circuits is important in the present context. They offer a peculiar vantage point from which to approach the total circuit of capital: as investment of money that starts from expense and ends in revenues; as a continuously repeated productive labour process; and as buying and selling of inputs and outputs. Therefore, these circuits not only represent successive stages in the metamorphosis of an individual capital; they also underpin differing *perspectives* on capital and its overall metamorphosis. (They are also the basis for the existence of functionally differentiated *fractions of* capital which Marx discusses in *Capital III*.) Thus, there is a money perspective on capital (or the perspective of capital as money) as well as a productive perspective on capital (or the perspective of capital as productive unit). Marx confirms this with regard to the history of economic thought until his time. According to him, the circuit of of money capital formed the basis of mercantilism (Marx 1978: 139, 141), the circuit of productive capital was related to classical political economy, i.e. Smith, Ricardo et al. (166), and the circuit of commodity capital underlay the *Tableau Économique* of the physiocrat François Quesnay (179).

These forms and circuits of capital are not just the basis of the internal differentiation of capital and its fractions in functional terms. They are also related to the various 'comprehensive concepts of control' that are in turn intrinsically connected to different stages of capitalist development (van der Pijl 1998: 49-64). Productive capital was the dominant and most dynamic form during the 'golden age' of Fordism, whereas the dynamic potential of money capital and financial accumulation, so obvious to us today, was put in a straitjacket of politically mandated limits and regulations. None other than Keynes himself neatly summed up this development, albeit in advance rather than retrospect, when he foresaw the 'euthanasia of the rentier' (1936: 375-6). The tables have been turned in the post-Fordist, neoliberal stage: money capital is now the dominant form, and this is expressed in a variety of ways at various levels of the economy, all of which have been summed up under the rubric of *financialisation*. (The next section will deal with these phenomena in more detail.)

Once we look at the more concrete and differentiated level of different forms and periods of capitalist development we can also describe the concrete form that the economy-nature relationship assumes in a particular time and place, especially Atlantic Fordism from whose crisis financialisation has emerged (and to which it may have contributed). Relative to pre-Fordist competitive capitalism, Fordism is marked by a radicalisation of the expansionary dynamic of capitalism along with its rapacious consumption of natural resources, but also by its steadier pattern of macroeconomic development and the fact that it managed to integrate broad sections of the population, workers above all, as consumers. The pre-Fordist stage saw frequent boom-and-bust cycles, and workers still relied on pre-industrial economies for their daily consumption. At the bottom of the Fordist arrangement was the emergence of a coherent combination of Taylorist mass-production and mass-purchasing-power. The latter was secured through a tight link between wage growth and productivity growth as well as the dominance of commodified consumption. The demand of workers did not play a significant role in pre-Fordist times, but now the goods they consumed were also produced by capital as commodities. This made it possible to rationalise their production through increasing productivity and to increase *relative* surplus value. This created space for class compromises with regard to the distribution of wealth, working conditions etc. and thus also the possibility for the coexistence of profitability and company growth on the one hand and wage growth on the other. Together, these factors created a spiral of accumulation at an hitherto unprecedented scale through continuous productivity increases as well as aggregate growth. This arrangement, moreover, was much less prone to violent cyclical swings than the pre-Fordist accumulation regime, leading to a much smoother, steadier pattern of macroeconomic development (Karathanassis 2003: 128-132; Lipietz 1985: 122-5).

This constellation resulted in what can, with hindsight, be described as tight coupling of a number of key socio-economic variables, namely real wage growth, productivity growth and investment growth (i.e. accumulation). The growth of each single factor conditioned and was conditioned by growth in all the others. At an aggregate level, this led to a robust pattern of upward development and GDP growth that benefited unusually large sections of the population – the so-called 'golden age' of post-war capitalism, which can legitimately be called a *growth society* and in which, as President Kennedy said, 'a rising tide lifts all boats'. Nonetheless, one must not forget that this same growth dynamic entailed and was probably predicated upon the restriction of the dynamic potential of money capital and financial accumulation (or profit-making, as it should be more properly called). This was Keynes' 'euthanasia of the rentier', and it was achieved by tightly curtailing what money capital could and could not do through capital controls and a system of fixed exchange rates, the capping of interest rates banks could pay on deposits, stock transaction taxes, the separation of deposit and investment banking etc.

3. Financially dominated capitalism: dynamic and stagnation

At the most abstract level, financialisation can be described as the disinhibition (or unshackling) of the money form of capital and its subsequent return to dominance. This holds both at the aggregate level as well as for households and firms. The savings of the latter are channelled less into fixed capital formation in the corporate sector and more into financial assets and/or, as dividends or interest, into the pockets of financial investors (Froud et al. 2002).

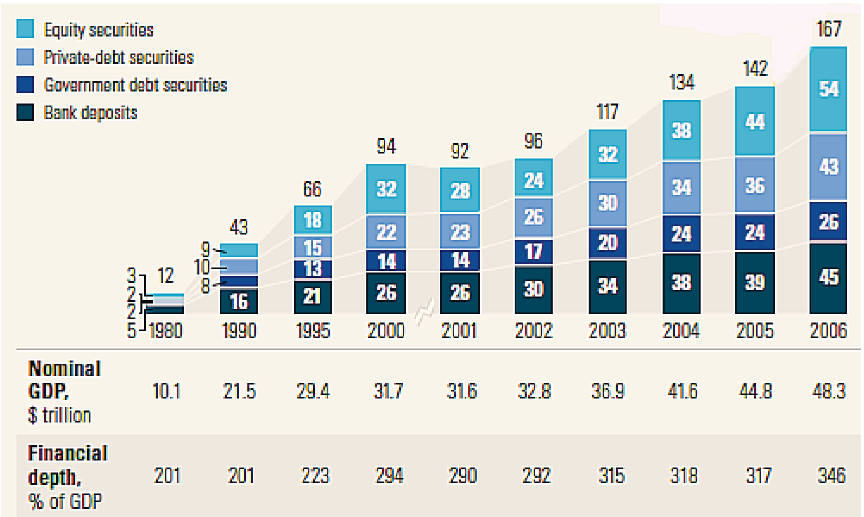
At the aggregate level, financialisation means acceleration of financial transactions, growth of the stock of financial assets relative to GDP, and growth of financial incomes compared to non-financial turnover, assets and incomes. The McKinsey Institute has calculated that the volume of global financial assets increased from 12 trillion US$ in 1980 to a staggering 167 trillion by the year 2006, taking their share from 119% of global GDP to 346%.[4] (See Box 1 for a number of quantitative indicators of financialisation.) Another indicator is the rise in the ratio of bond and stock market capitalisation to GDP in many important countries (Aglietta/Rebérioux 2005: 3; O'Sullivan 2007: 398.) Securities markets have also accelerated the turnover of the existing stock of securities. Investors reshuffle their portfolios more frequently so that average

[4]The financial crisis seems to have put a (preliminary?) end to the rise, but not the existence, of a huge stock of financial assets. Their volume has not receded in absolute terms, but their growth has recently lagged behind that of global GDP reducing their share from 355% of global GDP in 2007 to a 'mere' 312% in the second quarter of 2012 (McKinsey Global Institute 2013).

holding times are reduced. The stock markets of G7 countries (with the notable exception of Germany) have seen a general upward trend in turnover ratios since at least 1989 that lasted until the crisis and that has seen ratios double, triple or even quadruple (Huffschmid 2002: 39-41; Windolf 2005: 25). There is also a tendency towards *profit financialisation* (Nölke/Perry 2007), which means two things: first, increasing profitability of the financial in comparison to the non-financial sector (intersectoral profit financialisation); second, the growth in the share of NFC profits stemming from financial transactions (NFC profit financialisation). These trends are very well documented for the US, the heartland of financialisation (see Box 1). Looking at the US and France, Duménil/Levy (2004: 133-4) compare profit rates in the financial and non-financial sector from 1987-2000. The pattern is similar in both countries: non-financial profit rates exceed those of the financial sector until the early 1980s, which is when they are overtaken by the latter as a result of the dramatic hike in US interest rates in 1979. Admittedly, the picture is not always so clear-cut. Intersectoral profit financialisation seems not to have taken place at a very significant level in Germany (van Treeck et al. 2007: 66-7). The evidence for NFC profit financialisation, on the other hand, is solid (Stockhammer 2000: 46, 2004: 730), as it is, by the way, for Austria (Ćetković/Stockhammer 2010).

Box 1: Some Indicators of Financialisation

Growth of global financial assets (trillion US$) and financial depth (% of GDP)



Note that there is a clerical error in the figure for financial depth in 1980. The real figure woud be around 119%.

Source: Farrell et al. (2008:3)

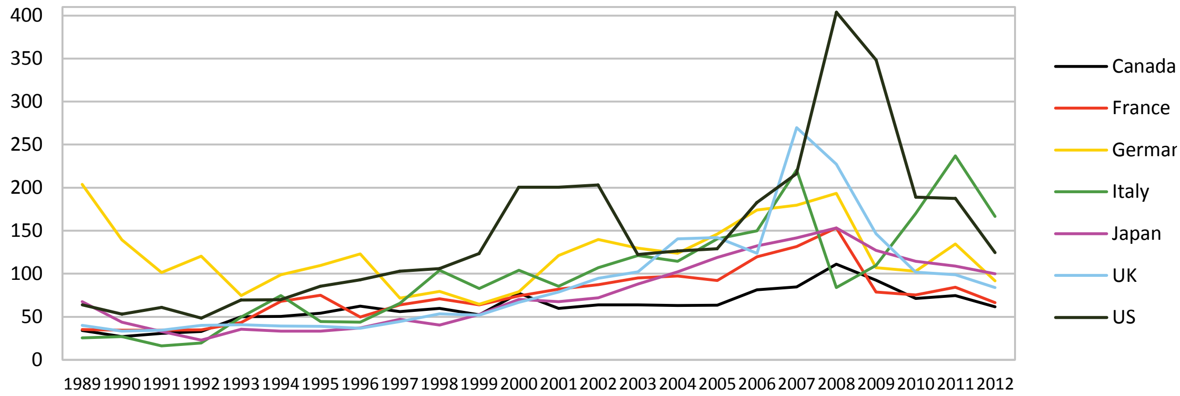
Market capitalisation of listed companies (% of GDP)

	1988	1991	1994	1997	2000	2003	2006
Canada	*49*	*45*	*56*	*89*	*116*	*103*	*133*
EU	34	33	40	61	100	69	92
France	24	28	33	47	109	76	108
Germany	19	22	22	38	67	44	56
Italy	16	13	17	29	70	41	55
Japan	132	90	78	52	68	72	108
UK	91	94	114	147	174	132	155
US	55	69	72	137	153	129	146

Source: World Bank Online Database

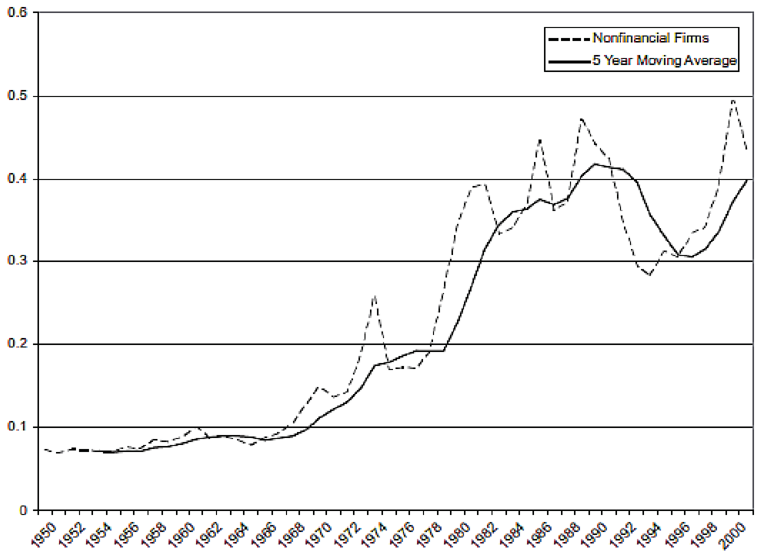
Box 1 continued

Stocks traded, turnover ratios (%)



Total value of shares traded as % of average market capitalisation. Source: World Bank Online Database

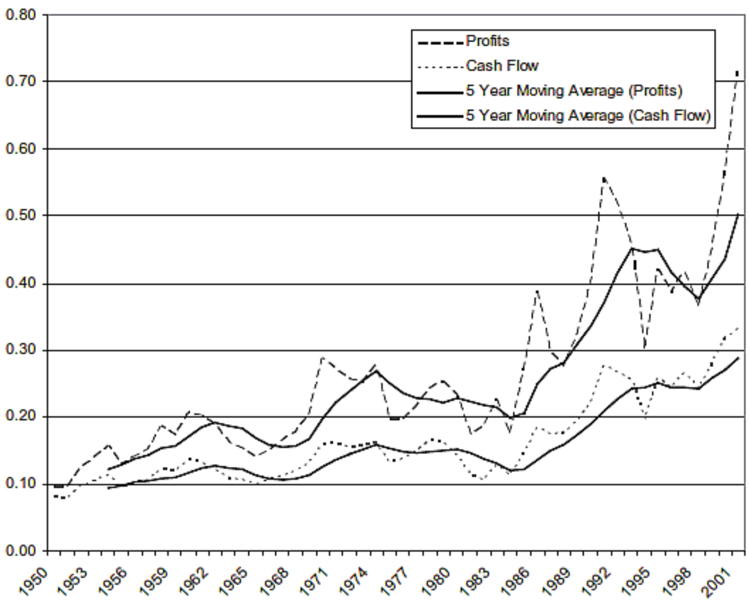
NFC profit financialisation, USA



Ratio of income from interest, dividends and realised capital gains (portfolio income) to cash flow (profit with depreciation added back) for US NFCs

Source Krippner (2005:185)

Intersectoral profit financialisation, USA



Ratio of financial sector profits and cash flow to NFC profits and cash flow in US economy.

Source Krippner (2005:189)

Financialisation has not just changed what happens at the aggregate level, but also the behaviour of economic actors, i.e. businesses, banks, financial investors and households. These now tend to act more like financial investors who try to optimise their portfolios and have a preference for liquid assets (Stockhammer 2012: 46). The changes in the behaviour of households and NFCs are particularly pertinent with regard to the problematic of dynamic and restrictive tendencies in financially dominated capitalism. Capital investment by NFCs is, after all, at the heart of capitalist expansion and also constitutes an important component of aggregate demand. Household consumption, too, is a component of aggregate demand, but it is also a key mechanism for integrating subaltern sections of the population.

3.1 Financialisation in the private NFC sector

Financialisation at the company level is closely connected to the 'intrusion of the capital market' (Froud et al. 2006: 36), that is, a closer coupling between listed NFCs and capital markets that can 'rework the balance between productive, market and financial goals within many firms' (Froud et al. 2000: 108). This is what is usually summed up under the name of *shareholder value*.[5] The changes that have taken place can be summarised by four keywords (Müller 2012: 563-5): portfolio conception of the firm; strengthening of centralised control and management through financial performance indicators; financialisation of corporate strategy; and finally what could be called *cash flow financialisation*, i.e. the diversion of cash in- and outflows.

A *portfolio* company (Crotty 2005: 89-91) does not any longer treat its subsidiaries as a vertically integrated ensemble of different, but operationally interdependent activities. Instead, the group is notionally disaggregated, subsidiaries are defined as stand-alone 'profit centres' and possibly subjected to an intra-group competition for resources. Their success is then measured with regard to benchmarks of return; failure to achieve those may then lead to restructuring or even disposal. Company headquarters concern themselves primarily with consolidating and maximising the return on a portfolio of firms that is subject to frequent changes through the purchase of new or the disposal of existing subsidiaries. A case in point is the restructuring of the German Bayer group, which culminated in the transformation from strongly integrated chemical-pharmaceutical concern to strategic holding company with four operating and three corporate service divisions (Münch/Guenther 2005). This is often accompanied by a reinforcement of centralised control that is typically exercised through extended use of cost- and return targets and other management accounting tools (Dörre 2012; Ezzamel et al. 2008; Gleadle/Cornelius 2008). This frequently corresponds to to a shift in the internal balance of power that disadvantages technical and operational specialists whose 'productivist' culture, which focuses on technical efficiency and physical performance indicators, is marginalised.

That firms and capital markets are more tightly coupled now also means that the former can (or even have to) take positions not just on the goods markets but also on capital markets. This requires them to use some of their cash resources to attain capital market-oriented goals, such as supporting share prices (Andersson et al. 2008; Ezzamel et al. 2008: 135; Froud et al. 2006; Serfati 2012). Examples include share

[5]The following discussion relates chiefly to public listed companies, but many things also apply to non-listed corporations.

buybacks that improve earnings per share as well as unceasing M&A and disposal activities because the latter create the impression with analysts and the investing public that the company in question is constantly working to maximise shareholder value.

This is related to the phenomenon of *cash flow financialisation*, which has important implications for the dynamic (or lack thereof) of accumulation in financially dominated capitalism. A growing share of the incoming cash flow generated by NFCs now stems from financial investments and therefore takes the form of dividends, interest or realised capital gains, while a growing part of outflowing cash goes into financial assets or to providers of debt and equity capital. Accordingly, the share of financial assets on NFC balance sheets tends to increase, as does the ratio of payouts (dividends, interest and share buybacks) to corporate profits. This is in keeping with the shareholder value doctrine that requires companies to 'return' to investors a larger proportion of the money they generate. This is important because, as a substantial body of theoretical and empirical studies now suggests, it is connected to a *weak propensity to invest* in fixed assets. NFCs find financial investments more attractive, and the increasing payout ratios reduce retained earnings that could finance fixed capital formation.[6] As a result, a shift has occurred in the strategic orientation of especially larger listed companies: rather than *retain and reinvest* cash in the business, the tendency in financially dominated capitalism is to *downsize and distribute* (Lazonick/O'Sullivan 2000).

Finally, there have recently been some hints that the cash flow patterns, tight cost controls and short-term time horizon of financialised NFCs also have a detrimental effect on the rate of *innovation* in NFCs.[7] In the capitalist mode of production, productivity growth through process and product innovation is obviously crucial to vigorous expansion in the long term. Research on this issue is still scarce, but the consequences for long-term economic growth could be severe should future studies confirm those initial suspicions (cf. Hein 2012).

3.2 Household financialisation

Regarding private households, their income and consumption expenditure, the general trends are stagnant or sluggish real wage growth and a falling wage share (Basu 2011: 4-8; Dünhaupt 2010). In some countries (though not in Germany), the fall in the latter is compensated through the growth of private indebtedness in the form of mortgage loans, credit card and other consumer debt (see Stockhammer 2000ff, and Table 1 below) – at least until recently, because the financial crisis seems to have induced a certain degree of private deleveraging (McKinsey Global Institute 2012). That rise in private indebtedness is (or was) connected to the real estate booms that happened in various countries, such as the USA, UK or Spain. Thanks to seemingly ever-rising prices for real estate, home ownership was seen for quite some time as sufficiently reliable collateral, even when houses had not been paid off and/or their owners were not

[6] For empirical evidence see Ćetković/Stockhammer (2010); Crotty (2005); Duménil/Lévy (2011: 51, 62-3); Froud et al. (2006: 88); Orhangazi (2008); Stockhammer (2004, 2008); van Treeck et al. (2007). On a more theoretical level, post-Keynesian/Kaleckian economists have also explained the causal connection between financialisation and a reduced propensity to invest (and thus sluggish accumulation) with the help of economic modelling (Dallery 2009; Hein 2012; Stockhammer 2004).

[7] This connection was one of the main topics at a recent workshop for German labour/industrial sociologists at the SOFI Göttingen in March 2013 (*'Finanzmarktkapitalismus – Arbeit – Innovation'*). See also Lazonick (2013).

particularly creditworthy. Thus, the latter could use their houses to take on additional credit to finance consumption and maintain their Fordist-era lifestyles. In countries such as the USA, where share ownership, student loans or the ability to roll over credit card debt are added to the mix, one can certainly talk of a 'financialisation of everyday life' and even of subjectivities (Aalbers 2008; Bryan et al. 2009; Langley 2008).

Table 1: Household debt and private consumption expenditure (% of disposable income)

	Household debt (%)			Private consumption expenditure (%)			
	1995	***2000***	***2005***	***1970s***	***1980s***	***1990s***	***2000s***
Germany	97	111	107	64	66	69	70
Spain	59	83	107	72	73	70	70
France	66	78	89	63	66	65	66
Ireland		81	141	73	75	68	62
Italy	32	46	59	67	68	69	70
Netherlands	113	175	246	59	60	59	58
Sweden	90	107	134	56	57	59	56
UK	106	118	159	69	71	73	72
EU (uwa)	***91***	***110***	***139***	***66***	***67***	***66***	***65***
USA	93	107	135	70	73	76	80
Japan	113	136	132	61	64	67	71

Data for Spain and Japan refer to 2004 rather than 2005. Germany refers to West Germany before 1991. An unweighted average is given for the EU. Source: Stockhammer (2008: 189)

These developments amount to an increasing integration of workers into circuits of financial capital (Lapavitsas 2009) insofar as the 'balance sheets' of workers or their households now contain financial assets as well as liabilities. Let us compare this to the fairly straightforward financial affairs of an ideal-typical wage-earning household. The only income is from monthly wages and the only 'asset' would be cash in hand. Expenditure would be for monthly or weekly rent payments and the necessities and amenities of life, which would be purchased with cash on the spot or direct debit from a current account, hence there would be no liabilities. Allowing for a degree of realism, we can add to this a savings account and short-term consumer credit. This still would not seriously complicate the basic hand-to-mouth existence as all assets and liabilities would be of the current kind and have a constant value. Such a household would have little regard for interest rates, stock prices etc.; it would essentially spend what it earns through the sale of labour-power (with some savings for bad times or old age). Household financialisation can then be defined as the degree to which these simple financial affairs get complicated by the addition of tangible or financial assets other than cash and more long-term liabilities, especially when the value of these assets and liabilities fluctuates in accordance with financial variables such as interest rate or stock prices. This happens when workers also become owners and buy homes on credit, giving rise to both a non-current liability and a non-current asset; when they have the possibility to make expenditures in excess of their cash income through overdraft or credit cards; when consumer credit is used on a regular basis; when financial income becomes relevant as, say, a result of share ownership; and, finally, when provisions for old age depend less on savings from wages and more on capital gains on financial assets. Add to this the indexing of some of these assets and liabilities to variable interest rates and the possibility of using one's house as collateral, and things become fairly complicated, demanding close monitoring and active financial management;[8] there may even be room for borderline fraudulent behaviour (Langley 2008), which is normally the privilege of large organisations with equally large and complex balance sheets. In addition, this connects the fate of workers to the stock and credit markets (Aalbers 2008). Little wonder then that calls for the introduction of 'financial literacy' classes are heard time and time again in the UK!

Household financialisation affects both the income and expenditure side. As often in the financialisation literature, this is most reliably documented for the US, but many other countries seem to mirror its growth trends, if not always at the same elevated levels. For the US, there is a clear link between increasing household debt and rising consumption expenditure. For most European countries, however, there is less evidence for a link between household debt – which is on the rise throughout – and consumption (see Table 1 above). That households are becoming more strongly integrated into financial circuits, both on the asset and liabilities side, can be demonstrated for the US, Germany and Japan (Lapavitsas 2009: 128-130; Montgomerie 2009: 6). The numbers also show considerable differences in the levels of household financialisation, however, with Germany having a notably lower ratio of household debt/financial assets to GDP. This complements Germany's comparatively low levels of financialisation in other areas too.

The degree of household integration into circuits of financial capital is a crucial factor in the emergence and sustenance of financially dominated capitalism and a key variable in explaining different national trajectories and intensities of financialisation (Boyer 2000; Froud et al. 2002: 127-134). Imbalances between net-importers (peripheral Eurozone countries, the US) and net-exporters (the Eurozone core, Germany above all) of goods and services are another reason why financialisation cannot fully encompass households in some countries. This situation therefore reinforces diverging patterns and degrees of financialisation.

To conclude this section: with regard to the income and expenditure of households, the effects of neoliberalism and financialisation intersect in interesting ways. Whereas the former is (partly) to blame for weak wage growth, something that would, *ceteris paribus*, have led to a manifest structural demand constraint, the financial explosion compensates for this through an expansion of credit. In addition, affluent households in the USA and UK could increase their consumption on the back of *wealth effects*, i.e. rising financial incomes, rising market values of their portfolios and rising real estate prices (for the US see van Treeck et al. 2007: 44-51).

[8]It has to be said, however, that private investors usually do not hold shares or other securities directly; instead they let financial intermediaries, such as pension or mutual funds, manage their money (see e.g. van Treeck et al. 2007: 48-9).

3.3 The accumulation regime of neoliberal financialised capitalism

On the demand side, investment and private consumption are not the only factors that affect the rate of accumulation, as well as the use of natural resources. Aggregate demand also depends on the development of public expenditure and foreign trade (net exports). Budget deficits and public sector shares that remain stubbornly high in spite of neoliberal doctrine have, in the recent past, helped to compensate for weakening investment (Magdoff/Sweezy 1987: 106-117, 130-140; van Treeck et al. 2007: 51-4, 82-3; also Table 2 below). The development of the current account varies considerably across different countries. The case of Germany is particularly noteworthy because here the shortfall in aggregate demand due to weak investment is not made up for by (weak) private consumption but a structural surplus of the current account. Accordingly, other countries, including the USA, UK and various (semi-)peripheral Eurozone countries, run current account deficits (vis-à-vis the rest of the world, not just Germany) (Stockhammer 2012; van Treeck et al. 2007). Obviously, these two ways of making up for the shortfall in investment expenditure are not unconnected; debt-financed consumption in one country buys what another country exports. We are therefore looking here at the *coupling and coevolution* of two growth models.

Table 2: Government expenditure, % of GDP (average)

	1970-79	***1980-89***	***1990-99***	***2000-06***
Austria	44	52	54	51
Belgium	–	56	52	50
Denmark	45	56	58	54
Finland	36	45	58	49
France	–	–	48	47
Germany	29	41	49	49
Greece	42	49	53	53
Ireland	46	53	41	34
Italy	37	48	53	48
Luxembourg	–	–	40	41
Netherlands	48	56	50	46
Portugal	31	38	43	46
Spain	26	39	44	39
Sweden	50	63	65	57
UK	45	46	43	43
EU	40	49	50	47
USA	33	36	37	36
Japan	26	32	35	38

Source: Stockhammer (2007:648)

When taking into account all four components of aggregate demand, one can follow Stockhammer (2007ff) for whom the accumulation regime in financially dominated capitalism is one of *slow and fragile accumulation* and growth, both with regard to investment and GDP. Countries differ in how they have adapted and compensated for weak investment: a larger group of countries relies on credit-financed consumption, while others turn to exports. I also concur with Stockhammer's assessment that financialisation has not created what, in a positive sense, could have been called a finance-*driven* accumulation regime. Theoretically, this is a possibility, though not a necessity, and it would depend on a number of conditions that are either unlikely to be met or are empirically non-existent (Boyer 2000; Hein 2012). It is therefore more appropriate to talk, as I have done throughout this paper, of a finance-, or financially, *dominated* accumulation regime.

> 'An accumulation regime is defined as finance-led if an increase in the financial norm, that is, the hurdle rate set by financial markets for investment projects, leads to an increase in growth. No presumption of this sort is made here. Rather, it is argued that a finance-dominated accumulation regime should be defined in such a way that financialization can positively or negatively affect growth.' (Stockhammer 2008: 185)

On this basis we can now formulate the following core hypothesis:

> **Hypothesis 1:** Compared to Fordism, the accumulation regime of financially dominated neoliberal[9] capitalism is marked by a weak propensity to invest (and possibly by low rates of innovation), which points to a slowdown of the accumulation process. Depending on the country, aggregate growth (GDP) is maintained through a combination of debt-financed private consumption, budget deficits or current account surpluses; the growth of the financial sector itself also contributes to this.

This insight is hardly new: it is, in fact, a virtual consensus that ranges from heterodox economists to scholars working in the field of Critical Management Studies to the German sociological discussion around 'financial market capitalism'. That stagnation is the brother of 'financial explosion' had already been observed by Marxist economists Magdoff and Sweezy in the early 1980s (see the articles in Magdoff/Sweezy 1987), and even those, like Boyer (2000), who thought that financialisation could conceivably have positive growth effects, thought them unlikely in practice. Therefore, the question is not whether there is a connection between stagnation and financialisation, it is about causation. In other words: do financial payments and/or investments divert money capital from the circuit of industrial capital, leading to a lack of financing in the latter? Or is money capital ejected from that circuit because it cannot be profitably invested there any longer? The former is essentially the Keynesian position, whereas the latter is dominant among Marxists, especially the *overaccumulation* school (Magdoff/Sweezy 1987;

[9] The relationship between 'financialisation' and 'neoliberalism' is another conceptual loose end that I cannot fix in the given space. The financialisation literature touches on a lot of issues that have already been addressed in discussions about neoliberalism and globalisation, which is why any account of the current configuration of capitalism that aims to be somewhat comprehensive will have to pay attention to factors more commonly associated with the latter.

Foster/McChesney 2009; Foster 2010). It assumes that the process of accumulation tends to undermine itself in the long run because its very success will create overcapacities, which depresses investment and ultimately leads to stagnation. In this view, weak consumption demand on the part of the working classes, something that Keynesian authors also acknowledge, is profoundly structural and not merely cyclical or the result of the neoliberal offensive against organised labour. Accordingly, stagnation is seen as the master tendency of capitalism in highly developed industrial economies. Moreover, it is not a recent phenomenon, but, according to this school of thought, the determining condition since the 1930s! The best that can be done is to compensate for this temporarily through wars and the subsequent repairs or, as seen since the 1980s, through financial expansion.[10]

It is practically impossible to answer the causal question with sociological means, but fortunately this is not very important to the question that is at stake here, namely if the countries associated with Atlantic Fordism can still be called growth societies. Moreover, it is plausible to assume that financial and structural factors mutually condition and reinforce each other anyway (van Treeck et al. 2007, 43), at least in the medium term, making this a moot question for present purposes. Aside from academic economics, it is relevant for those trying to devise political-economic strategies for rekindling capitalist growth. If the stagnationist school is right, financial sector reforms that aim to curtail the power of finance will not stimulate industrial accumulation because the final cause of stagnation is not to be sought in the financial sector but the structurally weak absorption capacities of goods markets.

That said, in light of the problematic of dynamism and stagnation/restriction and the specific focus on growth and its contradictions that informs this paper, these fairly commonplace economic observations regarding weak investment and sluggish accumulation in financially dominated capitalism suggest the following, more substantial, hypothesis:

> **Hypothesis 2:** In comparison to the era of classical Fordism, financially dominated capitalism is characterised by the conspicuous combination of restrictive and dynamic (e.g. accelerating) tendencies. On the one hand we have, for example, the staggering growth of financial assets and incomes and, thanks to changes in ICT and the shorter-term time horizons of investors, their much faster turnover on financial markets. Businesses are also increasingly prone to short-termism, as exemplified in shareholder value-oriented management or quarterly financial reporting. Finally, there is the progressive subsumption of individuals and households under capital in the form of a financialisation of everyday life.[11] On the other hand we see the weakening of those factors that are crucial for dynamic long-term development, namely investment in fixed capital and (possibly) innovation.

An argument could be had over whether financially dominated capitalism constitutes a new regime of

[10]There are certain parallels here to the position of Arrighi/Moore (2001).

[11]This assumes that the emergence of capitalism as the dominant mode of production had already achieved the subsumption of labour (or labour power), and that Fordism had gone one step further by further subsuming the *consumption* of workers and their households through the establishment of a commodified consumption norm.

accumulation and mode of regulation in its own right, or whether it is basically just the managed decline of Fordism. The latter would be implied by the analyses of Krippner for the US (Krippner 2011) and Streeck for Europe (Streeck 2013), but also by theories of long waves (e.g. Arrighi/Moore 2001). Krippner and Streeck argue that the unusual prosperity of the postwar era had essentially come to an end by the early 1970s but was propped up through financial means in various ways, something that seems to have come to an end with the current crisis. This question raises complex methodological and theoretical issues which I cannot possibly go into in the given space. Nonetheless, the hypothesis that financially dominated capitalism is a form of (halted) decline of Fordism enjoys greater prima facie plausibility: the very existence of financialisation, after all, seems to confirm the inability of Atlantic Fordist countries to come up with a new regime that would sustain itself on the basis of significant improvements in the conditions of industrial accumulation.

Returning, finally, to the critique of growth critique, the upshot of all these observations is that growth critique by and large is blissfully oblivious to the coexistence and combination of restriction and dynamism in contemporary capitalist economies in Europe and North America. For example, contrary to what is claimed in the grant application for the Research Centre 'Post-Growth Societies', in the context of which the present work was undertaken, the 'finance-driven landgrab (*Landnahme*)' does *not* lead to the 'revitalisation of capitalist accumulation'[12], even though it can, for a while, make up for the structural weakness of investment. The account of financially dominated capitalism I have outlined here differs from the view that has informed work at the Research Centre (especially Klaus Dörre) and which is largely based on David Harvey's account of spatio-temporal fixes and the 'new imperialism' (Harvey 2003). In this view, financialisation is another example of a well-known pattern, namely the rekindling of capitalist accumulation after a crisis through the opening up of previously inaccessible areas of investment or sources of demand. The forms in which this takes place vary greatly over time and place, ranging from old-fashioned colonialism and violent land-grabbing to privatisation of state-owned assets to relatively benevolent forms such as capital investment in public infrastructures. All of these are essentially forms of finding outlets for overaccumulated capital. The 'logic of capital', in this view, is essentially a unitary one, and there is little regard for differences between forms and circuits of capital and their changing patterns of super- and subordination, their selective dynamisation and restriction. Moreover, if we take accumulation to mean not just profit-making but expansion of productive capacity through reinvestment, then financialisation is hardly a case in point. While it may guarantee the profitability of financial investments, as well as the bonuses and salaries of top executives, it is definitely not connected to a reinvigoration of industrial investment, and may even actively hamper it.

This, as I will argue in the remainder of this paper, is not a purely academic point. I will claim that the continuing crisis of capitalism exacerbates the tension between dynamic and restrictive factors that is inherent to financially dominated capitalism, or rather: that it makes it manifest when previously it had been kept latent through financial props. This may not concern growth critique insofar as it is ecologically motivated, for environmental destruction is likely to continue unabated. But it changes the social and economic terrain in ways that growth critique, if it wants to be a political project for fundamental change,

[12] Accessible at www.kolleg-postwachstum.de/sozwgmedia/dokumente/Forschungsantrag/Forschungsvollantrag+dt.pdf. This quote on p. 2.

cannot ignore, for this is the terrain on which it must move, act and form coalitions.

In the following analysis, I will restrict myself to Europe, and the Eurozone in particular, partly for obvious reasons of practical political relevance, but partly also because Europe deals with the ongoing crisis in a way that differs substantially from the USA, the heartland of both Fordism and financialisation, and is likely to lead to different social and economic outcomes.

4. Financialisation and the centre-periphery structure of the Eurozone

I have so far talked about financially dominated capitalism and its attendant regime of accumulation in fairly general terms and only hinted at country differences. But these differences are crucial when it comes to the Eurozone and the causes of its ongoing crisis. The Eurozone is basically a combination of different but interdependent regimes of accumulation in which a centre-periphery structure exists. This structure had remained latent for quite some time, but has become obvious since the outbreak of crisis (Becker/Jäger 2012; Flassbeck/Lapavitsas 2013; Lapavitsas et al. 2012; Stockhammer 2012).

With regard to the flows of trade and finance, the introduction of the Euro fostered the emergence of a centre-periphery structure between participating countries. A group of mostly Northern countries – Germany above all, but also Austria, Belgium and the Netherlands – acted as net exporters of goods and services as well as capital (see Figure 1). The rise of Germany is particularly noteworthy: the introduction of the common currency meant that countries with higher rates of real wage growth and inflation could no longer devalue their currencies and thus compensate for the disadvantages in competitiveness that arose vis-à-vis German businesses – something they were able to do when the European Monetary System, in many ways the predecessor of the Euro, was still in place (Flassbeck/Lapavitsas 2013; Lapavitsas et al. 2012). Real wage growth in Germany remained below average, partly because trade unions chose to make only moderate wage demands in exchange for job guarantees, and partly because the neoliberal labour market reforms of the 2000s and the growing low-wage sector put pressure on wages. Over the years, the resulting divergence of unit labour costs gave German industry a competitive advantage, leading to reliable surpluses of the current and capital accounts. Austria seems to have followed a similar trajectory, whereas Belgium and the Netherlands, as habitually open small economies, had run structural surpluses for a long time before, which the Netherlands managed to expand further.

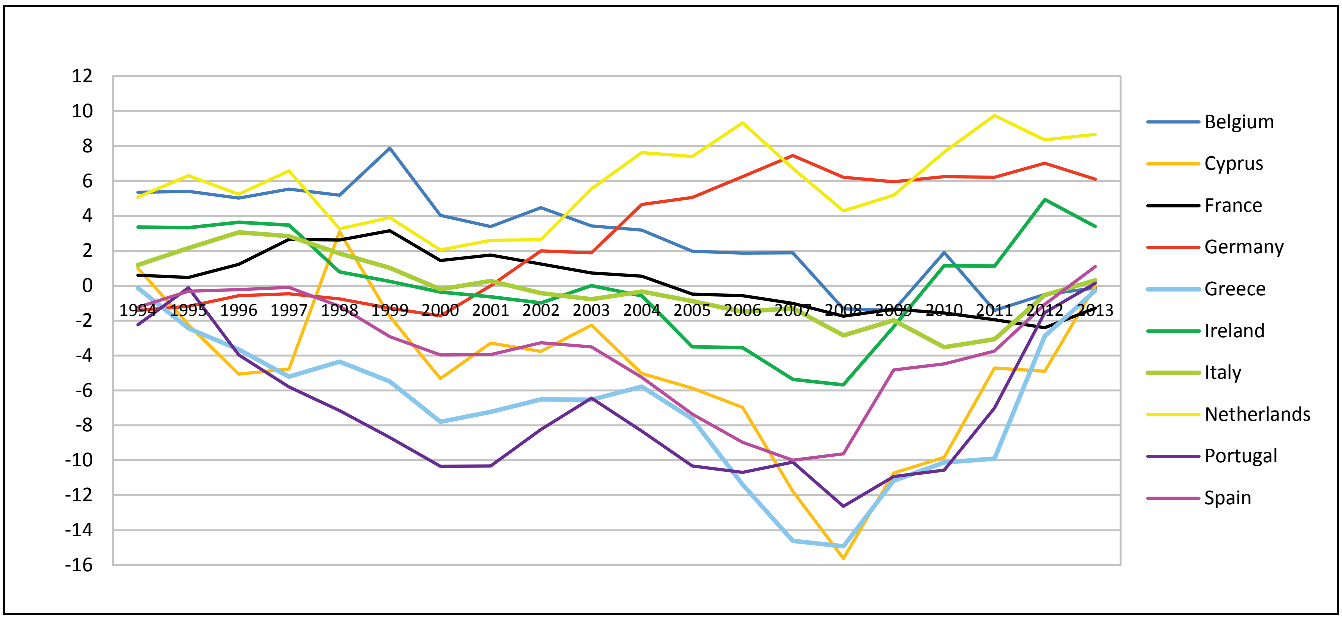


Figure 1: Current Account Balances (% of GDP), selected Eurozone countries from 1994-2013

Source: IMF World Economic Outlook Database, April 2013; Data for 2013 are IMF staff estimates, as are data for 2012 for the following countries: Belgium, Cyprus, Ireland and Netherlands. No data available for Cyprus for 2013.

The core countries' surplus was matched by a structural deficit on the part of peripheral countries, especially in Southern Europe. Their imports were financed through bank loans and portfolio flows from the core (Lapavitsas et al. 2007: 84-90). Import demand in the periphery was generated through private indebtedness and real estate bubbles, for which the introduction of the Euro had created favourable conditions in the form of comparatively low rates of interest. The result was 'mass-based financialisation' of peripheral economies (Becker/Jäger 2012). In Germany, on the other hand, there was much less mass-based financialisation through higher private debt, but there were clear signs of what Becker/Jäger have called 'elite-based financialisation', that is, financialisation at the corporate level and the financial sector, albeit at a relatively modest scale.

5. The consequences of the crisis

The Euro crisis and the attempts to contain it through rescue loans with rigid conditionalities has shaken the configuration of the Eurozone. Unsurprisingly, the measures taken have failed to achieve the stated goal of rekindling economic growth, but there is visible success of a different sort: rapidly rising unemployment and shrinking wages have severely depressed demand in peripheral countries causing their current account deficits to close or to be about to close (see once more Figure 1). Moreover, the reduction of unit labour costs in the periphery (Figure 2), euphemistically called 'internal devaluation', has probably also strengthened their exports somewhat.

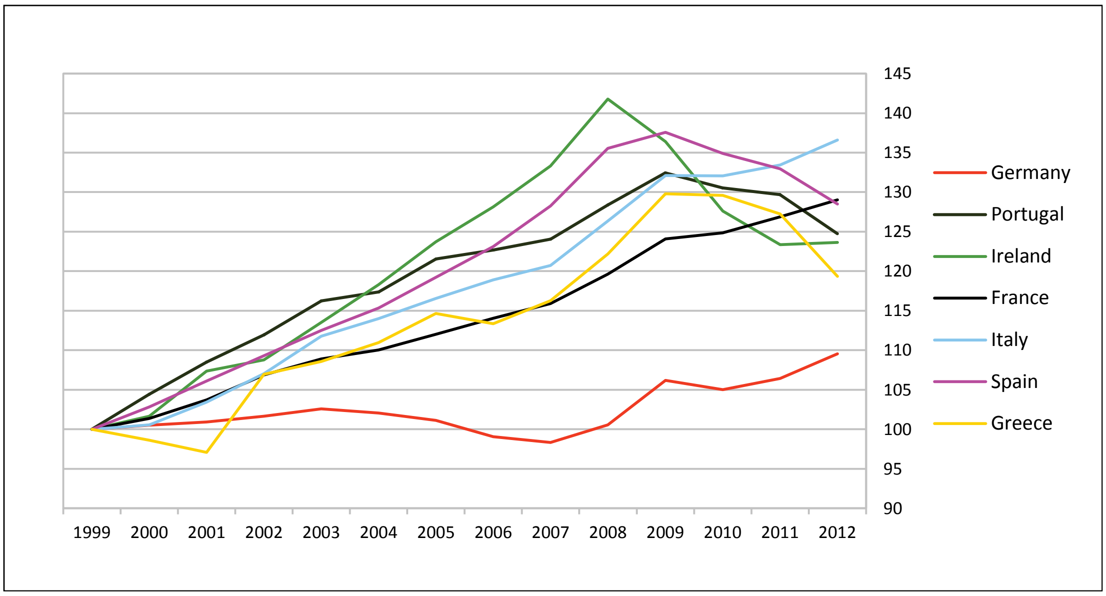


Figure 2: Nominal unit labour costs, selected Eurozone countries (1999 = 100)

Defined as: ratio of compensation per employee to real GDP per person employed (in Euro/ECU).
Source: Ameco database (accessed July 2013); own calculations. Cf. Flassbeck/Lapavitsas 2013: 17.

The equalisation of current accounts and the consolidation of a crisis regime focused on austerity both at the European level (Fiscal Compact, Economic Governance etc.) and the national level (in the form of 'debt brakes', i.e. balanced budget clauses that are inserted into national constitutions) suggest that, in the future, the Eurozone will no longer be a combination of different but interdependent accumulation regimes. It seems instead as if the strategy is to extend the German model, which is based on exports and squeezing wages, to the entire Eurozone and turn it into one big net exporter competing for demand from large emerging economies.[13] The centre-periphery structure, however, is likely to remain, with Germany squarely at the centre. This will probably deepen the crisis of legitimacy of European integration, especially in the Southern European periphery, and reinforce its increasingly technocratic, if not authoritarian, character (cf. Oberndorfer 2012).

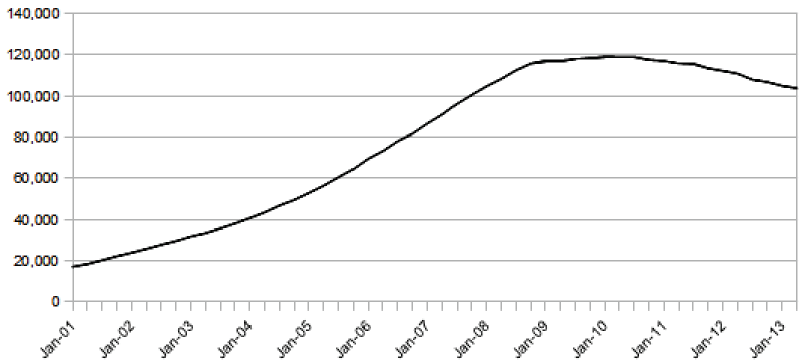
In the context of the financialisation debate, however, a more important question is whether the continuing crisis and the attempts to manage it spell the end for financially dominated capitalism – in Europe and possibly beyond. Basically, it is still too early to tell (partly because the concept of 'financialisation' is still not well-defined enough to provide a yardstick that might tell us whether or when it has ended). However, there is a lot to suggest that financially dominated capitalism is coming to an end *as an accumulation regime* inasmuch as it relied on debt-financed consumption and household deficits. The former is weakened by rising unemployment, lower wages and a slump in mortgage and consumption lending (see McKinsey Global Institute 2012; Box 2)[14], while household deficits are likely to shrink in the long run due to the authoritarian implementation of rigid fiscal controls in the form of austerity measures tied to 'rescue loans',

[13]See Martin Wolf, „The German model is not for export", *FT.com*, 7. Mai 2013; also „Europe's beggar-my-neighbour policy", *FT.com*, 9. Mai 2013.

[14]Partly due to limits on data availability and comparability, the graphs in Box 2 clearly do not constitute proof of a far-reaching process of debt reduction, but they provide a snapshot of current trends. Further research would be needed to corroborate these figures, especially in how far the current slump differs from those of previous economic downturns.

national ‘debt-brakes’ and the European Fiscal Compact that has entered into force in 2013. (Note that this does not mean that the ratio of total government debt will necessarily shrink too.) What is certain – barring a surprising change in the social balance of forces – is that these measures and obligations will make the squeeze on wages a permanent feature at least in the Eurozone periphery through, for example, labour market reforms that are likely to shift the balance between labour and capital in favour of the latter for some time to come (Lapavitsas et al. 2012: 122-3). This could also put paid to financialisation as mass phenomenon because mass purchasing power is less important macroeconomically than before, portending a shift in the mode of social integration of the subaltern classes.

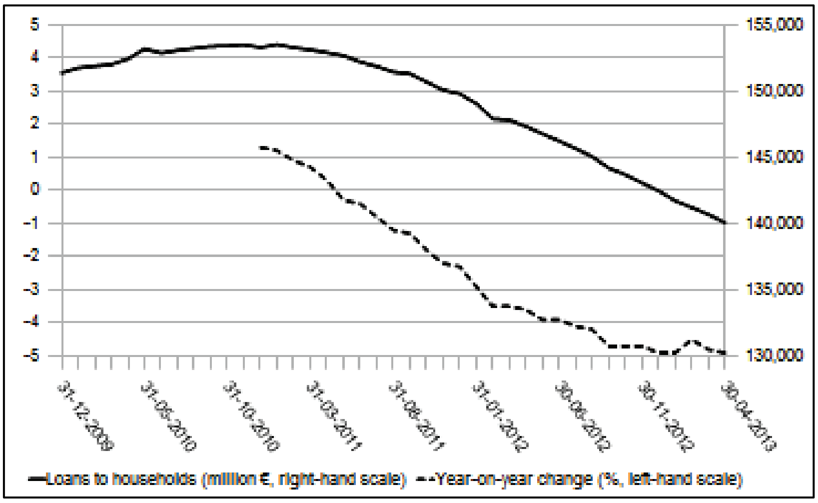
Box 2 Credit to private households



Credit to private households, Greece

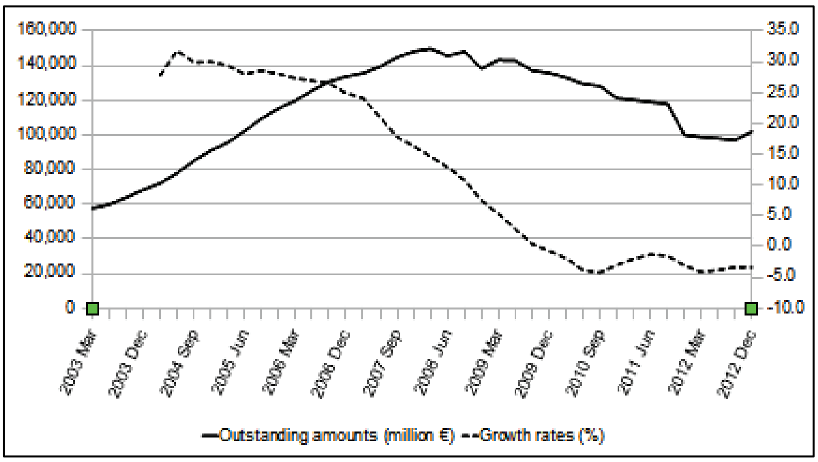
Credit to individuals and private non-profit institutions by domestic monetary financial institutions excl. Bank of Greece (excl. sole traders)

Source: Bank of Greece (extracted from data on credit aggregates, April 2013)



Loans to private households, Portugal

Source: Banco de Portugal



Total lending to private households, Ireland

Source: Central Bank of Ireland

As for fixed investment, it is no surprise that, in an environment marked by high uncertainty and weak demand, NFCs are even less willing to invest than before the crisis, even though they are currently sitting on vast amounts of cash (Ernst & Young 2013). Recent Eurostat figures (see Figure 3) confirm this reticence although they too provide merely a snapshot of recent trends that further research would have to analyse more deeply. Taken together, the recent development of private consumption, investment and household deficits really only leave exports as a dynamic source of demand, but this strategy also faces potential risks from faltering world economic growth and/or a Chinese rebalancing towards the domestic economy.

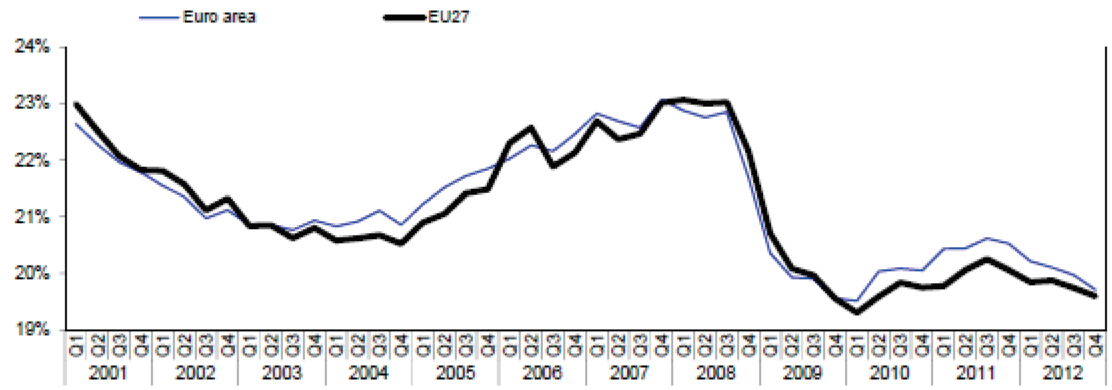


Figure 3 Investment rate of NFCs, EU and Eurozone (seasonally adjusted)
Gross investment rate of non-finanancial ccoperations defined as gross fixed capital formation divided by gross value added.
Source: Eurostat: Newsrelease Euroindicators 67/2013, 29/04/2013

Things are not so clear-cut when it comes to financialisation in a more narrowly economic sense, i.e. as dominance of the shareholder value doctrine and cash flow financialisation or as profit financialisation (both intersectoral and NFC), or, as Becker/Jäger (2012) would call it, 'elite-based financialisation'. What is clear, however, is that the measures that were taken in reaction to the financial crisis – not just in Europe – did not aim primarily to put the financial sector in a tighter regulatory corset. The goal was instead to save it and maintain the status quo as much as possible, while the aim of rekindling economic growth was secondary at best. The overall goal, therefore, was effectively to preserve or even restart financialisation (Foster 2010; Foster/McChesney 2009), even if that hampers effective demand and economic growth. For example, central banks currently enable private banks to repair their impaired balance sheets with cheap central bank money, but these funds are not being passed on to businesses, some of which are experiencing considerable difficulties in accessing credit funding, especially in the SME sector. Instead, a significant part of these funds seems to flow as portfolio investment to other, healthier regions of the world economy, primarily Asia, where it adds fuel to new asset bubbles (IMF 2013). As a result, financial markets have recovered quite well, but the real economy has not; this decoupling is likely to last for quite some time (Ernst & Young 2013: 11).

In this situation, it is no surprise that the majority of the anti-austerity opposition to the current crisis regime rallies around plans to 'grow out' of the crisis with the help of generous injections of government money. Since early 2013, EU leaders have held debates at the highest level over whether crisis management should focus on austerity or growth, with proponents of austerity gathering behind Germany and with France as the most vocal representative of the growth camp. It is notable that even the IMF has recently criticised the European obsession with austerity.

These arguments and considerations can be summed up as

> **Hypothesis 3:** By shrinking the scope for debt-financed private consumption and household deficits – the props of aggregate demand in financially dominated capitalism – and by prioritising the rescue of the financial sector over stimulating economic growth, the ongoing crisis and dominant policies of crisis management are bringing to a head the tension between growth and accumulation on the one hand and financialisation on the other that is inherent to the accumulation regime of financially dominated capitalism. (At least in Europe.)

If the preceding analysis of the political and economic conjuncture is correct, the following is also true:

> **Hypothesis 4:** The present conjuncture exacerbates the strategic dilemma faced by those on the political left who share the concerns of ecologically motivated growth critique, but also stand in solidarity with the struggles of organised and unorganised labour. At the moment, it is the neoliberal political right whose strategies of crisis management effectively imply a reduction of economic growth and its attendant consumption/destruction of natural resources, while trade unions and left-wing parties understandably favour a strategy of 'growing out' of the crisis. This intensifies the conflict between 'red' and 'green' goals. Thus, a situation arises in which ecologically motivated critics of growth may be pushed to side with the right, even though their strategy spells disaster for large parts of the population.[15]

I would like to conclude this section with an admittedly speculative outlook. In light of the preceding analysis, and based on the assumption that there will neither be dramatic shifts in the balance of social power nor serious 'exogenous' fluctuations of key economic determinants (e.g. the price of energy), I consider the following scenario to be the most likely for the Eurozone in the medium term. The fact that the current crisis management tries primarily to restore the profitability of the financial sector does not mean that there are no long-term perspectives for other sectors of the private economy. The latter can pin their hopes on the emerging strategy of turning the Eurozone as a whole into a net exporter: the attendant squeeze on wages and supply-side reforms will probably improve the competitiveness of European

[15] There is, to my knowledge, only one serious and elaborated proposal that aims to overcome this conflict through a social and economic project of equitable and job-creating green growth: the so-called *Green New Deal* advocated by, among others, sections of the Green Party in Germany and the Green New Deal Group in the UK. In essence it is an updated Keynesian programme that grants a strategic role to government in creating the conditions for a new wave of growth based on new, ecological technologies and that wants to reduce the financial sector to its presumably proper role as an intermediary for investment finance. Sadly perhaps, there is, at the moment, very little political impetus behind this project. At any rate, a detailed discussion is beyond the scope of this paper.

businesses on the world market as well as their profitability. However, as these improvements are based on cost savings rather than productivity gains and innovations that are pushed by vigorous wage growth, they seem unlikely to engender a new wave of vigorous accumulation. The centre of capitalism taken as a global system is therefore even more likely to shift eastwards. When looking at capitalist regions and/or national economies in Europe, on the other hand, the main result could well be the *decoupling* of profits on the one hand, and investment as well as wage growth on the other. This, too, would merely be the intensification of a tendency in financially dominated capitalism that was detectable well before the crisis when a comparatively weak propensity to invest was accompanied by robust development of profits (Stockhammer 2000: 47; 2012: 48-52; van Treeck et al. 2007).

6. The end of growth society: decoupling as master tendency?

Once again, the owl of Minerva starts its flight at dusk – maybe even later this time. It seems that what the latest incarnation of growth critique, the décroissance/degrowth movement, has in mind when it talks of growth societies is the unusually coherent ensemble of the Fordist golden age, in which key socio-economic variables – productivity, profits, wage growth and investment – were aligned in a virtuous circle of growth, producing a pattern of relatively steady and inclusive growth. The paths of social and economic development all seemed to point in the same direction: upwards! This ensemble could legitimately have been called a growth society, and it still seems to be the imaginary point of reference for the discourse of growth critique.[16] Latouche himself provides a nice example of that when he gives a numerical example from the Fordist era and extends it into the future:

> ‘Because we in the West have embraced the logic of geometric progression that governs economic growth, we have abandoned the attempt to control it. If per capita GDP continues to grow by 3.5% per year (and this was France's average rate of growth from 1949 to 1959), it will have grown by a multiple of 31 in a century, and by 961 in two hundred years.’ (Latouche 2009: 21)

But this is not how the French economy has developed. Figure 4 shows clearly that the growth rates of the 1950s and -60s were not maintained. What Latouche describes in the sentence quoted above is not the reality of French (and other European) societies, but the imaginary that informs growth critique inasmuch as it is a social critique.

[16]Admittedly, growth critique also draws plausibility from the fact that public discourse really is beholden to the fetish of growth, especially in the periodic ritual that follows the announcement of the latest GDP figures and in which well-known vocal economists try to make sense of the numbers while government and opposition either blame each other when numbers are bad or claim the merits when they are good. In short, when it comes to the public perception of economic matters, GDP growth does play the main role.

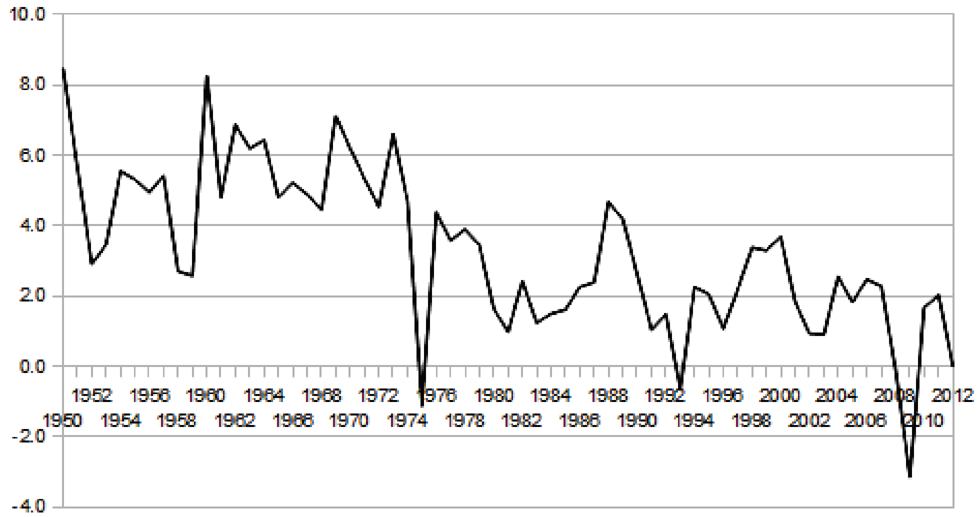


Figure 4: GDP growth in France, 1950-2012 (year-on-year change, %)

Source: INSEE, national accounts

If the preceding discussion of the accumulation regime in financially dominated capitalism and its possible end in the ongoing crisis is correct it means that the virtuous circle of Fordism's golden era had given way to decoupling between previously closely aligned socio-economic variables already before the crisis. Only that this disconnection and its social effects were moderated and kept latent through financial means, such as debt-financed private consumption. Now that these props seem to be on the way out the disconnection is becoming more obvious and is likely to sharpen, condemning some of those variables to stagnation, sluggish or even negative growth while others may still grow dynamically. Where there was once convergence and tight coupling there now reign decoupling and divergence – not all paths point upwards any longer, not all the boats are lifted! There is a certain irony in the fact that a critique of the power of and widespread obsession with growth has gained traction at a time when an economic crisis of epic proportions seems to be hell-bent on severing the already weakened ties between the different dimensions of growth and reducing some of them to stagnation. This can be summarised as:

> **Hypothesis 5:** The Fordist formation was characterised by tight coupling and convergence between key variables of socio-economic development, which produced a pattern of joint upward movement and relatively inclusive growth. Financially dominated capitalism, on the other hand, is marked by a decoupling tendency that was held at bay through the growth of finance since the late 1970s. The ongoing crisis brings this decoupling tendency to a head, which, if it continues, is likely to lead to a pattern of much less inclusive growth in the countries associated with Atlantic Fordism and Europe in particular and will thus spell the end of the growth society. (It is conceivable that decoupling will be accompanied by a general slowdown of the system as a whole.)

The economic dimensions of decoupling have already been mentioned, above all the decoupling of profits from investment and the decoupling of wages from other dimensions of economic growth, such as GDP. So what are the social consequences of these structural shifts? The kind of capitalism that seems to be emerging in Europe at the moment will probably lose more of its already reduced capacity for inclusive growth and thus for social integration of subaltern sections of the population. We are therefore likely to see the decoupling of economic growth from social welfare (Dörre 2013: 149). Some people will fall behind even further while some of those who, until now, were relatively secure in their social status and consumption habits may experience heightened precarity. This focus on the connection and coevolution of different dimensions of economic development also casts a new light on certain social trends that have been around for a while: the growing social inequality, rigidified social exclusion(s) and the falling back of sub- or formerly proletarian sections of the population as well as certain cities or regions, like Detroit in the USA or the North of England, can be seen as manifestations of decoupling, the new socio-economic master tendency.[17]

This, I believe, is the socio-economic terrain on which growth critique, like any progressive project, has to strategise and act, at least in Europe. None of this negates its fundamental justification, especially its ecological dimension, but telling people who have effectively dropped out of the growth society that they must abandon their growth fetish is not just a tough sell, it may potentially be regressive. Ultimately, growth critique will only achieve its ambitious goals if it is part of a broad social alliance, and if it wants this alliance to be progressive it must be green *and* red. Therefore, in order to facilitate the rapprochement between these two currents – which, to be sure, the other side must reciprocate – it will have to revisit some of its own historical preconditions and references and correct this particular one-sidedness.

[17]British political folklore distinguishes between *one-nation conservatism* and *two-nation conservatism*. The phrase was coined by the 19th century conservative prime minister Benjamin Disraeli, but it aptly captures the social effects of decoupling and has recently been used again by Labour leader Ed Miliband as rhetorical ammunition against his Tory rivals. One does not have to be an adherent of Mr Miliband to see that this kind of division is exactly where the country is headed and that people and regions that have been hard up since the days of Maggie Thatcher will fall behind even further.

Appendix: Financialisation of Nature

In this paper, I have not concerned myself with those issues that contemporary growth critique cares most about, that is, the ecological destruction caused by economic activity, whether it increases in volume or not. Financialisation, I have argued, is not something that growth critique, as ecological critique, needs to be aware of. It only needs to take it into account inasmuch as it is (a) a social critique too, and (b) insofar as it is important to have an adequate understanding of the social and economic terrain on which it must act. However, there is an area where the effects of financially dominated capitalism may become immediately relevant to nature and the ecological dimension of growth critique, and that is where market-based environmental policies unleash the financial sector on nature by trying to harness it for the ecological transformation of the economy. This is a very recent phenomenon, which, some scholar-activists claim, is tantamount to a *financialisation of nature*. The point was raised in a social movement context and has not been tested thoroughly yet, although it has now attracted the attention of academics. In any case, this research area is in its infancy, therefore I will not go into much detail here.

Apart from the most radical current of growth critique which demands an immediate drastic shrinking of economic activity – something that could probably only be achieved in catastrophic form – there is widespread agreement that the ecological transformation of large-scale societies with an extended division of labour would require huge investment into alternative forms of energy, new production methods and infrastructures as well as new products. This is a major challenge for the mechanisms that allocate a society's productive capacities, for what is needed is nothing less than a radical diversion of the flows of economic resources that have until now gone into highly resource-intensive and ecologically destructive technologies and products. Under capitalist conditions, this requires the mobilisation and redirection of flows of money capital. The currently dominant, market-based approach in environmental policy tries to achieve this through the creation and distribution of tradeable permits. These, it is claimed, will create incentives for companies to develop and invest in eco-friendly production technologies and products. The most well-known example are carbon emissions permits that can be traded on specialised exchanges and are meant to impose costs on firms in proportion to their emissions and would thus motivate them to change their way of doing business. There are very serious doubts whether this is happening, not least since the price of these permits is currently extremely low and therefore unlikely to matter much for polluting companies. Another question is whether capital markets can be used to fund the expansion of alternative energies and eco-friendly infrastructures, such as power grids or transport networks, that is, whether they can exercise their allocation function in such a way that an ecologically sustainable result will be effected by the 'invisible hand' of the market.

Among the sceptics are Larry Lohmann and Nicholas Hildyard, two researchers from the British NGO *The Corner House*. They argue that market-based instruments delay the necessary investment and that financially dominated capitalism diverts cash that would be available in principle for 'green' investment, thus causing *under-investment* (Hildyard 2012; Lohmann 2011). Delays can happen because there is a glut in the market for emissions permits so that polluting companies can purchase them cheaply in large amounts and sometimes even make a profit. This allows them to delay investment in cleaner technologies indefinitely. (It has to be said, however, that this is only indirectly related to financialisation.) Diversion of money capital is allegedly caused by the well-known phenomena of cash-flow financialisation, i.e. increased payout ratios to capital providers, and NFC profit financialisation. Money that could be put into ecologically useful research or fixed investment either flows to financial investors or is channelled into lucrative financial assets by the NFC itself (Hildyard 2012). (This would obviously be very directly related to financialisation as a cause.)

These arguments are mostly conjecture so far, but they are very interesting and worthy of further inquiry, leading to

> **Research Hypothesis 1:** Market-based environmental policies, such as the creation of tradeable emissions permits, and financially dominated capitalism impede the necessary fixed investment in less polluting and less resource-intensive technologies, products and infrastructures because they create adverse incentives.

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