CHAPTER 5

Finance Capital, Financialisation and the Periodisation of Capitalist Development

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Introduction

Rudolf Hilferding's *Finance Capital* (Hilferding 1910/1981) was acclaimed soon after publication as a significant contribution to Marxist thought and continues to be seen as an important work in the tradition of classical Marxism. Yet in sharp contrast to Marx's *Capital*, there appears to be a general consensus, even among radical writers on finance, that Hilferding's analysis is of historical interest only and cannot be applied to contemporary developments.

A common criticism is that Hilferding generalised the specific cases of Germany and Austro-Hungary in an unwarranted way, presenting these as typical of capitalism in general and neglecting contrasting examples of development such as Britain. Michael Howard and John King write that

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> Hilferding generalised far too easily from his own German experience. The economic power of the German banks in the period before 1914 was paralleled (if at all) only in the contemporary USA, and even there not for long. There was never an equivalent phenomenon in Britain or France. (Howard and King 1989, p. 101)

Tony Norfield criticises Hilferding both for failing to relate domestic financial systems to the position that particular countries have in the world market and for exaggerating the role of banks even in countries where finance capital did appear to have played an important role, such as the USA and Japan (Norfield 2016, p. 94). For Norfield, this exaggeration led to crucial political weaknesses; he argues that it led Hilferding to the view that capitalism could be controlled simply by limiting the power of the banks. Both Norfield and Howard and King also highlight what they see as analytical failings in Hilferding's work; in Norfield's view, he misunderstands the forces determining the rate of profit in banking (Norfield, op cit p. 136) while Howard and King criticise his accounts both of economic crises and of capital exports (Howard and King, op cit pp. 100–101). Jan Toporowski is also critical of Hilferding's account of crisis, claiming that it neglects the specific contribution made by the financial system to economic instability and sees finance simply as a passive response to contradictions in the real economy. He writes that

> in line with Hilferding's analysis of finance as coordinating monopoly capitalism, Marxist critics have largely followed the founders of their school of thought to adhere to a "reflective" view that, if financial crisis occurs, it is because it correctly "reflects" critical developments in production: a fall in the rate of profit, increased class struggle, disproportions and so on. (Toporowski 2005, p. 59)

For Toporowski, Rosa Luxemburg's account of international loans, while less orthodox in Marxist terms than Hilferding's work, represented a more creative and ultimately more fruitful approach, owing to its recognition of the autonomous role of finance in generating instability.

Examples such as these could easily be multiplied and, taken together, they converge to a conclusion that, despite Hilferding's localised insights, his work has little to offer in an active way to those trying to understand contemporary financial systems from a radical perspective. At the same time, recent decades have seen a widespread debate on the periodisation of capitalist development in which the concept of financialisation has played a central role (see Albritton et al. 2001 for an important collection of analyses from differing perspectives and Westra 2019 for an overview). This debate was originally stimulated by attempts to understand both the character of the 'long boom' spanning the period from the late 1940s to the early 1970s and the reasons for the ending of that boom and for the consequent slowdown which ensued from the 1970s onwards. An important starting point came from two interpretations of these developments, in which periodisation played a key role, by Ernest Mandel and Michel Aglietta (Mandel 1972/1975; Aglietta 1976/1979), both of which were published at what came to be seen as a central turning point in economic fortunes.

The discussion of periodisation has continued since the initial work of Mandel and Aglietta and has been further encouraged by the emergence of the concept of 'neoliberalism' and by the desire to understand both the character of neoliberalism and the extent to which it represents a distinct departure from previous forms of capitalism (see, e.g., Davidson 2013). Consideration of financialisation has come to be seen as central to this issue but the precise role of financialisation remains controversial. Gérard Duménil and Dominique Levy, for example, structure their account both of the rise of neoliberalism and its crisis around an account of financialisation (Duménil and Levy 2004, 2011), as do the writers associated with the Centre for Research on Socio-Cultural Change (CRESC) (Engelen et al. 2011). On the other hand, the influential work of Robert Brenner (Brenner 2002, 2006) allots a less central place to financial developments while David Kotz explicitly argues against the view that financialisation has been an important cause of the rise of neoliberalism (Kotz 2015, pp. 32–37). For Kotz the line of causation runs the other way, with the rise of the financial sector being seen as a consequence of broader developments within capitalism.

It is notable that despite the wide range of factors considered in this continuing debate, Hilferding's account of finance capital remains to a large extent absent from the discussion. Duménil and Levy point out that the significance of finance within contemporary capitalism is not unprecedented and that Hilferding analysed its role a century ago. However, following this acknowledgement, they develop their own account of recent developments with no further reference to Hilferding's work, and the same is true of the vast majority of recent contributors to debates over financialisation, neoliberalism and the periodisation of capitalism.

Consequently, the question is raised of whether Hilferding's analysis can be used in any way to understand current financial developments or whether it should be seen purely as an account of conditions in early twentieth-century Central Europe. This chapter attempts to investigate the extent to which Hilferding's work retains relevance through comparing his discussion of finance capital with one of the most important recent analyses of financialisation from a Marxist perspective, the work of Costas Lapavitsas and his colleagues in the Research on Money and Finance (RMF) network, based at the School of Oriental and African Studies (SOAS) in the UK.

Hilferding and Lapavitsas: General Considerations

Lapavitsas' account of financialisation has been extremely influential. To a large extent this stems from the fact that it provides the basis for the RMF reports on the origins of the Eurozone crisis from 2010 onwards, an exemplary case of committed Marxist scholarship being integrally linked to political interventions (Lapavitsas et al. 2012). The discussion here, however, will concentrate on his earlier work, in particular his theoretical accounts of the role of money and finance in capitalist societies, one of which was co-authored with the Japanese Marxist economist Makoto Itoh (Itoh and Lapavitsas 1999; Lapavitsas 2003; see also the collection of articles in Lapavitsas 2017) and his discussion of the origins of the 2007–2008 financial crisis (Lapavitsas 2009, 2013).

There are two main reasons for taking Lapavitsas' work as the focus for comparing contemporary accounts of the financial sector with the classical Marxist account provided by Hilferding. Firstly, unlike the majority of writers cited above (with the possible exception of Aglietta), Lapavitsas' main field of interest lies in the theory of money and finance. Consequently, his discussion of financialisation, like that of Hilferding, is rooted in detailed knowledge of monetary thought. Secondly, again unlike other writers in this area, Lapavitsas engages closely with Hilferding's writing and acknowledges Hilferding both as an important contributor to Marxist monetary and financial theory and as a significant influence on his own work. However, Lapavitsas is also strongly critical of Hilferding in a number of ways and takes care to emphasise the extent to which his analysis of financialisation differs from Hilferding's account of finance capital.

In addition to classical Marxism, Lapavitsas' account rests on two further pillars; the Unoist approach to Marxism originating in Japan and a particular interpretation of value theory developed by Ben Fine and his collaborators from the 1970s onwards (Kincaid 2006 provides a useful overview of the background to Lapavitsas' development). As will be seen below, these three influences are closely interlinked in shaping his concept of financialisation. There are also some immediate affinities between them; for example, Lapavitsas refers to the very strong impact of Hilferding's work in developing Japanese Marxism:

> economic thought came to Japan mostly from Europe at the turn of the twentieth century, and perhaps the weightiest part of it was Marxism. Hilferding's book has been used as a standard university textbook for decades during the post-war period; its influence on Japanese Marxism has been enormous. (Lapavitsas 2013, p. 121)

Commonalities Between Lapavitsas and Hilferding

There are three aspects to Hilferding's work which Lapavitsas sees as especially important. The first is his insistence that the theory of credit and finance has to be founded on a theory of money rather than the reverse; Marxism requires a monetary theory of finance rather than a financial or credit-based theory of money. Lapavitsas and Hilferding agree on the necessity for such a theory both because the more complex forms of credit and finance cannot be understood without appreciating their grounding in the role of money within capitalist society and also because a central feature of capitalist crises is the flight to money as the structure of credit weakens:

> whenever there is a general disturbance of the mechanism, no matter what its cause, money suddenly and immediately changes over from its merely nominal shape, money of account, into hard cash. Profane commodities can no longer replace it. (Marx 1867/1976, p. 236)

On the basis of this account, Lapavitsas argues strongly against writers like Geoffrey Ingham and David Graeber (Ingham 2004; Graeber 2011) who criticise both Marx and Hilferding for basing their monetary theory on the economics of commodity exchange rather than the politics and sociology of credit and debt; Ingham claims that 'the anachronistic and misleading commodity exchange theory of money is evident in Hilferding's *Finance Capital* which, despite the ostensible critique, was entirely consistent with the orthodox economic theory of the time' (Ingham, op cit

p. 62). While acknowledging the insights of Post-Keynesian monetary theorists such as Basil Moore, Lapavitsas also argues that their emphasis on the endogeneity of the supply of credit money neglects the fundamental relationship between money and real accumulation, an argument which he rests once more on the need to derive credit relationships from basic monetary categories rather than the reverse (Itoh and Lapavitsas 1999, Chap. 10).

In addition to endorsing Hilferding's account of the need to find a theory of finance on a prior analysis of money, Lapavitsas follows quite closely both Hilferding's discussion of the functions of money and the pyramid-like structure of the credit system. Both writers follow Marx in beginning with an analysis of money as a measure of value and then moving on to its functions as a medium of circulation and means of payment. Both see the analysis of the hoarding of money as central and use this analysis as the basis of a criticism of the quantity theory of money. They each then proceed to develop a theory of credit and finance on the basis of money's function as a means of payment, taking trade or circulation credit as a starting point and then showing how this evolves into banking or industrial credit. Their accounts of the development of different kinds of money are also very similar; in particular, they both emphasise the distinction between fiat and credit money and the differing impact of each of these on inflation. In summary, Lapavitsas adopts much of Hilferding's monetary theory, although he develops it further in some key respects; in particular, following Kozo Uno, he highlights the role of the money market in which banks lend to one another, arguing that this was neglected by Hilferding (Lapavitsas 2013, pp. 130–132). He also goes further than Hilferding in discussing the role of central banks, in particular the way in which they sustain a system based on a particular combination of credit and fiat money (ibid., pp. 84–87) and in considering world money (ibid., pp. 101–105).

The second way in which Lapavitsas sees Hilferding making a fundamental contribution to Marxist theory is through his concept of 'founder's' (or 'promoter's') profit and his analysis of joint-stock capital. The central idea here rests on the discounting of future flows of income. Because the rate of interest which is required as a return by shareholders is less than the rate of profit, even when a risk premium is included, the sum of money which can be raised by a company from investors, which is represented by expected future profits discounted at that rate of interest, will exceed the capital required for the company to undertake production and to earn the competitive profit rate. The difference accrues to those starting up the company and is taken by them as founder's profit (Hilferding 1910/1981, Chap. 7). Lapavitsas describes Hilferding's analysis as an important breakthrough in Marxist analysis, both because, taken together with his account of loanable capital, it completes his discussion of the credit and financial pyramid and also because it is central to the explanation of the origins of financial profit. Following Itoh, however, he rejects Hilferding's identification of founder's profit as being equivalent to Marx's 'profit of enterprise' which can be counterposed to interest as a result of the division of overall profit between industrial and financial capital (Itoh 1988, pp. 286–287).

Thirdly, Lapavitsas is in agreement with Hilferding's account of the origins of interest-bearing capital as lying in the idle capital held by industrial enterprises as a result of indivisibilities or breaks in the circuit of capital; for example, enterprises may hold such funds while waiting for machines to depreciate so that new investment is needed or because they need to hold money capital to ensure the continuity of production while waiting for finished goods to be sold (Hilferding 1910/1981, Chap. 4, especially pp. 70–75). Hilferding draws here on Marx's analysis in volume two of *Capital*, and Lapavitsas identifies two strands in Marx's thinking on this question (Lapavitsas 2017, Chap. 6). The first sees the source of interest-bearing capital in the money holdings of a distinct group of financial capitalists who exist separately from industrial capitalists. For Lapavitsas, this conception is analytically and empirically weaker than the view which co-exists with it in Marx and which Hilferding endorses, where interest-bearing capital emerges from the circuit of capital as described above. Such a view both allows the analysis of lending to be grounded in a general account of accumulation and also avoids the tendency to identify finance with the interests of a stratum of rentiers. For Lapavitsas,

> far from being the exclusive property of a layer of rentiers, interest-bearing capital is in large measure the reallocated spare money capital of the capitalist class. By the same token, interest accrues both across the capitalist class and does not constitute the revenue foundation of a separate social group—of the 'monied' capitalists. (Lapavitsas 2013, p. 118)

The involvement of non-financial enterprises in financial activities is an important element in Lapavitsas' account of financialisation, and he goes beyond Hilferding in extending his analysis to the increased mobilisation of workers' savings in financialised capitalism as an element of loanable capital.

Differences Between Lapavitsas and Hilferding

The presence of a monetary theory of finance, the analysis of joint-stock capital and the discussion of the origins of interest-bearing capital represent important points of congruence between Lapavitsas' account of financialisation and the work of Hilferding. However, there are equally significant differences between their analyses and here the other central influences on Lapavitsas—the Uno School and the value theory developed by Fine—come into play. Again, three issues assume particular importance.

The first relates to the origins of the money commodity. At the start of *Finance Capital*, Hilferding locates the necessity of money in the anarchic and individualised nature of the exchange of commodities and, following Marx, in the contradiction between use value and value, which requires the emergence of a commodity which solely represents exchange value and can be contrasted with other commodities which retain the character of use values. He writes that 'the commodity must therefore become money, because only then can it be expressed socially, as both use value and exchange value; as the unity of both which it really is. However, since all commodities transform themselves into money by divesting themselves of their use values, money becomes the transformed existence of all other commodities' (Hilferding 1910/1981, p. 35). Lapavitsas argues that this account of the development of money is problematic in two ways.

First, while Hilferding shows that money is necessary for the exchange of commodities, this is not the same as showing how money actually developed. Lapavitsas raises a series of questions about the analysis of Hilferding and the elements of Marx's work on which he relies here:

> if a general representative of value existed, the contradictions between use value and value as abstract labour would indeed be resolved. However, how do the contradictions themselves lead to emergence of a general representative of value? What are the economic mechanisms through which value becomes socially represented by money as a result specifically of the contradictions between use value and value as abstract labour? (Lapavitsas 2003, p. 56)

Second, Lapavitsas argues that Hilferding's approach cannot explain the existence of money in pre-capitalist societies. Here he draws particularly on the approach to value theory developed by Fine and others to argue that value as abstract labour exists only in societies based on generalised commodity production, in other words capitalist societies. Hence the emergence of money prior to the development of capitalism cannot be based on the contradiction between value and use value.

Lapavitsas then presents an alternative approach to the development of money which draws heavily on Unoist Marxism and in particular on the work of Itoh (Itoh 1980, Chap. 2). The key idea here is the separation of the form and substance of value. Lapavitsas argues that the money form of value develops prior to the substance of value in pre-capitalist societies, with exchange at the 'edge' of such societies between traders from separate communities playing a central role. The form and substance of value only come together once capitalism has fully developed and abstract labour emerges as the substance of value. Consequently while 'in the capitalist mode of production the forms of value are fully developed and closely related to the substance of value' (Lapavitsas 2003, p. 54), it is also the case that 'money's emergence should be demonstrated exclusively in terms of the form of value. In other words, the roots of money lie in the evolution of the form of value and they are unrelated to the substance of value' (ibid.). The evolution of the money form of value is in large part dependent on social custom and the interaction of such custom within pre-capitalist societies with the exchange that takes place between such societies.

The significance of this derivation of money lies in the more general argument resting on the value theory of Fine and others which Lapavitsas presents in his book *Social Foundations of Markets, Money and Credit*. The central point here is about the connection between economic and non-economic factors. In capitalism, the economic imperatives of generalised commodity exchange and capital accumulation are fundamental to society and shape the character of non-economic relationships. However, those non-economic relationships are not illusory; Lapavitsas argues that within production relations of exploitation depend crucially on relations of power and fiat which are not simply economic in character, while in the sphere of distribution we also see norms of consumption for workers which rely on social custom rather than simply on economic relationships (Lapavitsas 2003, p. 21). This is important because Lapavitsas goes on to argue that not only is there an inherently non-economic element even to commodity production under capitalism but also that capitalism is reliant on a range of kinds of labour which do not produce value, a set both of products and activities which are not commodities and commodities which are not produced by capital rests on the value theory of Fine and others where the non-economic assumes an important role. Examples are state provision of health and education and work in commerce (ibid., p. 26). Centrally for the argument here, the financial sector provides another example.

Lapavitsas writes that 'there are also activities and things that assume the form of commodities, despite being inherently unrelated to commodities' (ibid.). The first example he gives is land, but he then continues by saying that:

> another example is stocks and shares, both of which similarly involve no labour in production. However, they can take the form of commodities because they afford to their owner a claim on profits to be generated in the future. (Ibid., p. 27)

The key consequence of this is that because financial variables are not the result of value-producing abstract labour their prices are strongly affected by non-economic factors. They cannot in the last instance escape from the influence of productive activities, but they have a considerable degree of flexibility:

> the absence of mechanisms anchoring land and stock prices onto the substance of value (in contrast to produced commodities) implies that they also exhibit strong volatility and arbitrariness. Non-economic factors, such as psychological swings of optimism, political change, or even purely institutional manipulation of trading, play a strong determining role for prices of land and financial assets. (Ibid., p. 27)

The impact of non-economic factors on the value of financial assets is thus rooted in the distinction between the form and substance of value, and as shown below, it plays an important role in Lapavitsas' account of financialisation. In addition to discussing the factors listed above, Lapavitsas goes on to discuss the crucial role of the non-economic concept of trust in shaping the credit system (Lapavitsas 2003, Chap. 4; see also Lapavitsas 2017, Chap. 11). As commodity owners, capitalists relate to one another as separate, individual (Lapavitsas' term is 'foreign') entities, linked only by dealings mediated by monetary exchange. But

> it is essential for credit transactions that relations of trust and power are present among capitalists. Capitalists who engage in credit are already completely related to each other—they are not "foreign" entities engaged in plain buying and selling. (Lapavitsas 2003, p. 68)

Again, the non-economic acquires a high degree of autonomy from the economic but without achieving complete freedom. It is the case that 'capitalists engage in credit operations within explicit relations of trust and power, which directly affect the availability and terms of credit' (ibid., p. 86) but also ultimately that while

> banking credit indeed depends on trust, but the quantities of it that can be made available to capitalist accumulation are not limitless, even when trust between participants is unimpaired…. credit is an economic aspect of the circulation of capital and is therefore ultimately dependent on the processes of production. (Ibid., p. 72)

The second important difference between Lapavitsas and Hilferding relates to the question of the derivation of concrete relationships of financialisation from more abstract categories. Here Lapavitsas argues directly that Hilferding's approach to the periodisation of capitalism (and by implication the approach of classical Marxism in general) is inadequate. He argues that there is a 'leap' from the first three parts of Hilferding's book, dealing with the analysis of finance based on first principles, to the account of crisis and imperialism in the last two parts. For Lapavitsas, 'in line with Marx's dialectical approach in *Capital*, proper analysis of the last two topics would require the introduction of further levels of mediation substantiating the historical evolution of both crises and capitalism in general' (Lapavitsas 2013, p. 50), but 'Hilferding offers little in this respect' (ibid.).

The argument here is connected to ideas drawn from the Uno School. As is well known, Uno's work posits three levels of analysis in the theorisation of capitalism: the theory of a purely capitalist society, the identification of stages of capitalism and the analysis of capitalist history. This clearly provides the basis for an account of periodisation, in which the identification of distinctive stages or periods in capitalist development would form the basis of the second level of analysis, and Unoist work has formed one important strand in the debate over the periodisation of capitalism mentioned above (Albritton 1991). The Unoist justification for separating the account of stages of capitalism from the theory of a pure capitalist society also has close affinities with Lapavitsas' discussion of the relation between the economic and the non-economic, since it is the presence of non-economic factors in the identification of distinct stages of capitalism that necessitates a distinct analysis of such stages. As Albritton writes 'the law of value only works on history in a mediated fashion, since at an historical level, the economic is only relatively autonomous, overlapping with and supported by the ideological, legal and political. It follows that history never approaches asymptotically close to pure capitalism' (ibid., p. 30). Kozo Uno himself provides a criticism of Hilferding along these lines when he writes that

> Hilferding's statement—"Bank capital was the negation of usurer's capital and is itself negated by finance-capital" cannot be supported at all. Usurer capital does not, by its own logic, turn into bank capital, nor does the latter turn into finance-capital. Finance-capital appears only when the capitalist production of use-values physically develops into a new stage. (Uno 1971/2016, p. 174—the passage quoted is from Hilferding 1910/1981, p. 226)

Lapavitsas brings both of these criticisms of Hilferding's approach together when he summarises his approach to periodisation. The relative weight of non-economic factors in the world of finance means that financial systems within capitalism exhibit considerable variety both spatially and temporally, and this variety requires a distinct level of analysis which cannot simply be derived from fundamental principles. Lapavitsas describes Hilferding as seeking an 'endogenous' set of reasons for the emergence of finance capital but he argues against 'endogenous theorisation':

> relations between production and finance tend to be historically specific, and subject to institutional and political factors that shape the financial system. The links between industrial capital and the credit system in the period of financialization have been far more variable than the simple picture of increasing reliance of industry on banks which Hilferding assumed. (Lapavitsas 2013, p. 67)

The third way in which Lapavitsas differentiates his analysis from that of Hilferding is through his criticism of Hilferding for omitting central aspects of capitalism from his analysis, in particular the evolution of production, changes in the labour process and the development of the labour market. He points out that 'if, however, an epochal transformation of capitalism has indeed taken place, its roots are likely to be found in the forces of production and in the labour process. Hilferding does not discuss these issues in any depth' (Lapavitsas 2013, p. 50). Since what is highlighted here is an omission, Lapavitsas does not move on to a more detailed account of the character of Hilferding's analysis here but his own discussion of financialisation does in part differ from Hilferding's through its consideration of issues in the 'real' economy, in particular the impact of changes in productivity, as well as highlighting the impact of financialisation on workers.

To summarise, while Lapavitsas endorses important elements of Hilferding's approach, he differs from him in emphasising the variability of possible relationships between industrial and financial capital as a result of the particular interaction between the economic and non-economic which is typical of the financial sector and of the need to analyse these relationships in the context of distinct stages of capitalism. He also emphasises that movement between these stages is unlikely to result purely from financial developments but will be rooted in changes in production and labour relationships. With these considerations in mind, it is now possible to examine Lapavitsas' own account of financialisation and the ways in which it differs from that of Hilferding.

Financialisation According to Lapavitsas

Lapavitsas starts from the proposition that an adequate account of financialisation has to consider the behaviour of non-financial enterprises, the financial sector and workers and households. Each of these three groups has both shaped and been affected by the growth of financialisation over the last 30 years. Firstly, industrial enterprises (at least large enterprises) have become increasingly 'financialised'. They finance most of their investment from retained profits and have become to a significant extent independent of requirements for funds from the financial system. On the contrary, they themselves have become active players in that system, trading in a range of financial assets. When they do need funds, they obtain them from financial markets, through instruments such as commercial paper for short-term funds and through bonds for longer-term capital. Lapavitsas recognises differences here between national and regional economies; however, he shows that the trend away from reliance on bank funding for investment is exhibited in Germany and Japan as well as in the

USA and UK (Lapavitsas 2013, pp. 217–231). In the majority of industrialised economies which he examines, there has been a tendency for share of trade credit in the assets and liabilities of non-financial companies to decrease and for that of other financial instruments to increase (ibid.). Lapavitsas interprets this as an example of financialisation since, following Hilferding's pyramid of credit, trade credit is the aspect of finance most rooted in productive accumulation, with other elements of finance having a greater detachment.

The loss of business lending to large non-financial enterprises has in turn transformed the behaviour of banks. Financialisation has led them to rely on three other kinds of activity: trading in open markets (especially in Germany and the UK), lending to one another and lending to households. In most of the industrialised countries which Lapavitsas examines (but less so in Japan), there have also been significant changes in bank liabilities with a greater reliance on borrowed funds and less use of deposits. In overall terms, Lapavitsas characterises these developments as involving an increasing detachment of banks from productive accumulation (ibid., pp. 231–238).

The third element of financialisation highlighted by Lapavitsas is what he describes as 'the financialization of the personal revenue of workers and households across social classes' (ibid., p. 38). This involves increasing liabilities for households, partly relating to mortgage debt and loans for consumption and partly to finance expenditure on services such as education and health owing to the increasing withdrawal of the state from these areas. However, it is also the case that household assets, notably pension savings, have become increasingly important for the financial system. Lapavitsas highlights the way in which such assets have been channelled by the banks towards financial markets and the financial profits which have been earned through this. Somewhat controversially, Lapavitsas argues that these relationships have been shaped by imbalances of power and information between banks and households which have allowed for what he describes as 'financial expropriation'. His analysis here is based on a development of Hilferding's discussion of founder's profit and the associated creation of fictitious capital. Lapavitsas argues that if Hilferding's analysis is extended from looking at a 'once for all' transaction when a company is founded to consider ongoing trading in financial assets it can be shown how such trading can generate financial profits through differences in required returns leading to differences in valuation. The advantages in power and information which financial institutions have over households in this process provide the basis for such profits and can be seen as a form of expropriation:

> the path is thus opened for financial institutions to bring to bear predatory practices reflecting the systemic difference in power and outlook between financial institutions and workers. Financial profits could be extracted throughout the lifetime of the security, ultimately deriving from future wage payments. Similar considerations would hold for other consumer borrowing. This is a key aspect of financial expropriation. (Ibid., pp. 167–168)

These three trends provide the basis for Lapavitsas' analysis of the origins of the crisis of 2007–2008. Increased lending to households, fuelled both by a decline in the savings ratio and by low-interest rates, generated a speculative bubble in the US housing market which then burst when interest rates began to rise. The impact of the bursting of the bubble was transmitted through the financial system as a result of the large level of interbank lending, the rise in the proportion of banking activities financed by borrowing rather than deposits and the involvement of banks in trading in open markets. A significant aspect of the causes of the crisis was the change in banking activities resulting from the decline in lending to large non-financial activities, coupled with associated changes in bank behaviour such as the securitisation of loans, reliance on credit-scoring techniques to assess risk and the growth of new financial assets, notably derivatives (Lapavitsas 2009).

It can be seen that Lapavitsas' analysis of financialisation exemplifies in important respects the differences previously highlighted between his approach and that of Hilferding.[1] As outlined earlier, he begins with an account of development in non-financial enterprises and moves from this to consider changes in the financial sector. His account of relations between the financial sector and households draws on his analysis of the importance of non-economic factors, especially relations of power. The speculative bubble he identifies as lying behind the 2007–2008 crisis and other similar phenomena, which have occurred under financialisation, are examples of the relative autonomy of asset prices from underlying value relations. The role of political factors is highlighted strongly, with regard to both the impact of the withdrawal of state involvement in key areas of

[1] It should be noted here that Lapavitsas extends his analysis to consider international capital flows and what he terms 'subordinate' financialisation in developing economies. This aspect of his account will not be considered here owing to reasons of space.

social provision on the financialisation of households and the effect of monetary policy on financial relationships. Lapavitsas emphasises continuing national variability within the general framework of financialisation and also stresses the specific institutional factors which have shaped financialisation in particular cases, for example, the role of independent central banks. His emphasis on the importance of institutional structures is reinforced when he moves on from considering the origins of the 2007–2008 crisis to considering its specific impact on the Eurozone (Lapavitsas 2013, pp. 288–305). It is clearly the case that, while highlighting Hilferding's contribution at numerous points, Lapavitsas has provided an account of financialisation which constitutes a distinct alternative to that provided by Hilferding with regard to both specific details and the underlying general approach. Consequently, two questions arise: firstly, that of whether Lapavitsas' account is superior to that of Hilferding or not and, secondly, that of what remains valid in Hilferding's analysis following the criticisms made by Lapavitsas.

Criticisms of Lapavitsas' Approach

Lapavitsas' description of financialisation has been very influential and is compelling in many respects. However, there are a number of issues that are left unresolved in his account and which may indicate a continuing role for the kind of analysis provided by Hilferding, if not necessarily for his specific observations.

A central issue here is that of what has caused the growth of financialisation over the last three decades. Lapavitsas starts by saying that financialisation

> represents a period change of the capitalist mode of production entailing a systemic transformation of mature economies with extensive implications for developing economies, and should properly be examined in these terms. (Lapavitsas 2013 p. 169)

He suggests as a model for such an examination the approach outlined by Trotsky in his critique of Kondratiev. For Trotsky, capitalist accumulation occurs within a 'channel' shaped by various external institutional, political, legal and ideological conditions. Lapavitsas proposes a similar approach to the analysis of periodisation in general and financialisation in particular:

> political economy must explicitly specify the "external" conditions, if it is to grasp the direction and changes of accumulation particularly in the context of crisis and historical period change. This insight is crucial to the analysis of financialization. (Ibid., p. 171)

There are three problems, however, with the way in which Lapavitsas implements this approach. Firstly, his account leaves the internal factors affecting capital accumulation unexplained. He outlines developments such as lower GDP growth, changes in the labour force, weak productivity growth and rising inequality but does not connect them to internal causes; they typify the period of financialisation but are not explained in any detail themselves. Lapavitsas makes a rather sweeping statement that 'the material basis of accumulation has been shaped by profound technical change in information processing and telecommunications' (ibid., p. 172) but this is not pursued further.

Secondly, the link between these internal developments and financialisation is not clear. One possible reason for this is that Lapavitsas is sceptical of general accounts of financialisation which see it simply as a 'flight to finance' in the face of weaknesses in the real economy. He criticises the 'Monthly Review' school of Marxist analysis for precisely this failing, arguing that

> if financialization is not explicitly related to the operations of the fundamental agents of the capitalist economy, its content will remain unclear. Unfortunately, the output of the *Monthly Review* current does not offer the requisite analysis, and the same holds for other Marxist work that treats financialization as the flight of capital from a stagnating productive sector. (Ibid., p. 18)

This point is persuasive, but while Lapavitsas describes changes in the behaviour both of industrial enterprises and of banks he does not explain how internal changes in capital accumulation are connected to developments in the financial sector. An example here is the question of the increasing independence of large industrial enterprises from bank finance where he says that

> for the purposes of establishing the underlying relations of financialization, it is not necessary to examine in further detail the forces that determine the balance between 'internal' and 'external' finance for productive capital. (Ibid., p. 220)

He suggests, briefly, that new developments in information and communication technologies may have altered investment requirements and speeded up turnover, reducing the need for external funds. He also mentions the possibility that the growth of internal finance may be related to the degree of monopoly. However, neither of these possibilities is pursued in any detail and the causes of this aspect of financialisation remain largely unexplored.

Thirdly, Lapavitsas' account of external, especially political, factors also stands aside from causal analysis in an important way. He argues convincingly that the ascendency of finance depended heavily on state policies, especially the pursuit of low inflation through central bank independence and various forms of national and international deregulation of finance. But he does not fully explain the causes of these policies and in particular whether they acted independently to shape financialisation or were themselves brought about by developments within the sphere of finance. This difficulty is also made apparent by his analysis of neoliberalism. He tends to describe neoliberalism largely in ideological terms; 'neoliberalism has provided the ideology of the period of financialization, the umbrella under which the ascendancy of finance could take place' (ibid., p. 172). As a result, the connection between the broader character of neoliberalism and developments in the financial sector becomes unclear. In particular, the question raised by Kotz of whether neoliberalism in some sense creates financialisation or whether financialisation in contrast requires and brings about neoliberal policies across the economy is not resolved in Lapavitsas' work. Financialisation 'has been accompanied' by neoliberalism (ibid., p. 192) but the nature of their connection is not fully clear.

In summary, Lapavitsas does not fully integrate his account of the various trends within financialisation, which as he says involve changes in the behaviour of both industrial and financial enterprises and households, into a coherent analysis of capitalist development as a whole. He provides a compelling and detailed picture of the changing activities of the various sectors, but he does not fully explain the causal connections between them. This weakness is particularly apparent when his account of the crisis of 2007–2008 is considered. He provides a powerful analysis of the links between firm, bank and household behaviour by showing how trends in industrial financing necessitated new banking strategies focused on households. But it is not clear to what extent this discussion actually differs from the orthodox accounts of the crisis found elsewhere and how much is added to those by the Marxist framework adopted by Lapavitsas. A focus on increased bank lending to financially fragile households, fuelled by reliance on quantitative techniques of credit evaluation and the securitisation of loans and accompanied by bank reliance on interbank lending rather than deposits, which led to a speculative bubble, is surely characteristic of many conventional overviews of the crisis. For Lapavitsas' Marxism to add something really substantial to those overviews, it would need to be more closely related to a broader analysis of the character of contemporary capitalism than it is—and this is surely just where the debate on the periodisation of capitalism becomes most relevant.

Back (or Forward?) to Hilferding

The criticisms set out above of Lapavitsas' approach to financialisation are not in any way meant to diminish its importance. On the contrary, this chapter has concentrated on Lapavitsas' work both because he provides the most convincing Marxist account of financialisation currently available and because of the depth of his engagement with Hilferding's earlier discussion of these issues. However, they do raise the question of whether there are resources in Hilferding's work which might help in resolving some of the difficulties which face current accounts of financial developments.

Clearly, this cannot involve simply applying the concept of finance capital to contemporary capitalism as a general model. The criticisms made by Lapavitsas and many others of the view that banks are currently in some sense fused with and dominant over industrial corporations are valid and important and have been recognised to be so since the work of Paul Sweezy in the 1940s (Sweezy 1942, pp. 265–269; see also the summary of the debate on this issue between David Kotz and Edward Herman in Lapavitsas 2013, p. 56). If Hilferding's work is to retain relevance to the analysis of periodisation today, this will have to result from his general approach rather than his specific conclusions.

Two possible justifications for continuing interest in Hilferding's work can be mentioned initially. Neither of these is fully convincing, but they indicate some of the issues that might be considered in a further more substantial justification. The first approach would be to see Hilferding as identifying a particular stage in capitalist development but one that has now largely been superseded, at least in the major industrialised countries, although it may continue to be relevant for developing economies. According to this view, economies go through a period of 'bank-based development' before moving on to financial systems which allot a more substantial role to markets. The most influential statement of this view is contained in the work of Alexander Gerschenkron (Gerschenkron 1962). Hilferding's work could then be seen as a Marxist variant of Gerschenkron's analysis, allowing the insights involved in the identification of a distinct stage of capitalist development in which banks play a crucial role to be incorporated in the more general periodisation of capitalism.

While the above approach focuses on temporal issues, an alternative viewpoint stresses spatial questions. If it is accepted that capitalism exhibits significant variety across different national and regional units, then Hilferding might be seen as the theorist of bank-based economies co-existing with market-based economies. The question then becomes one, not of markets supplanting banks in a process of temporal development, but of different forms of capitalism typified by different financial systems. The 'varieties of capitalism' literature has become extensive in the wake of the work of Peter Hall and David Soskice (Hall and Soskice 2001). Again, Hilferding could be seen as providing a Marxist basis for the analysis of the variant of capitalism which is centred heavily on bank involvement.

Both of these approaches are attractive in a number of ways as ways of highlighting the continuing relevance of Hilferding and are surveyed briefly by Lapavitsas (Lapavitsas 2013, pp. 38–43). In particular, while the role of banks may have changed significantly from that described by Hilferding in many of the major industrialised countries, there are a number of large middle-income economies where the relationship between banks and industry appears close and significant and where Hilferding's ideas may be useful, notably China, Russia and India. It should also be noted that Hilferding himself was quite aware of the difference between the development of financial capital in the UK and in Germany and Austria and analysed this difference in terms of the historical priority of industrialisation in the UK and its consequences. For example, he refers to the difference between France, Holland and Belgium on the one hand, who provide international investment credit and the UK (Hilferding refers to 'England') which provides commercial credit (Hilferding 1910/1981, p. 92) and to the difference between the UK and Germany with regard to domestic credit, with that provided in the UK being mainly credit for commerce while in Germany industrial credit predominates (ibid., pp. 224–225). On tariff policy, Hilferding writes that 'England's industrial pre-eminence gave her a larger stake in free trade' (ibid., p. 302) while 'the commercial policy interests on the continent were entirely different' (ibid.,

p. 303). In this way Hilferding's own analysis seems connected both to a dynamic view of the role of bank capital in the economic development of 'late industrialisers' and a synchronic view of the differentiation between various capitalist economies, partly caused by the time of their industrialisation.

Neither of these approaches, however, is fully convincing as an argument for returning to Hilferding's work. The problem is twofold. Firstly, the terms of the debates regarding both late industrialisation and varieties of capitalism are primarily set outside Marxism. Consequently, it is not clear just what Hilferding has to offer as a Marxist if his work is primarily assessed within these debates. In other words, the precise contribution which a Marxist account of finance capital can make in this particular context has yet to be identified. Secondly, Hilferding's work is put forward as a general theory of capitalist development. It is also unclear how this purported generality, especially as expressed within the earlier sections of his book which put forward the principles of money and credit, can be made consistent with a view of his work as providing an analysis which is circumscribed either temporally or spatially. The question is whether an analysis supposedly based on general principles of this kind can usefully function as an account of a particular time period within capitalism or variety of capitalist economy.

A third approach to Hilferding's work, which might also be of use in furthering the debate on periodisation, might start from reconsidering the method by which he derives the concept of finance capital from the fundamental nature of money and credit. One of the first things to strike any reader of *Finance Capital* is the strongly unified nature of the argument, the way in which the analysis flows from the basic characteristics of the growth of hoards as a result of discontinuities in the circuits to capital to the development of more and more sophisticated forms of credit and finance through to the relationship between finance capital, crises and imperialism. The analysis flows with an exceptional logical power. However, this is also connected to a crucial weakness in Hilferding's argument: its one-sided nature. Hilferding is able to create an argument with an impressive degree of unity partly because he focuses on one trend within capitalist development to the exclusion of almost all others, the increasing concentration and centralisation of capital and the associated growth of fixed capital and the need for large investment projects. It is this that leads to the growth of ever-larger hoards spurring the development of more complex forms of finance and eventually lays the basis for the fusion between banks and industrial enterprises. It also lengthens the turnover period for capital which both generates increased loanable capital and also increases the dependence of firms on banks.

This trend is a central feature of capitalist development and plays an important role in Marx's own analysis of the growth of machinery and large-scale industry. However, it may well better be seen as a tendency rather than as the kind of deterministic law posited by Hilferding. In other areas of Marx's economic analysis, notably in the discussion of the falling rate of profit, there has been a movement away from highlighting fixed determinations towards analysis of the more complex interplay between tendencies and their countervailing factors. It seems worth considering the possibility that this approach could also form a basis for analysis of the relationship between financial and industrial capital. In such a case, Hilferding's work might be seen not so much as an account of a particular stage in capitalist development or of a particular variety of capitalism but as an analysis of what capitalism might look like in a situation where the tendency towards centralisation outweighs other factors.

It is important here, however, to recognise that this tendency might not be the dominant one if countervailing forces gain strength, and that in such cases a very different relationship between financial and industrial capital from that put forward by Hilferding might obtain. A possible example of this lies in the remarks made by Lapavitsas about the role of information and communication technologies in shortening the turnover of capital and reducing the reliance of industry upon the banks. This might well be one of the relevant forces here, and Lapavitsas is correct in considering the possibility that it may well have shaped recent developments in financialisation. What is needed, however, is to trace back both the tendency towards centralisation and the forces which oppose this to their first principles and to develop on the basis of this an account of the contradictory nature of financial development under capitalism. Hilferding's account would be important here although, as a result of treating one side of this contradictory process as something of an iron law, it provides only one part of a complete account.

An example of how this might work in practice is provided by Hilferding's theory of crisis. This has been widely criticised, in part because the emphasis on disproportionality has been regarded as having reformist implications and as being connected with his views on 'organised capitalism'. It has also been seen as neglecting the role of capital-labour conflict within crises. However, it does have an important strength within the context of the remainder of his analysis. The theory is closely connected with the fundamental factors driving development for Hilferding; it is the rise in fixed capital and turnover time which give rise to the disproportionalities and the credit extended as a result of this rise which masks the underlying problems leading to deeper crises later. Consequently, Hilferding's crisis theory contributes to the unity of his underlying account described earlier. However, it also exemplifies the one-sided nature of that account. Disproportionalities of the kind described represent one aspect of crises, but they are not the only one. In addition to this, the forces leading to crisis may be mitigated by reductions in turnover time or the need for fixed capital. Hilferding's account should be seen as showing a tendency within capitalism rather than an inevitability and needs to be situated within a broader analysis of the many factors shaping capitalist development in general and the role of finance in particular (an important general statement of the need for a multi-causal account of capitalist development is contained in Mandel 1972/1975, Chap. 1).

Conclusion

This chapter started from noting that, while Hilferding's account of finance capital commands a considerable amount of respect, his work has played a relatively limited role in the debate over the periodisation of capitalism. This has been the case even though it is widely believed that financialisation is a central concept in understanding contemporary capitalist developments. To explore this further, an important example of current discussions of financialisation, the work of Lapavitsas and his colleagues, was examined. This analysis has important commonalities with that of Hilferding but also makes significant criticisms of his work. Lapavitsas' work also exhibits problems, however, and it is possible to argue that some at least of these problems might be resolved by returning to Hilferding's analysis and recasting it in a less deterministic form. Hilferding can perhaps best be seen as a theorist not of a particular stage in capitalist development or of a specific variety of capitalist regime but as drawing out the consequences of a tendency within capitalism. By embedding his analyses of this tendency within a broader account of the forces which might counter the tendency and the contradictions which might result from this, we can use Hilferding's work as one element in a richer picture of the evolution of capitalism.

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