International Politics and Society

'We could socialise the financial sector'

Grace Blakeley, a rising star on the British left, explains how the growing dominance of finance has broken our economies

By Grace Blakeley | 02.12.2019

Has financialisation ruined our economies?

Your new book "Stolen" carries the subtitle "How to save the world from financialisation." So let's start with a simple question: why is financialisation a problem in the first place?

The best-known definition of financialisation is the growth of financial motives, financial markets, financial actors and financial institutions in the operation of the international and domestic economies. And it is a process that can be analysed through a number of different lenses.

I analyse it as a logic that governs economic accumulation – a particular growth regime. I argue that the extension of the logic of finance – so the logic of credit creation, banking, investing and money management – into other areas of the economy has transformed economic activity, particularly in the UK.

You talk about finance-led growth. The opposite of that would be growth in the real economy?

Yes, you could also look at it from the growth of the finance sector as opposed to the growth of the real economy. But my approach is different and has much more in common with the Marxist thought, which looks at the growth of finance capitalism as a result of the natural development of capitalism.

In the book, I look at the financialisation of the household, the corporation and the state. And when you look at it from that perspective, structural problems become quite clear. The financialisation of the corporation leads to the dominance of shareholder value ideology and corporate governance. Which is enforced by money managers.

These big institutional investors have a more significant role in the economy than they once did.

And they enforce this very particular way of organising the firm: the interests of shareholder and creditors are placed ahead of those of workers. On top of that, short-term distribution of funds to shareholders is prioritised over long-term investment in fixed capital.

Through processes like acquisitions and mergers, corporations generate monopoly power that aggravates the problem of low levels of investment. Because the supernormal profits generated by monopolies come from controlling and reducing investment. And it grants these firms a huge amount of power in both domestic and international economies. Whether it's states, workers or other sections of the market.

And often, they take out large amounts of debt, rendering them relatively unstable. The massive increase in corporate debt in the UK and the US in particular is a direct result of that model and the tendency to borrow. Not to invest, but to borrow, in order to boost share prices.

What about the household?

I analyse this through the lens of the idea of privatised Keynesianism. It basically looks at the replacement of public debt with private debt. The issue created by finance-led growth is that the tendency for wage growth to fall and for investment to fall under this model of finance-led growth could lead to a shortfall in aggregate demand.

The way in which the system is stabilised is through privatised Keynesianism. So, rather than combatting that shortfall of demand with public spending, you get the proliferation of private debt. It's then private unsecured debt that often takes the place of wage growth in allowing consumers to purchase commodities.

Then you have the financialisation of the state. What do you mean by that?

Yes. We don't have a state anymore that's thinking about public borrowing in the way that it did during the heyday of Keynesianism, about constraining financial markets through credit controls and exchange controls. And we don't have a state anymore that's thinking about proper financial regulation.

The growing dominance of finance leads to the financialisation of the state, in the form or private financing initiatives. That's the state saying to private investors: you do the spending on our behalf. Finally, we have an increasing insulation of economic decision-making from democratic accountability, which facilitates capture by financial elites.

On all these different levels, you can see how the rise of financialisation leads to these big, significant problems. Whether you're talking about falling wages, falling investment or looking at the dynamics that drove the financial crisis.

How does austerity fit into your analysis? And would you say, comparing the financial sector in 2008 to now, that there's a big difference?

The way that I understand this finance-led growth model, it's not simply a set of regulations. It's actually premised upon a change in the balance of power between the different classes. I analyse the long history of capitalism through the lens of the balance of power between labour and capital.

In this view, the rise of social democracy is premised upon the growing power of organised labour. The decline of that model is premised upon the erosion of many of the institutions that supported the post-war consensus by the growing power of finance capital.

And the emergence of finance-led growth in the 1980s is linked to the development of financial markets, the growth of capital mobility, and the difficulties associated with maintaining the peace between labour and capital at the level of the state. All this shifted the balance of power away from labour and towards capital. And in particular to international financial capital.

When talking about austerity, you have a particular class that becomes dominant within the state and within a bunch of other institutions. These people react to the financial crisis of 2008, caused by the model of finance-led growth, by imposing the costs on ordinary people, whilst bailing out the banks. The impact that that has on the economy is largely negative for the vast majority of working people. Whereas those at the very top are insulated.

In the aftermath of 2008, we've seen central bankspumping money via quantitative easing in the economy just to keep it afloat – instead of governments using public investment. What's your take on that?

The problem partly has to do with quantitative easing itself, but it's more deeply to do with the lack of demand that exists in all of these different economies. Another hangover from financialisation. It has to do with falling wages, falling levels of investment in fixed capital, the massive debt overhang that means that a huge amount of returns have to be directed towards repaying debts. Combined with the refusal of governments to spend, it's creating this situation of chronically scarce demand.

Central banks are attempting to counter this by basically inflating asset prices. They never say that's what they're actively doing, but it's obviously what quantitative easing has led to. It's exacerbating many of the problems that have brought us into this situation in the first place.

Given the stance of the ECB, we might actually never see the end of quantitative easing. And that has big distributive implications that no one's really talking about.

Now let's say we could just turn back the clock and go back to the post-war consensus to revive social democracy, regulate the banks again and so on. Wouldn't that suffice?

I view the social-democratic consensus, particularly in the UK, as an attempt to mute the contradictions and the conflicts between those two classes.

It did so remarkably successfully almost for that period. The reason that the compromise was stable for such a long time were relatively high growth rates and high productivity. We continued to have imperialism for a large part of that era, which then was followed by a form of globalisation that in many ways replicate similar kinds of logics.

This means that there was more to go around. When there's more to go around, the zero-sum game that we find ourselves facing in moments of crisis is obscured. There's still a zero-sum game going on, it's just largely between Global North and Global South at that point.

But within the Global North, because of the logic of imperialism and extraction, it's easy to create enough to placate labour and capital with a model where the state steps in and says: you get this much, you get that much.

An illusion of national progress because it is not embedded in a global context?

Exactly, yes. When you then get to the crisis of the 1970s, you get rising competition from the rest of the world, eroding profits in the Global North. The first big change happens when you get the first oil price spike. And, obviously, massive inflation means bosses saying I need to cut costs. Workers saying we need wage rises because of inflation. Then you see the class conflict that is inherent within any of these systems emerge and come out to the fore.

The attempt to mute that will only work in the context of plenty. In many ways, finance-led growth was based on a similar attempt; except rather than the state mediating between capital and labour, it's about turning more people into capitalists.

The inherent conflict that exists within capitalism, between capital and labour, makes social democracy very difficult, particularly in times of scarcity. And we are in one of those moments today.

I want to ask you a second question related to the subtitle of your book. If, as you describe, financialisation is such a huge problem, how do we save the world from it? What should be the agenda of progressives?

I think this probably where my analysis departs from perhaps some of the more social-democratic perspectives. I often hear that, as progressives, we're winning the battle of ideas. People recognise we need to properly regulate finance.

It's all very well to be talking about the battle of ideas, but we also need to be talking about the battle of the streets. There's a sense I think on many in the social-democratic left to do the thing that Marx was criticising the other German philosophers for doing, which was prioritising ideas over material reality.

That generates a set of problems, because we end up listing problems and then simply propose solutions. For instance, the problem is shareholder value ideology, which leads to short termism, low levels of investment and low wages. So, what do we need to do? Change the laws around fiduciary responsibility for institutional investors so they have to prioritise environmental and social goals alongside maximising their returns.

Sure, that's a good idea, but who's going to do it? Where's the class coalition that can deliver it? There's a reason that the financial system and the regulation around the financial system works the way it does. Because there is a class of people who own all the stuff and who make all the rules. And it's very important to understand capitalism not simply as an economic system of ownership, but also a political system.

So instead of social democracy, you want to move to democratic socialism? And what concrete ideas would that entail?

Yes, moving towards democratic socialism as an ideological alternative to neoliberalism requires a shift in the balance of class forces. And the emergence and development of a movement that can champion and force through those ideas.

We could socialise the financial sector by having a public national investment bank, a public retail banking system and a people's asset manager, which would be a democratically-owned and controlled asset manager that invests our collective savings – for instance, the assets of a sovereign wealth fund or pension funds.

Alongside mechanisms to curb the power of the private financial sector: exchange controls, credit controls and other forms of macroprudential regulation. Alongside measures to boost the power of workers: removing the anti-union laws, decommodifying the means of subsistence. In a nutshell, we need to create a society in which everything that we need to survive is for free or very cheap at the point of use.

This interview was conducted by Daniel Kopp.