

The Current Crisis, Financialisation and Globalisation

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Outline

- **The crisis is over ?**
- **What is the rationale for optimistic mood ?**
- **Beyond optimism : hard structural facts**
- **Looking for the *drivers* to the overwhelming power of finance capital**
- **Transnational corporations, as a modality of Finance capital**

The crisis is over ?

- « *The EU economy: gradually overcoming headwinds*” (European Commission, February 2013)
- “*For Europe, recovery is within sight*” (M. Barroso, State of Union address, 11/09/2013)
- “*The vast majority expects growth for Germany and stagnation for Europe over the next two years*” (Roland Berger Restructuring Study 2013)
- “*The myth of the end of the crisis*”, (P.Artus, Flash Economics September 27, 2013)

What is the rationale for optimistic mood ?

- 1) GDP ? « *The EU economy is projected to return to growth in the second half of 2013. Annual GDP is forecast to contract by 0.1% in the EU and 0.4% in the euro area this year*”.
- *In the EU economists novlangue : “Even though the balance of risks appears to be less tilted to the downside at the current juncture since redenomination risks have subsided, uncertainty remains elevated and downside risks still loom large, as illustrated by the fan chart » (European Economic Forecast, Spring 2013,p.35)*

What are the rationale for optimistic mood ? (cont'd)

- 2) Unemployment ?

Compare the reality and the forecast

Labour market outlook - euro area and EU

(Annual percentage change)

	Euro area				Autumn 2012 forecast		EU				Autumn 2012 forecast	
	2011	2012	2013	2014	2013	2014	2011	2012	2013	2014	2013	2014
	Population of working age (15-74)	0.1	0.2	0.1	0.1	-0.2	-0.2	0.1	0.2	0.1	0.1	-0.1
Labour force	0.3	0.7	0.1	0.2	0.2	0.2	0.2	0.6	0.3	0.3	0.3	0.3
Employment	0.2	-0.9	-0.8	0.3	-0.5	0.4	0.2	-0.4	-0.4	0.5	-0.2	0.6
Employment (change in million)	0.4	-1.0	-1.0	0.4	-0.7	0.6	0.5	-0.6	-0.8	1.0	-0.4	1.2
Unemployment (levels in in millions)	16.0	18.1	17.3	17.3	16.9	18.7	23.1	25.2	26.7	26.5	26.3	25.9
Unemployment rate (% of labour forc	10.2	11.4	12.2	12.1	11.8	11.7	9.6	10.5	11.1	11.0	10.9	10.7
Labour productivity, whole economy	1.2	0.3	0.5	1.0	0.6	1.0	1.3	0.1	0.5	1.1	0.7	1.1
Employment rate (a)	58.6	58.1	57.6	57.7	68.0	68.3	58.6	58.3	58.0	58.2	68.4	68.8

(a) As a percentage of population of working age (15-74). Definition according to the Labour Force Survey.
Autumn forecasts based on population of working age (20-64)

What is the rationale for optimistic mood ? (cont'd)

- 3) Debt ? Look at the 'snowball effect' : lenders are guaranteed secure flow of revenues thanks to payment interest

Euro-area debt dynamics							
	average 2004-08	2009	2010	2011	2012	2013	2014
Gross debt ratio¹ (% of GDP)	69.1	80.0	85.6	88.1	93.1	95.1	95.2
Change in the ratio	0.2	9.8	5.6	2.5	5.1	2.0	0.0
Contributions to the change in the ratio:							
1. Primary balance	-1.1	3.5	3.4	1.1	0.4	-0.4	-0.5
2. "Snow-ball" effect²	0.3	5.3	0.6	0.8	2.5	1.9	0.4
Of which:							
Interest expenditure	3.0	2.9	2.8	3.0	3.1	3.1	3.1
Growth effect	-1.4	3.2	-1.6	-1.2	0.5	0.2	-1.3
Inflation effect	-1.3	-0.7	-0.6	-1.0	-1.1	-1.4	-1.4
3. Stock-flow adjustment	1.0	0.9	1.6	0.5	2.2	0.5	0.1

¹ End of period.

² The "snow-ball effect" captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

What are the rationale for optimistic mood ? (cont'd)

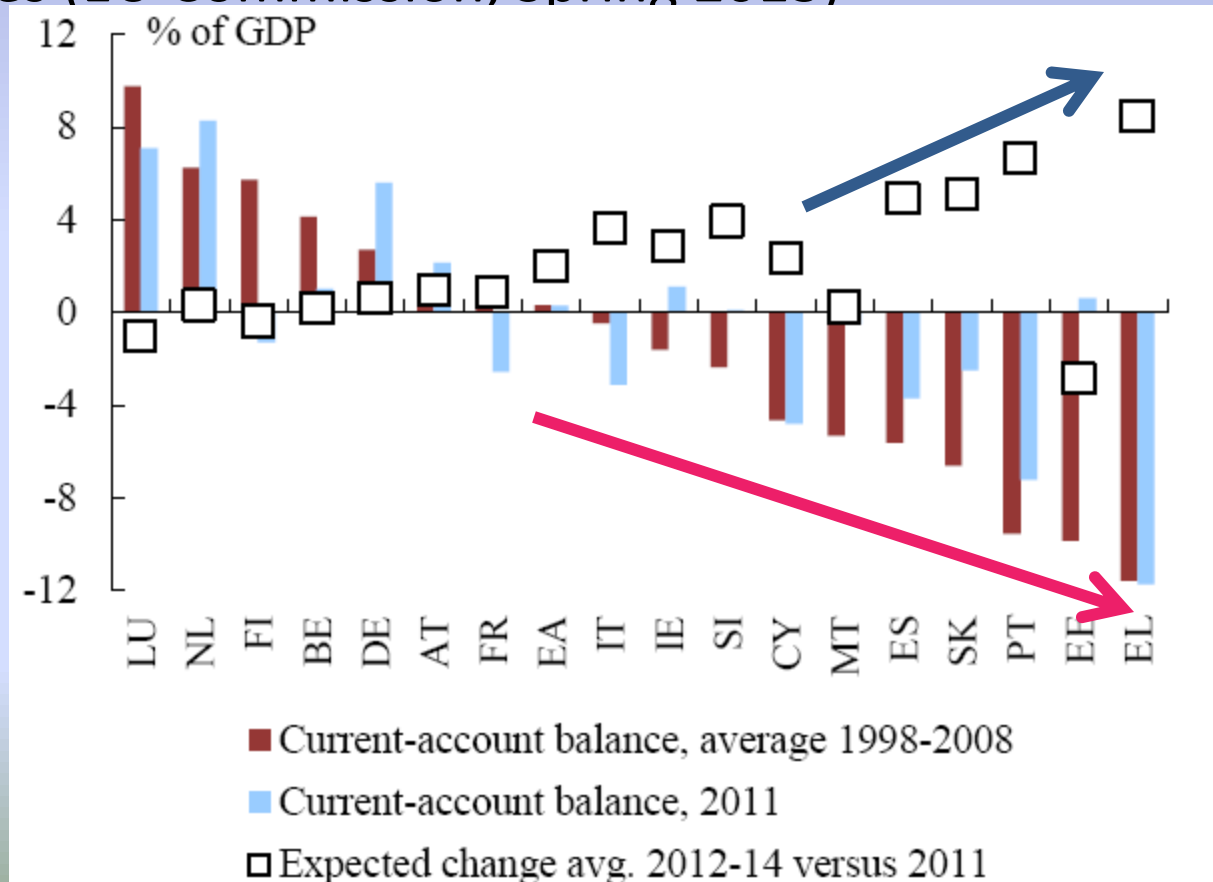
- 4) Inflation ? *“Core inflation’(HICP inflation excluding energy and unprocessed food) is set to remain persistent”* (EC Winter 2013) . Fears are greatly exaggerated (infra) and reflect the neoclassical (and neoliberal) obsession with inflation which could somehow dent rentiers’ capital and revenues.



What are the rationale for optimistic mood ? (cont'd)

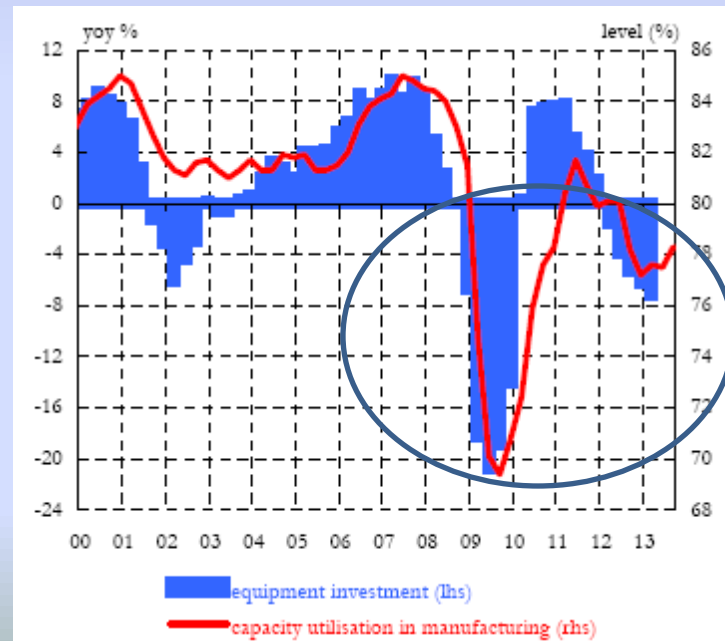
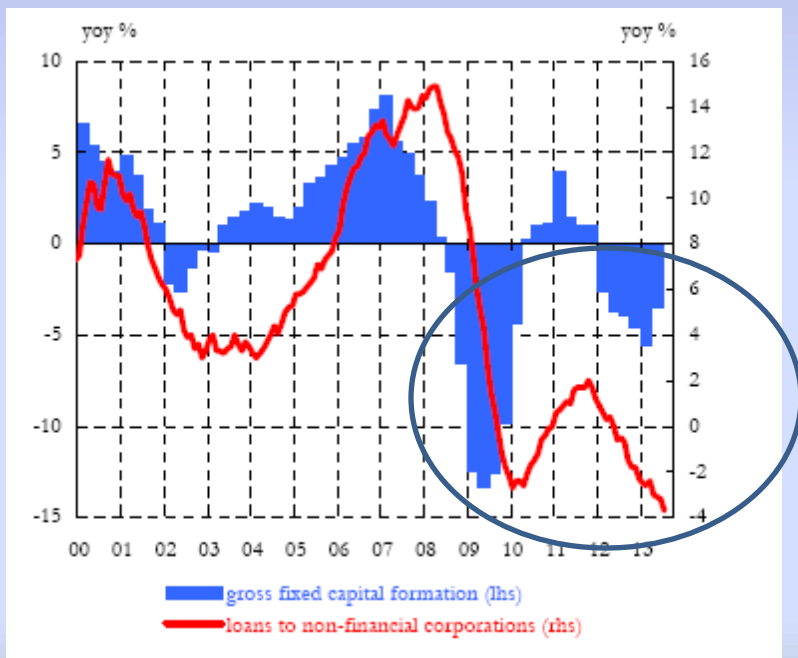
- 4) External imbalances ? Unbalanced

improvement Current-account balances, euro-area and Member States (EU Commission, Spring 2013)



Beyond optimism : hard structural facts

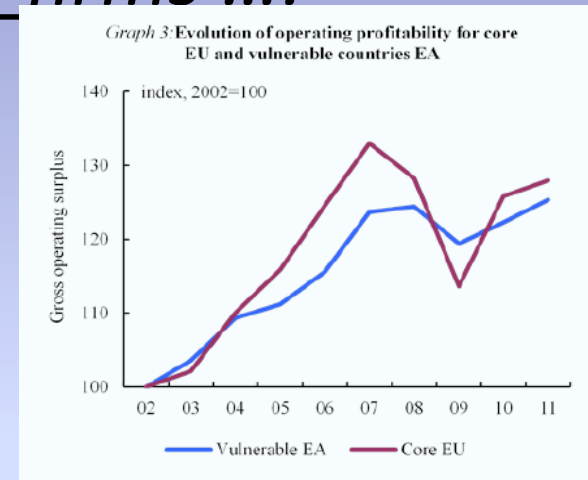
- 1) Equipment investment and capacity utilisation historically low



Beyond optimism : hard structural facts (cont'd)

- 2) Return to profitability for EU firms ...:

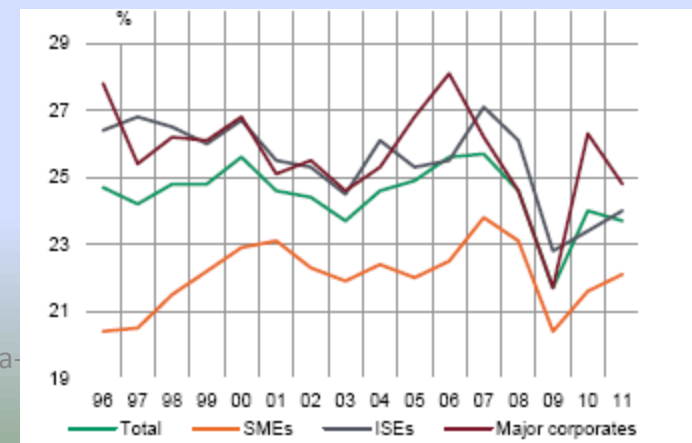
Source : ECB, 2013



..But differences exist according to their size (France example)

France: SMEs are overall less profitable than major corporates (GOI/VA)

*gross operating income

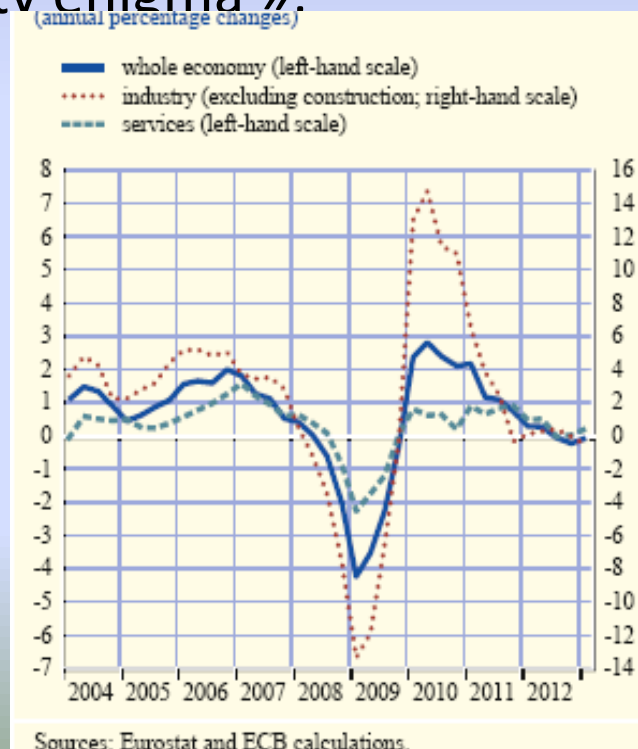


Source : Banque de France, Crédit agricole

. Serfati, Crisis, financialisation, Rosa-
Luxemburg-Stiftung, 4-6/10/2013

Beyond optimism : hard structural facts (cont'd)

- 3) Despite lowering of labour costs and change in value added distribution, labour productivity is sluggish
- (On the German case, see « The Productivity enigma », Allianz 09/04/2013)
- Labour productivity per person Employed



Beyond optimism : hard structural facts (cont'd)

- To sum up :
 - the Eurozone is facing a structural crisis (the ‘fundamentals’) which is aggravated by insane macroeconomic policies.
 - There is no predefinite ‘norm’ for a ‘normal’ rate of profit. The level of the rate of profit is too low to promote a new round of large equipment accumulation, while firms’ strategy of cutting employment is one reason for the protracted recession (Bakker, Zeng, IMF 2013) .
 - We have to reconsider what happens against the long-run history of capitalism
 - The crisis is not restricted to Europe

Looking for the *drivers* to the overwhelming power of finance capital

- ‘*Financialisation*’ ? An heuristic concept rather than a theory
- Finance capital (FC) : inherent to the functioning of *capitalism* as a social and economic system :
 - Not a ‘barter +means of payment’ economy
 - **Money capital** – money generating more money “*as a pear tree bears pears*” – is an idealtype of capitalism: The objective is not to sell commodities, but to make profits

Looking for the *drivers* to the overwhelming power of finance capital (cont'd)

- Finance capital (FC) : inherent to the functioning of *capitalism* as a social and economic system :
- (cont'd) :
 - Separation of *productive* and *financial* forms of capital
- Illusory : finance capital *in fine* depends on value created by labour and wealth (hence critical role of TNCs as locus for value creation)

Looking for the *drivers* to the overwhelming power of finance capital (cont'd)

- This - **inherent to capitalism** - autonomy of money capital has been reinforced over the long run history of capitalism:
- We need to look to capitalism's **institutional design** :
 - growth of stock markets (end of 19th century) and increasing separation between finance and production within firms (Hilferding, Veblen, Keynes)
 - Three stages in economic history : corporations (Companies, SA,..), Holdings, TNCs
 - Finance capital driven globalisation (1980-2000s) deregulation, liberalization, securitisation easing the self-growth of (fictitious) money capital ('financial assets' (Minskyan critic of liquidity and *Money manager capitalism*))

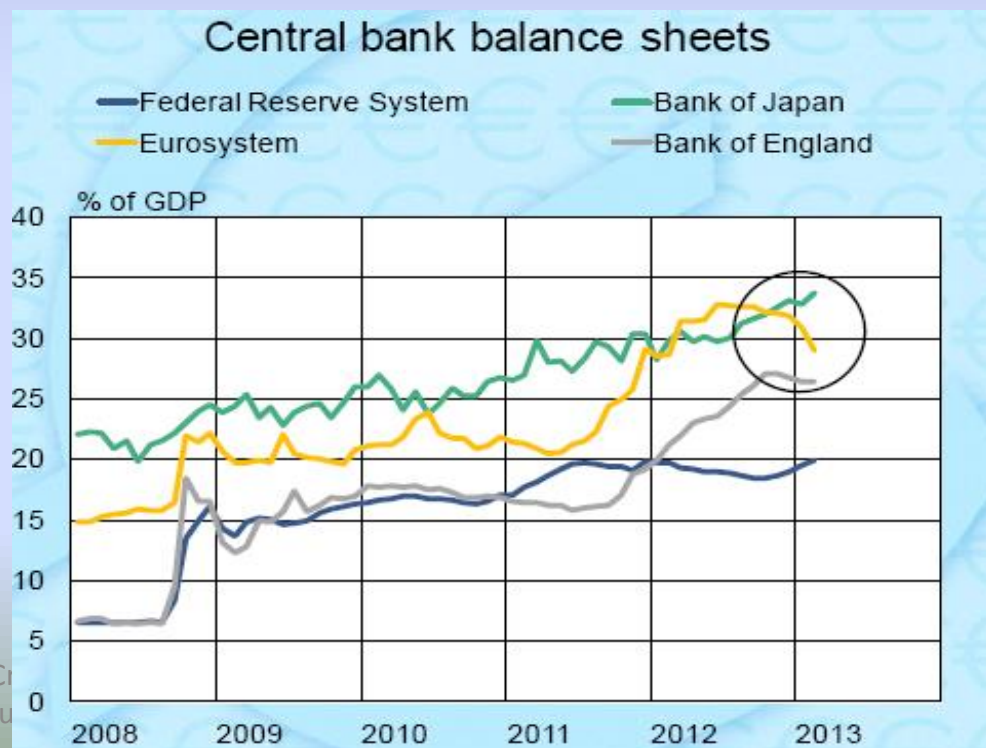
Looking for the *drivers* to the overwhelming power of finance capital (cont'd)

- We need to look to capitalism's **institutional** design (cont'd) :
- Increasing *porosity* between banks system and financial markets stimulated endogeneous mechanisms for a steep rise of fictitious capital :
 - Securitisation does not passes down bad loans 'hot potatoes' to 'markets' (Shin&Adrian, 2008). They stand in the financial (banking + shadow) system
 - Increase in *supply* of liquidity generates additional *demand* for itself (Borio, 2007)
 - An often underestimated issue : Banks are the main holders of securities (do not oppose banks to financial markets)

Finance capital did not receded in the crisis

- The domination of finance capital did not recede with the 2007 crisis and the fuel is provided by central banks (nothing to do with an exogeneous approach to money !):

Note that we are speaking of over the doubling the CB's balance sheet-to-GDP !



Finance capital did not receded in the crisis (cont'd)

- Until when ? *“If we exit QE3 too quickly, the economy will crash. Too slowly, and we’ll see a finance bubble”*, N.Roubini, May 5 2013 (see also 2013 BIS report on ‘exit strategy’)
- Thus, role of state institutions subordinated to the Finance capital :
 - Extraordinary timidity of politicians, including left ones, to address regulatory measures of the financial sector
 - ‘Accomodative’ Central bank’s policy (above)

Transnational corporations, as a modality of Finance capital

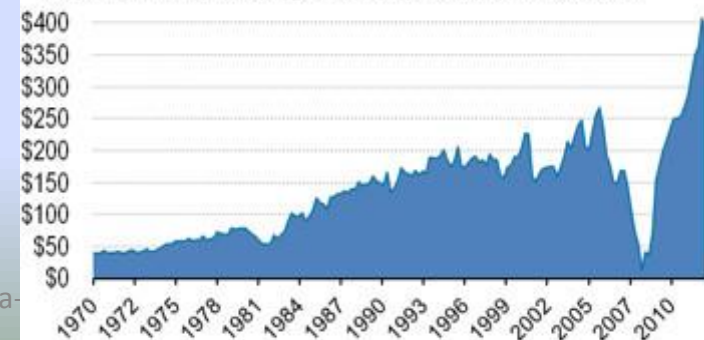
- Main hypothesis on TNCs :
 - *A sui generis* category , not a more large and internationalised than other firms
 - Financial groups with industrial activities
- A major feature and a critical edge of TNCs lies in their ability to build an *integrated and global* space:
 - Integrated : The world has become a playing field for locating and sourcing their activities (the world as an ‘internalised’ area for large TNCs)
 - Valorization of capital could encompass a broad spectrum and have a global reach from industrial capacities enabling to ‘pure’ financial investments

Transnational corporations, as a modality of Finance capital(cont'd)

- There is a large opportunity to study the *interaction* between finance and production in TNCs :
 - Extraordinary rise in TNC's cash holdings (WIR UNCTAD, 2013) (courted by banks and financial markets) evidences their ability to rise the degree of *liquidity* of their money-capital

Cashing In

Hard cash (checkable deposits and currency) held by U.S. nonfinancial corporate businesses, in billions.



Transnational corporations, as a modality of Finance capital (cont'd)

- There is a large opportunity to study the *interaction* between finance and production in TNCs :
 - Through Global value chain, the blurring of *rentier* (Royalties and licence fees, appropriation of value created outside of their juridical' boundaries (asymmetrical power to SMEs, Public labs, ...) and *enterprise* profits.
 - Intangible assets as the main component of fictitious capital
 - FDI as driver both of global value chain and financial valorisation of capital (through SPEs, intra-firm flows, etc.)

Thank you for your attention