

- Coalition formation between segments of ruling classes and constituted political actors that are currently excluded from power e.g. dissident bourgeois recruit backing from disfranchised workers, thus promoting political participation of those workers;
- Central co-optation or elimination of previously autonomous political intermediaries e.g. regional strongmen join governing coalition, thus becoming committed to state programs;
- Brokerage of coalition across unequal categories and/or distinct trust network e.g. regional alliances form against state seizure or local assets, thus promoting employment of those alliances in other political struggles [6].

The main problem of regulation government and business relations in Ukraine is absence of institutional execution and existence of legal vacuum. When rights of owner are not protected by rule of law inviolability of private property is secured by political investment. Balance among groups of interest is possible in situation of political contest. Confrontation creates system of checks and balances for rivals. Political instability breaks status-quo among the main economic competitors and provokes the situation of renovation of chain of command for guaranteed protection of interest of the key big business-groups.

Dynamics of political regime in Ukraine illustrate the specific of national government- and business relations that is determined by quality of institutional structure of their interaction, extent of presidential authority and to prove a dependence of quality of public policy on the presence of state into economics and others spheres of life.

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#### POLITICAL ECONOMY OF FINANCIALIZATION: KEY ISSUES AND APPROACHES

*The present article investigates key issues and approaches to phenomenon of financialization in Western economies. Financialization tendency has been reflected in growing weight of finance in economy, increased impact of financial fraction of ruling class on economic policy, inversion of relationship between „real” and „financial” sectors and growing household indebtedness. It is argued that contrary to the position of mainstream economic theory, growth of finance should not be considered just a matter of economic deregulation and liberalisation. Focusing on critical theories of finance and Marxist political economy, we put forward a new framework for analysis of financialization trend. In the proposed approach, financialization is regarded as a complex constellation of economic, political and ideological transformations connected with recent shifts in class relations and capital accumulation in Western countries.*

**Key words:** *financialization, political economy, neoliberalism, capital, accumulation, deregulation.*

Гольцман К.О.

## ПОЛІТИЧНА ЕКОНОМІЯ ФІНАНСІАЛІЗАЦІЇ: КЛЮЧОВІ ПРОБЛЕМИ ТА ПІДХОДИ

*Розглядаються ключові проблеми та підходи до явища фінансіалізації в економіці західних країн. Фінансіалізація виражається у зростанні питомої ваги фінансів в економіці, посиленні політичного впливу фінансової фракції панівного класу, інверсії відносин між „реальним” та „фінансовим секторами” економіки та зростанні заборгованості домогосподарств. В статті стверджується, що зростання ролі фінансів не слід розглядати, як це робиться в економічній теорії мейнстріму, лише як результат економічної дерегуляції та лібералізації. Грунтуючись на критичній теорії фінансів та марксистській політичній економії, в статті висувається якісно новий підхід до аналізу фінансіалізації. В ньому остання розглядається як результат складної констеляції економічних, політичних та ідеологічних трансформацій, що пов'язані із нещодавніми змінами у класових відносинах та режимі капіталістичного накопичення у західних країнах.*

**Ключові слова:** фінансіалізація, політична економія, неолібералізм, капітал, накопичення, дерегуляція.

Гольцман К.А.

## ПОЛИТИЧЕСКАЯ ЭКОНОМИЯ ФИНАНСИАЛИЗАЦИИ: ОСНОВНЫЕ ПРОБЛЕМЫ И ПОДХОДЫ

*Рассматриваются основные теоретические проблемы и подходы к анализу нового явления финансовализации в экономике западных стран. Финансовализация выражается в растущем удельном весе финансов в экономике, возросшей роли финансовой фракции правящего класса в экономической политике, инверсии отношения между „реальным” и „финансовым” секторами экономики и растущем долге домохозяйств. В статье утверждается, что в противоположность пониманию в рамках экономического мейнстрима, рост финансов не следует рассматривать только лишь как результат экономической дерегуляции и либерализации. Основываясь на критической теории финансов и марксистской политической экономии, автором предлагается новый подход к анализу финансовализации. В нём она рассматривается как сложная констелляция экономических, политических и идеологических трансформаций, связанных с изменениями в классовых отношениях и режиме капиталистического накопления в западных странах.*

**Ключевые слова:** финансовализация, политическая экономия, неолібералізм, капитал, накопление, дерегуляція.

### **Toward Synthetic Framework of Financialisation Analysis**

Issues of societal reproduction, relationship between 'political' and 'economic', 'inner' and 'outer', a state's role in shaping social and economic institutions and internalizing global economic processes have been of major interest for the field of Global Political Economy in recent decades [1]. All these issues in the last instance rotate around methodological imperative of studying social phenomena in the totality of social processes that shape them. The program initially formed within historical materialism, now is widely accepted in a number of heterodox theories and approaches. Key assumptions shared, but also disputed within GPE studies, may be reduced to the following maxims: a. economies are socially

embedded; b. institutions and social relations between classes and groups influence the direction of social development; c. states and ideology/discourse play important role in reproduction of social relations. In sum, state, institutions, ideology and class relations are not realities to be added to economic structures to round up the social panorama, but phenomena endogenous to the functioning of economic system [2, p.71].

Accepting this hypothesis suggests that studying economic transformations in global capitalist economy is bound to be connected to the following questions: how economic processes are embedded within the social totality and reproduced; is institutional framework merely a functional adaptation to economic laws and trends, or a social design

aimed at managing their social impacts (structure-agency problem); how state regulation and social institutions affect economic processes and are affected by them; what role for open or latent social conflicts and social alliances in shaping economic system and promoting its transformation.

Studying social structure of financialised accumulation in the proposed research is focused on resolving the outlined theoretical problems. On the one hand, financialised accumulation may be understood as a system of capital accumulation that is formed by rising tendency to financialisation defined by Dore as, „the increasing dominance of the finance industry in the sum total of economic activity, of financial controllers in the management of corporations, of financial assets among total assets, of marketed securities, and particularly of equities, among financial assets, of the stock market as a market for corporate control in determining corporate strategies, and of fluctuations in the stock market as a determinant of business cycles” [3, pp. 116-17].

The concept of accumulation is used in the proposed study to generalize these multiple avatars of financialisation in terms of underlying capitalist economic logic. Thus, it is argued that financialisation, as an economic trend, is linked to transformation of capital accumulation and social systems that reproduce it [4; 5]. It is widely agreed that the United States in recent decades have been a major case-study of spectacular financialisation that led to the formation of economic system with a new role for finance named differently as 'money-managed capitalism', 'market-based' or 'stock-exchange' capitalism, 'finance-led accumulation regime' etc. It would be quite reasonable to hypothesise that the USA are the country where financialisation has enough developed to summon Hegelian owl of Minerva.

#### **Evolution of Financialisation Studies**

Seeing financialisation as a process leading to formation of a new economic edifice of accumulation in certain countries is rather rare in existing literature. In this regard one may point to theoretical contributions within monopoly capital theory initially developed by Baran and Sweezy [6] and now used in studying financialised accumulation by Foster [4], within 'regulation' approach by Boyer [7] and Aglietta [8] and within Social Structure of Accumulation (SSA) approach by Kotz [5]. The greater part of 'financialisation' literature still sees

'financialisation', similarly to 'globalisation' as an open-ended process, with multiple implications for economy. Conceptually, as Stockhammer remarks, 'financialisation' is still 'ill-defined' [9, p. 720]. In a similar vein, Engelen draws parallels between the concept of 'financialisation' and 'modernization', 'secularization' and 'individualization' pointing to its weak link with 'contextual variables' of economy and unjustified use of teleological overtones [10, pp. 114-115].

'Financialisation' studies were pioneered within heterodox economic theories including Keynesian, Post-Keynesian economics and Marxian political economy. Drawing upon the works of Marx, Veblen, Luxemburg, Keynes and Minsky among others, incipient 'financialisation' literature tried to engage with new economic realities and theoretical challenges. One of the influential inspirers of 'financialisation' studies was Hyman Minsky, who in the 1980s developed financial instability hypothesis that interpreted financial instability as an endogenous tendency within mature capitalism [11]. Minsky's argument on financial cycle as a gradual movement from hedge to speculative and Ponzi finance was widely accepted as a mechanism of rising financial fragility, systemic risk and 'capital market inflation' conducive to financial bubbles [12]. Minsky was among the first scholars to show interrelation between growing financial innovation, disintermediation of commercial banking and increasing role of financial activities of non-financial businesses in financialising economy and weakening its stability. Against neoliberal abstractions, Minsky asserted the idea that supply of money in form of credit depends on institutional dynamics of banking, assumptions on future profits and risks. Investment is hence, always mediated by institutional processes. Minsky's analysis of institutional dynamics of economy was still, however, based on the conceptualisation of microeconomic strategies and behaviours with virtually no attention to the reproductive societal mechanisms.

In 'monopoly capital' approach linked to Monthly Review Magazine, 'financialisation' is explained by the tendency of rate of profit to fall and stagnation in contemporary capitalism [6]. Monopoly system, as showed by Baran and Sweezy, produces the tendency of the 'surplus to rise' resulting in accumulation of substantial idle profits that are not reinvested. Over-accumulation and stagnation produce rent-seeking financial practices and speculation as compensatory factors for the decline of

investment. Profits are increasingly taken from financial markets, rather than from production. Applying this theoretical matrix to his analysis of financialisation, Foster comes to the conclusion that the latter represents a qualitative shift in capital accumulation towards 'financialisation of accumulation' [4]. According to Foster, financialisation as 'subordination' [4, p. 1] of capital accumulation to finance and 'shift in the centre of gravity of the capitalist economy from production to finance' (2) also represents the „tendency toward the expansion of the size and importance of the financial superstructure in relation to the economic base (...)” [4, p. 8].

### **'Financialisation' as the Driver of Virtual Economy**

The perspective on 'financialisation' as a process of de-linking financial markets from real accumulation and transforming them into accumulation mechanisms in their own right, may be traced in many studies of this phenomenon. For instance, in the explanation offered by Aalbers [13, p.150] financialisation is described as a 'capital switch' to quaternary circuit of accumulation, in which accumulation is not linked to production, but represents pure financial speculation. 'Capital switch' to quaternary circuit is explained by Aalbers in Harvey's terms as a kind of 'spatio-temporal fix' produced by shrinking opportunities for accumulation in primary, secondary and tertiary sectors [13]. De-linking of financial accumulation from real economic processes is metaphorically described by Wigan as 'constructing the artifice of indifference' built on refined financial practices and instruments parametrized by financial mathematics [14]. Trading in derivatives, synthetic and structured products, according to Wigan, is structurally de-linked from real economy and is conducive to financial institutions' indifference to macroeconomic fundamentals [14, p. 8]. Metaphorical conceptualisations of financialisation in terms of irreality, illusions and discursive practices it produces, are especially abundant in studies of financial innovation and financial instruments, such as derivatives [15; 16].

One should clearly distinguish between ideological effects of the 'autonomization' of financial markets and real institutional dynamics that underpin this process. Construction of complex institutional edifice of financial markets that generates proliferation of purely financial instruments and practices is promoted by new financial actors and

institutions that impose their 'habitus' on the way economy operates. Their social dispositions, practices and methods lie behind various forms of 'financialisation' they promote. Integrating autonomous institutional dynamics of financial markets into the analysis of 'financialisation' as economic trend is regarded as a crucial theoretic challenge.

From our critical attitude to presenting 'financialisation' as a process of abstraction, arises critical stance towards Foster's structuralist representation of 'financialisation' as a formation of 'financial superstructure' dominant over real economy. To the extent that the development of financial markets is driven by autonomous logic, one may, of course, metaphorically speak of financial superstructure. The point, however, is to look at how 'financialised accumulation' affects financial practices of non-financial and financial institutions. 'Financialisation' entails changes to financial practices of financial institutions as radical as it does for non-financial businesses. This implies that 'financialisation' is not merely an imposition of financial logic of financial institutions, but transformation of the role of finance itself. New patterns of financial mediation of capital accumulation, new institutional entities, financial and management practices, types of relations between non-financial and financial businesses and between wider circle of investors and financial liberalisation are realities that should be studied to understand how financialised accumulation is reproduced in complex context of neoliberal capitalism.

Apart from mentioned studies, the underconsumptionist explanations of financialisation developed by Keynesian and Marxian political economists, including Dumenil and Levy [17], Crotty [18] and Stockhammer [9] among others, also provide with crucial economic insights into the origins of financialisation in modern economy. Keynesian and Post-Keynesian scholarship, however, often tends to limit analysis of financialisation to microeconomic implications of „increased activity of non-financial businesses on financial markets” [9, p.720], corporate governance practices, alterations in investment strategies thus neglecting wider picture of social reproduction.

### **Incorporating Class and Power Into 'Financialisation' Studies**

Issues of class and power also seem crucial for nuanced understanding of origins and social reproduction of financialised economy. From

the class perspective, the advent of financialised economy has been characterized in various terms as the changing balance of power within capitalist class to financial fraction of capital, „financial capital” or „rentiers” [19]. Extra-economic mechanisms of financialised accumulation in critical theories informed by class and power are considered intrinsic to this economic regime by Lapavistas, who argues that „extracting financial profit directly out of the personal income of workers” through subprime mortgage lending „may be called financial expropriation” [20, p.115]. Similarly, Aalbers asserts that financial practices of exploitation are reflected in predatory subprime lending that targets unprotected low-income workers with risky and unfair loans to subsequently deprive them of their property [13]. Such practice may be regarded as the application of Harvey's „accumulation by dispossession” in financial sphere [21, pp. 137-183]. In the context of power relations in global political economy Lapavistas argues that, „financialisation has also deepened the complexity of imperialism through attraction of capital reserves of developing countries in exchange of American treasury bonds” [20, p.115]. In the same vein, Sarai speculates that the „internationalisation of American Treasury” primarily benefits the United States as the issuer of international reserve currency [22]. Financialisation is thus linked with power relations both 'inside' and 'outside' American society. We hypothesize that social reproduction of financialised accumulation in the USA substantially depends on their ability to exponentially increase their debt obligations, inflate and speculate on global demand for their national currency.

In sum, incorporation of class and power into the research framework for studying embedded financialisation is crucial, for these often neglected concepts shed light on how extra-economic drivers of financialisation work. The growing role of extra-economic tools of financial rent-seeking obviously proves that solely economic way of thinking about financialisation is not suffice.

### **Linking Economic Drivers of Financialisation with Institutions**

The path to linking economic determinants of financialisation with institutional design of capitalist state and market is developed within 'regulation' approach that was traditionally concerned with studying mechanisms of institutional normalisation of certain patterns of capital accumulation. Finance-led accumulation

regime, as Boyer terms it, is marked by new patterns of regulation and institutional coherence, including „labour-market flexibility, price stability, developing hi-tech sectors, booming stock market and credit to sustain the rapid growth of consumption and permanent optimism of expectations in firms” [7, p.116]. Flexibilisation of labour, competition shift to capital markets, „privilege of shareholder value” and growing influence of institutional investors on corporate strategies are key institutional implications of financialisation. The institutional design of economic regulation of this „new growth regime”, as Aglietta and Breton name it, is also built on reorientation of monetary policies to promotion of financial markets, rather than securing price stability. The systemic synergies that reproduce financialised accumulation are stimulated by the advent of new technologies that facilitate financial engineering, evaluation and innovation [8]. The incorporation of societal/institutional framework in 'regulation approach', however, is largely premised on methodology derived from institutional economics and it tends to operationalize institutional forces at work in financialisation to fit economic modelling. Political, discursive and power aspects of financialised accumulation are, hence, largely omitted in 'regulation' approach. Similarly, little attention is paid to structural social forces that promote financialised accumulation.

Attempts to conceptualise social reproduction of financialised accumulation has been also recently made within Social Structure of Accumulation Approach (SSA). SSA has been preoccupied with „periodic changes in the capitalist institutional structure” [5, p. 2]. Kotz describes a social structure of accumulation (SSA) as „a coherent, long-lasting capitalist institutional structure that promotes profit-making and forms a framework for capital accumulation” [5, p. 2]. For Kotz financialisation is mainly caused by neoliberal restructuring as the systemic shift in capital accumulation, however, not reduced to it. Financialisation processes unfold within what Kotz terms the neoliberal SSA. Thus, unlike regulationists, Kotz does not regard financialisation as a dynamic process of formation of new finance-led accumulation regime, but rather as an economic trend within a totality of neoliberal SSA. Kotz strongly asserts that financialisation was a „long-term tendency” in capitalism that was released by financial liberalisation and deregulation in new neoliberal SSA [5, p.8]. The scope of financialisation thus depends on „institutional arrangements, which

ultimately reflect the relative power of various classes and groups at the time the institutions are formed” [5, p. 9].

One should raise an objection to Kotz's analysis that contemporary financialisation is not just an extension of earlier financial developments in late 19<sup>th</sup> and early 20<sup>th</sup> century, but a qualitatively new phenomenon. One can not agree with Kotz's assumption that unlike 'finance capital' conjuncture in early 20<sup>th</sup> century current system is characterized with “separation of finance from non-financial activity” [5, p.16]. These trends are better to be treated not as separation, but growing decentralisation of finance and disintermediation of investment financing etc. Financial deregulation should be also regarded not as a mechanistic destruction of barriers to financialised accumulation, but as Cerny puts it, a “pro-market re-regulation” that constructs new regulatory framework of financialised accumulation [23, p.17].

To sum it up, we have discussed key economic, social and institutional aspects of financialised accumulation. The synthetic framework we constructed and theoretical approaches discussed may be used for further interdisciplinary research of political economy of financialisation.

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