

Financialization and Debt: Much Worse Than Parasites

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Abstract

Starting from the two correct positions that, compared to the form of capitalism that preceded it, neoliberal capitalism has generally been more harmful to working people, and that in it finance plays a greater role in both scale and scope, some political economists argue that in neoliberalism financial capital is parasitic on nonfinancial (or “productive,” or “industrial”) capital. The central argument of this article is that, to the contrary, financial capital serves all capital through the various ways that it allows for neoliberalism to increase its appropriation of surplus value. To concretely support this position, the article considers a particular financial relation, debt, and indicates seven specific ways debt expansion facilitates neoliberalism’s pursuit of increased appropriation of surplus value. Secondly, this article rejects any stated or implied policy implications from the parasitic financial capital thesis that present “productive capitalism” as the desirable alternative to the deleterious effects of financialized capitalism.

JEL Classification: G00, G51, H63

Keywords

neoliberalism, financialization, debt, financial capital, parasitic capital

1. Introduction

It is universally accepted by economists of all schools of thought as an empirical fact that over a period of time after the end of the 1960s, world capitalism was extensively reorganized from its immediate post-World War II configuration.¹ The new configuration is universally known as

¹A more nuanced discussion of the shift to neoliberalism would require that the historical context be established by a discussion of the extended-over-time process of both the expansion in scope and scale of the financial sector, and also the penetration of “financialization” throughout the entire capitalist economy. Some aspects of this began during, and even before, the 1960s (Campbell and Bakir 2012). For one article among the many articles and books detailing the main part of this process from the 1970s forward, see Campbell and Bakir (2016). Additionally, the significant variations in the details of the process between countries would need to be considered. Then, indicating when “the shift to neoliberalism occurred” involves drawing a line in this continuous process of change, in order to be able to talk about when the new configuration “began.” Some authors use the date of the first oil shock in 1973, while a larger number use 1979 or 1980 from the results of the Volker interest shock and the elections of Thatcher in 1979 and Reagan in 1980. With this understanding of what it means to say “when neoliberalism began,” we use 1980 for the United States and the core of the world capitalist economy.

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“neoliberalism.” By the 1990s, one aspect of neoliberalism came to be known as “financialization.”² Rather than a word to be defined, financialization should be thought of as a broad concept composed of many different aspects, with different authors both stressing and researching different aspects. In an earlier work, we concretely illustrated this way of understanding financialization as a concept by listing seven of the most commonly discussed highly interrelated aspects considered to be part of it:

(1) expansion of the financial sector; (2) numerous fundamental changes in the operation of the financial sector; (3) an expanded role for financial operations in the non-financial sector (with this finance possibly coming from the non-financial sector itself); (4) an increased economic and political power of the financial sector; (5) a change in corporate governance to pay more attention to financial goals; (6) increased debt throughout the economy; and (7) asset inflation (including bubbles). (Campbell and Bakir 2016: 127)

A vast literature has arisen since the 1980s on financialization. Recently, Epstein (2015) wrote a very short but extremely rich overview of financialization. His extended listing of what various authors writing on financialization wrote about underlines the need to understand financialization as a broad concept with many aspects that was just asserted:

Some of the literature focuses on clarifying the definition of financialization, and assessing whether it is a dominant cause of the ills confronting capitalism or is just a symptom of other, deeper causes; some asks whether financialization is a new “phase” of capitalist development, perhaps a new “mode of accumulation,” or considers whether it is just one among a number of important developments along with “neo-liberalism,” “digitization,” and “globalization” that are arising in the contemporary world; other literature is focused on less theoretical and more empirical matters, trying to measure the nature and extent of financialization, however defined, and to describe its institutional and economic dimensions; and still other work is focused on attempting to analyze theoretically and empirically the impact of financialization on important phenomena such as financial crises, productive investment, productivity growth, wages and income distribution; and finally, other parts of the literature are more policy-oriented, trying to grapple with policies and structural changes that can improve the role that finance plays in the economy. (Epstein 2015: 2)

This short article only addresses two specific issues within the broad concept of financialization. First and centrally, it rejects the theory that financial capital is parasitic on nonfinancial capital. To the contrary, financial capital plays a fundamental role in neoliberalism in the way that all capital captures surplus value, or surplus labor, from workers. Second, this article argues against any stated or implied presentation of “industrial capitalism” (or equivalently, “productive capitalism”)—a capitalism in which financial capital and financial relations in general are strongly subordinated to the needs of nonfinancial capital similar to how they were in the post-World War II form of capitalism that preceded neoliberalism—as the desirable alternative to financial capitalism.

²Because of this greatly expanded role of finance in neoliberalism, some political economists use the term “financial capitalism” as a synonym for neoliberalism, and given this common usage today we use them interchangeably throughout this article. We note this term was also used at the beginning of the twentieth century by Hilferding (1910) and others to talk about the form that capitalism had developed then, especially in Germany and some other parts of continental Europe. We consider the various roles of finance in that capitalism and today’s neoliberalism to be very different, but since almost no one using the words “financial capitalism” today is talking about that particular capitalist structure one hundred years ago, the recycling of the name to a different structure today is not a problem in practice.

2. The Performance of Capitalism and Financialization

When considering the performance of capitalism, it is essential to start by recognizing that there is not just one but, to the contrary, many possible measures of the performance of capitalism, with one fundamental differentiating criterion being “performance for whose interests.” For example, more rapid growth of nonproperty income, or even growth of GDP or higher relative levels of investment, benefits, or tends to benefit, those who gain remuneration from their labor. These constitute (relatively) good performance of the system from the perspective of workers. More rapid capital accumulation or higher rates of profit, to the contrary, although they can bring benefits to workers in some circumstances, are instead often achieved at their expense. In any case, they are the goals of the capitalists, and achieving those goals constitutes good performance from the perspective of the capitalists.

A number of political economy articles have looked at the relation between neoliberal financialization and the performance of capitalism as measured by the rate of capital accumulation.³ The universal conclusion has been that growth as measured by capital accumulation has occurred slower under financial capitalism than under the organization of capitalism that preceded it. Similarly, growth of GDP has been slower since 1980 than before it.⁴

An idea suggested immediately by this fact is that “if the financial sector is reduced back to the size and scope that it was before neoliberalism, then the performance of capitalism, including the less-bad relative situation of working people, could be largely returned to what it was then.” The idea here is that capitalism’s problems come from excessive financialization, which is soaking up part of the system’s wealth and preventing it from being used by nonfinancial capital. The goal then from this perspective is to remove this excessive financialization in order to restore capitalism’s health.

3. Financialization and the Nature of Neoliberalism

A strand of thought on the role of finance in contemporary capitalism that either informs or influences the work of a number of political economists⁵ presents this view of financial capital harming nonfinancial capital as the former being “parasitic”⁶ on the latter. It conceptualizes and refers to nonfinancial capital by terms such “productive capital” or “industrial capital.” One example is the work of Michael Hudson,⁷ a political economist who has done excellent work over many

³Three examples are Stockhammer (2004), Orhangazi (2008), and Bakir and Campbell (2010).

⁴Note in particular that GDP growth has on average been slower under neoliberalism than in the decade of the 1970s, which economists have labeled “stagflation”—an example of political manipulation of economic concepts by mainstream economics.

⁵This article is concerned with this idea as it appears in radical political economics. Given the much greater weight of liberal (in the US sense of that word) ideas in the field of economics that radical political economists both operate in and struggle against, it is useful to point out that this same idea, that the regulation and reduction of the financial sector back to its earlier state is key to a return to capitalism’s better performance prior to neoliberalism, is central to mainstream liberal economists’ view of financial capital. Of course, they present the idea differently given that they intend to defend capitalism while radical political economists call for transcending it. The core idea of financial capital (for them, “when excessive”) weakening nonfinancial capital, however, is the same. Two of the best-known progressive (on this issue) liberal economists are Paul Krugman and Joseph Stiglitz. See, e.g., Stiglitz (2010) and Krugman (2012).

⁶Various equivalent terms can be, and are, used, including for example “predatory” or “cannibalistic.”

⁷It is not the purpose of this article to review all political economists who have used this idea in their work, which would also require that one detail the variations among them in how they have used it. The purpose of this short article, to the contrary, is to critique the idea of financial capital as parasitic on productive capital, as being both a misunderstanding of how financialized capitalism operates, and that it also tends to lead to inappropriate suggestions on how to transcend capitalism’s deleterious effects. The deservedly well-known radical political economist Michael Hudson is being directly referenced in this frame only because doing so provides one concrete example in the literature of what we are criticizing, and because he is an example where this idea has been presented consistently and strongly over time.

decades on the harm wrought by the financial sector, including detailing many of its intricacies. While his work has always implied his view of financial capital's parasitic nature, he clearly states and elaborates it more than ever before in his recent piece in this journal, "Finance capitalism versus industrial capitalism: The *rentier* resurgence and takeover" (Hudson 2021).⁸

Before the rest of this article develops its positive argument that the concept of parasitic financial capital is inappropriate, it is worthwhile to consider a preliminary simple "feet on the ground" (as opposed to "head in the clouds") political economy question about the parasitic financial capital thesis. This question highlights the inconsistency of the parasitic financial capital thesis with the universally accepted change in capitalism that we noted at the beginning: the quantitatively expanded, and qualitatively more central, role that finance came to play under neoliberalism.⁹

Question: If capitalism is understood as an economic system driven by the drive for self-expansion by all capitals, why would nonfinancial capital, which was overwhelmingly the majority of capital before neoliberalism and has remained the majority of capital throughout neoliberalism, allow the expansion of financial capital if it was parasitic on it? Why would it not only allow the expansion of financial capital at its expense but, even beyond that, actively promote it, by driving through the many changes in the law necessary for that expansion?

The necessary starting point for answering this question, and also for understanding what the role of financial capital is in neoliberalism, is understanding the nature of neoliberalism. This is determined by its purpose, which gave rise to its birth. As we have previously argued, "the new model of capitalism in time was to become known as neoliberalism, and its heart was a conscious intensified attack on the working class" (Campbell and Bakir 2016: 117). That article documents both the situation that caused the capitalists to decide in the late 1960s and throughout the 1970s that a still more adversarial relation to the working class was needed, and their public statements from that time advocating such a change. While the following four-part categorization of neoliberalism's changes is certainly not the only way to represent its changes within capitalism, it makes the following point essential to our argument here. While financialization and neoliberalism are not synonyms, expanded financialization is one of the channels used by neoliberalism to achieve its goal of increased appropriation of surplus value. This position is directly opposed to presenting expanded financial capital and the financial relations they involve as harmful to overall capital's appropriation of surplus value under neoliberalism:

From among its many changes, four aspects of US capitalism's neoliberal restructuring that are central to both its resulting functioning and to the current popular discontent with the economy are: (1) the direct attack (that is, at the point of production) on wage gains and labor costs; (2) the effects of the changed immediate objective of corporate governance; (3) the essential indirect (that is, not at the point of production) attack on labor by making government, the broader state, and even general social attitudes (still) friendlier to capital and the very wealthy; and (4) various aspects of financialization. (Campbell and Bakir 2016: 117)

In this frame for understanding the relation of financialization to neoliberalism, this article next develops its positive argument that financial capital serves the interests of all capital

⁸That article was accompanied by a response, "Comments on Michael Hudson: Making capitalism great again? A critique of the 'rentier takeover' thesis," by Mason (2021). This very short piece argued two of the issues of central concern to this article: that capitalism has not in fact been taken over by parasitic financial capital (a "rentier takeover"), and that correctly (and richly) pointing out the deleterious effects of financial capital does not logically have to, and should not in practice, lead one to promote "industrial capitalism" as its desirable alternative.

⁹Note Hudson's term to indicate this quantitatively and qualitatively greatly expanded role is "postindustrial finance" (2021: 558). We find this term inappropriate for this important change in the operation of finance for the same reason that we find the concept of parasitic financial capital wrong; financial capital serves nonfinancial capital's pursuit of its own goal, the appropriation of surplus value, as opposed to weakening it.

in neoliberalism as follows. As opposed to attempting the Herculean (and book length) task of discussing all financial relations in neoliberalism, this article selects a single, though particularly important, subset of neoliberalism's financial relations: debt. Section 4 opens by briefly reviewing many other aspects of neoliberal increased financialization, and then uses that to point out the importance of debt not only as a financial relation itself but rather as involved in most aspects of expanded neoliberal financialization. It then closes the section by very quickly sketching the well-known explosion of debt under neoliberalism. With those established, section 5 closes the article's central argument that as opposed to parasitically weakening it, financial capital serves nonfinancial capital under neoliberalism. It does so by specifying seven concrete channels by which one aspect of neoliberalism's expanded finance and financial relations, namely debt, does exactly this.

4. The Explosion of Debt

We opened the introduction arguing that financialization must be understood as a broad concept composed of many different aspects, and then listing seven of the most commonly discussed highly interrelated aspects considered to be part of it. Looking back at that listing of seven central aspects of financialization, one sees the centrality of debt to financialization. Facet (6) in the list is simply the amount of debt and the various subtypes of debt themselves, and is one way to consider the increased financialization that is part of neoliberalism. But beyond that and more indicative of what debt does, every single one of those aspects of financialization listed there except number (4) involve, and could only occur through, the expansion of debt. Hence debt is both a financial relation itself, and it is also necessary for most (not all) other dimensions of neoliberal financialization. When making the argument that financial capital promotes neoliberalism's goal of the increased appropriation of surplus value, it suffices to demonstrate that an expansion of debt in both scale and scope promotes this goal. In doing this there of course is no implication that expanded debt is the only aspect of neoliberalism's expanded financialization that promotes its overall goal.

Human social economic activity has involved debt transactions for well over five thousand years, and they have been integral to capitalism since its birth (Graeber 2011). But as is universally accepted as an empirical fact not only by contemporary radical political economy but also throughout all contemporary economics, the amount of debt compared to the amount of economic output has exploded under neoliberalism. This explosion of debt under neoliberalism has been written about extensively by critics of neoliberalism from various political economy perspectives. As two well-presented examples from this large body of work, see the introductory articles on debt under neoliberalism by Palley (1994) and Magdoff (2006).

Total debt in the US economy is the sum of government, household, nonfinancial business, and financial business debts. Figure 1 gives this total debt in the US economy, normalized as a percentage of the GDP. It shows this explosion conspicuously.

For the purpose of the argument of this article that financial capital is not parasitic on nonfinancial capital under neoliberalism, the sharp explosion of debt with the onset of neoliberalism shown here, and then especially its continued rapid expansion for decades under neoliberalism, suggests (while clearly in themselves they do not prove) the importance of this financialization (debt) to the operation of the neoliberal capitalist economy.

5. Nonparasitic Debt and the Functioning of Neoliberal Capitalism

This section will indicate seven specific channels by which expanded debt serves the interests of all capital's drive for increased appropriation of surplus value under neoliberalism. All four types of debt mentioned in the last section will be referred to when indicating these seven channels, and

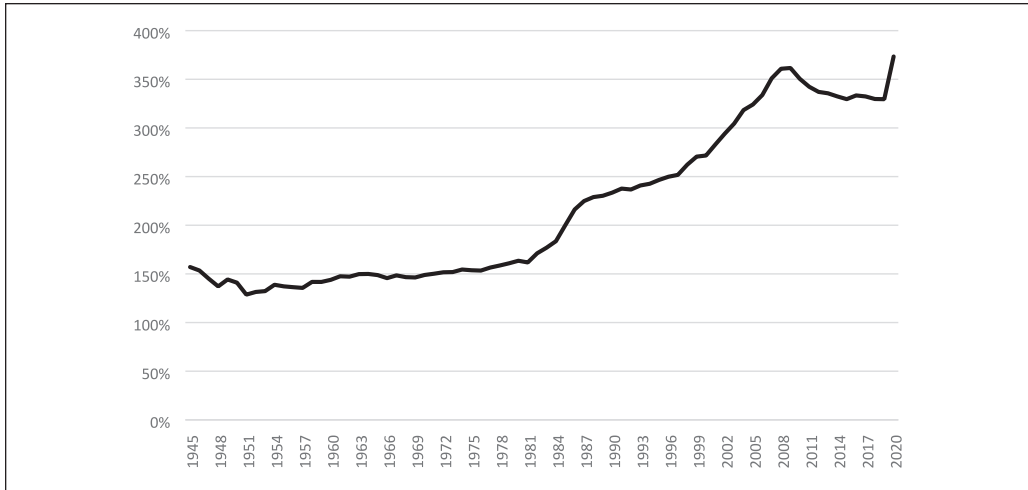


Figure 1. Total outstanding domestic debt as a percentage of GDP.

Source: Financial Accounts of the United States—Z.1, table D.3 for outstanding debt and table F.2 for GDP.

so it is important to establish that not only the total debt but rather also all these contributing types of debt expanded significantly under neoliberalism (Figure 2).¹⁰

Seven channels by which expanded financial relations of debt enable neoliberalism to carry out its intensified attack on labor in pursuit of improved profits follow.

1. Expanded household debt to finance consumption. Increased consumption will increase aggregate demand causing increased production, which promotes increased profits.
2. Expanded household debt “socially allows” (dampens the resistance to) suppressed wage growth, which increases profits.
3. Expanded nonfinancial business sector debt to finance its investment. This increased investment increases aggregate demand, causing increased production, which promotes increased profits.
4. Expanded nonfinancial business sector debt to finance its real investment. Increased real investment generally increases productivity and/or reduces labor costs, which promote increased profits.¹¹
5. Expanded government debt to finance government spending. Increased government spending increases aggregate demand causing increased production, which promotes increased profits.¹²
6. Expanded financial sector debt. Net debt created in the financial sector allows it to lend to any of the other sectors. In effect, expanded financial sector debt benefits neoliberalism by allowing and promoting the expansion of debt in other sectors.
7. Any expanded debt tends to lower interest rates. In the face of any demand to borrow, expanded debt to meet that desired borrowing will tend to lower the interest rate on

¹⁰If not, a channel that was meaningful in theory would be empirically irrelevant, and hence should not be included.

¹¹Real or productive investment is generally undertaken only when investors expect satisfactory profits on their investment, though of course they can predict incorrectly.

¹²If increased government spending is covered by increased taxes, then there is still increased aggregate demand if the propensity to spend of those taxed is less than that of the government. But here we are considering the clear case of increased government debt.

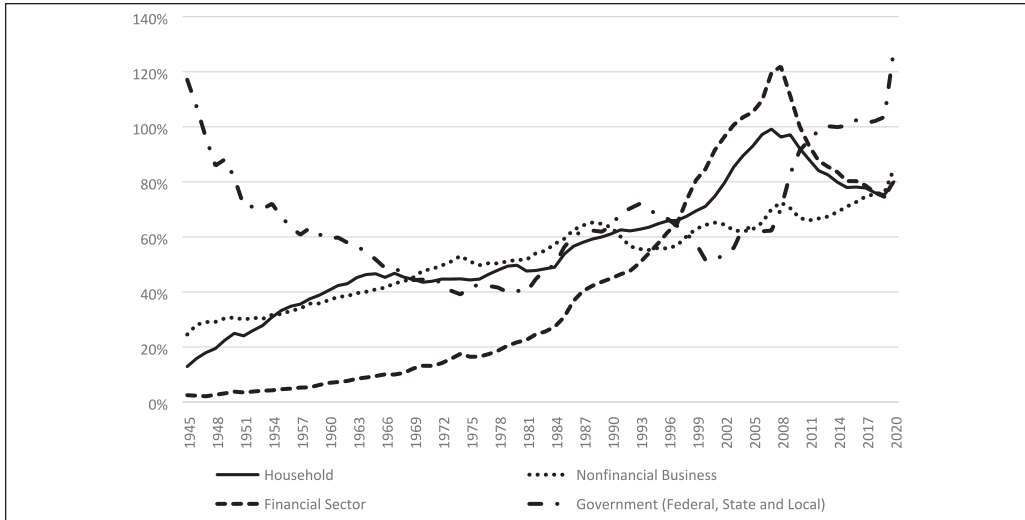


Figure 2. Total outstanding debt by sector as a percentage of GDP.

Source: Same as figure 1.

borrowing, compared to if that expansion of debt had not occurred. Lower interest rates on borrowing will expand the borrowing by consumer, business, and/or government agents. Hence, as indicated in the corresponding above scenarios, this will expand production and thereby promote profits.

6. Different Policy Implications

The parasitic financial capital thesis not only presents the operations of financial capital as deleterious to working people (correctly, despite financial capital not being parasitic). It also generally presents nonfinancial capital as beneficial, as improving the lives of working people, if it is not weakened and blocked by financial capital. It implicitly or explicitly calls for opposing the operations of financial capital *in favor of allowing* the operations of industrial or productive capital. We again draw on the work of Hudson to provide examples of this type of argumentation by advocates of the parasitic financial capital thesis. As a first example, he argues that “unlike industrial capitalism, the rentier aim is not to become a more productive economy by producing goods and selling them at a lower cost than competitors” (Hudson 2021: 570). As a second example, Hudson asserts that Marx thought that “industrial capitalism” would evolve “toward more enlightened management, and indeed toward socialism” (Hudson 2021: 558).

In the first place, the goal of any type of capitalism, including industrial capitalism, is not to become a more productive economy, but rather, the self-expansion of capital. Producing goods at lower costs than competitors has indeed been one central way of obtaining profits over the history of capitalism, but very far from the only way. And while all historical economic systems have made major advances in labor productivity over their existence, it is universally accepted, as Hudson suggests, that capitalism has done so more rapidly than any system before it. However, central to all visions of socialism is that it will both rest on and promote more rapid increases in labor productivity than any type of capitalism. If the concern is that financial capital harms human well-being by harming capitalism’s potential labor productivity gains, then the advocated alternative to the operation of financial capital should be socialism, not industrial capitalism.

Second, we consider Hudson's claim that today's management of industrial capital has "evolved" to be less immediately inhumane than it was 150 years ago to be correct. It is a logical fallacy, however, to present that fact as a demonstration that such an evolution to a continually more "enlightened management, and indeed toward socialism," is inherent in industrial capitalism. To the contrary, the standard position of socialists over those past 150 years has been that (most) improvements in the well-being of workers within capitalism can only be, and historically have only been, obtained by workers' struggles against (all forms of) capital, not as gains from the inherent dynamics of industrial capitalism. Therefore, if the concern is to change to a more enlightened management of capitalism and beyond that to socialism, then again the alternative to the operation of financial capital, which indeed fights tenaciously against both of these (as does industrial capital), is to work to replace financial capital operations with socialist ones, not industrial capitalist ones.

We include a final quote informed by the parasitic financial capital theses to underline the political disorientation in the struggle against capitalism that it tends to lead to. Hudson correctly notes that "socialism favors labor's fight for better wages and working conditions; better public investment in schools, health care, and other social welfare support; better job security; and unemployment insurance. All these reforms would cut into the profits of employers. Lower profits mean lower stock market prices and therefore fewer finance-capital gains" (Hudson 2021: 556). Of course, lower profits would, and do, similarly cause nonfinancial capital to oppose all of these. The parasitic financial capital thesis, however, tends to cause its adherents to lose sight, as in this citation from Hudson, of the need to transcend all capitalist production to build a human-centered better economy and society.

7. Conclusion

Very compactly reprising this article:

1. Neoliberalism (or financialized capitalism) has indeed generally been more harmful to the exploited than the post-World War II form of capitalism that preceded it, in which finance played a smaller role in its operation in both scope and scale.
2. Financial capital is not, however, parasitic on nonfinancial capital in neoliberalism, but rather its expanded role is necessary for nonfinancial capital's goal of increased accumulation of surplus value under neoliberalism.

Stated differently, financial capital and nonfinancial capital are integrated in the operation of neoliberalism in a way that serves neoliberalism's goal of increased appropriation of surplus value by all capital.

3. The correct presentation of the harm inflicted by financial capital must not be used to advocate for industrial capitalism as the alternative. Rather, the presentation of that harm must be integrated into a complete critique of capitalism in favor of a human-centered, authentically democratic, post-capitalist alternative.

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