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Imperialism and Financialism: A Story of a Nexus[1]

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Over the past century, the nexus of imperialism and financialism has become a major axis of Marxist theory and praxis. Many Marxists consider this nexus to be a cause of worldy ills, but the historical role they ascribe to it has changed dramatically over time. The key change concerns the nature and direction of surplus and liquidity flows. The first incarnation of the nexus, articulated at the turn of the twentieth century, explained the imperialist scramble for colonies to which finance capital could export its 'excessive' surplus. The next version posited a neo-imperial world of monopoly capitalism where the core's surplus is absorbed domestically, sucked into a 'black hole' of military spending and financial intermediation. The third script postulated a World System where surplus is imported from the dependent periphery into the financial core. And the most recent edition explains the hollowing out of the U.S. core, a 'red giant' that has already burned much of its own productive fuel and is now trying to 'financialize' the rest of the world in order to use the system's external liquidity. This paper outlines this chameleon-like transformation, assesses what is left of the nexus and asks whether it is worth keeping.

Introduction

Over the past century, Marxism has been radically transformed in line with circumstances and fashion. Theses that once looked solid have depreciated and fallen by the sideline; concepts that once were deemed crucial have been abandoned; slogans that once sounded clear and meaningful have become fuzzy and ineffectual. But two key words seem to have survived the attrition and withstood the test of time: imperialism and financialism.[2]

Talk of imperialism and financialism – and particularly of the nexus between them – remains catchy as ever. Marxists of different persuasions – from classical, to neo to post – find the two terms expedient, if not indispensable. Of course, the views between them differ greatly, but there is a common thread: for most Marxists, imperialism and

financialism are major causes of worldly ills. Their nexus is said to explain capitalist development and underdevelopment; to underlie capitalist power and contradictions; and to drive capitalist globalization, its regional realignment and local dynamics.

The secret behind this staying power is flexibility. Over the years, the concepts of imperialism and financialism have changed more or less beyond recognition, as a result of which the link between them nowadays connotes something totally different from what it did a century ago.

The purpose of our article is to outline this chameleon-like transformation, to assess what is left of the nexus and to ask whether this nexus is still worth keeping. In so doing, our goal is not to present our own view of the nexus, but rather to critique what others have written about it (for our analysis of capitalism see Nitzan and Bichler, 2009). We try to stick to the categories and units of the theories we examine – categories and units with which we often disagree – so that we can compare and contrast the theories on their own terms. And we make no attempt to pick and choose. We do not try to decide which version of the nexus is correct in some universal sense, and not even which version was correct for its time. Instead, our aim is to highlight the historical development of the nexus, particularly the loose manner in which it has been altered – to the point of meaning everything and nothing.

The paper comprises two parts. The first part examines the different schools. It traces the transmutation of the nexus – from its first articulation in the early twentieth century, to the version developed by the Monopoly Capital school, to the arguments of dependency and Word Systems analyses, to the thesis of hegemonic transition. The second part offers an empirical exploration. Focusing specifically on the hegemonic transition hypothesis, it identifies difficulties that arise when the theory meets the evidence and assesses their significance for the century-old nexus.

PART I: THE SCHOOLS

Empire and Finance

The twin notions of imperialism and financialism emerged at the turn of the twentieth century. The backdrop is familiar enough. During the latter part of the nineteenth century, the leading European powers were busy taking over large tracts of non-capitalist territory around the world. At the same time, their own political economies were being fundamentally transformed. Since the two developments unfolded hand in hand, it was only natural for theorists to ask whether they were related – and if so, how and why.

The most influential explanation came from a British left liberal, Hobson (1902), whose work on the subject was later extended and modified by Marxists such as Hilferding (1910), Luxemburg (1913), Kautsky (1914), and Lenin (1917), among

others.

Framed in a nutshell, the basic argument rested on the belief that capitalism had changed: originally 'industrial' and 'competitive', the system had become 'financial' and 'monopolistic' (Hilferding, 1910, Ch. 14; Lenin, 1917, pp. 190 and 193-194).

This transformation, said the theorists, had two crucial effects. First, the process of monopolization and the centralization of capital in the hands of the large financiers made the distribution of income far more unequal, and that greater inequality restricted the purchasing power of workers relative to the productive potential of the system. As a result of this imbalance, there emerged the spectre of 'surplus capital', excess funds that could not be invested profitably in the home market. And since this surplus capital could not be disposed of domestically, it forced capitalists to look for foreign outlets, particularly in pristine, pre-capitalist regions (Hobson, 1902, pp. 77-78, 85-86, 106).

Second, the centralization of capital altered the political landscape. Instead of the night-watchman government of the laissez-faire epoch, there emerged a strong, active state. The laissez-faire capitalists of the earlier era saw little reason to share their profits with the state and therefore glorified the frugality of a small central administration and minimal taxation. But the new state was no longer run by hands-off liberals. Instead, it was dominated and manipulated by an aggressive oligarchy of 'finance capital' – a coalition of large bankers, leading industrialists, war mongers and speculators who needed a strong state that would crack down on domestic opposition and embark on foreign military adventures (Hilferding, 1910, p. 335; Luxemburg, 1913, pp. 371, 467; Lenin, 1917, pp. 243-244).

And so emerged the nexus between imperialism and financialism. The concentrated financialized economy, went the argument, requires pre-capitalist colonies where surplus capital can be invested profitably; and the cabal of finance capital, now in the political driver's seat, is able to push the state into an international imperialist struggle to obtain those colonies.

At the time, this thesis was not only totally new and highly sophisticated; it also fit closely with the unfolding of events. It gave an elegant explanation for the imperial bellicosity of the late nineteenth century, and it neatly accounted for the circumstances leading to the great imperial conflict of the first 'World War'. There were of course other explanations for that war – from realist/statist, to liberal, to geopolitical, to psychological (see, for example, Veblen, 1915; Schumpeter, 1919; Tuchman, 1962 and 1966; and Kennedy, 1987, Ch. 5). But for most intellectuals, these alternative explications seemed too partial or instrumental compared to the sweeping inevitability offered by the nexus of empire and finance.

History, though, kept changing, and soon enough both the theory and its basic concepts had to be altered.

Monopoly Capital

The end of the Second World War brought three major transformations. First, the nature of international conflict changed completely. Instead of a violent inter-capitalist struggle, there emerged a Cold War between the former imperial powers and the United States on the one hand and the Soviet bloc on the other (with plenty of hot proxy conflicts flaring up in the outlying areas). Second, the relationship between core and periphery was radically altered. Outright conquest and territorial imperialism gave way to decolonization, while tax-collecting navies were replaced by the more sophisticated tools of foreign aid and foreign direct investment (FDI). Third and finally, the political economies of the core countries themselves were reorganized. Instead of the volatile laissez-faire regime, there arose a large welfare-warfare state whose 'interventionist' ideologies and counter-cyclical policies managed to reduce instability and boost domestic growth.

On the face of it, this new constellation made talk of finance-driven imperialism seem outdated, if not totally irrelevant. But the theorists didn't give up the nexus. Instead, they gave it a new meaning.

The revised link was articulated most fully by the Monopoly Capital school associated with the New York journal *Monthly Review* (important contributions include Kalecki, 1943; Steindl, 1952; Tsuru, 1956; Baran and Sweezy, 1966; and Magdoff, 1969). Capitalism, argued the writers of this school, remains haunted by a lack of profitable investment outlets. And that problem, along with its solution, can no longer be explained in classical Marxist terms (Baran, 1957, pp. 22 and 23, fn. 3; Baran and Sweezy, 1966, pp. 6 and 10, fn. 6).

The shift from competition to oligopoly that began in the late nineteenth century, these writers claimed, was now complete (Baran and Sweezy, 1966, Chs. 2 and 8). And that shift meant that Marx's labour theory of value and his notion of surplus value had become more or less irrelevant to capitalist pricing.[3]

In the brave new world of oligopolies, the emphasis on non-price competition speeds up the pace of technical change and efficiency gains, making commodities cheaper and cheaper to produce. But unlike in a competitive system, where market discipline forces firms to pass on their lower costs to consumers, under the new circumstances, cost reductions do not translate into falling prices. The prevalence of oligopolies creates a built-in inflationary bias that, despite falling costs, makes prices move up and sometimes sideways, but rarely if ever down (Baran and Sweezy, 1966, pp. 62-63).

This growing divergence between falling costs and rising prices increases the income share of capitalists, and that increase reverses the underlying course of capitalism. Marx believed that the combination of ever-growing mechanization and ruthless competition creates a tendency of the rate of profit to fall. But the substitution of

monopoly capitalism for free competition inverts the trajectory. The new system, argued its analysts, is ruled by an opposite 'tendency of the surplus to rise' (ibid., Ch. 3).

The early theorists of imperialism, although using a different vocabulary, understood the gist of this transformation. And even though they did not provide a full theory to explain it, they realized that the consequence of that transformation was to shift the problem of capitalism from production to circulation (or in later Keynesian parlance, from 'aggregate supply' to 'aggregate demand'). The new capitalism, they pointed out, suffered not from insufficient surplus, but from too much surplus, and its key challenge now was how to 'offset' and 'absorb' this ever-growing excess so that accumulation could keep going instead of coming to a halt (Baran and Sweezy, 1966, p. 218).

That much was already understood at the turn of the twentieth century. But this is where the similarity between the early theorists of imperialism and the new analysts of Monopoly Capital ends.

Black Hole: The Role of Institutionalized Waste

Until the early twentieth century, it seemed that the only way to offset the growing excess was productive and external: the surplus of goods and capital had to be exported to and productively invested in pre-capitalist colonies. But as it turned out, there was another solution, one that the early theorists hadn't foreseen and that the analysts of Monopoly Capital now emphasized. The surplus could also be disposed off unproductively and internally: it could be wasted at home.

For the theorists of Monopoly Capital, 'waste' denoted expenditures that are necessary neither for producing the surplus nor for reproducing the population, and that are, in that sense, totally unproductive and therefore wasteful. These expenditures absorb existing surplus without creating any new surplus, and this double feature enables them to mitigate without aggravating the tendency of the surplus to rise.

The absorptive role of wasteful spending wasn't entirely new, having already been identified and elaborated on at the turn of the twentieth century by Veblen (1904; 1923). But it was only after the Second Word War, with the entrenchment of the Fordist model of mass production and consumption and the parallel rise of the welfare-warfare state, that the process was fully and conscientiously institutionalized as a salient feature of monopoly capitalism.

By the end of the war, the U.S. ruling class grew fearful that demobilization would trigger another severe depression; and having accepted and internalized the stimulating role of large-scale government spending, it supported the creation of a new 'Keynesian Coalition' that brought together the interests of big business, the large labour unions and various state agencies (Gold, 1977). The hallmark of this coalition was immortalized in a secret U.S. National Security Council document (NSC-68), whose writers effectively called on the government to use high military spending as a way to

secure the internal stability of U.S. capitalism.[4]

According to its theorists, monopoly capitalism gave rise to many forms of institutionalized waste – including a bloated sales effort, the creation of new 'desires' for useless goods and services and the acceleration of product obsolescence, among other strategies. But the two most significant types of waste were spending on the military and on the financial sector (on the surplus absorption of military spending, see for example, Tsuru, 1956; Kalecki, 1964 and 1967; Baran and Sweezy, 1966, Cf. Ch. 7; on the role of finance, see Baran and Sweezy, 1966, pp. 139-141; Magdoff and Sweezy, 1983 and 1985).

The importance of these latter expenditures, went the argument, lies in their seemingly limitless size. The magnitude of military expenditures has no obvious ceiling: it depends solely on the ability of the ruling class to justify the expenditures on the grounds of national security. Similarly with the size of the financial sector: its magnitude expands with the potentially limitless inflation of credit. This convenient expandability turns military spending and financial intermediation into a giant 'black hole' (our term): they suck in large chunks of the excess surplus without generating any excess surplus of their own.[5]

Now, on the face of it, the efficacy of this domestic black hole should have made imperialism less necessary, if not wholly redundant. According to the theorists of Monopoly Capital, though, this would be the wrong conclusion to draw. It is certainly true that, unlike the old imperial system, monopoly capitalism no longer needs colonies. But the absence of formal colonies is largely a matter of appearance. Remove this appearance and you'll see the imperial impulse pretty much intact: the core continues to exploit, dominate and violate the periphery for its own capitalist ends.[6]

Spearheaded by U.S.-based multinationals and no longer hindered by inter-capitalist wars, argued the theorists, the new order of monopoly capitalism has become increasingly global and ever more integrated. And this global integration, they continued, has come to depend on an international division of labour, free access to strategic raw materials and political regimes that are ideologically open for business. However, these conditions do not develop automatically and peacefully. They have to be actively promoted and enforced – often against stiff domestic opposition – and they have to be safeguarded against external threats (the Soviet Bloc before its collapse and Islamic fundamentalism and rogue states since then, etc.). And because such promotion and enforcement hinge on the threat and frequent use of violence, there is an obvious justification, if not outright need, for a large, well-equipped army sustained by large military budgets.

In this context, military spending comes to serve a dual role: together with the financial sector and other forms of waste, it propels the accumulation of capital by black-holing a large chunk of the economic surplus; and it helps secure a more sophisticated and effective neo-imperial order that no longer needs colonial territories but is every bit

as expansionary, exploitative and violent as its crude imperial predecessor.

Dependency

The notion of neo-imperialism boosted and gave credence to a subsidiary theory of dependency (important texts include Prebisch, 1950; Baran, 1957; Frank, 1967; Emmanuel, 1972; Galeano, 1973; Amin, 1974b; Wallerstein, 1974; 1980; Cardoso and Faletto, 1979; for a summary of the dependency literature, see So, 1990). This support was somewhat paradoxical, since the lineage between the two theories was weak, if not contradictory. Recall that by emphasizing the role of domestic waste, particularly through the open-ended offsets of military spending and the financial sector, the theory of Monopoly Capital served to deemphasize, if not totally negate, the absorptive importance of the periphery.[7] But the analysts of dependency put their emphasis elsewhere. The persistence of (neo) imperialism, they claimed, showed that, regardless of its own internal dynamics, the core still needs to keep the periphery chronically subjugated and underdeveloped.

This dependency, went the argument, is the outcome of five hundred years of colonial destruction. The basic claim, originally made by Baran (1957, Ch. 5), was that capitalist development is inherently uneven. By the sixteenth century, this unevenness had created a major fracture between Europe and the periphery: the European powers embarked on a colonial process of primitive accumulation, a process that fuelled their own growth while stunting that of the periphery.

From then onward, the imperial powers relentlessly and systematically undermined the socio-economic fabric of the periphery, making it totally dependent on the core. And when decolonization finally started, the periphery found itself unable to take off while the capitalist core prospered (Frank, 1966; Wallerstein, 1974). At that point, there was no longer any need for core states to openly colonize and export capital to the periphery. Using their disproportionate economic and state power, the former imperialist countries were now able to hold the postcolonial periphery in a state of debilitating economic monoculture, political submissiveness and cultural backwardness – and, wherever they could, to impose on it a system of unequal exchange.

Unequal exchange can take different forms. It may involve a wage gap between the 'less exploited' labour aristocracy of the core and the 'more exploited' simple labour of the periphery (Emmanuel, 1972). Or the core can compel the periphery to buy its exports at 'high' prices (relative to their 'true' value), while importing the periphery's products at 'low' prices (relative to their 'true' value). As a result of the latter strategy, the terms of trade get 'distorted', surplus is constantly siphoned into the core (rather than exported from or domestically absorbed by the core), and the eviscerated periphery remains chronically underdeveloped (Amin, 1974a).[8]

This logic of dependent underdevelopment was first articulated during the

1950s and 1960s as an antidote to the liberal modernization thesis and its Rostowian promise of an imminent takeoff (Rostow, 1960). And at the time, that antidote certainly seemed to be in line with the chronic stagnation of peripheral countries.

But what started as a partial theory soon expanded into a sweeping history of world capitalism. According to this broader narrative, capitalism was and remained imperial from the word go: it didn't simply start *with* conquest; it started *because* of conquest. Its very inception was predicated on geographical exploitation and domination – a process in which the financial-commercial metropolis (say England) used the surplus extracted from a productive periphery (say India) to kick-start its own economic growth. And once started, the only way for this growth to be sustained is for the metropolis to continue to eviscerate the periphery around it. The development of the emperor depends on and necessitates the underdevelopment of its subjects (Galeano, 1973, pp. 38-42, 49-51, 67-70, 86-90, 145-148, 206-216, 225-228).

The next theoretical step was to fit this template into an even broader concept of a World System – an all-encompassing global approach that seeks to map the hierarchical political relationships, division of labour and flow of commodities and surplus between the peripheral countries at the bottom, the semi-peripheral satellites in the middle and the financial core at the apex. From the viewpoint of this larger retrofit, capitalism is no longer the outcome of a specific class struggle, a conflict that developed in Western Europe during the twilight of feudalism and later spread to and reproduced itself in the rest of the world. Instead, capitalism – to the extent that this term can still be meaningfully used – is merely the outer appearance of Europe's imperial expedition to rob and loot the rest of the world.

This view reflected a fundamental change in emphasis. Whereas earlier Marxist theorists of imperialism accentuated the centrality of exploitation in production, dependency and World-Systems analysts shifted the focus to trade and unequal exchange. And while previous theories concentrated on the global class struggle, dependency and World-Systems analyses spoke of a conflict between states and geographical regions. The new framework, although nominally Marxist on the outside, has little Marxism left on the inside.[9]

And if we are to believe the postists who quickly jumped on the dependency bandwagon, there is nothing particularly surprising about this particular theoretical bent. After all, 'history' is no more than an ethno-cultural clash of civilizations, a never-ending cycle of imperial hegemonies in which the winners (ego) impose their culture on the losers (alter) (for a typical narrative, see Hobson, 2004).To the naked eye, the totalizing capitalization of our contemporary world may seem like a unique historical process. But don't be deceived. This apparent uniqueness is a flash in the pan. Deconstruct it and what you are left with is yet another imperial imposition – in this case, the imposition of a Euro-American 'financialized discourse' on the rest of the world.

Red Giant: An Empire Imploded

The dependency version of the nexus, though, didn't hold for long, and in the 1970s the cards again got shuffled. The core stumbled into a multifaceted crisis: the United States suffered a humiliating defeat in Vietnam, stagflation intensified and destabilized the major capitalist countries and political unrest seemed to undermine the legitimacy of the capitalist regime itself. In the meantime, the periphery confounded the theorists: on the one hand, import substitution, the prescribed antidote to dependency, pushed many developing countries, primarily in Latin America, into a debt trap; on the other hand, the inverse policy of privatization and export promotion, implemented mostly in East Asia, triggered an apparent 'economic miracle'. Taken together, these developments didn't seem to sit well with the notion of Western financial imperialism. So once more the nexus had to be revised.

According to the new script, 'financialization' is no longer a panacea for the imperial power. On the contrary, it is a 'sign of autumn', prime evidence of imperial decline (Braudel, 1985, Vol. 3, p. 246).

The reasoning, whether explicit or implicit, goes back to the basic Marxist distinction between 'industrial' activity on the one hand and 'commercial' and 'financial' activities on the other. The former activity is considered 'productive' in that it generates surplus value and leads to the accumulation of 'actual' capital. The latter activities, by contrast, are deemed 'unproductive'; they don't generate any new surplus value and therefore, in and of themselves, do not create any 'actual' capital.[10]

This distinction – which most Marxists accept as sacrosanct and to which we return later in the article – has important implications for the nexus of imperialism and financialism. It may be true, say advocates of the new script, that finance (along with other forms of waste) helps the imperial core absorb its rising surplus – and in so doing prevents stagnation and keeps accumulation going. But there is a price to pay. The addiction to financial waste ends up consuming the very fuel that sustains the core's imperial position: it hollows out the core's industrial sector, it undermines its productive vitality, and, eventually, it limits its military capabilities. The financial sector itself continues to expand absolutely and relatively, but this is the expansion of a 'red giant' (our term) – the final inflation of a star ready to implode.

The process leading to this implosion is emphasized by theories of hegemonic transition (Cf. Braudel, 1985; Wallerstein, 1984; and Arrighi, 1994). The analyses here come in different versions, but they all seem to agree on the same basic template. According to this template, the maturation of a hegemonic power – be it Holland in the seventeenth century, Britain in the nineteenth century or the United States presently – coincides with the 'over-accumulation' of capital (i.e. the absence of sufficiently profitable investment outlets). This over-accumulation – along with growing international rivalries,

challenges and conflicts – triggers a system-wide financial expansion marked by soaring capital flows, a rise in market speculation and a general inflation of debt and equity values.[11] The financial expansion itself is led by the hegemonic state in an attempt to arrest its own decline, but the reprieve it offers can only be temporary. Relying on finance drains the core of its energy, causes productive investment to flow elsewhere and eventually sets in motion the imminent process of hegemonic transition.

Although the narrative here is universal, its inspiration is clearly drawn from the apparent 'financialized decline' of U.S. hegemony (Arrighi and Silver, 1999, p. 33; Arrighi *et al.*, 1999, pp. 88-89). Since the 1970s, many argue, the country has been 'depleted': it has grown overburdened by military spending; it has gotten itself entangled in unwinnable armed conflicts; and it has witnessed its industrial-productive base sucked dry by a Wall Street-Washington Complex that prospers on the back of rising debt and bloated financial intermediation.[12]

In order to compensate for its growing weakness, these observers continue, the United States has imposed its own model of 'financialization' on the rest of the world, hoping to scoop the resulting expansion of liquidity. Some states have been compelled to replicate the model in their own countries, others have been tempted to finance it by buying U.S. assets and pretty much all have been pulled into an unprecedented global whirlpool of capital flow.

However, the spread of 'financialization', goes the argument, has only been partly successful. For a while, the United States benefited from being able to control, manipulate and leverage this expansion for its own ends. But in the opinion of many, the growing severity of recent financial, economic and military crises suggests that this ability has been greatly reduced and that U.S. hegemony is now coming to an end.

PART II: AN EMPIRICAL INQUIRY

Up until now, our discussion was fairly even handed. We devoted more or less the same attention to each version of the nexus, and for good reason. Judged against their concrete historical backdrops, all versions look relevant, even solid. At their time, they all offered insight into the world they described and often provided a platform for popular struggle and alternative politics.

But this even-handedness is superficial: although the theories themselves may be comparable, their empirical bases are not. When Lenin wrote his *Imperialism* (1917) in Zurich in the early twentieth century, the data on which he based his argument were meagre and fractured. There were no organized statistics, no time series and no aggregate facts to speak of. Much of his evidence was drawn from works written by Hobson twenty years earlier (1894; 1902). The situation was quite different half a century later. By the time Baran and Sweezy published their *Monopoly Capital* (1966), systems of national

accounts had already been implemented, primarily in the developed countries, and aggregate data analysis had become increasingly commonplace.[13] This new infrastructure enabled Baran and Sweezy to enlist the help of Joseph D. Phillips, a statistical expert who subjected their thesis to systematic empirical examination. The result, published in the famous appendix to their book, was an empirical feat that Lenin could not even have fathomed. And yet, even Baran and Sweezy had to restrict their analysis to the United States, and particularly to its macro economy: national accounting were still far less developed in the rest of the world; organized statistics for corporations and financial intermediation were still in their infancy; and global databases were not yet on the radar screen. It was only in the 1980s, with the transnationalization of capital and the advent of cheap computing, that a global statistical picture, however imperfect, became a practical possibility.

The purpose of this section is to use some of these new data to examine the most recent version of the nexus – the theory of hegemonic transition. The examination is not exhaustive, but illustrative. It seeks to highlight the importance of empirical analysis – both as a check on our theoretical speculations and as a catalyst for the development of new questions and new concepts.

The argument is developed in steps. To put things in context, we begin by outlining the historical evolution of capital flow and transnational ownership; then we examine the shifting global distribution of profit between the different regions; and finally, we zero in on the process of financialization and its relation to hegemonic transition.

Capital Flow and Transnational Ownership

The highly publicized imperial misgivings of the United States make the hegemonic-transition version of the nexus seem persuasive. But when we look more closely at the facts, the theoretical surface no longer looks smooth; and as we get even closer to the evidence, cracks begin to appear.

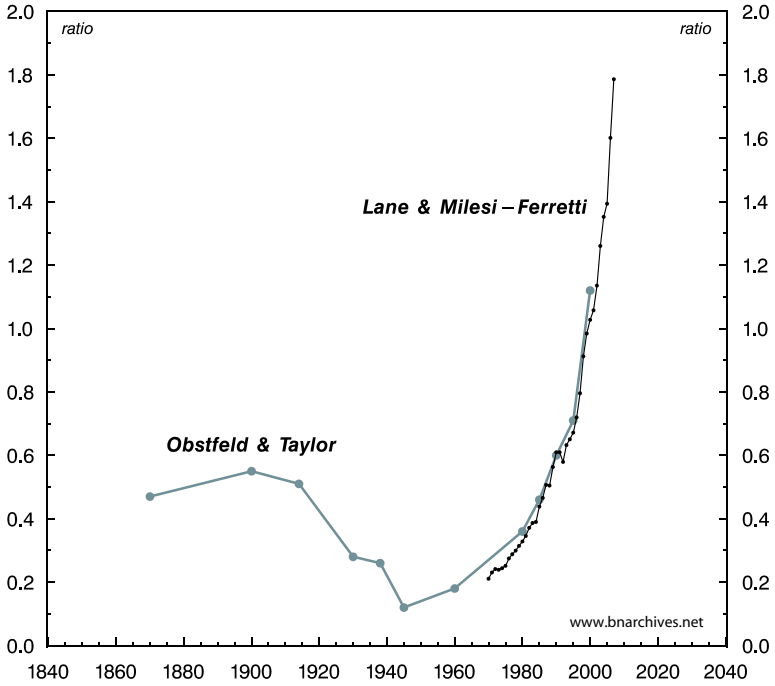
Start with the cross-border flow of capital, the international manifestation of 'financialization'. This process is often misunderstood, even by high theorists, so a brief clarification is in order. Contrary to popular belief, the flow of capital is financial, and only financial. It consists of legal transactions, whereby investors in one country buy or sell assets in another – and that is it. There is no flow of material or immaterial resources, productive or otherwise. The only things that move are ownership titles.[14]

These changes in ownership, of course, are of great importance. If the flow of capital is large enough, the stock of foreign-owned assets will grow relative to domestically owned assets. And as the ratio rises, the ownership of capital becomes increasingly transnational.

The history of this process, from 1870 to the present, is sketched in Figure 1,

where we plot the ratio between the value of global foreign assets and global GDP (both denominated in U.S. dollars). The figure contains two partly overlapping annual series: the thicker grey series, which covers selected years during the period 1870-2000, is taken from a study by Maurice Obstfeld and Alan Taylor; the thinner black series, which covers the entire period of 1970-2007, is from a study by Philip Lane and Gian Maria Milesi-Ferretti (with full references indicated in the footnote to the figure). Both series are estimated based on a changing sample of countries. The ratio is computed in three steps: first, by aggregating the foreign assets of the available sample of countries; second, by computing their combined GDP; and third, by dividing the first number by the second. In both series, the sample size increases over time; and as the number of countries grows, the estimates they provide serve to better reflect the actual global ratio.[15]

Figure 1:
Ratio of Global Gross Foreign Assets to Global GDP



NOTE: Gross foreign assets consist of cash, loans, bonds and equities owned by non-residents. Both gross foreign assets and GDP are estimates based on a changing sample of

countries. The Obstfeld & Taylor series (thick grey line) uses a sample that gradually grows from four countries in 1870, to seven in 1900, to 26 in 1980, to 63 in 2000. The Lane & Milesi-Ferretti series (thin black line) uses a sample that gradually grows from 101 countries in 1970, to 177 in 2000, to 178 in 2007.

SOURCE: Thick grey line (1870-2000): Maurice Obstfeld and Alan. M. Taylor, *Global Capital Markets: Integration, Crisis and Growth* (Cambridge: Cambridge University Press, 2004), pp. 52-53, Table 2-1. Thin black line (1970-2007): Philip Lane and Gian Maria Milesi-Ferretti, 'The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004', *Journal of International Economics*, 2007, No. 73, pp. 223-250 (with data updated to 2007 by the authors). Downloaded on August 8, 2009, from http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

Admittedly, the raw numbers underlying these computations are not the most accurate. The data on foreign ownership are scarce; often they are of questionable quality; rarely if ever are they available on a consistent basis; and almost always they require painstaking research to collate and sometimes heroic assumptions to calibrate. There are also serious problems in estimating global GDP, particularly for earlier periods. Finally, the accuracy of the estimates changes over time, so temporal comparisons must be interpreted with care. But even if we take these severe limitations into consideration, the overall picture seems fairly unambiguous.

The figure shows three clear periods: 1870-1900, 1900-1945 and 1945-2007. The late nineteenth century, marked by the imperial expansion of 'finance capital', saw the ratio of global foreign assets to global GDP grow from 0.47 in 1870 to 0.55 in 1900 (though keep in mind the inaccuracy and bias of the early estimates). This upswing was reversed during the first half of the twentieth century. The mayhem, isolationism and protectionism brought about by the two world wars and the Great Depression on the one hand and the emergence of domestic 'institutionalized waste' on the other undermined the flow of capital and caused the share of foreign ownership to recede. By 1945, with the onset of decolonization under U.S. 'hegemony' and the beginning of the Cold War, the ratio of foreign assets to global GDP hit a record low of 0.12. This was the nadir.

The next half century brought a massive reversal. In the early 1980s, when Ronald Reagan and Margaret Thatcher started to peddle the wonders of neoliberalism, the ratio of foreign assets to GDP was already soaring; and by 2007, after a quarter century of exponential growth, it reached an all-time high of 1.78.[16]

This final number represents a significant level of transnational ownership. According to recent research by the McKinsey Global Institute, between 1990 and 2006 the global proportion of foreign-owned assets has nearly tripled, from 9% to 26% of all world assets (both foreign and domestically owned). The increase was broadly based: foreign ownership of corporate bonds rose from 7% to 21% of the world total, foreign ownership of government bonds rose from 11% to 31% and foreign ownership of

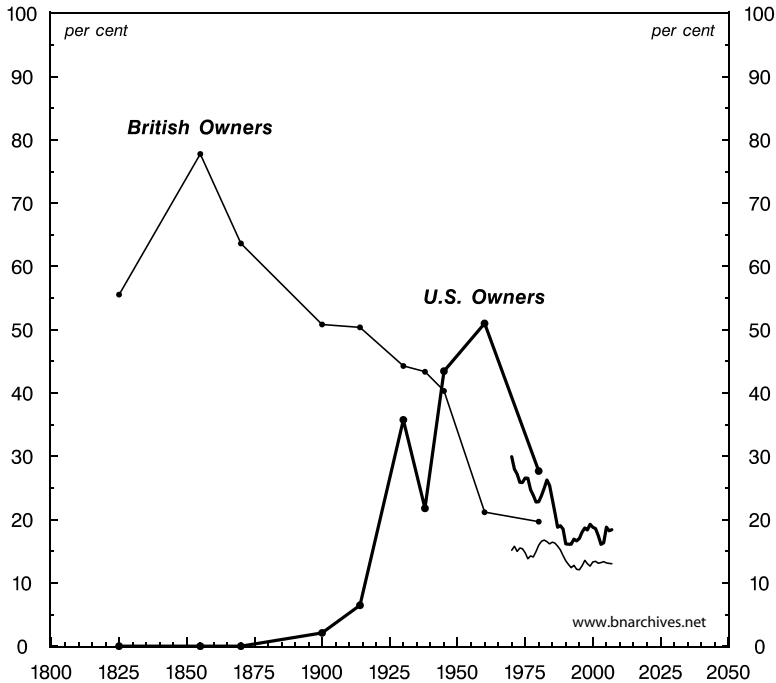
corporate stocks rose from 9% to 27%.[17]

Of course, numbers alone tell only part of the story. The issue here is not merely that foreign ownership is significant in size and rapidly growing. It is also that the attitude toward such ownership has changed radically. The following comparison illustrates this change. In 1987, Kuwait Investment Office (KIO) took advantage of the privatization of British Petroleum to buy 22% of the company's outstanding shares. At the time, the neoliberal Thatcher government was so horrified by this attack on its national 'crown jewel' that it forced KIO to reduce its stake to a more acceptable 9.9%. By contrast, when in 2008 Sheikh Mansoor of Abu Dhabi bought 16% of Barclays Bank – and then sold it less than a year later for a 70% profit – nobody even blinked.[18] The difference? Capital has become totally vendible, within and across borders. There are no crown jewels any more. With the exception of 'national-security' companies and other such oddities, every asset is now fair game. During the recent crisis, the U.S. authorities all but begged sovereign wealth funds to buy U.S. assets (Heinrich, 2008).

The Shifting Locus of Ownership

Having outlined the global increase in foreign ownership and the accompanying change in attitude, the next step is to break the aggregate front and examine the distribution of this ownership. This is what we do in Figure 2, which compares the foreign asset shares of British and U.S. owners from 1825 to the present.

Figure 2:
Shares of Global Gross Foreign Assets



NOTE: Gross foreign assets consist of cash, loans, bonds and equities owned by non-residents. The dotted series for both British and U.S. owners are based on sample data from Obstfeld & Taylor, with global gross foreign assets representing the aggregate for an unspecified number of countries in 1825, four in 1870, seven in 1900 and 26 in 1980 (with additional increments between these signposts). The solid series for both British and U.S. owners are based on sample data from Lane & Milesi-Ferretti, with global gross foreign assets representing the aggregate for 101 countries in 1970, 177 in 2000, and 178 in 2007 (with incremental increases between the signposts).

SOURCE: Dotted series (1825-1980): Maurice Obstfeld and Alan. M. Taylor, *Global Capital Markets: Integration, Crisis and Growth* (Cambridge: Cambridge University Press, 2004), pp. 52-53, Table 2-1. Solid series (1970-2007): Philip Lane and Gian Maria Milesi-Ferretti, 'The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004', *Journal of International Economics*, 2007, No. 73, pp. 223-250 (with data updated and extended to 2007 by Lane and Milesi-Ferretti). Downloaded on August 8, 2009, from http://www.imf.org/external/pubs/ft/wp/2006/data/wp0669.zip.

The figure contains two sets of partly overlapping series: each country is represented first

by a dotted series for 1825-1980, and second by a solid series that partly overlaps with and further extends it for the period 1970-2007 (the data sources, along with the statistical caveats, are the same as for Figure 1). Note that the solid series are based on a larger sample of countries. Consequently, during the overlapping period of 1970-1980, these series show the shares of the two countries to be smaller than those measured by the dotted series.

The chart shows two important differences between the earlier era of 'classical imperialism' dominated by Britain and the more recent 'neo-imperial' period led by the United States.

First, there is the pattern of decline. British owners saw their share of global assets fall from the mid-nineteenth century onward, but until the end of the century their primacy remained intact. The real challenge came only in the twentieth century, when capital flow decelerated sharply and foreign asset positions were unwound; and it was only in the interwar period, when foreign investment gave way to capital flight, that the share of British owners fell below 50%.

The U.S. experience was very different. U.S. owners achieved their primacy right after the Second World War, when capital flow had already been reduced to a trickle – and that position was undermined the moment capital flow started to pick up. In 1980, when U.S. 'financialization' started in earnest, U.S. owners accounted for only 28% of global foreign assets. And by 2003, when record capital flow and the U.S. invasion of Afghanistan and Iraq prompted many Marxists to pronounce the dawn of an 'American Empire', the asset share of U.S. owners had been reduced to a mere 18%.[19]

Second, there is the identity of the leading owners. In the previous transition, power shifted from owners in one core country (Britain) to those in another (the United States). By contrast, in the current transition (assuming one is indeed underway) the contenders are often from the periphery. In recent years, owners from China, OPEC, Russia, Brazil, Korea and India, among others, have become major foreign investors with significant international positions – including large stakes in America's 'imperial' debt.[20]

Does this shift of foreign ownership represent the rising hegemony of countries such as China – or is what we are witnessing here yet another mutation of imperialism? Perhaps, as some observers seem to imply, we've entered a (neo) neo-imperial order in which the 'Empire' actually boosts its power by selling off its assets to the periphery?

The Global Distribution of Profit

Surprising as it may sound, such a selloff is not inconsistent with the basic theory of hegemonic transition. To reiterate, according to this theory, hegemonic transitions are always marked by a financial explosion that is triggered, led and leveraged by the core in a vain attempt to arrest its imminent decline. Supposedly, this explosion enables the

hegemonic power to amplify its financial supremacy in order to (temporarily) retain its core status and power. And if retaining that power requires the devolution of foreign assets and the selloff of domestic ones, so be it.

The question is how to assess this power. How do we know whether the core's attempt to leverage global 'financialization' is actually working? Is there a meaningful benchmark for power, and how should this benchmark be used and understood?

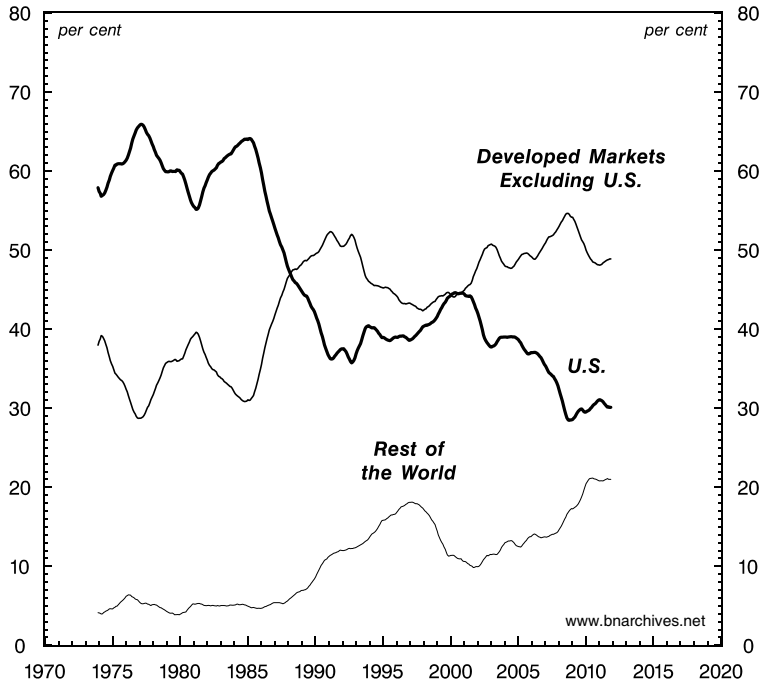
Unfortunately, most theorists of hegemonic transitions prefer to deal with general concepts and tend to avoid the data, so it's often unclear how they themselves gauge the shifting trajectories of global power. But given the hyper-capitalist nature of the current epoch, it seems pretty safe to begin with the bottom line: net profit.

Net profit is the pivotal magnitude in capitalism. It determines the health of corporations and their ability to borrow, it tells investors how to capitalize assets and it sets limits on what government officials feel they can and cannot do. It is the ultimate yardstick of capitalist power, the category that subjugates the social individual and makes the whole system tick. It is the one magnitude no researcher of capitalism can afford to ignore.[21]

Of course, the level of profit as such tells us nothing about power. Power is not absolute; it is relative. So in order to assess its extent and movement, our focus should be not the absolute magnitude of profit, but its differential size and temporal redistribution (see Nitzan and Bichler, 2009, Ch. 14).

With this rationale in mind, consider Figure 3, which traces the changing distribution of global net profit earned by publicly traded corporations. The chart, covering the period from 1974 to the present, shows three profit series, each denoting the profit share of a distinct corporate aggregate: (1) firms listed in the United States; (2) firms listed in developed markets excluding the United States; and (3) firms listed in the rest of the world – i.e. in 'emerging markets'. In all three series, the underlying raw earnings are reported on a consolidated basis: they include the net profit of parent corporations, the earnings of domestic and foreign subsidiaries, and the earnings share in minority-held companies.

Figure 3:
Net Profit Shares of Listed Corporations (% of World Total)



NOTE: Net profit is computed as the ratio of market value to the price-earning ratio. Data for developed markets excluding the U.S. is calculated by subtracting from the profit of firms listed in developed markets the profit of firms listed in the U.S. Data for rest of the world is calculated by subtracting from the profit of all firms the profits of those listed in developed markets. Series display monthly data and are smoothed as 12-month moving averages. The raw earning data are reported on a consolidated basis, including domestic and foreign subsidiaries and the equity share in minority held firms. The last data points are for November 30, 2011.

SOURCE: Datastream (series code: TOTMKWD(MV) and TOTMKWD(PE) for the market value and price-earning ratio of all listed firms, respectively; TOTMKUS(MV) and TOTMKUS(PE) for the market value and price-earning ratio of U.S.-listed firms, respectively; TOTMKDV(MV) and TOTMKDV(PE) for the market value and price-earning ratio of firms listed in developed countries, respectively).

The chart demonstrates a sharp reversal of fortune. Until the mid-1980s, U.S.-listed firms dominated: they scooped roughly 60% of all net profits, leaving firms listed in other

developed markets 35% of the total and those listed in 'emerging markets' less than 5%.

But then the tables turned. During the second half of the 1980s, the net profit share of U.S.-listed firms plummeted, falling to 36% in less than a decade. The 1990s seemed to have stabilized the decline, but in the early 2000s the downward drift resumed. By the end of the decade, U.S. firms saw their net profit fall to 30% of the world total.

The other two aggregates moved in the opposite direction. By 2010, the profits of firms listed in developed countries other than the U.S. reached 50% of the total (down from a peak of 53% a couple of years earlier), while the share of 'emerging market' firms quadrupled to more than 20%.

These numbers, of course, should be interpreted with care. First, note that our profit data here cover only publicly traded firms that are included in the Datastream universe of companies; they do not include unlisted firms, or listed firms that are not part of the Datastream universe. This fact means that variations in profit shares reflect a combination of three very different processes: (1) changes in the amount of profit earned by listed firms, (2) the pace of listing and delisting of firms, and (3) the adding of previously excluded stock markets to the Datastream universe. The two latter factors became important during the late 1980s and 1990s: Europe and the 'emerging markets' saw their stock market listings swell as many private corporations went public, and Datastream added markets that were previously not part of its universe of companies – this at a time when the number of listed firms in the United States remained flat.

Second, the location of a firm's listing says nothing about its operations and owners. Many firms whose shares are traded in the financial centres of the United States and Europe in fact operate elsewhere. And then there is the issue of ultimate ownership. Recall that currently nearly one third of all global assets are owned by foreigners (and perhaps more, given the opaqueness of international criminal ties and money laundering). This proportion is already large enough to make it difficult to determine the 'nationality of capital', and if it were to rise further the whole endeavour would become an exercise in futility.

The theoretical implications of these caveats have received little or no attention from students of hegemonic transitions, and their quantitative implications remain unclear. But even if we take the 'nationality of capital' at face value and consider the numbers in Figure 3 as accurate and representative of this nationality, it remains obvious that 'financialization' has not worked for the hegemonic power: despite the alleged omnipotence of its Wall Street-Washington Complex, despite its control over key international organizations, despite having imposed neoliberalism on the rest of the world, and despite its seemingly limitless ability to borrow funds and suck in global liquidity – the bottom line is that the net profit share of U.S.-listed corporations has kept falling and falling.[22]

The Engine of 'Financialization'

Now, in and of itself, the collapse of the U.S. profit share – much like the selloff of U.S. assets – isn't at odds with the theory of hegemonic transition. To repeat, this theory suggests that the hegemonic/imperial power, having been weakened by its prior financial excesses (among other ills), will kick-start, promote and sustain a system-wide process of 'financialization'. According to this theory, the latent purpose is to leverage this process in order to slow down the hegemon's own decline – but nowhere does the theory say that this 'strategy', whether premeditated or implemented on the go, has to succeed.

Presented in this way, the story sounds historically compelling, logically consistent and empirically convincing – but only if we can first establish one basic fact. We need to show that the global process of 'financialization' indeed has been led by the United States. This is the starting point. Only if U.S. 'financialization' preceded, was bigger than and propelled 'financialization' in the rest of the world can we speak of the United States leveraging this process for its own ends. And only then can we assess whether that leveraging has succeeded or failed.

So let's look at the evidence.

Concepts and Methods: How to Measure 'Financialization'?

The initial step in this sequence is to measure 'financialization'. Conceptually, the task may seem simple. All we need to do is calculate the share of financial activity in overall economic activity and then trace the trajectory of the resulting ratio. When this ratio goes up, we can say that the economy is being 'financialized'; when it comes down, we would conclude that it is being 'de-financialized'.

But that is easier said than done.[23]

Begin with the term 'financialization'. The concept is rooted in the classical debate on the source of productivity, a controversy that began with the French Physiocrats, if not earlier, and that continues to haunt economists till this very day. Situated in this larger debate, Marxists tend to identify economic activity as productive if it generates surplus value. Exploitation of workers in the production of commodities, they say, generates such surplus value and is therefore productive. By contrast, commerce and finance do not generate surplus value (but merely appropriate it), which makes them unproductive. The concept of 'financialization' draws on this distinction. It denotes a shift of emphasis from industrial production to unproductive financial activity – a process that is dominated by financiers, directed by financial organizations and governed by the logic of financial intermediation.

The reality of this shift, though, remains elusive. One basic difficulty is that, unlike during the early twentieth century, when Rudolf Hilferding published his treatise

on *Finance Capital*, the entity of 'finance' can no longer be equated, however superficially, with 'banks', and not even with 'financial institutions' more generally. Over the past half century, the process of conglomeration has created highly diversified corporate giants whose 'financial' operations cannot be meaningfully disentangled from their 'productive' and 'commercial' dealings.

And that is just for starters. Contemporary capitalism has become thoroughly mediated through discounting and capitalization, and that fact makes every mediated activity both 'economic' and 'financial' at the same time. In this context, discriminating between the veneer of financial mediation that is common to all market activity and activity that is 'purely' financial becomes a Sisyphean task.

The main stumbling block here is that, despite hundreds of years of theorizing and endless claims to the contrary, economists do not know how to identify 'productivity', let alone measure it. In the mainstream case, the productivity of an input is counted in terms of the universal utils the input generates. But utils are totally fictitious units. They have no objective existence, even on paper. So liberals have grown accustomed to going in reverse. Instead of measuring the util productivity of an input directly, they deduce it indirectly, by assuming it is 'revealed' by income. According to this logic, if the CEO of Goldman Sachs earns 100,000 times more than an Exxon mechanic, he must be 100,000 times more productive. However, since their respective productivity can never be observed independently of the associated income, the above conclusion ends up hanging on nothing but faith.

Sadly, Marxist computations do not fare much better.[24] Contrary to mainstream economists, for whom productivity is determined by the generation of utils, for Marxists it hinges on the production of surplus value. In this framework, the CEO of Goldman Sachs, by virtue of his 'financial' function as a banking executive cannot generate surplus value and therefore is unproductive; by contrast, an Exxon mechanic, engaged in the industrial production of the oil, generates surplus value is therefore productive.

But this argument, too, has a lethal glitch. Value and surplus value are denominated in universal units of socially necessary abstract labour, and these units are no more real than neoclassical utils. Marxists have never been able to objectively observe, let alone measure, them independently of prices, and this inability leads to a dead end: without a measurement independent of prices, there is no way to verify who actually generates surplus value and who does not; without knowing (rather than assuming) where surplus value is generated, there is no objective means of separating productive from unproductive activity; and without that separation, the decision of what constitutes a 'purely' financial activity becomes arbitrary.

One popular way around this obstacle is to associate productive activity with profit and financial activity with net interest (and in some looser versions, also with dividends, rent, excessive depreciation and amortization, taxes and other forms of so-

called 'rentier income'). From this perspective, the extent of 'financialization' can be approximated by measuring the ratio of net interest to profit income (or some similar variant): the higher this ratio, the greater the 'financialization', and vice versa (see for example Krippner, 2005; Epstein and Jayadev, 2005; Crotty, 2005; Orhangazi, 2008, especially Ch. 2).

This framework, though, can be very misleading, even by its own logic. To begin with, the ratio of interest to profit as such has nothing to do with 'financialization': it does not show the growing importance of financiers; it does not show the greater role of financial intermediation; and it does not show the increasing subjugation of society to the principles of financial calculations. In the national accounts, the magnitude 'net interest' denotes the interest payments that private enterprises make to their creditors less the interest payments that private enterprises receive from their debtors.[25] This net interest, like profit, is a legal classification of capitalist income. In this classification, net interest is the return on debt, whereas profit is a return on equity. And that's basically it.

Further, and more importantly for our purpose, there is no correspondence between interest and profit on the one hand and the type of production on the other. All corporations – whether they are an Exxon (typically classified as 'industrial'), a Mitsubishi Trading (classified as 'commercial'), or a Goldman Sachs (classified as 'financial') – are capitalized through both debt and equity and therefore pay both interest and profits. The result is that, all else being equal, the higher the debt/equity ratio in a society, the greater the ratio of net interest to profit – regardless of what is being produced or how it is produced. And since both debt and equity are 'financial' entities to start with, the ratio of net interest to profit can tell us nothing about the degree of 'financialization'.

The Inconvenient Facts

But not all is lost. For the sake of argument, we can forgo our reservations and stick with the most basic conventions. And the convention – at least among capitalists, investors and, increasingly, academic students of the subject – is to treat 'finance' as synonymous with the FIRE sector; i.e. with firms whose primary activities involve financial intermediation (banking, trust funds, brokerages, etc.), insurance or real estate.

Based on this conventional (albeit theoretically loose) definition of finance, and given our specific concern here with capitalist power, it seems appropriate to proxy the extent and trajectory of 'financialization' by looking at the distributive share of total net profit accounted for by FIRE corporations. The magnitude of this share would then indicate the extent to which FIRE firms have been able to leverage 'financialization' for their own end, and the way this share changes over time would tell us whether their leverage has increased or decreased.

This distributional measure of 'financialization' is depicted by the two series in

Figure 4. The first series shows the net profit of FIRE corporations as a per cent of the net profit of all U.S.-listed firms. The second series computes the same ratio for firms listed outside the United States. And here we run into a little surprise.

Figure 4:
Net Profit Shares of Listed FIRE Corporations (% of Region)

NOTE: Net profit is computed as the ratio of market value to the price-earning ratio. Total profit and FIRE profit for firms outside the U.S. are calculated as a residual, by subtracting from the world figures the corresponding figures for the U.S. The raw earning data are reported on a consolidated basis, including domestic and foreign subsidiaries and the equity share in minority-held firms. The last data points are for November 30, 2011.

SOURCE: Datastream (series code: TOTMKWD(MV) and TOTMKWD(PE) for the market value and price-earning ratio of all listed firms, respectively; FINANWD(MV) and FINANWD(PE) for the market value and price-earning ratio of all listed FIRE firms, respectively; TOTMKUS(MV) and TOTMKUS(PE) for the market value and price-earning ratio of U.S.-listed firms, respectively; FINANUS(MV) and FINANUS(PE) for the market value and price-earning ratio of U.S.-listed FIRE firms, respectively).

According to the theory of hegemonic transition, the engine of 'financialization' is the United States. This is the black hole of the World System. It is the site where finance has been used most extensively to absorb the system's surplus. It is the seat of the all-powerful Wall Street-Washington Complex. It is where neoliberal ideology first took command and from where it was later imposed with force and temptation on the rest of the world. It is the engine that led, pulled and pushed the entire process.

But the facts in Figure 4 seem to tell a different story. According to the chart, the United Sates has not been leading the process. If anything, it seems to have been 'dragged' into the process by the rest of the world. . . .

During the early 1970s, before the onset of systemic 'financialization', the U.S. FIRE sector accounted for 6% of the total net profit of U.S.-listed firms. At the time, the comparable figure for the rest of the world was 18% – three times as high! From then on, the United States was merely playing catch-up. Its pace of 'financialization' has been faster than in the rest of the world; but with the sole exception of a brief period in the late 1990s, its level of 'financialization' has always been lower. In other words, if we wish to stick with the theory of a finance-fuelled red giant that has exhausted its own energy and is now slowly imploding as its peripheral liquidly runs out, we should apply that theory not to the United States, but to the rest of the world!

Indeed, even the most recent period of crisis seems at odds with the theory. According to the conventional creed, both left and right, the current crisis is payback for the sins of excessive 'financialization' and improper bubble blowing (Bichler and Nitzan, 2008; 2009). In this Galtonean theory, deviations and distortions always revert to mean, ensuring that the biggest sinners end up suffering the most. And since the U.S. FIRE sector was supposedly the main culprit, it was also the hardest hit.

The only problem is that, according to Figure 4, the U.S. wasn't the main culprit. On the eve of the crisis, the extent of 'financialization' was greater in the rest of the world than in the U.S. And yet, although the world's financiers committed the greater sin, it was their U.S. counterparts who paid the heftier price. The former saw their profit share decline moderately from 37% to 23% of the total, while the latter watched their own share crash from 32% to 10%. And when the market finally rebounded, FIRE in the rest of the world recovered to about 30% (not far from its all-time high), while in the United States it reached barely 18% (a bit over half of its former record). It seems that the gods of finance have their own sense of justice.

Or maybe not? According to Michael Hudson, the conventional focus on profit, although adequate in most cases, can be very deceptive when applied to the FIRE sector. The reason is twofold. First, there is the issue of tax accounting. The process of financialization, he says, allows FIRE firms to leverage their political primacy over 'industrial' companies by gradually reclassifying more and more of their profit as cost.

They do that by claiming excessive depreciation and depletion allowances on their real-estate assets; these allowances – which far exceed what is needed to replenish the depreciation portion of the underlying real-estate – serve to reduce their taxable income, often to nil; and that reduction greatly boosts their after-tax cash flow. The second part of the story has to do with international differences. According to Hudson, this tax minimization by the FIRE sector has been much more successful in the United States than elsewhere in the world. And since FIRE firms capitalize their entire after-tax cash flow, focusing on net profit only – as we do in Figure 4 – is likely to produce a misleading picture. Our data in this figure show the net profit share of U.S.-listed FIRE firms to have lagged behind the comparable share of FIRE firms listed in the rest of world. But if instead of net profit we were to measure cash flow – i.e. net profit plus depreciation – the results would have been the exact opposite: U.S. FIRE would be the leader and the FIRE sector in the rest of the world the lagger.[26]

We find these claims intriguing but unconvincing. The first difficulty is theoretical. It is certainly true that individual firms, investors and analysts often consider various measures of cash flow, particularly in short-term matters of mergers, acquisitions and divestments. But in general, and especially over the longer term, the ultimate yardstick that guides accumulation is not the 'shadow measure' of cash flow, but the legally sanctified entity of reported net earnings.

The second difficulty has to do with the facts. Regardless of whether one uses net profit or cash flow, the conclusion seems to be the same: U.S.-listed FIRE firms are laggers rather than leaders. The relevant data are presented in Figure 5. The chart compares two series: the first series shows the cash flow of FIRE corporations as a per cent of the cash flow of all U.S.-listed firms; the second series computes the comparable ratio for FIRE firms listed outside the United States. Now, unlike the data for net profit, those for cash flow are more 'jumpy', perhaps as a result of the often arbitrary nature of depreciation allowances, occasional changes in tax laws and the absence of temporal smoothing when monthly observations are interpolated from quarterly and annual reports. But the overall trajectories of the cash-flow series are not much different from those of net profit: in both cases, the FIRE share is larger outside than inside the United States, and in both cases the overall trend has been for U.S.-listed firms to play catch-up with the rest of the world, rather than vice versa.

Figure 5:
Cash Flow Shares of Listed FIRE Corporations (% of Region)

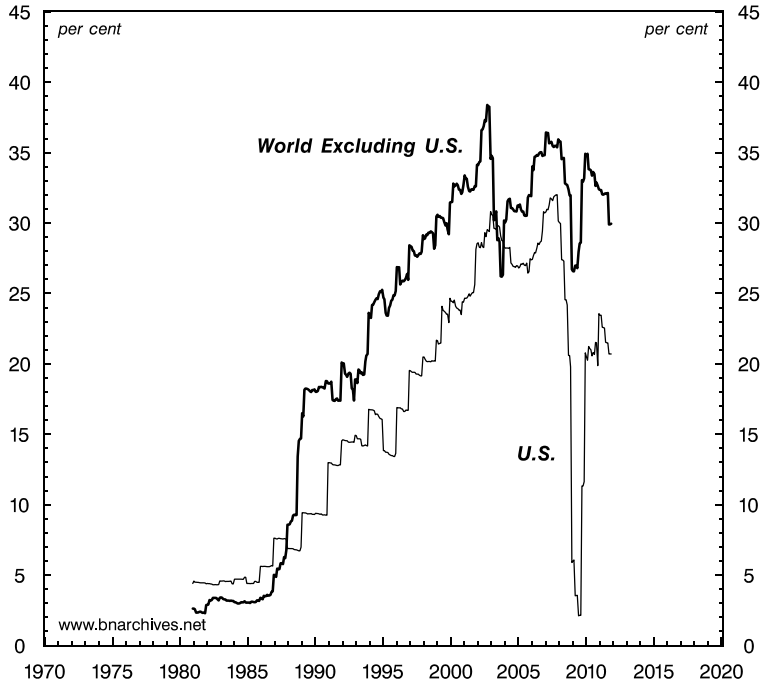
NOTE: Cash flow is the sum of net earnings and all non-cash charges or credits. Normally cash flow consists of net profit before preferred dividends, depreciation, amortization, reserve charges, provision for loan losses for banks and provision for future benefits for insurance companies; it excludes extraordinary items and changes in working capital. Cash flow is computed by dividing market value by the price-to-cash-flow ratio. Total cash flow and FIRE cash flow for firms outside the U.S. are calculated as a residual, by subtracting from the world figures the corresponding figures for the U.S. The last data points are for November 30, 2011.

SOURCE: Datastream (series code: TOTMKWD(MV) and TOTMKWD(PC) for the market value and price-to-cash-flow ratio of all listed firms, respectively; FINANWD(MV) and FINANWD(PC) for the market value and price-to-cash-flow ratio of all listed FIRE firms, respectively; TOTMKUS(MV) and TOTMKUS(PC) for the market value and price-to-cash-flow ratio of U.S.-listed firms, respectively; FINANUS(MV) and FINANUS(PC) for the market value and price-earning ratio of U.S.-listed FIRE firms, respectively).

And since we have already broadened the vista, it is worthwhile to extend the examination

to cover the entire flow of non-labour corporate income. Figure 6 offers such a comparison by measuring the share of listed FIRE firms in EBIT – a shorthand for earnings before interest and taxes. This measure, reminiscent of the Marxist 'surplus' loosely measured in price terms, gives a broad view of capitalist income before it gets divided and appropriated by various capitalist and governmental entities. As before, one series in the chart measures the share of FIRE in the EBIT of all U.S.-listed firms, while the other measures the same share for FIRE firms listed in the rest of the world. Now, because it includes interest and taxes, EBIT is 'looser' than net profit and cash flow, and as such it cannot easily be interpreted as a proxy for capitalist power. And yet here, too, the historical conclusion stands: the U.S. FIRE sector has lagged the rest of the world. Until the late 1980s, the share of FIRE in EBIT was higher in the United States than elsewhere – but that was when both ratios were insignificantly small. However, once the two series started to rise, U.S.-listed FIRE firms consistently lagged behind their foreign counterparts.

Figure 6:
EBIT Shares of Listed FIRE Corporations (% of Region)



NOTE: EBIT denotes corporate earnings before interest and taxes. Total EBIT and FIRE EBIT for firms outside the U.S. are calculated as a residual, by subtracting from the world figures the corresponding figures for the U.S. The last data points are for November 30, 2011.

SOURCE: Datastream (series code: TOTMKWD(DWEB) and FINANWD(DWEB) for the EBIT of all listed firms and all listed FIRE firms, respectively; TOTMKUS(DWEB) and FINANUS(DWEB) for the EBIT of all U.S.-listed firms and U.S. FIRE firms, respectively).

In other words, regardless of the particular flow – be it the quintessential measure of net profit or the wider indices of cash flow and EBIT – the pattern remains the same: the process of 'financialization', assuming we accept its standard definition, appears to have been 'led' not by the United States, but by the rest of the world.

The End of a Nexus?

Of course, this isn't the first time that a monkey wrench has been thrown into the wheels of the ever-changing nexus of imperialism and financialism. As we have seen, over the past century the nexus has had to be repeatedly altered and transformed to match the changing reality. Its first incarnation explained the imperialist scramble for colonies to which finance capital could export its 'excessive' surplus. The next version talked of a neo-imperial world of monopoly capitalism where the core's surplus is absorbed domestically, sucked into a 'black hole' of military spending and financial intermediation. The third script postulated a World System where surplus is imported from the dependent periphery into the financial core. And the most recent edition explains the hollowing out of the U.S. core, a 'red giant' that has already burned much of its own productive fuel and is now trying to 'financialize' the rest of the world in order to use the system's external liquidity.

Yet, here, too, the facts refuse to cooperate: contrary to the theory, they suggest that the U.S. 'Empire' has followed rather than led the global process of 'financialization', and that U.S. capitalists have consistently been less dependent on finance than their peers elsewhere.

Of course, this inconvenient evidence could be dismissed as cursory – or, better still, neutralized by again adjusting the meaning of imperialism and financialism to fit the new reality. Undoubtedly, there are those who will hail such adjustment as evidence of strength and vitality, the hallmark of a theory flexible enough to account for new circumstances. But too much flexibility makes for irrefutability. So maybe it is time to stop the carousel and cease the repeated retrofits. Perhaps we need to admit that, after a century of transmutations, the nexus of imperialism and financialism has run its course, and that we need a new framework altogether.

Notes

[1] The first version of this paper was posted on *The Bichler & Nitzan Archives* in September 2009 (http://bnarchives.yorku.ca/267/). Subsequent to this posting, we had an exchange of letters with Michael Hudson and Joe Francis. The correspondence with Francis was posted in January 2010 under the title 'Imperialism and Financialism: An Exchange' (http://bnarchives.yorku.ca/278/). The present version endorses some of the insights and criticisms of Hudson and Francis; it also offers additional empirical evidence and considerations.

[2] As the article seeks to show, the precise terms are rather loose and their meaning varies across theorists and over time. 'Imperialism', 'empire' and 'colonialism' are used interchangeably, as are 'finance', 'fictitious capital', 'finance capital', 'financialization' and 'financialism'. Here we use 'imperialism' and 'financialism' simply because they rhyme.

[3] See Hilferding (1910, p. 228), Sweezy (1942, p. 271) and the entire thrust of Baran and Sweezy (1966). Later on, Sweezy (1974) would defend himself and Baran against allegations of betrayal: *Monopoly Capital*, he said, had no intention of abandoning Marx's labour theory of value. On the contrary, the book had taken Marx's theory 'for granted', trying to show how labour values were transformed – first into competitive prices, and then into monopoly prices. However, as Howard and King (1992, p. 120) note, this defence was misleading and in fact unnecessary. Sweezy had always hailed the qualitative side of the labour theory of value, and that fact was worth reiterating; but to claim that he and Baran also took the quantitative aspects of that theory for granted was to contradict the gist of their own Monopoly Capital thesis.

[4] U.S. National Security Council (1950). For a critical examination of Military Keynesianism, see Nitzan and Bichler (2006).

[5] Classical Marxists interpret the role of waste rather differently. In their account, wasteful spending withdraws surplus from the accumulation process and therefore causes the pace of that process to decelerate. However, some classical Marxists, such as Kidron (1974), suggest that the deceleration may end up having a 'positive' impact: by slowing the pace at which constant capital accumulates, waste lessens the tendency of the rate of profit to fall.

[6] Perhaps the clearest advocate of this argument was the late Harry Magdoff, a writer whose empirical and theoretical studies stand as a beacon of scientific research (1969; 2003). Similar claims (minus the research) are offered by Meiksins Wood (2003).

[7] According to Baran and Sweezy (1966, p. 105), foreign investment in developing countries serves to *aggravate* the absorption problem: the returns on such investment are not fully reinvested in the periphery, the leftovers flow back to the advanced countries and the surplus gets augmented instead of being offset.

[8] The inverted commas in the referenced paragraph highlight concepts that the theory of unequal exchange can neither define nor measure. Since nobody knows the 'correct' value of labour power, it is impossible to determine the extent of exploitation in the two regions. Similarly, since no one knows the 'true' value of commodities, there is no way to assess whether export and import prices are too 'high' or too 'low'. This latter ignorance makes it impossible to gauge the degree to which the terms of trade are 'distorted' and, indeed, in whose favour; and given that we don't know the magnitude or even the direction of the 'distortion', it is impossible to tell whether surplus flows from the periphery to the core or vice versa, or how large the flow might be.

[9] The question of what constitutes a 'proper' Marxist framework is highlighted in the debates over the transition from feudalism to capitalism. Important contributions to these debates are Dobb (1946), Sweezy (1950) and Brenner (1977; 1978). For edited volumes on this issue, see Hilton, ed. (1978) and Aston and Philpin, eds. (1985).

[10] For more on the question of who is productive and who is not, see Nitzan and Bichler (2009, Ch. 7).

[11] For a succinct summary, see Arrighi and Silver (1999). Building on Braudel and Weber, they outline a 'demand and supply theory of financialization' (our term). On the capitalist supply side, profits that grow relative to stagnating investment opportunities give rise to soaring financial liquidity. On the government demand side, budget deficits caused by stunted growth force states to compete for liquid capitalist funds. 'All systemwide financial expansions past and present', say Arrighi and Silver, 'are the outcome of the combined if uneven development of these two complementary tendencies' (32).

[12] For the 'depletion thesis', see for example Melman (1970; 1974). A broader historical application is given in Kennedy (1987). The central role of finance in this depletion is emphasized in Hudson (2010).

[13] On the history of the national accounts, see Kendrick (1968; 1970).

[14] The generalization here applies to portfolio as well as foreign direct investment. Both are financial transactions, pure and simple. The only difference between them is their relative size: typically, investments that account for less than 10% of the acquired property are considered portfolio, whereas larger investments are classified as direct. The flow of capital, whether portfolio or direct, may or may not be followed by the creation of new productive capacity. But the creation of such capacity, if and when it happens, is conceptually distinct, temporally separate and causally independent from the mere act of foreign investment. The act of foreign investment consists either of transferring existing ownership titles from domestic to foreign residents, or of simultaneously adding foreign ownership titles to the liabilities side of the balance sheet and cash and/or securities to the asset side. In the latter case, the additional funds on

the assets side can then be put to various uses: they can be used to build new capacity or to speculate in the commodities market; they can be used to pay dividends or buy back the company's share; they can be given to the government in return for short-term bonds or smuggled out of the country; etc. But the particular use, whatever it may be, is separate from the act of foreign investment and is entirely unrelated to whether that investment is portfolio or direct.

[15] The sample data for the earlier years are not only more inaccurate; most likely, they are also systematically biased. The reason is that the ratio of foreign assets to GDP, particularly during the earlier years, was probably smaller in the countries excluded from the sample than in the countries included in it; and if that is indeed the case, the smaller the sample was, the more it overstated the actual global ratio. Obstfeld and Taylor compute a 'hybrid' ratio between the sample foreign assets and the global (rather than the sample) GDP. The resulting estimates are lower than those reported in Figure 1, but their temporal pattern is the same. For a visual comparison of these two estimates, see Francis, Bichler and Nitzan (2010, Figure 2, p. 7).

[16] The conventional view, at least until recently, was that global capital mobility is cyclical more than secular, and that the levels of foreign ownership reached at the end of the twentieth century still pale in comparison to those recorded at the beginning of that century (see, for example, Hirst and Thompson 1999, pp. 27-29). This conclusion, though, owed less to the facts and more to misleading calculations. Most analysts, having no access to the actual data on foreign assets and capital flow, relied on the indirect evidence offered by the current account. The logic was that countries that run current account deficits must cover those deficits with capital inflow, so if one sums up the deficits across all countries, the result must be equal, by definition, to the overall sum of global capital flow. This logic, though, is valid only if capital flows in one direction – from countries with current account surplus to countries with current account deficit. But over the past half century, capital has been increasingly flowing in *both* directions; and with this two-way flow – inward *and* outward – the overall movement of capital and the level of foreign assets are no longer related to changes in the current accounts. For more on this issue, see Wallich (1984) and Nitzan (2001).

[17] Farrell *et al.* (2008, p. 73, Exhibit 3.10). Not surprisingly, the United States, which still has the world's largest pool of capitalized assets, exhibits the lowest levels of inward transnationalization. But these levels, although low relative to other countries, are by no means trivial: in 2006, foreigners owned 14% of all U.S.-listed equities, 22% of its listed bonds, and 20% of the combined value of the two – up from negligible levels in 1990 (p. 74, Exhibits 3.11 and 3.12).

[18] For the BP episode, see Bichler, Rowley and Nitzan (1989, pp. 5-6). For the Barclays Bank story, see Larsen (2009).

[19] For the effect on these conclusions of a changing sample of countries, see the debate in

Francis, Bichler and Nitzan (2010, pp. 1-2 and 7-8).

[20] Joe Francis provides a further breakdown of global ownership by region (Francis, Bichler, and Nitzan 2010, pp. 14-15).

[21] There are of course other important yardsticks for capitalist power, such as risk, hype and the normal rate of return. But these yardsticks are intimately related to profit, and given that our concern here is long-term tendencies, the use of net profit seems warranted.

[22] Using the data from Figure 3, Joe Francis showed that there is a relatively tight correlation between the declining net profit share of U.S.-listed firms and the devaluating U.S. dollar. In principle, the dollar's devaluation can impact the U.S. profit share in two opposite ways: on the one hand, nominal devaluation lowers earnings reported in U.S. dollars relative to earnings reported in other currencies (although with U.S. corporations earning more and more of their profits abroad, the effect of this process has been progressively mitigated); on the other hand, devaluation (after corrections for relative inflation rates), makes U.S.-made goods and services relatively cheaper, and that cheapening should enable U.S.-based firms to raise their global market share. Based on Joe Francis' data, the former (negative) effect has completely overwhelmed the latter (positive) impact, suggesting that U.S. firms were unable to turn cheaper exports to their advantage. More broadly, and assuming one accepts the nationally based approach to capitalist power (which we, personally, do not), the very decline of the U.S. dollar should be indicative of the waning global power of U.S. capitalists. For more on this issue, see Francis, Bichler and Nitzan (2010, p. 3, Figure 1, as well as pp. 8-9 and 16).

[23] For a detailed analysis of the associated difficulties and impossibilities that we discuss in this section only in passing, see Nitzan and Bichler (2009, Chs. 6-8 and 10) and Bichler and Nitzan (2009).

[24] The reference here is only to classical Marxists. Neo-Marxists, at least those who have given up on the labour theory of value, lack any objective means of separating productive from unproductive activity to start with.

[25] Note that 'private enterprises' here include mortgaged home owners, and that the national statisticians subject many of the interest data to cruel imputations.

[26] The argument regarding the key role of depreciation and depletion allowances is elaborated in Hudson (2010). His suggestion that the deprecation allowances of U.S.-listed FIRE firms are much larger (if not infinitely larger) than those of FIRE firms listed outside the United States, and therefore that the data in Figure 4 are misleading, was made in a series of private communications with us in September 2009.

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