

# Imperialism, Crisis and Class Struggle

The Enduring Verities and Contemporary  
Face of Capitalism

*By*  
Henry Veltmeyer



BRILL

LEIDEN • BOSTON  
2010

*On the cover:* Dr. James Petras, stylized image produced from photograph. Author: James Petras. Date: 7 January 2010.

This book is printed on acid-free paper.

Library of Congress Cataloging-in-Publication Data

Imperialism, crisis and class struggle : the enduring verities and contemporary face of capitalism / [edited] by Henry Veltmeyer.

p. cm. — (Studies in critical social sciences ; v. 21)

Includes bibliographical references and index.

ISBN 978-90-04-18414-5 (hbk. : alk. paper) 1. Capitalism—Social aspects.

2. Imperialism. 3. Social conflict. I. Petras, James F., 1937– II. Veltmeyer, Henry. III. Title.

HB501.I575 2010

330.12'2—dc22

2010002263

ISSN 1573-4234

ISBN 978 9004 18414 5

Copyright 2010 by Koninklijke Brill NV, Leiden, The Netherlands.  
Koninklijke Brill NV incorporates the imprints Brill, Hotei Publishing,  
IDC Publishers, Martinus Nijhoff Publishers and VSP.

All rights reserved. No part of this publication may be reproduced, translated, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without prior written permission from the publisher.

Brill has made all reasonable efforts to trace all right holders to any copyrighted material used in this work. In cases where these efforts have not been successful the publisher welcomes communications from copyright holders, so that the appropriate acknowledgements can be made in future editions, and to settle other permission matters.

Authorization to photocopy items for internal or personal use is granted by Koninklijke Brill NV provided that the appropriate fees are paid directly to The Copyright Clearance Center, 222 Rosewood Drive, Suite 910, Danvers, MA 01923, USA.

Fees are subject to change.



**Mixed Sources**

Product group from well-managed forests  
and other controlled sources

[www.fsc.org](http://www.fsc.org) Cert no. SGS-COC-00167

©1996 Forest Stewardship Council

## CHAPTER EIGHT

### THE FINANCIALIZATION OF THE CAPITALIST CLASS: MONOPOLY-FINANCE CAPITAL AND THE NEW CONTRADICTIONARY RELATIONS OF RULING CLASS POWER

*John Bellamy Foster and Hannah Holleman*

Today the concept of 'financialization' stands for the shift in the centre of gravity of the capitalist economy from production to finance. Although financial speculation has always characterized the peak of the business cycle, a major secular shift toward finance in capitalism as a whole, transcending mere business cycle swings, is unique to the last few decades. Led by the US, a financial explosion first emerged in the 1970s and 1980s and eventually became a globalized phenomenon. Some have suggested that this has significantly altered the structure of ruling class power. Thus Paul Sweezy referred in the late 1990s to the 'Triumph of Financial Capital' (Sweezy, 1994: 1–11). Indeed, the last decades of the previous century and the first decade of the present one witnessed what could be called the 'financialization of the capitalist class' in the sense of a shift in the primary sources of wealth accumulation at the very top of society from production to finance.

An important question that arises from these developments is the extent to which the ruling class has actually changed. Has it metamorphosed from a class that once drew its power primarily from control over the means of production to one that now draws it primarily from control over the means of finance? To be sure, wealth in a developed capitalist economy is always held largely in the form of financial assets, i.e. as financial claims to wealth. Nevertheless, the issue now arises as to whether finance has permanently established itself as the *leading sector* in the amassing of ruling class wealth.

Making matters even more complex, we are now in the midst of the greatest financial and economic crisis since the Great Depression—one that James Petras was the first to refer to as the 'Great Financial Crisis'. This has produced immense losses within the finance sector in particular. It is still unclear, though, how much this has actually

diminished the relative power of financial capital. Thus the Obama administration, which is dominated by such interests, is now pouring hundreds of billions, even trillions, of dollars into the coffers of banks and other financial institutions in an effort to stabilize their position at the apex of the system and in an attempt to reflate the speculative balloon (Foster and Magdoff, 2009; Petras, 2007). This has been called a 'quiet coup', whereby financial capital in the US has increasingly resorted to the state to preserve its tenuous economic dominance (Johnson, 2009).

We argue in what follows that the financialization of the US capitalist class is a concrete empirical reality of the last few decades. Yet, neither the continued ascendancy of financial capital nor its future demise can be regarded as certain at this point. Instead, we are presented with a contradictory and crisis-ridden reality; one that can be best characterized as a hybrid phase of monopoly-finance capital (Foster and Magdoff, 2009: 63–76). The system of concentrated capital of today has shown itself to be more and more dependent on a ballooning financial superstructure to compensate for the downward pull of economic stagnation in its underlying productive base. Yet, such financialization has failed to offer a stable solution, while generating new, irreversible sources of crisis in capitalist society.

### *The Changing Wealth Sectors of the US Ruling Class*

This question of the growing influence of financial capital within the capitalist class as a result of the shift of the overall economy from production to finance was addressed almost twenty years ago by James Petras and Christian Davenport (1990: 33–37) in an article for the December 1990 issue of *Monthly Review* entitled 'The Changing Wealth of the US Ruling Class'. Rather than arguing the then popular notion that the US had shifted toward a post-industrial, high-technology, information economy, Petras and Davenport saw this as secondary compared to 'the ascendancy of finance, real estate, and speculative capital', symbolized at that time by the growth of the junk bond market.

In order to test this proposition, insofar as it could be seen as reflected in the US ruling class itself, Petras and Davenport looked at changes in the primary sources of wealth of the so-called "Forbes 400" a compilation of data on 'America's very richest' individuals, over the

Table 1. Distribution of the Primary Sources of Wealth of the Forbes 400: 1983 and 1988 (percentages)

	1983	1988
Finance and Real Estate	25	38
High Tech	3	4
Oil and Gas	16	8
Mass Media	16	18
Manufacturing	26	19
Retail and Other	14	14
Total	100	100

Source: Petras and Davenport (1990: 35; *Forbes*, October 24, 1988).

short period, 1983–1988, for which this data was then available. Their table on the changes in this period is reproduced as Table 1 above.<sup>1</sup>

The results that they obtained were striking. By 1988 a full 38 percent of the Forbes 400 obtained their wealth from finance and real estate, as opposed to only 25 percent in 1983, while the percentage that derived their primary wealth from manufacturing dropped from 26 to 19 percent, and the percentage gaining primarily from oil and gas fell from 16 to eight percent over the same period. As a result of these findings, they argued that there was “scant evidence to justify the claim that the US has shifted from being an industrial society to being an information society. The proportion of top capitalists with their main wealth in the high-tech sector, which was only 3 percent in 1983, was no more than 4 percent in 1988. The spread between the paper [financial] economy and high-tech actually widened from 22 percentage points in 1983 to 34 percentage points in 1988.”

Petras and Davenport went on to conclude: “The data from the Forbes 400 suggest that speculator capitalists have become increasingly dominant in the US ruling class, displacing industrial and petroleum capitalists.... Moreover, the speculative basis of US capitalism brings greater risk of instability. The biggest winners in recent years have been the financial and real estate sectors—and the impending recession could exacerbate their weaknesses and bring them down along with the major industrial sectors to which they are linked.”

<sup>1</sup> As they observed in their piece: “*Forbes's* estimates are admittedly very rough, and of necessity are patched together from a variety of shaky sources, using arbitrary rules of thumb.” Petras and Davenport (1990: 38). The methodology is described in *Forbes*, October 28, 1985.

There is no doubt that this critique of the growing speculative basis of US capitalism, presented in the late 1980s, showed considerable foresight viewed from the standpoint of today. In commenting on Petras and Davenport's argument *Monthly Review* editors Harry Magdoff and Paul M. Sweezy insisted that the real problem lay in the creeping stagnation, i.e. long-term slowdown, in US capitalism and advanced capitalism generally. The growth of an increasingly overextended financial superstructure of the economy was a countervailing factor, helping the economy to grow despite stagnation in its underlying base. The shift to finance, what we now call financialization, was therefore 'the *result*, not the cause, of the economic malaise' (Magdoff and Sweezy, 1990: 37–38). But the symptom could aggravate the disease, leading to worse problems ahead.

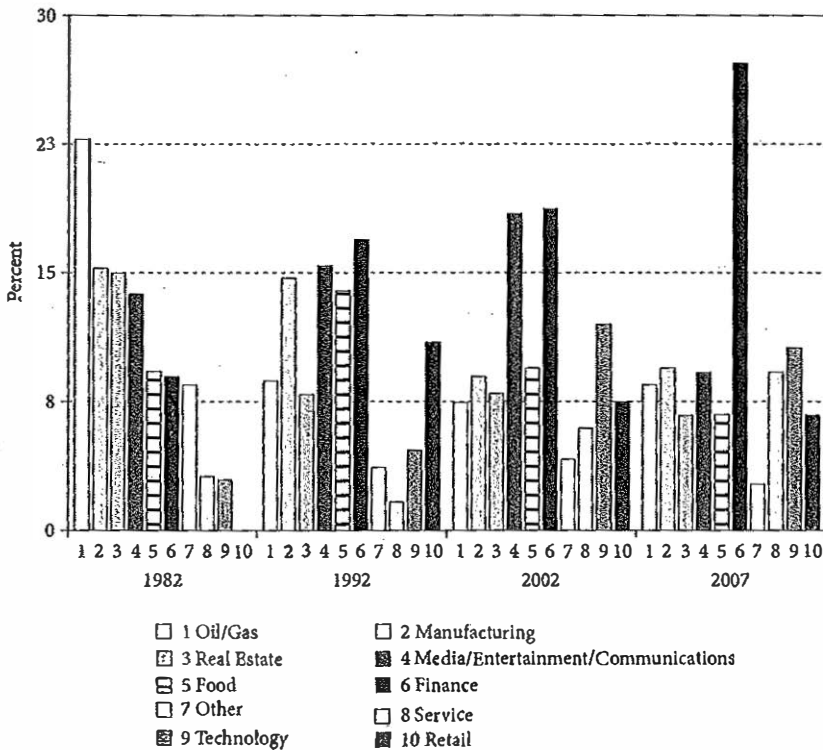
The degree to which financialization had begun to take over the entire political-economic structure of US capitalism manifested itself symbolically a few years after Petras and Davenport wrote their article, when Bill Clinton, shocked by the power that financial capital exerted over his administration's economic policy, queried in spring 1993: "You mean to tell me that the success of the programme and my reelection depends on the Federal Reserve and a bunch of f...bond traders?" (quoted in Phillips, 2006: 283). This gave rise to the notion, promoted by heterodox economist E. Ray Canterbury (2000), among others, that what had emerged was a new, dominant 'bondholding class'—although the shifting nature of the capitalist class in this period is better seen as the rise to dominance of finance or speculative capital generally.

### *Financial Capital and Class After a Quarter-Century*

When Petras and Davenport presented their thesis that a shift was occurring from production to finance as the primary wealth sector of the US capitalist class they had only five or six years of such data on which to base their observations. How do these same observations stack up almost twenty years later, now that we have a quarter-century of such data, and after a period of extended financialization of the US economy? Direct comparisons of the data with the earlier figures provided by Petras and Davenport are difficult to make due to considerable changes in the overall Forbes series, including categorization. We use the historical data reconstructed by Peter W. Bernstein

and Annalyn Swan, who, in consultation with the Forbes 400 team of researchers, and utilizing the Forbes data archives, published in 2007, *All the Money in the World: How the Forbes 400 Make—and Spend—Their Fortunes*. We supplemented this with later research by the same authors published in the October 8, 2007 issue of *Forbes*.

The changing structure of Forbes 400 wealth over the twenty-five year period, from 1982–2007 is shown in Chart 1. The data presented in this more developed series constitutes an attempt to refine the Forbes 400 estimates over time. Not only do the percentages differ considerably from those provided by Petras and Davenport, the 1982 figures also do not include retail as a category, which was then subsumed under the category ‘other’. The key categories of manufacturing, oil and gas, finance, and real estate, are, however, clearly shown



Sources: Bernstein and Swan (2007: 112–13); and “Vast Wealth,” *Forbes*, October 8, 2007, 42–44.

Chart 1. Percent of the Forbes 400 Associated with Primary Sources of Wealth for Selected Years.

here, along with other crucial sectors, such as media/entertainment and communications, and technology.

In 1982 oil and gas was the primary source of wealth for 22.8 percent of the Forbes 400, with manufacturing second at 15.3 percent. Finance, in contrast, was the primary wealth sector for only 9 percent (with finance and real estate together representing 24 percent).

Only a decade later, in 1992, finance had surpassed all other areas, representing the primary source of wealth for 17 percent of the Forbes 400 (while finance plus real estate together constituted 25 percent). Oil and gas meanwhile had shrunk to 8.8 percent. Manufacturing, at 14.8 percent, had managed largely to maintain its overall share of Forbes 400 primary wealth sources, though it was now surpassed by finance, as well as a booming media, entertainment and communications sector, which had risen to 15.5 percent.

In 2002, a decade further on, finance led as the primary wealth sector for 18.8 percent of the Forbes 400 (with finance and real estate constituting 26.8 percent) while media/entertainment/communications closely followed finance at 18.5 percent.

A mere five years later, on the brink of The Great Financial Crisis, in 2007, the percentage of the Forbes 400 deriving their main source of wealth from finance had soared to 27.3 percent (while finance plus real estate accounted for about 34 percent). The nearest competitor at this time—technology—accounted for about 10.8 percent of Forbes 400 wealth. Manufacturing had sunk to 9.5 percent, although it now slightly exceeded media/entertainment/communications (9.3 percent). Overall the shift in a quarter-century had been substantial. In 1982 manufacturing had exceeded finance as a primary source of wealth for the Forbes 400 by 6 percentage points. In 2007 finance exceeded manufacturing by 18 percentage points.

How representative is this of trends in the US ruling class as a whole? This is not easy to answer, since comparable data for the entire capitalist class is not available. Of course, the Forbes 400 richest Americans comprise only an infinitesimal proportion of those belonging to the capitalist class, the dimensions of which could be roughly equated with the super rich—often thought of in terms of the top 1 percent (or at most the top 5 percent) of wealth holders. Even so, the Forbes 400, due to their level of wealth dominance, arguably constitute a good indicator of trends within the capitalist class as a whole. The average wealth of those in the Forbes 400, according to *Forbes* (October 6, 2008) was \$3.9 billion per person, while their aggregate wealth was a by no means



insignificant \$1.57 trillion. This constituted 2.4 percent of household wealth (using 2007 figures for the latter). The richest 400 Americans own a very large share—around 7 percent—of the wealth of the top 1 percent of wealth holders in the US, which in 2007 was 33.8 percent of all net worth in the country. Aggregate Forbes 400 wealth is about equal to the GDP of Canada, or more than 10 percent of US national income. The trend in the sector distribution of Forbes 400 wealth is therefore a significant marker of the shift in the direction of the economy itself (*Forbes*, December 25, 2008; *Forbes*, October 6, 2008: 30; Reuters, March 12, 2009; Kennickell, 2004: 4–7; Federal Reserve Board, 2009: 35, Table 4; Domhoff, 2009).

### *Speculative Bubbles and Financialization*

Viewing the last quarter-century as a whole, the overall trend in wealth at the very top of US capitalism, as the Forbes 400 data highlights, has been one of a dramatic shift toward speculative finance as the primary source of wealth, reflecting the overall financialization of the US economy in this period. The causes of the turn to the finance sector recorded by this data are complex. Nevertheless, they can be traced through the theory introduced by such twentieth-century Marxist political economists as Michal Kalecki, Josef Steindl, Paul Baran, Paul Sweezy, and Harry Magdoff, to tendencies toward monopolization and stagnation. In essence, the giant corporations generate more economic surplus than they are able to find profitable investment outlets for—given structural weaknesses in demand caused by insufficient real wage growth and a tendency toward growing idle capacity inhibiting investment. The result is a long-term decline in net investment. The system thus gravitates toward slow growth or stagnation, compensated for by various factors, such as military spending, and more recently financial expansion.

The diversion of surplus investment-seeking capital into speculation on asset prices—and the creation by the financial services industries of seemingly endless new products to absorb this inflow capital while leveraging it upward with ever larger amounts of debt—constituted the new phenomenon of financialization, viewed as a long-term and global process. In the US economy the profits of financial corporations grew from 13 percent of domestic corporate profits in 1965 to 44 percent in 2003 (Council of Economic Advisers, 2008). Average

compensation in the financial sector also jumped. As Simon Johnson, professor at MIT's Sloan School of Management, noted, "From 1948 to 1982, average compensation in the financial sector ranged between 99 percent and 108 percent of the average for all domestic private industries. From 1983, it shot upward, reaching 181 percent in 2007" (Johnson, 2009). In fact, economists Thomas Philippon and Ariell Reshef (2008: 3–4) circulated a paper that demonstrated that wages of the financial sector relative to the rest of private industry followed what they call a "U-shaped pattern from 1909 to 2006". In the 1920s relative pay in finance shot up, but this wage premium was lost in the 1930s, before beginning to rise again in the 1980s, reaching the same heights as in the late 1920s (before the 1929 crash) by 2006 (Johnson, 2009; Edmunds, 2006: 118–33). Reflecting this financialization of the system, the wealth of the top tier of the capitalist class, as we have seen, increasingly came from the financial sector. It was the finance king Warren Buffet, even more than the technology king, Bill Gates, who most exemplified the new age of monopoly-finance capital.

Financialization, conceived in these terms, was a long-term response of the system to stagnation or the slowdown in growth of the underlying economy. Under these circumstances FIRE (finance, insurance, and real estate) helped lift the economy, providing new sources of demand. It continued as a long-term process despite the periodic bursting of financial bubbles—such as the stock market crash of 1987, the Savings and Loan crisis of the late 1980s and early 1990s, the Asian financial crisis of the late 1990s, the New Economy crash of 2000—during these same decades. In spite of such periodic severe credit crunches financialization remained a seemingly unstoppable trend, leading to new and greater bubbles—and the expectation each time that this system had freed itself from the real economy of production, creating enhanced asset values endlessly out of the buying and trading of paper claims to wealth.

Perhaps the most fantastic example of such illusions was an article by financial economist John C. Edmunds, entitled, "Securities: The New World Wealth Machine," published in *Foreign Policy* in 1996. Edmunds claimed that securitization or the repackaging and bundling of a myriad of financial claims into "high quality bonds and stocks" constituted "the most powerful engine of wealth creation in today's world economy" and had far surpassed the relatively minute processes of actual production. "Securitization," Edmunds argued, "creates value as it spreads." Governments should, he suggested, no longer

focus on economic growth but on wealth creation through asset inflation, resulting from the magic of securitization. "More and more," he wrote, "states have the opportunity to benefit from the global increase in wealth that securitization has brought. We have entered a new economic age" (Edmunds, 1996). A little more than a decade later this 'new economic age' had generated the greatest financial and economic crisis since the Great Depression of the 1930s. The mortgage-based securities glorified by Edmunds and others had turned into financial toxic waste.

### *The US Economy and the Future of Financial Dominance*

If recent decades saw 'the triumph of financial capital', we are now witnessing the greatest financial crisis since the 1929 stock market crash. Taken together these seem to represent contradictory tendencies.

On one side of the coin, 'big banks', as Johnson observed in the *Atlantic* in May 2009, "have only gained political strength since the crisis began... With the financial system so fragile, the damage that a major bank failure could cause—Lehman was small relative to Citigroup or Bank of America—is much greater than it would be during ordinary times. The banks have been exploiting this fear as they wring favourable deals out of Washington. Bank of America obtained its second bailout package (in January) after warning the government that it might not be able to go through the acquisition of Merrill Lynch, a prospect that Treasury did not want to consider." Indeed, as Senate Majority Whip Richard Durbin of Illinois has noted: "The banks—hard to believe in a time when we're facing a banking crisis that many of the banks created—are still the most powerful lobby on Capitol Hill. And they frankly own the place" (Johnson, 2009; Durbin, quoted in Moyers and Winship, 2009; Krugman, 2009).

Yet, on the other side of the coin, just as the domination of finance within the US ruling class and its centrality to the economy and the global system as a whole has become crystal clear, its future, given the arrested state of bank lending and the new era of financial risk avoidance, is in question. The stock market crash of 1929 that ignited the Great Depression of the 1930s resulted in the US government attempts to salvage banks. But it also led in the long-term to a decline in the power and influence of financial capital in relation to industrial capital. Much tighter regulations were imposed on the former in the decades

that followed. Some economists are arguing that the economy needs to be steered clear of financial dominance.

The approach of the Obama administration with regards to these matters at present seems very straightforward. Treasury Secretary Timothy Geithner and Obama's chief economic adviser Lawrence Summers, director of the White House's National Economic Council, both worked under banker-financier Robert Rubin when the latter was Clinton's first Treasury Secretary (Summers succeeded in the job) and are widely viewed as Rubin's protégées. Rubin was employed for 26 years by Goldman Sachs prior to becoming Clinton's Treasury secretary. After leaving the administration he became a director and senior counselor at Citigroup (resigning in January 2009). Geithner, according to the *New York Times*, has also been particularly close to Sanford Weill, the financial baron who assembled Citigroup. Weill proudly displays in the carpeted hallway of his skyscraper Manhattan office the pen with which President Clinton revoked the Glass-Steagall Act in 1999, thereby removing the main regulatory measures which restricted the growth and concentration of financial institutions by creating fire-walls separating commercial and investment banking and stock brokerage (Uchitelle, 2007). Rubin, Summers and Geithner played leading roles (along with Alan Greenspan as chairman of the Federal Reserve, assisted by current Federal Reserve chairman Ben Bernanke who was then a Federal Reserve governor) in the US government's promotion of the financial bubbles of the late 1990s and early 2000s.

Obama's choice of these particular figures to direct economic policy in his administration in the context of the worst financial crisis since the Great Depression was an indication that the goal was not to change, but to stabilize, and if possible restart, the financialization process. There can be little doubt that this reflects the power, as we have seen, of finance within the ruling class, and not simply the economic needs of the country. As of May 2009 the US government had committed \$14.9 trillion in the form of capital infusions, loans, and debt guarantees primarily to the financial sector in the context of this crisis. The great bulk of this, according to the *Wall Street Journal* (May 21, 2009), "is designated for propping up areas including money-market mutual funds and commercial-paper markets, and for purchases of asset backed securities." One problem, according to the *Wall Street Journal*, is that government aid appears to be becoming 'entrenched' and won't necessarily go away when the recovery starts.

Some, however, even within the mainstream economic tradition—including Paul Krugman and Joseph Stiglitz (both winners of the Bank of Sweden’s Nobel Memorial Prize in Economic Sciences), along with more heterodox economists like James K. Galbraith—argue for nationalization of troubled banks, increased regulation, pulling the economy back from an emphasis on finance, and re-grounding it in production. Krugman wants to see the country go back to what he calls ‘the era of boring banking’ that succeeded the 1930s, during which finance played a distinctly secondary role in the economy. If restrictions on finance are not imposed, he warns, “the current crisis won’t be a one-time event; it will be the shape of things to come” (Krugman, 2009).

Still, these critics are well outside the administration at present, and are bucking the high tide of financial power built up for decades, which is governing the economic rescue effort. As James Petras (2007) noted early in the crisis, this has become a problem for the entire capitalist class: “the risk of letting the bad boys sink is that there are too many of them, working in most of the most powerful investment houses, managing too many funds, for the most powerful financiers.” If anything, this has become far clearer as we have gone further into the “Black Hole of the financial crisis” (Petras, 2007).

Indeed, it is highly unlikely that the Obama administration—or, more to the point, a US ruling class increasingly geared to financialization—will take advice to de-financialize the economy seriously, barring a major social revolt from below that changes the power constellation of US society. With the underlying capitalist economy slowing down decade by decade, the only substantial stimulus during this period has come from financial bubbles (Foster and Magdoff, 2009: 11–40). In this sense the system is caught in a trap of its own making with no obvious way out. Although further financialization (if possible) will only worsen the overall problem, no other immediate options present themselves. Financial globalization based on dollar hegemony further limits US options, if the crisis is not to be followed by a crash of the dollar itself, and with it the US economy and empire. From the standpoint of contemporary monopoly-finance capital then there is no visible exit strategy. Indeed, all rational human courses of action point beyond the present system.