

THE FINANCE-DOMINATED ACCUMULATION AND THE PRESENT CRISIS: A EUROPEAN PERSPECTIVE

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Abstract

The paper seeks to (1) establish some stylized facts on the finance-dominated accumulation regime, (2) draw implications for macro economic performance, (3) discuss the policy reaction to the ongoing financial crisis and (4) highlight some policy implications for labor. In doing so the paper focuses on the European experience, but highlights similarities and differences to other regions. The paper will use macroeconomic data extensively and will build on previous work of the author (Stockhammer 2004, 2008, 2009, Stockhammer and Grafl 2008)

While there is an agreement that the Fordist accumulation regime has come to an end in the course of the 1970s, there is no agreement on how to characterize the post-Fordist regime (or if a such is already in place). The paper seeks put together various arguments related to financialization (in the broad sense) from a macroeconomic point of view and evaluate their relevance by confronting them with the actual development of macroeconomic variables for EU countries. In particular, the paper discusses changes in investment behaviour, consumption behaviour and government expenditures, investigating to what extent changes are related to financialization. Private consumption expenditures have become a major source of economic growth (in particular in Anglo-Saxon countries). Given that wage shares have been falling, this has only been feasible with rising debt levels of households. Rising profits of businesses come with only moderate investment. High real interest rates, shareholder value orientation and increased uncertainty have tended to depress investment-profit ratios and consequently capital accumulation. The notion of a “finance-dominated” accumulation regime is proposed to highlight that financial developments crucially shape the pattern and the pace of accumulation.

The finance-dominated accumulation regime is characterized by a mediocre growth performance and by a high degree of fragility. Surprisingly, deregulated financial markets

have only very recently (from spring 2008) lead to major financial crisis in advanced capitalist economies (but to frequent and severe financial crises in developing countries). Previous financial crises in OECD countries have had rather mild real effects (namely the 1987 stock market crash, the 1992/93 EMS crisis and the 2000 stock market crash). A (first) possible reason for this is that the size of the state sector has not been substantially reduced despite neoliberal attempts to do so.

A (second) reason is that policy reactions have been very activist in the face of financial crises. Central Banks have cut interest rate and aggressively tried to provide liquidity to financial market (if with limited success so far). At the same time, governments have taken drastic steps by recapitalizing private banks and guaranteeing interbank loans. Effectively, governments have accepted that there is breakdown of the financial system that would have disastrous consequences if market forces were left to themselves. The present policy reactions are at odds with neoliberal ideology that has shaped much of economic policy since 1980 and they are also in stark contrast to the policies that had been imposed onto developing countries in Latin America and South East Asia (and elsewhere) by the IMF. The policy reactions thus constitutes an inconsistency (or at best a baffling double standard) within the dominant mode of regulation. This presents a chance of breaking the ideological hegemony of neoliberalism.

This pragmatic policy reaction has helped to prevent an economic meltdown it also has perverse distributional effects. The bail out of financial institutions disproportionately benefits the rich as it is their wealth that is protected. Unless the rescue packages for financial institutions are followed by a stringent regulation of the financial sector and an effective taxation of financial institutions and transactions, they may degenerate into a Wall Street Keynesianism in which tax payers subsidize finance in case of crisis.

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