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Financial Capitalism – at Odds With Democracy:

The trap of an "impossible" profit rate[1]

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Abstract:
This paper discusses the financial crisis and the phenomena triggered by it in the light of the Marxian profit rate (PR). The PR is considered as a heuristic for typical politico-socio-economic constellations and subsequent processes, and the "neoliberal" system transformation as a unique redistribution project that has pushed, at first, the PR but also led to real-economic slack and drainage. This promoted "financialization" and the self-reinforcement of fictitious capital, the speculation sector. While conventional industrial capital and fictitious capital interact in specific ways, their mechanisms are different. They are comparable, however, as that they compete for the same industrial surplus and real resources. Thus, a unified common PR is conceptualized and quantified. While the "bubble" has become a dominant mechanism of redistribution, an average PR at historically usual levels of 5-10% has become impossible with the explosion of fictitious capital. Thus the reinforcement of redistribution as well as the flight into resource and land grabbing to save the implosion of the PR in case of the implosion of the bubble. The dimension of necessary redistribution for a required benchmark PR to "satisfy the financial markets" indicates that state budgets and whole GPDs have become too small. Thus, the resources of earth are to be drained. The magnitude of redistribution also appears incompatible with even democracy. The EU, in particular, seems to be on a way from post-democracy to pre-dictatorship.

An introductory remark: The profit rate – Marxist, "Marxologist", or "Marxian"?

Applying the logic and dynamics of Marx's profit rate (PR), which is not a crisis theory *per se*, to the financial and, above that, systemic crisis of "financialized" capitalism raises the question of the theoretical frame and motivation of doing so. I have never declared myself a Marxist; have never worked pertinent to the questions of modern international Marxist research. Nor have I ever been a "Marxologist" with an interest in the most sophisticated mathematical problems of, e.g., differential equation systems to solve cutting-edge puzzles of values vs. prices and their relative formal dynamics. I have, rather, a much less ambitious "*Marxian*" motivation, pragmatically and piecewise discovered in approaching the cumulative and multiple crises of a degenerated capitalism 2008ff. Even the financial system has not been my research field proper before; I am, rather, in heterodox evolutionary-institutional(ist) complexity microeconomics.

But as a heterodox economist, I was asked to give interviews on the crisis for several radio stations and to provide a regular slot on a local radio station, and was invited to give talks on

[1] This paper given at the international COST Conference "Democracy and Financial Capital" University of Kassel, October 11 - 13, 2012, is work in progress. I have not made intensive reference yet to recent empirical profit rate calculations nor addressed the different possible ways to calculate it. I also have not developed in this version a formal appendix on the algebraic conditions of profit rate increasing or decreasing, according to the stylized constellations addressed in this paper. Finally, I have not yet intensely discussed the differences and similarities between conventional industrial capital and fictitious capital. It should become clear, though, that and how fictitious capital emerges into an overwhelming dominance out of conventional capital, under neoliberal conditions. And while conventional and fictitious capitals do interact in specific ways, they are similar in the sense that they compete for the same surplus value. Therefore, while it would make sense to draft a separate profit rate for each, it also appears fully reasonable to establish a common, general, average profit rate and demonstrate its increasing impossibility, with the further implications discussed in this paper.

the subject to different audiences and in different circumstances. Among those was a public speech at a local “Occupy” demonstration. Subsequently, I was asked to provide something readable, and the texts I wrote were distributed on the net, printed and reprinted as brochures by an alternative publisher – but all in German so far (see, e.g., Elsner 2012a,b, 2013a). More invited talks and contributions followed, among them a talk at a national conference of the German ex-post-autistic and now real-world economic work groups and a “Marxian” introduction to a re-edition (2013) of a 6-vols. classic German Marx works edition (Elsner 2013b).

Based on these, I came to trace the Marxian PR, and it increasingly seemed to me that it may help considerably to *put into context and explain* many of the new, stunning, and often disparate phenomena such as the financial crisis and continuing real-economic slack, reinforced redistribution by governments’ policies, tightened austerity policies and subsequent double dips, the degeneration of the whole late-capitalist economy to a cemented global creditor-debtor system, the unleashed global resource speculation and land-grabbing, social decay, political legitimation crises, and the moral demise of the “elites”. All those phenomena may, in the frame of a PR, be put in context and explained objectively, while so far they have been mostly comprehended, in mainstream thinking, only by more or less moral categories such as personal greed, fraud, and predation (which doubtlessly are at work as well). Among the surprising insights based on the PRis a clearer understanding of the systemic interrelations between the continuing real-sector slack, double and triple dips, the financial sector’s redistributive bubble dynamics, and the ever more crazy runs for global resource speculation and land-grabbing.

Main thesis

Against this background, I will try to put forward, and illustrate with some rudimentary quantities, the thesis that, when using the logic and dynamics of Marx’s PR, it will turn out that a historically *usual PR* in the context of the explosion of *fictitious capital* (to use another term of Marx) – i.e., nominal, fluid, money-like, interest-begging capital that is not intended to go the productive way – has become after four decades of “neoliberal” transformation and redistribution, *infeasible*.. On the contrary, the *average PR* not only will *tend to decrease*, as it has always done in the long-run, as Marx has elaborated, but decrease *to such low levels* that none of the most powerful corporate financial entities would want to accept that level – particularly in the the context of the fierce rivalry among the big individual capitals that has emerged. This will have some *severe implications* for capitalists’ behaviors, including an ever more *comprehensive and reinforced redistribution race*. The latter will not only have to include but also *exceed* the *public budgets* and the whole *national GDPs*; it has to proceed rather to the *plundering* of all other *potential values of the earth* – and eventually will have to *undermine democracy*, even the reduced democracy variant of the representative, parliamentary, and oligopolistic inter-party system, as we have known it.

1. The Marxian PR: A heuristic of economic constellations

The PR, and its “tendency to fall”, is not a crisis theory *per se*. Marx‘crisis theory is, rather, about *over-accumulation* and relative *under-consumption*, as is well known. Specific values of the PR do not trigger specific moods, expectations, or actions of capitalists. Those values are highly *contingent* and need to be *put in context*. However, if embedded in certain *micro- and* *macro-constellations* (to be specified in each case), the PR may reflect typical expectations and behavior (driven by rivalry among the individual PRs), and macro results. It thus may help with illustrating and analyzing the systemic crisis of financial capitalism, *reinforced redistribution races*, *exploding speculation* on anything of potential future real value, and related increasing *social costs* imposed on real-economic, ecological, social, and political subsystems.

As is well known, the PR as a reflection of capitalists' sentiments, expectations, and actions is:

$$\pi = \frac{m}{c+v} = \frac{\frac{m}{v}}{\frac{c}{v}+1} .$$

We will explain its logic and possible dynamics in typical contexts in the following (for more detail on the logic, constellations, and dynamics of the PR, see, e.g., Heinrich 2012). The formal logic and dynamics of the PR in its typical constellations would need to be elaborated in more detail than will be the case here, in order to become quantifiable and even applicable to empirical research. This, however, is not intended in this paper. Also, in the following, we always consider just an *average* PR and will not systematically distinguish between the value and price dynamics.

2. Typical constellations of the PR, its conditions and implications: Some rough stylizations

The classical constellations of capital growth and cyclical crises

The obvious, *"wicked" property* of this PR is its *tendency to fall* in the *typical growth process* of surplus *m*, cumulatively inserted into capital production *c*. Given a typical (i.e., not at the same time labor and capital saving) technical change, constant capital *c* will usually grow considerably, while variable capital *v* (capital spent on labor) will be (relatively) saved, not least by producing commodities at lower costs and prices, in this way lowering the reproduction costs of laborers.

The well-known *"normal" constellation* of capitalist surplus growth and constant-capital growth, with reducing variable capital, thus, is a tendency of the rate to fall, together with an increasing "exploitation rate" (*m*/*v*) and an even more increasing composition of the total capital (*c*/*v*). As a rough illustration ($\uparrow, \downarrow, \sim$: increases, decreases, roughly equals):

$$\pi = \left[\frac{\left(\frac{m\uparrow}{v\downarrow}\right)\uparrow}{\left(\frac{c\uparrow\uparrow}{v\downarrow}\right)\uparrow\uparrow+1} \right]\downarrow .$$

The *classical "rectification"* of the eventually resulting "over-accumulation" of *c* and related relative under-consumption through decreasing *v* (which, in turn, will restrict the growth of output and thus *m*) – to be determined, as said, within a more explicit crisis theory – will be mirrored in related inappropriate macrostructures (including distribution) and will trigger a *cyclical crisis*. The following stylized configuration displays a decreasing commodity production and increasing labor unemployment, but, in terms of the values of the PR, a *c* devaluation as the dominant crisis mechanism:

$$\pi = \left[\frac{\left(\frac{m \downarrow}{v \downarrow\downarrow}\right)\uparrow}{\left(\frac{c \downarrow\downarrow\downarrow\downarrow}{v \downarrow\downarrow}\right)\downarrow\downarrow + 1} \right]\uparrow .$$

The specific digital-revolution constellation: Capital-saving technical change

Also in specific constellations, in which technological change is of a both labor- and capital-saving kind – as it was the case, in more recent decades, with digital microelectronic technologies –, capitalists may have the chance to reverse, or at least to stop or diminish, the tendency of the PR to fall. Constant capital then would no longer quickly accumulate but, in an extreme case, even be saved. A crude stylization:

$$\pi = \left[\frac{\left(\frac{m \uparrow}{v \downarrow}\right)\uparrow}{\left(\frac{c \downarrow}{v \downarrow}\right)\sim + 1} \right]\uparrow .$$

This, however, will not provide, in the long run, a way out of the structural tendency of the PR to fall, as it is not the usual case of the overall accumulation process, even if technical change alone would have these properties. It would not prevent capitalists, in their competitive race for the PR, to further transform *m* into *c* and in this way to accumulate *c*. “Cheaper” production might even accelerate overproduction and subsequently the over-accumulation of capital. Such form of technical change will not only be specific and transitory and, thus, will not save the PR in the longer-run. Beyond that, it will not stop the accumulation race among the individual capitals.

The Keynesian welfare-state constellation

Stabilizing and capacity enhancing state intervention in the era of the Keynesian welfare state typically triggered a rapid accumulation (initially), and with this, unavoidably, also a large growth of constant capital. However, above that, with a minimum government commitment for the public good “economic growth and stabilization”, it generated some minimum certainty and ability of laborers to plan their future; and with this, it also increased the capability for and willingness to engage in action by workers. Thus relatively increasing variable capital and reducing the value of the “exploitation rate” – as is also well-known.

The PR thus will fall because of an accelerated accumulation of constant capital, but also some re-redistribution between labor income *v* and capitalists’ surplus *m* in favor of the variable capital. A stylization:

$$\pi = \left[\frac{\left(\frac{m \uparrow\uparrow}{v \uparrow\uparrow\uparrow}\right)\downarrow}{\left(\frac{c \uparrow\uparrow\uparrow\uparrow}{v \uparrow\uparrow\uparrow}\right)\uparrow + 1} \right]\downarrow .$$

In the end, the historically short and highly contingent Keynesian welfare-state constellation ran into a continuing distribution conflict and the (alleged) capitalist trauma of “*stagflation*”.

The latter, however, was at least as much due to the increasingly "oligopolized" market structures, with its then newly emerged profit targeting and mark-up pricing mechanisms, as it was to the capabilities of laborers to re-redistribute.

In the end, a change of the welfare-state and policy-intervention accumulation paradigm, both theoretically and practically, was increasingly required by the most dominant capitalist entities. These had experienced a considerable growth and power push, with narrow oligopolistic structures in the main sectors established. Here the "neoliberal" counter-revolution, which should turn out to be neither new ("neo") nor in any sense "liberal", had long been prepared ideologically and politically.

3. The "neoliberal" transformation of capitalism: Redistribution as the bottom line

The elements of the new paradigm, of the new secular policy and state-bureaucratic intervention project and of the new theoretical models and ideologies of "markets", "competition", and "money" have been critically analyzed for a long time and are well-known. Therefore, weprovide only a reminder of some of the interconnected elements of the decades-long planned "neoliberal" project:

First, there was the secular state-bureaucratic project of the *"de-regulation" of the markets*, according to the new theoretical-ideological paradigm of the ideal "market", in fact a thought-experimental chimaera of an "optimal" and self-stabilizing mechanism, stridently misconceiving and *misrepresenting real-world markets*. This fundamental misconception triggered the largest acceleration of the *self-degeneration of the markets*, which is always inherent in markets anyway, accelerating concentration and centralization, powerization, and structures of narrow oligopolies in virtually all relevant industries.

Second, there was the long-run state-bureaucratic project of *"globalization"*, allegedly the promotion of "international competition", in fact the mutual opening of home markets for the strongest and most over-accumulated foreign rivals to provide them new action space. Above mutual intrusion, it was meant to create an *exclusive layer of capital action*, capturing control over labor worldwide, thus *lowering labor capital value v* on a global scale, for *higher PRs* of the dominant capitals. The project was carefully designed to exclude the rest of society, including the states themselves, from any similarly effective organization or action at the international level, thus preventing any future re-embedding of capital interests into society – another actualization of that ideal brain construct of a (now global) "*market*".

Third, *privatization*: The *PR was further fed* through cheap sales of public wealth and utilities, established over the past centuries and decades, usually with state-guaranteed profitable production areas, thus further strengthening *protected narrow oligopolies* ("markets" again), including spatial monopolies, such as in telecom, postal services, energy supply, etc. The "neoliberal" governments of all color combinations admitted to government thus shoveled large amounts of cheap Δc into the largest capitals and PRs, which then, in turn, could be used to generate high amounts of safe Δm through utilizing the protected quasi-monopolistic positions in usually already well-cultivated fields.

As another example, the mechanism may be stylized as follows:

$$\pi = \left[\frac{\left(\frac{m \uparrow\uparrow\uparrow}{v \downarrow} \right) \uparrow\uparrow\uparrow}{\left(\frac{c \uparrow\uparrow}{v \downarrow} \right) \uparrow\uparrow + 1} \right] \uparrow .$$

Fourth, *labor* market (de-) *regulation*, and promoting labor- and capital-saving technological change: The *value of variable capital v* was considerably *further reduced* this way.

Fifth, the *political* paradigm change towards *austerity*: The restrictive, austerity ("anti-inflation") oriented *monetary policy* was made center-stage, established as the most powerful policy area and tool-set ever. In this way, the main policy was *set aside from "politics"* and, in fact, *beyond democracy* – assigned to the new mega-power of the *central banks*, set above democracy, in order to guarantee, support, and *feed the private-banks* balances. Allegedly, the banks then would provide, in a rational portfolio calculation under perfectly flexible prices, optimal loans to the real economy.

Finally, an endless number of measures in the fields of *taxes*, budget *expenses*, education, *social insurance* (health, unemployment, pensions, …), media, etc. were developed, by the "neoliberal" (think) "tanks" within and across the tops of the big capitals and their governments, to further *redistribute income, wealth, public property, power, and prestige from bottom to top*, utilizing, among others, the *century myths* of "effective markets", "private entrepreneurship", the "inferiority" of any collectivity, publicity, community, and commonality, of public "*budget consolidation*", etc. Margret Thatcher had internalized the message most crudely and brutally: "There is no such thing as society."

4. Consequences I: The self-perversion of the markets, real-economic slack, financialization, and the explosion of "fictitious" capital

The consequences are equally well-known. *Real "neoliberally" deformed global markets today* display overall intensified *volatility*, *radical uncertainty*, *over-complexity*, and *turbulence*. They show decreased real investment, consumption, and GDP growth, and more and deeper financial crises have occurred at the macro level, such as the stock market crisis 1987, the Japanese crisis 1986 ff., the Asian crisis 1997-99, the Russian crisis 1998, the Dotcom crisis 1999/2000, the Argentinian crisis 1999-2002, and the Big Crisis 2007ff.

The *"markets"* have been *unleashed and degenerated into a dominating power system*. As an example, consider what the global "market" in fact has turned out to be today: The 40 largest financial conglomerates control, in a multi-layered system of control, the 43,000 largest international corporations, according to a recent study, which is the largest international network study ever (see *The network of global corporate control*, Vitali et al. 2011). It is a closed shop of mutual control, uncontrollable itself from outside. In fact, these are only several hundred institutional top-rank persons, who largely know each other, plus some hundred mega-rich private individuals as their owners and creditors. "Markets"! Any conspiracy theory of the left turns out to be a harmless bedtime story compared to "neoliberal" reality …

Real-economic slack has been made structural, permanent, through a socially, politically, and morally absurd, and economically extremely *counterproductive distribution* of wealth and income, with increasingly structural relative *under-consumption* and subsequent *underinvestment*. And the less the real economy provided opportunities of real investment, the more even conventional *manufacturing corporations moved into financial speculation* instead. An accelerated *drainage of the real economy* took place. Rather than getting a PR of, say, 3-5% through production efforts, as was the case in good old producion capitalism, they increasingly sought a PR of 25% or more as was promised forever in the financial bubble industry – and realized for most of that time through speculation.

As said, in face of the *negligence of the real economy* and shrinking opportunities of real investment, while, at the same time, the corporations had been made rich through the "neoliberal" state-bureaucratic redistribution project, the *increasing financial surplus of the big corporations in the conventional industries* went to the speculation centers (vulgo "financial markets"), and the manufacturing corporations became financial speculators rather than real-value producers. As an *example*, the German foreign trade surplus 2000-2009 was about 1 Tn. (Trillion) €, whereof 700 Bn. (Billion) € were immediately returned into US financial speculation. That is why the German banks have turned out to be amongst the most "over-speculated".

In all, the rich were made richer; the top 0.1% super-rich were made mega-rich and giga-rich. UN *World Development Reports* have demonstrated that since 1800 the most uneven distributions have been created under the "neoliberal" political-economic and state-bureaucratically planned century project in all respects (personal, functional, social, inter-regional, international, …).

Financialization and the dominance of financial "investment" under an establishing PR standard of 25% and more necessarily generated the cumulative growth of a *Ponzi* system with "Collateralized Debt Obligations" (CDOs), a system of speculations and wagers that yielded much *higher PRs* than any productive economic activity ever could – as long as the growth rates of the financial bubble, of lending and borrowing for more speculation still went up … It generated undreamt of high PRs in the largest entities of the speculation industry through the sales of *large-scale, multi-level, structured, derivative nominal claims*, systematically *including "subprime" and other "toxic" content* (in all: *fraud*). But as soon as the growth rates in such pyramid sales systems decrease, the crisis, of course, will be inevitable.

While hundreds of millions of *usual households* worldwide were forced into a system of increasing indebtedness through the "neoliberal" *pressures on wages*, and at the same time lured into speculative borrowing by promises of endless *asset (housing) price inflation*, conventional corporations started borrowing in order to speculate and satisfy the increasing income and wealth demands of their shareholders, creditors, and top personnel. It triggered the *drainage* of conventional industries and the *real economy* at large in favor of the enrichment of institutional creditors and the personal enrichment of individual creditors and owners: Manager salaries, interest rates, bonuses, dividends, and real disinvestment exploded, and money surplus was redirected into financial speculation. The drainage from the real economy reached historical highs.

But the real economy has come to be no longer sufficient to further feed the PRs of the biggest speculative entities, as we will try to show below. Thus, the *whole earth*, with its real value stocks of resources, such as water, land, etc., and some time perhaps even fresh air and the resources of other planets, *needs to be drained*. The task of the big entities of the speculation industry was always to "*innovate financial products*" to find new speculators ("investors"), as both borrowers and creditors.

And when an asset inflationary bubble implodes, the interest rates still need to be paid. The debtor then will be in even greater need for new credits. A global *creditor-debtor economy* thus emerged from what was once some kind of real producing economy.

While interest rates deflate because of the increasing supply of speculative nominal credit, and deflate the real economy, asset prices inflate. *Inflation* of the speculative areas and *deflation* of commodity prices illustrate a split economy, dominated and deformed by the "*rentier*" sector (for more detail on this, see, e.g., Hudson, Bezemer 2012).

In sum, the unleashing of the power of the money sector was designed to trigger, through a number of complex interconnected channels, a historically unmet redistribution from bottom to top, in any respect (small vs. large capitals; personal distribution; distribution among social groups and classes; poorer vs. richer regions and countries; etc.) and in this way an *explosion of fictitious money*: Making money shifted from industrial surplus production,

$$M – C – M‘$$

(money – commodities – more money), to speculative surplus production,

$$M – M‘$$

(money – more money); where M has to be considered now part of c, and [$M‘$-M] part of m.

We will provide some few data *illustrations* that may help indicating the processes mentioned and their quantitative sizes.

First, some of the following figures illustrate the amount of *redistribution* that took place in the run-up to the crisis 2008ff. and – after a dip – during its further course, particularly after the governments and central banks had flooded and saved the private banks. As indicated below, redistribution is organized, first, by making variable capital (labor) cheaper through labor-saving *technical change* and the inclusion of *productivity gains* in the profit, and the related *exclusion of wages* from such productivity gains (data for Germany; technical explanations partly in German). This (among others) then is reflected by the courses of income from capital vs. wages. Another causal chain is *unemployment*. We will illustrate the *paradigm break* and its redistribution effects (particularly mirrored in the *wage share* of GDP) that "neoliberalism" has caused from the early 1980s on.

Figure 1: Redistribution Ia: Wage-productivity relation [(Real wage per hour (blue line) vs. productivity (per hour) (floating 12-months averages) in German manufacturing industries, 2005-2012 (with a productivity dip in 2009/10 caused by the German government program of extended Short-Time Work Benefits)]**.**

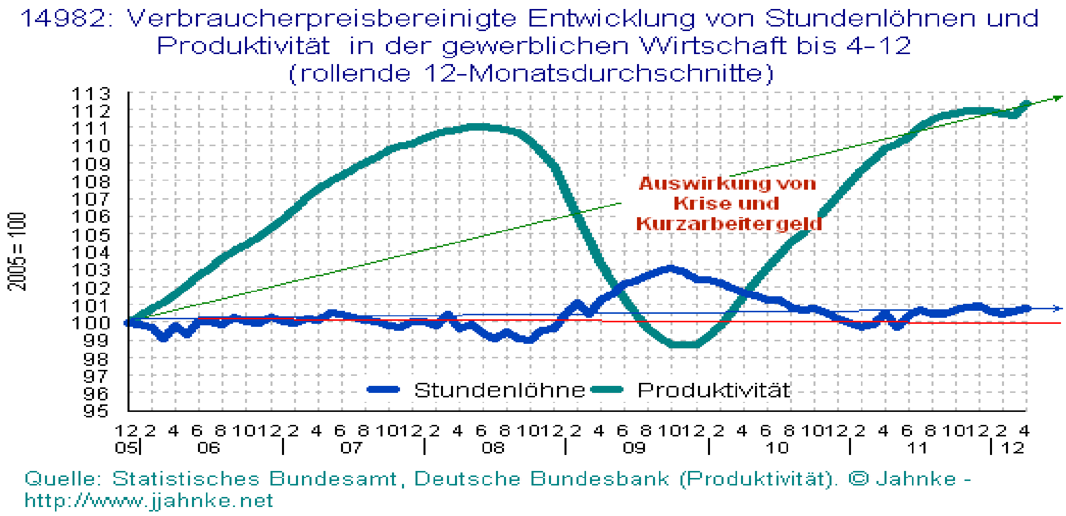


Figure 2: Redistribution Ib: Wage-productivity relation (gross wages: red line) **vs. productivity per hour in German industries, 2000-2010** (with a productivity dip in 2009/10 caused by the German government program of extended Short-Time Work Benefits), with regressions indicated for 2004-2010**.**

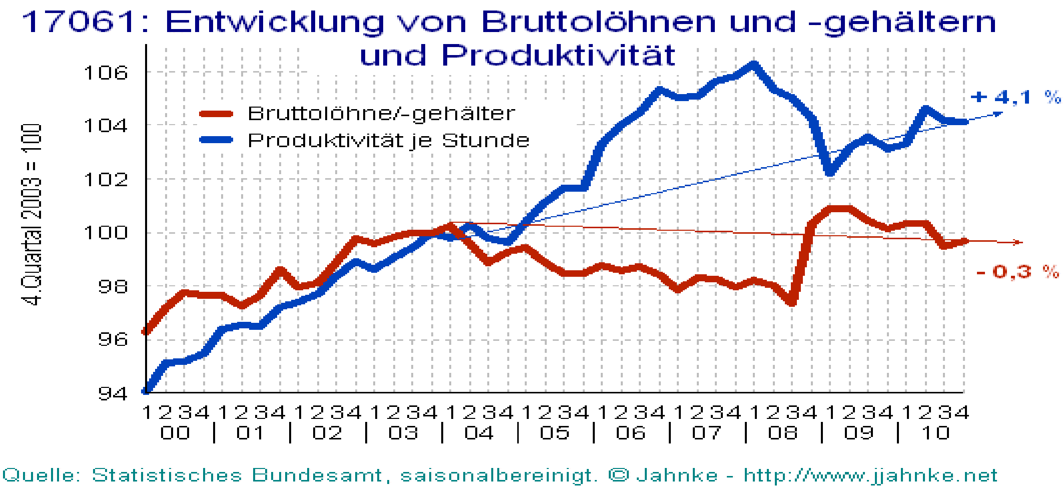


Figure 3: Redistribution IIa: Capital income vs. real gross wage income (wage sum; indexes, 1992=100; Germany, 1992-2010)**.**

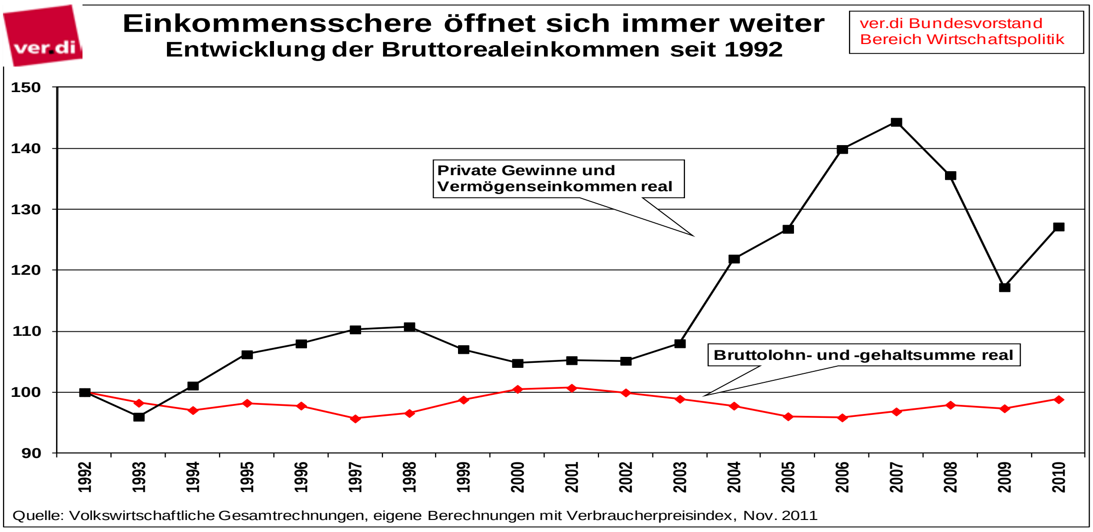


Figure 4: Redistribution IIb: Capital income vs. net wage income per employee (indexes, 2000=100; Germany, 2000-2012)**.**

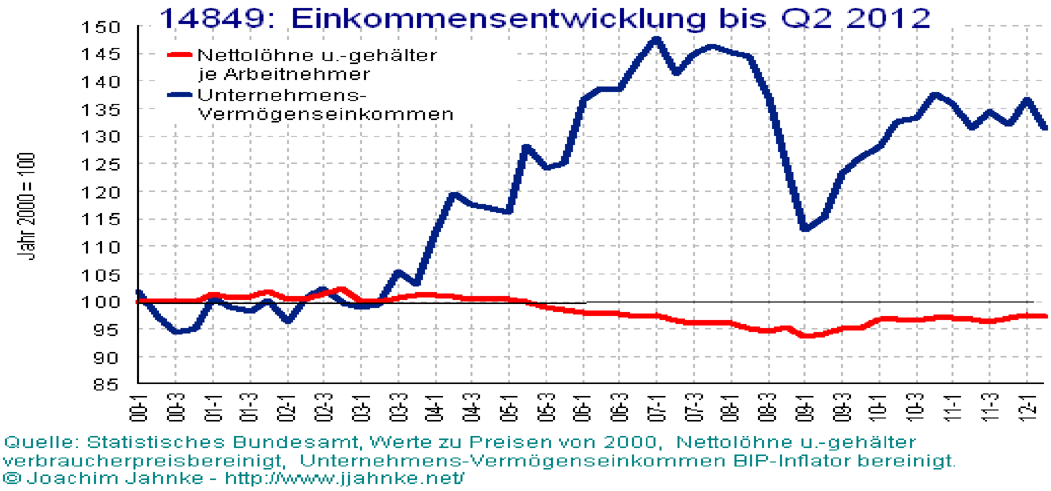


Figure 5: Redistribution IIIa: Productivity per employee (blue line) **and wage share per output unit** (manufacturing industries; indexes, 2002=100; Germany, 'pre-crisis', 2002-2007)**.**

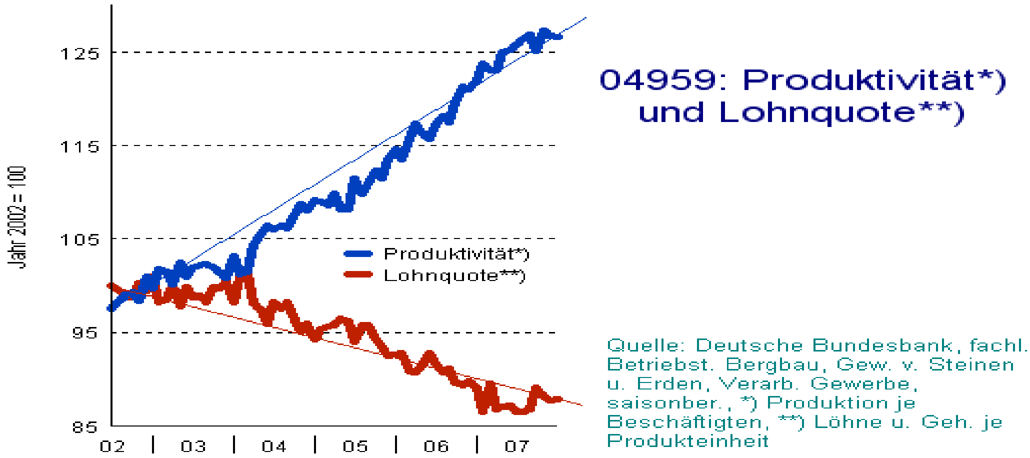


Figure 6: Redistribution IIIb: Unemployment rate and wage ratio of GDP – The "neoliberal" paradigm change in the early 1980s (Germany, 'pre-crisis', 1960-2006)**.**

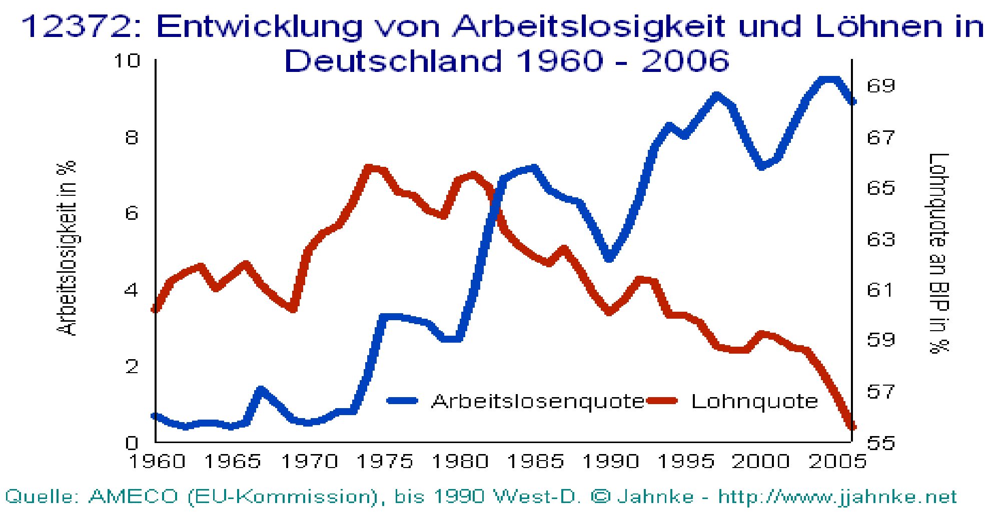
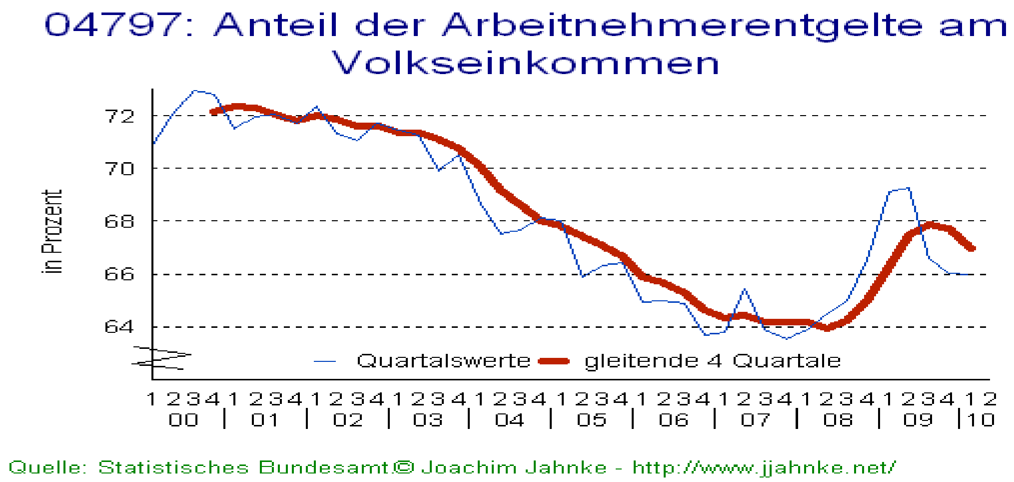


Figure 7: Redistribution IIIc: Wage Ratio of GDP, Germany, 2000-2010.



The example of the *German wage ratio* may provide an idea of the size of nominal money redistributed: The ratio shrunk by 10 percentage-points of GDP in 25 years (see Fig. 6), i.e., on average by *5 percentage-points of GDP p.a.*, which would be around 75 Bn. p.a. on average, or roughly *2 Tn. €* in sum.

Figure 8: Top-management salaries 2001-2011, Germany, DAX-30 companies, index, 2001=100.

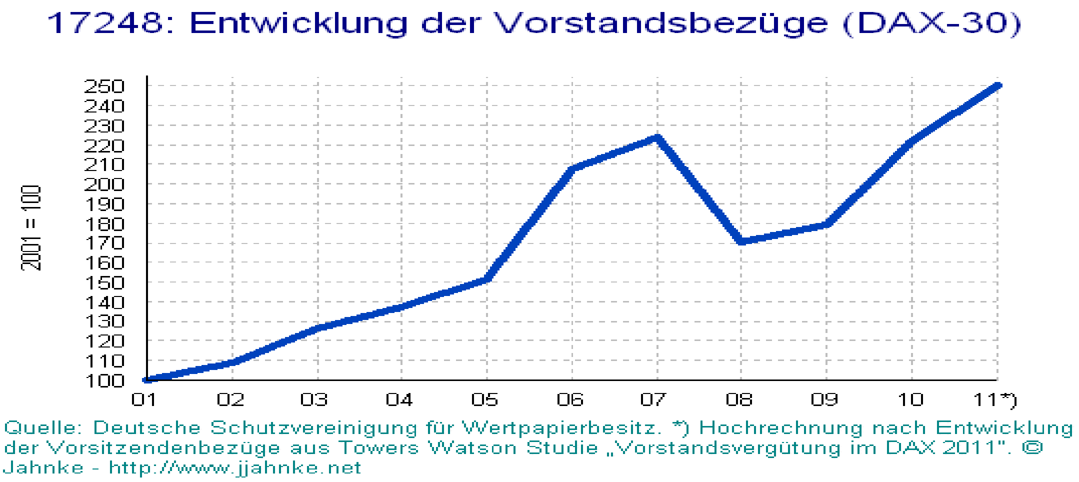


Figure 9: Wealth-distribution effects I: Wealth distribution, Germany 2010, % of all private wealth after quintiles.

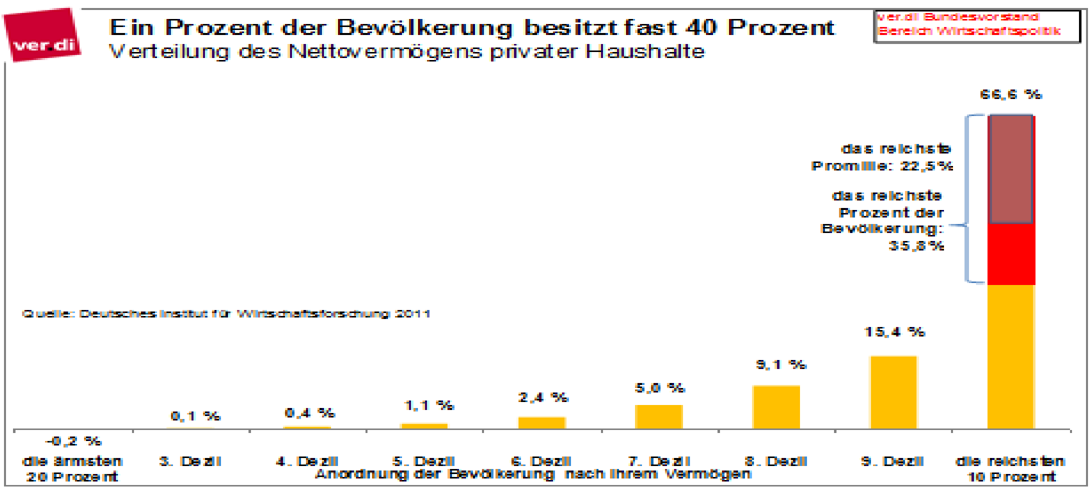
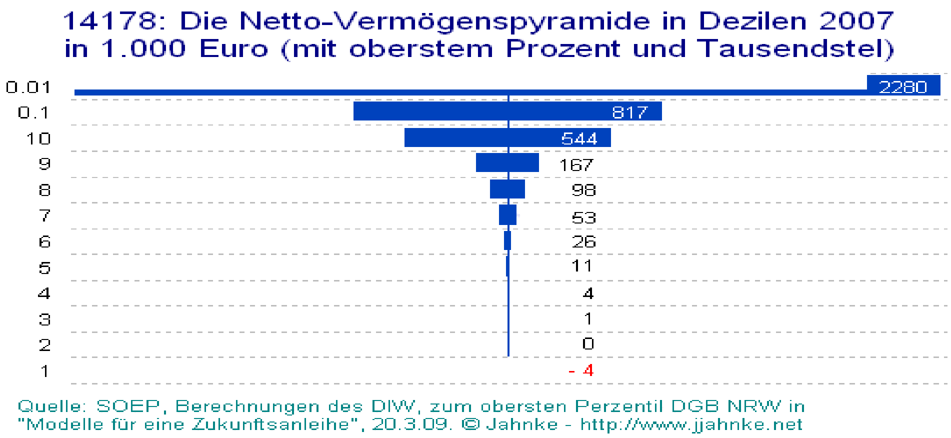


Figure 10: Wealth-distribution effects II: Wealth distribution, Germany 2007, quintiles, top 1%, and top 0.1%, with average net wealth in each category.



In sum, the figures may give an indication of the fact that the income redistributed in 25 years fed the *expansion of fictitious (nominal) fluid money-like capital*, which seeks an interest yield and in this way a maximum PR. Such large-scale redistribution may increase the PR again, in the classical way, i.e., by *initially shrinking v* (its share in total capital, resp.) and in this way perhaps initially expanding surplus production (while ignoring constant-capital growth, for the time being):

$$\pi = \left[\frac{\left(\frac{m\ \uparrow\uparrow}{v\ \downarrow\downarrow\downarrow}\right)\uparrow\uparrow}{\left(\frac{c\ \uparrow}{v\ \downarrow\downarrow\downarrow}\right)\uparrow\ +1} \right] \uparrow .$$

But with continuing and accelerating redistribution and transformation of money-wealth into fictitious capital for financial speculation, and in face of real-economic slack, this will change again fundamentally very soon … (see next section below).

First, further *illustrations* are on the *cumulative real-economic slack* that the *redistribution from the real-economic to the speculation sector*, the subsequent dominance of finance capital, and the ultimate *“autonomization”*, *self-actualization, and reinforcement of mechanisms of redistribution into fictitious capital* will entail. *Figure 13* below also shows that “neoliberal” economics with its misconception of the “market economy” cannot properly forecast any real economic slack or crisis.

Figure 11: Real-Economic Slack I: GDP growth p.a., Eurozone, floating 5-year averages.

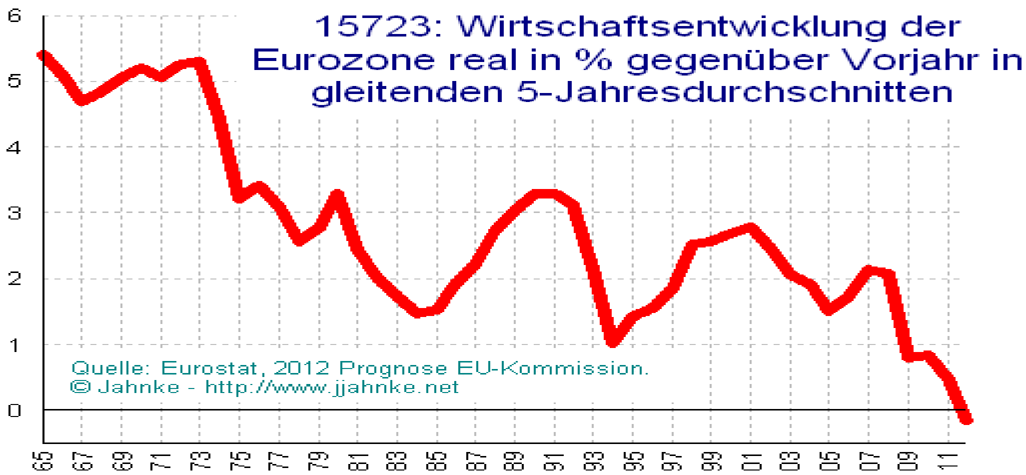


Figure 12: Real-Economic Slack II: Net investment rate (after depreciation) of national income, Germany, 2000-2012.

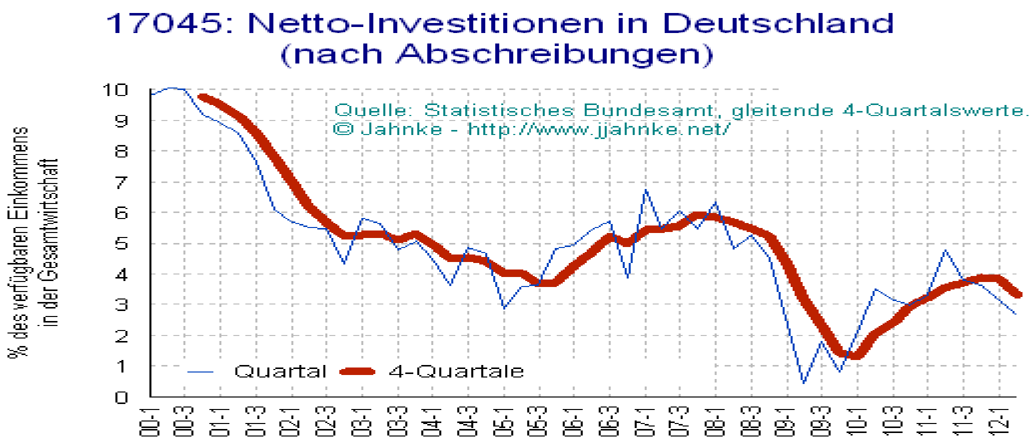
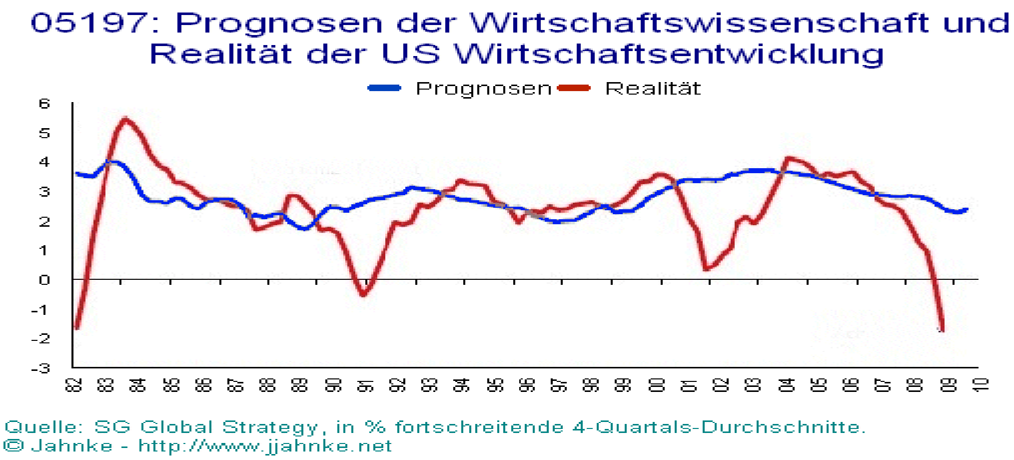


Figure 13: "Neoliberal"-economics GDP forecasts (blue line) **vs. real GDP growth, US 1982-2010** (red line)**.**

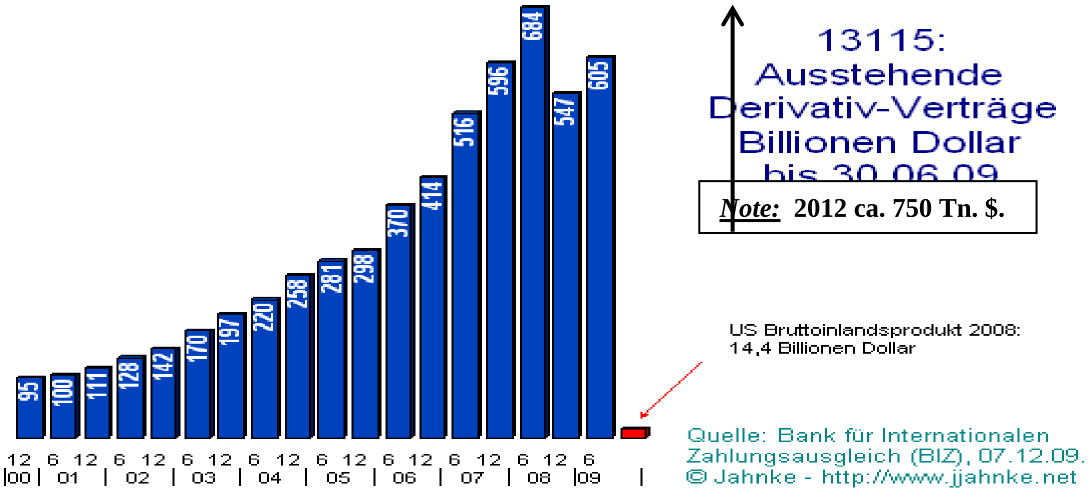


5. Consequences II: The impossibility of a „usual" average *PR* across countries and over time, subsequent self-reinforced redistribution, and the Bubble as Redistribution Mechanism

The explosion of *private fluid nominal (fictitious) money-capital* is indicated by the ca. 200 Tn. $ "market value" of fluid personal wealth stocks seeking interest yield, as currently estimated on average by different banks and insurance companies, the ca. 750 Tn. $ "market value" of *derivative papers* (CDOs), and ca. 60 Tn. $ "market value" of CDS. What of this can be added into a global amount of private fictitious money-capital still is largely unexplored. On top of this, what is the *institutionally held* money-capital wealth of banks, investment banks and funds, hedge funds, pension funds, insurance companies, and private equity companies? And what is the amount of fictitious capital held by (ex-) manufacturing corporations? … *So what would be the true size of the global fictitious capital?* This still is an unanswered and even largely unexplored question so far.

Illustrations again may provide a slight indication of those size dimensions:

Figure 14a: Nominal Fluid Money-Like Capital (Fictitious Capital): Derivatives, 2000-2009, Tn. $.



From indications we have, we probably are not completely wrong assuming around *1 Quadrillion $ (*10^{16}*) of global fictitious capital* ... while the global GDP currently is ca. 75 *Tn. $*. Now assume a *profit share of the global GDP* income of 50%, i.e. 37.5 Tn. $ of profit income p.a. from global economic activities. If this could be counted into the surplus *m* of an average global PR, the interest yield *just on the constant capital c* (which, however, now would *include the fictitious capital*) then would be *m*/*c* = *3.8%*, and the true PR, *m*/(*c*+*v*), would be even considerably smaller. Thus, a *general impossibility of a "usual" average PR* on the exploded (redistributed) private fictitious money-capital wealth stock becomes discernible. As reflected in a stylized PR:

$$\pi = \left[\frac{\left(\frac{m \uparrow}{v \downarrow\downarrow}\right) \uparrow\uparrow}{\left(\frac{c \uparrow\uparrow\uparrow\uparrow}{v \downarrow\downarrow}\right) \uparrow\uparrow\uparrow \; + 1} \right] \downarrow .$$

This obviously cannot work in the long run for the big powerful capitals, and in a fiercely rival environment. In fact, this *low PR* obviously is critical for *aggravating rivalry among the capitals.* Note that increasing dividends, special dividends and retained capital/cash at currently historically high levels can still be drawn from the surplus (which now includes surpluses from both conventional *and* fictitious capital, in whatever form, cash or derivatives) and from *c*, which contains conventional and fictitious capital as well, while the PR nevertheless may decrease. While this drain would remain as part of the PR constituents *m* and *c*, if used for ongoing speculation, it would drop out of the PR only if used for luxury consumption. …

The *PR standard requirement* of the largest financial entities has been 25% and more even in crisis years. Consider the *redistribution required* (and mostly realized so far), compared to the average possible yield on (*c*+*v*) of considerably below 3% ... The standard PR requirement, of course, is never guaranteed in the course of comprehensive crises, and with *exploding bank balances* and simultaneously *deteriorating real-economic conditions*, in the famous double and triple "dips" of the "neoliberal" austerity programs (see below), the PR standards will no longer be realized generally but rather displaced by "*bank crises*" as we can experience in the Eurozone currently.

Several things follow from that:

First, as said, the increasing *overshoot of fictitious capital* will coincide with *private household needs of a consumption level* that is insufficiently met by relatively decreasing household wage incomes under the “neoliberal” conditions of redistribution. Also, the *public budgets* have been additionally pushed into *structural deficits* by their bank flooding during the crisis (see below). The credit needs of private and public budgets thus meet an increasing need of overshoot fictitious capital to yield an interest-rate based profit, i.e., to be loaned as credit. Under these conditions, the *loan-debt-economy will be further built up*.

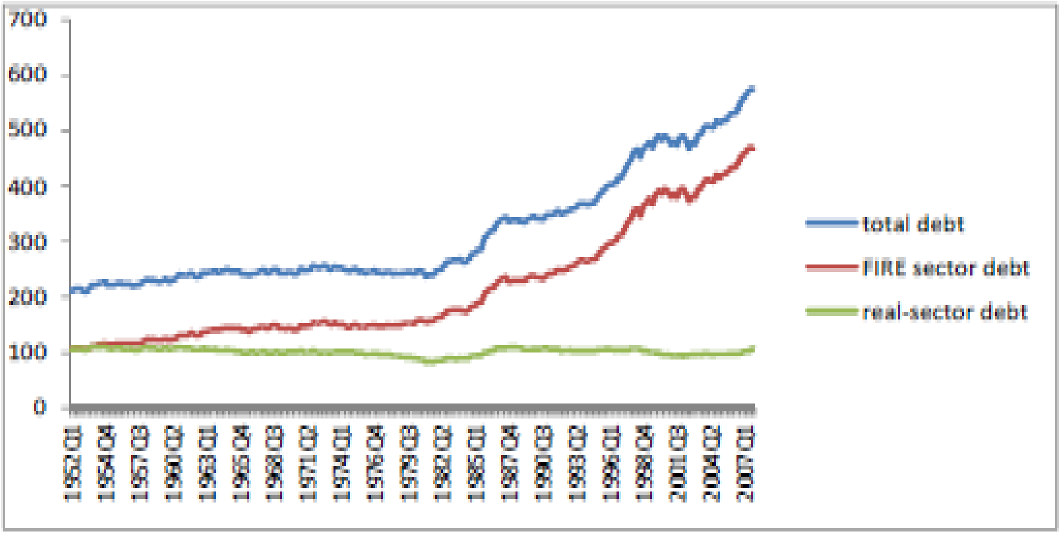
Second the overshoot of fictitious capital will be loaned by speculating manufacturing corporations to further increase their PR through financial “investment”, particularly when their PR from real-economic activity remains increasingly insufficient. In addition, assets prices will be built up through that kind of speculation with overshoot fictitious capital. Even households have been incited to speculate on the increasing prices of their houses, corporations will speculate on any *increasing asset prices*. And when asset prices cyclically collapse the debt service nevertheless will have to be paid, as mentioned – with obvious further redistribution effects (for more detail, see again, e.g., Hudson, Bezemer 2012).

Thus, bank balances explode and become “overspeculated” with loans and derivatives (CDOs) and, consequently, smaller shares of liable equity. Many state bonds still appear as safe “investments” with safe debt service, for the time being.

Third, in order to expand this kind of business and redistribute into their own PR at the expense of the others’ PRs, *derivatives* need to be increased, becoming more and more *opaque* and risky. In fact, *inflating a bubble*, and “managing” that bubble becomes the *main redistribution mechanism*. This basically takes place at a systemic level only, independent of an awareness of it by the big players. But as soon as they become aware of the fact that a bubble exists and may implode soon, they react as a herd and will try to “ride that tiger.

Illustrations below indicate how the explosion of fictitious capital in the “FIRE” sector (finance, insurance, and real estate) generates a *credit-debt economy*, how debt has exploded since the “neoliberal” turn at the end of the 1970s and particularly in the crisis 2008ff (exploding public debt), and how this leads to both a *redistribution of income into the speculation sector* and an ever *riskier structure of the banks’ balance sheets* and the *economy as a whole*.

Figure 14b Private debt growth due to lending in the FIRE sector, US, 1952-2007.



Source: M. Hudson, D. Bezemer, 2012, p. 2.

Figure 15: Total debts of developed economies in % of their GDPs, 1880-2013.

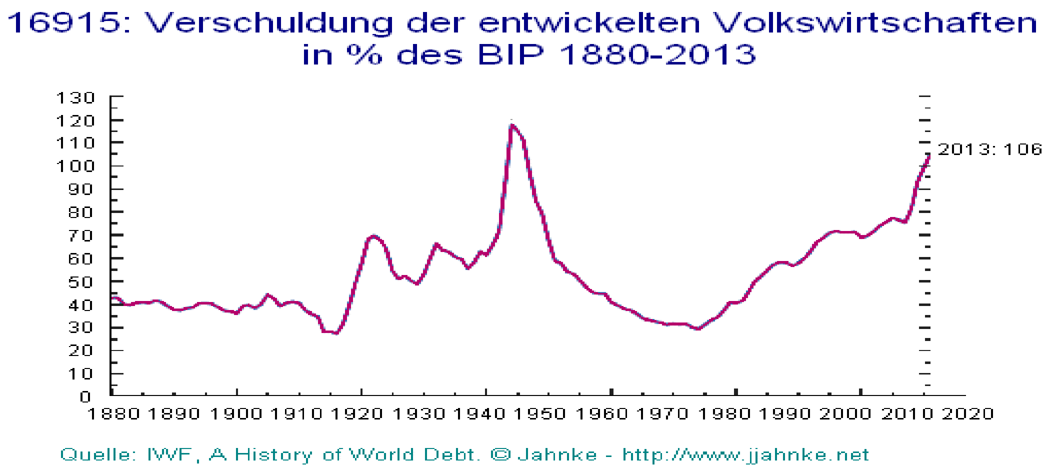


Figure 16: Total debt of developed economies in % of their GDPs, 1995-2016.

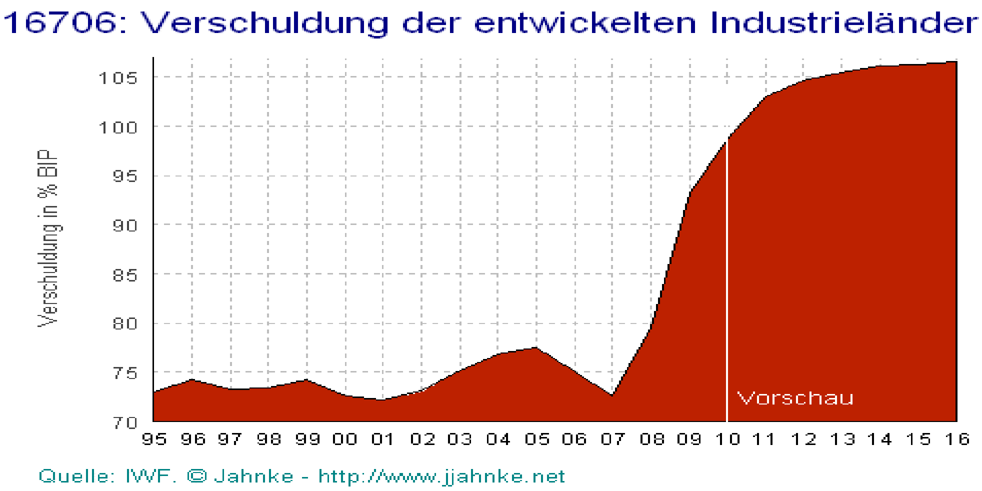


Figure 17: Profit redistribution: Share of speculation sector of all profits, US, 1948-2008.

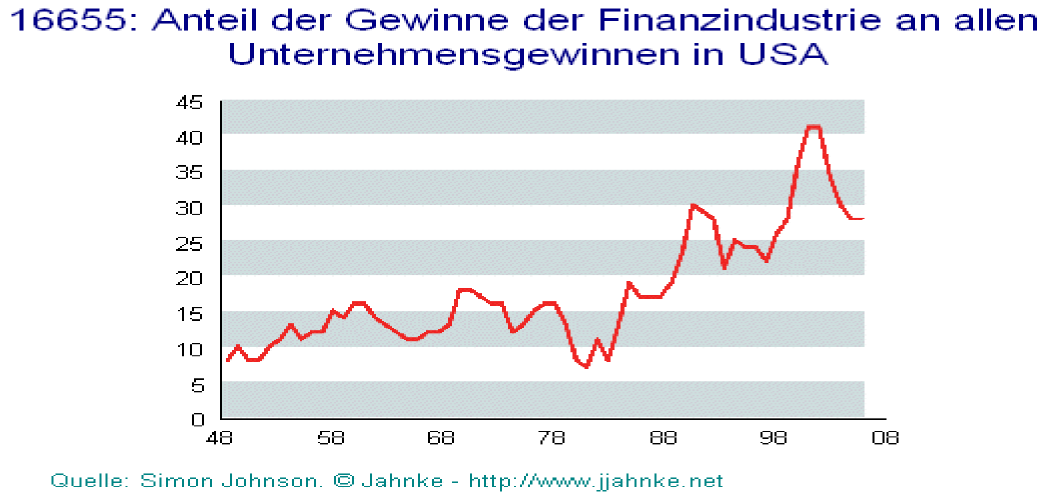


Figure 18a: Over-speculation of the speculation sector I: Share of liable equity in total balance sheet of banks, US and UK, 1880-2000s.

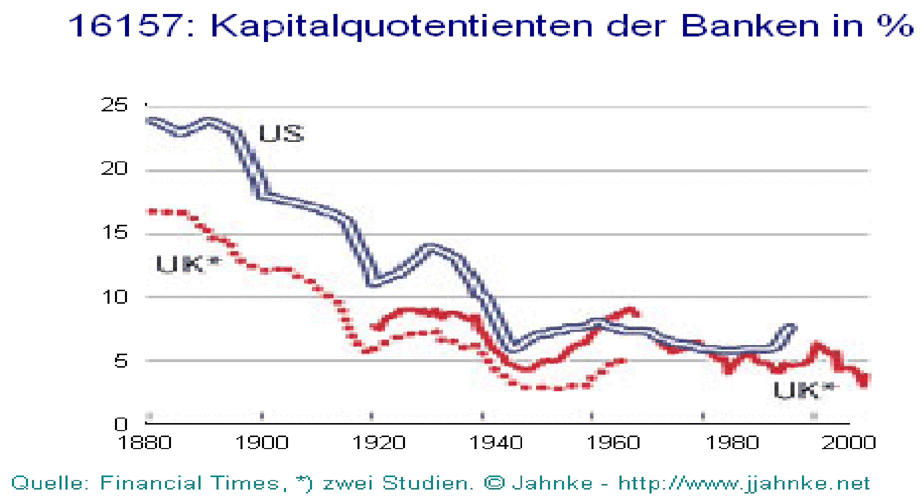


Figure 18b: Over-speculation of the speculation sector II: Total balance sheet of banks as a multiple of liable equity, Eurozone countries, 2011.

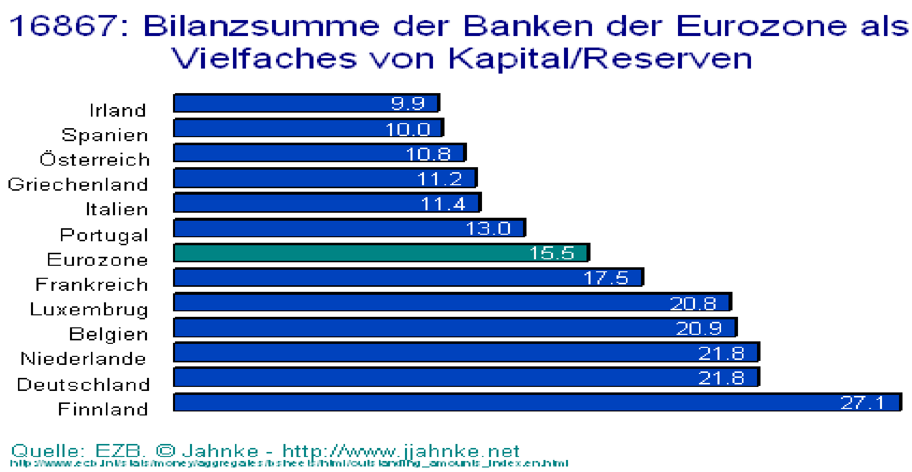
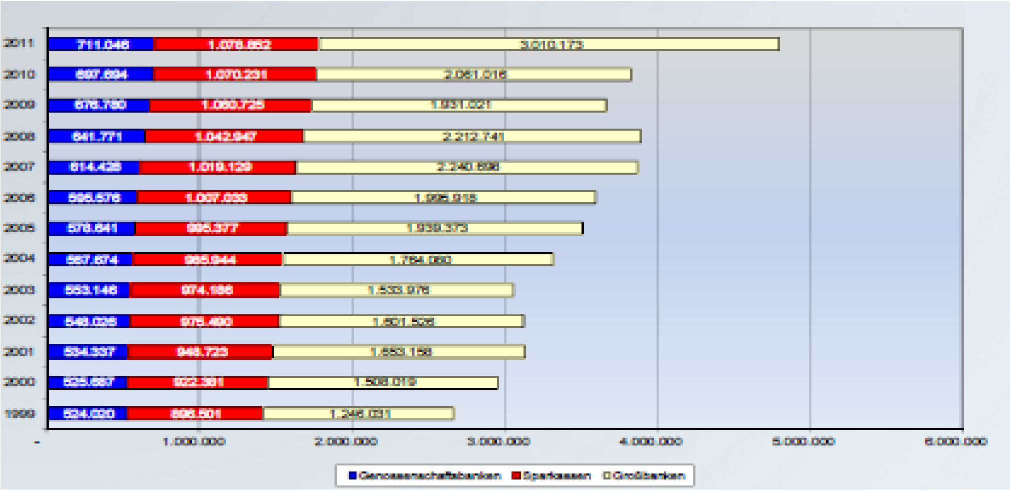
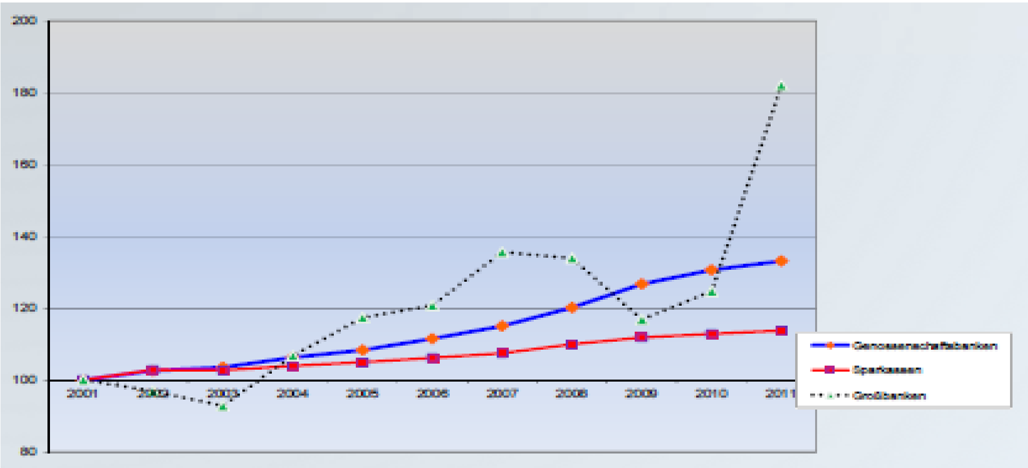


Figure 19: Over-speculation of the speculation sector III: Total balance sheet of banks, Germany, 1999-2011 (white bars: private universal banks).



Source: Mark Roach, Ertragslage der Kreditinstitute 2011 – eine Auswertung der Bundesbankzahlen vom September 2012, Berlin: verdi.

Figure 20: Over-speculation of the speculation sector IV: Average balance sheet of banks, Germany, 2001-2011 (index, 2001=100; dotted line: private universal banks).



Source: : Mark Roach, Ertragslage der Kreditinstitute 2011 – eine Auswertung der Bundesbankzahlen vom September 2012, Berlin: verdi.

Figure 21: Over-speculation of the speculation sector V: Bank debts, Eurozone countries, 2012, Tn. €.

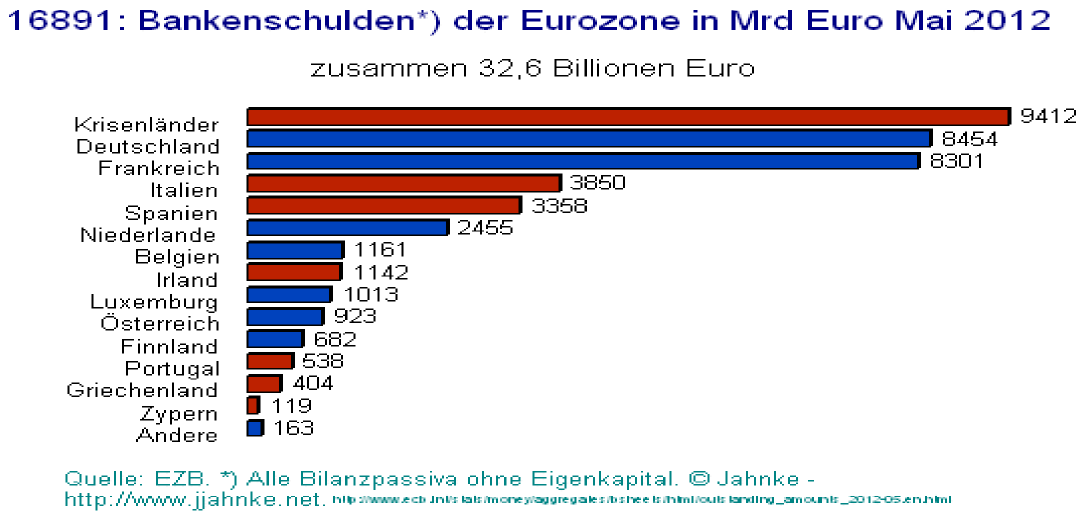
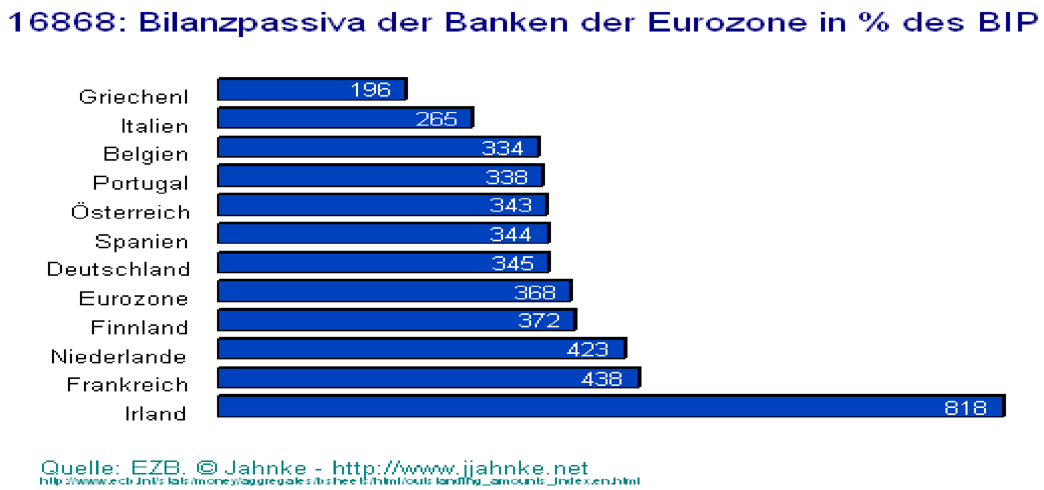


Figure 22: Over-speculation of the speculation sector V: Bank liabilities in % of national GDP, Eurozone countries, 2011.



However, while the bubble still expands, *fictitious capital needs to be transformed into something of real value* that is capable of *surviving the coming implosion of the bubble* with relatively little loss of value, or may quickly (relatively) grow in value again after the implosion and across the whole bubble cycle. Thus, the big owners of fictitious capital must *pull out of fictitious capital as much as possible and transform it into real values*. Among those measures figure those flows of the drainage of the real-economy that go into the *exploding luxury consumption*, the further transfer of *public wealth* into the private PR as described, and eventually – as even the whole *global GDP is not sufficient for a PR required*, as seen – the individual *appropriation of all potential value stocks of the earth* …

Transforming fictitious money-capital into real values would imply that the money circuit again transforms

from *M – M‘* to *M – M‘ – C*.

As said, *further redistribution within just the (global) GDP, let alone just the public budgets, is not* sufficient. A general *land- and resource-grabbing* and a *speculation on anything that might have some real value in the future* (as it might be *needed by humankind for living and survival*) is therefore what is needed to save one's individual PR and what in fact we can observe today – a drainage of the earth.

"Neoliberal" State Intervention: Bailing Out the "Too-Big-To-Fail" or "Systemic" Financial Entities, Subsequent Austerity Policy and Double Dips – Redistribution Requirements vs. Democracy

The circular feedback of a downward spiral now becomes a more complete picture. To resume:

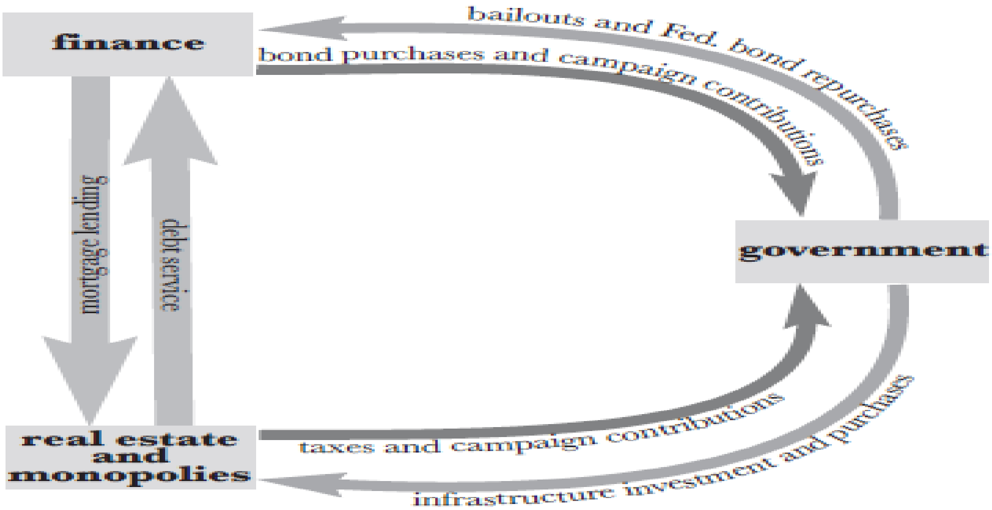
- de-regulation, power-ization, oligopolization of markets
- redistribution through labor-market policies, tax policies, globalization policies, …
- explosion of private richness in the top ranks
- relative under-consumption / over-accumulation / real-economic slack
- money surplus in industries redirected into speculation / drainage
- explosion of speculative nominal "fictitious" capital
- more loans non-performing / bank crises …

The "neoliberal" *state intervention* under these conditions then will aggravate the real-economic and social downturn:

- bailing out the "too-big-to-fails" / bank guarantees and bank balance flooding with the money of current and future taxpayers generations
- *subsequently reinforced austerity policies* / "*budget consolidation*", worsened redistribution, double and triple dips …
- followed by again reinforced austerity policies …

The following *illustrations* first show the real-world macro-circuit relations between "neoliberal" governments, the speculation sector and the assets- and (ex-) manufacturing-sectors, with an important role for government bailout of the FIRE sector, further the government bailout measures and their budget implications:

Figure 23: Interactions between the FIRE and government sectors.



Source: Hudson, Bezemer 2012, p. 8.

Figure 24: Bailing out the banks: Bank shares and guarantees in the Government budgets, and repurchasing commercial papers by the Central Banks, 2011.

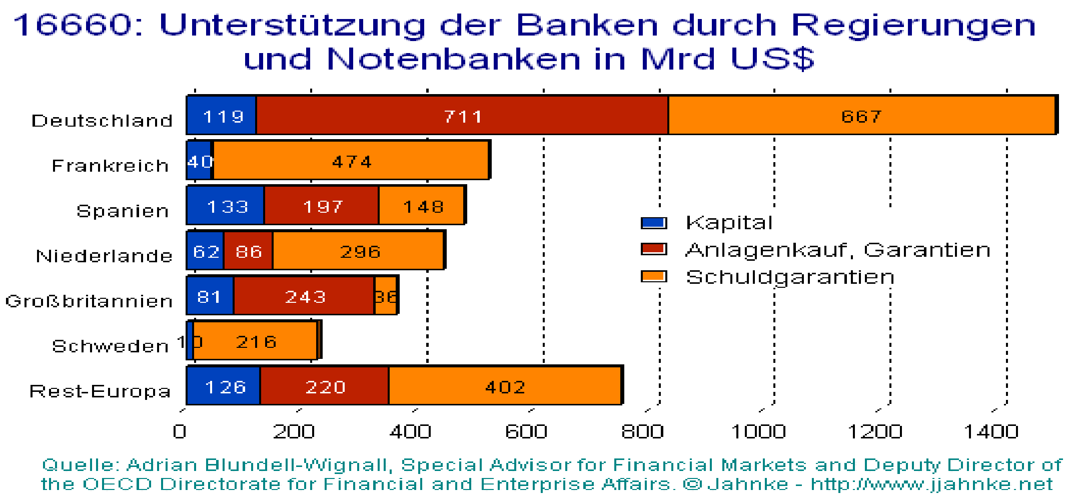


Figure 25: Subsequently exploding public budget deficit, Germany 1950-2012.

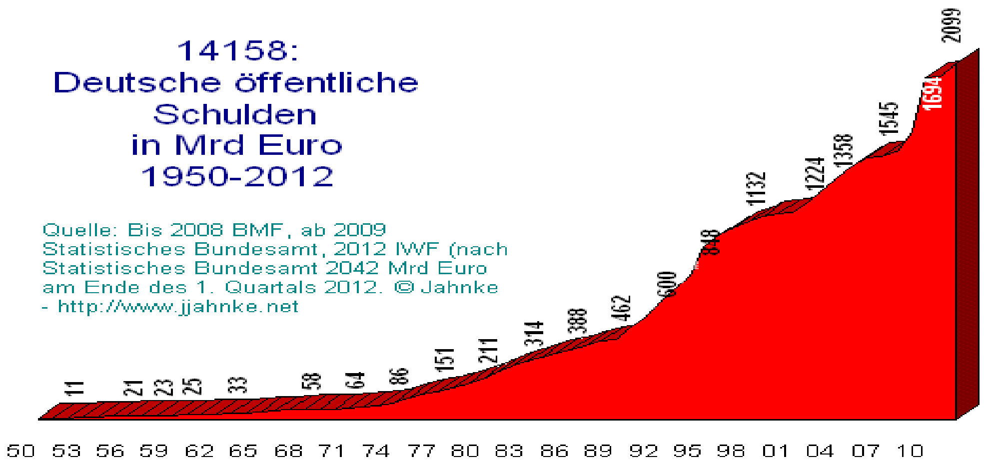
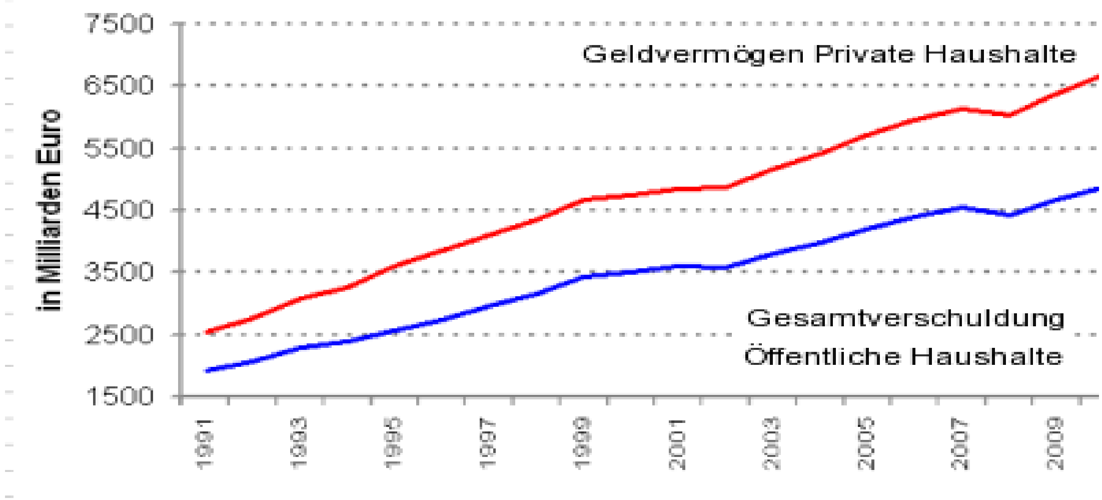


Figure 26: Public budget deficit and private money wealth; Germany, 1991-2010.



The full burden for the taxpayer is, though, rarely made transparent. For *example*, in Germany, on top of the ca. 550 Bn. € *extra debt officially displayed in the public budget* (displayed in *Fig. 25*; while *Fig. 24* displays 786 Bn. € extra government liability, incl. guarantees), the full risk loaded on current and future taxpayers is also constituted by

- public purchase of *bank shares*
- public *crediting and guarantees for private banks*
- *tax breaks and deferrals* for speculation industry entities (e.g., private equities do not pay taxes in Germany)
- German share of the *risks taken over from the private banks by the ECB* (toxic papers, negative real interest, see below)
- German share of *IMF credit lines* for EU countries under pressure
- German shares of *EFSF and ESM*
- German CB's *Target2 credits* to other CBs,

and, with this, the whole additional taxpayer's burden 2008 ff. has piled up to ca. *2 Tn. €*, approaching the amount of the German GDP p.a. …
Bailing out virtually any individual bank has also implied the weird effect of *prohibiting any structural change in, or major adaptation pressure on, the speculation sector*. But also, this has *prohibited any re-redistribution*, saving the super-rich, the shareholders and creditors of the banks, absolving them from any contribution to solve the crisis. The current and future taxpayers' burdens explode at the same time, and a *future expropriation* of wage earners, savers, and retirees through a potential *secular inflation* from money creation has not only become a real danger but is also considered an appropriate way out of the debt burdens of governments in the ranks of the "elites" – as it has been "successfully" exercised several times in the history of the 20th century. (As said, inflation may continue to be split between *real-economic slack and wage and commodity deflation* on the one hand and fictitious capital and debt explosion, and *asset inflation* on the other; see, e.g., Hudson, Bezemer 2012; but this is not to say that the money explosion through the speculation sector, the Central Banks and the governments will be innocuous, revocable by the Central Banks, or can be confined to the asset sector in the longer-run.)

With the *Eurozone* efforts to set up the *EFSF and ESM*, in particular, but also with any *Quantitative Easing* by the central banks, a *speculative race of the states against the speculation industry* began in order to attain the "confidence of the markets" – a *battle that is already lost* for the taxpayer from its very beginning, if we *consider* the *sheer relative amounts of the "financial weapons of mass destruction"* (W. Buffet) allocated on both sides of the "taxpayer vs. the speculation industry" gamble. The "hostage-taken" taxpayer has no chance in this gamble.

It follows that not only *increasing shares of the public budgets and the GDPs* are to be *redistributed into the profit* masses *M'* (or *m*), if, as far and as long as the PRs on the private fictitious money-capital, still unswayed from the crisis, are to be saved and kept at the levels required. It appears obvious that such exploding amounts of redistribution of public budgets, GDPs, and the social and natural resources of the earth are *incompatible with democracy*.

Further *illustrations* go beyond the bailouts by the governments proper and show the costs and risks incurred by the *Central Banks* at the expense of the taxpayer.

Figure 27: Risk taken on by the ECB from the private banks: Euro-system total balance, 2007-2012.

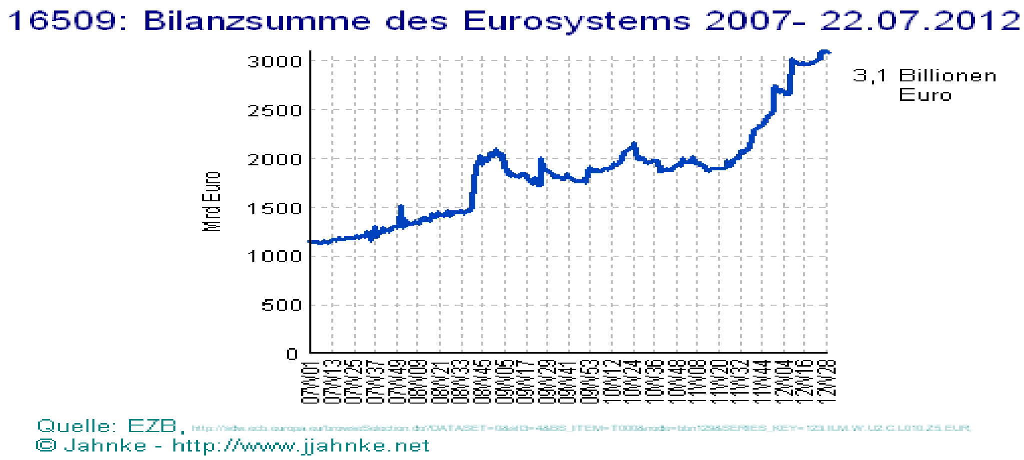
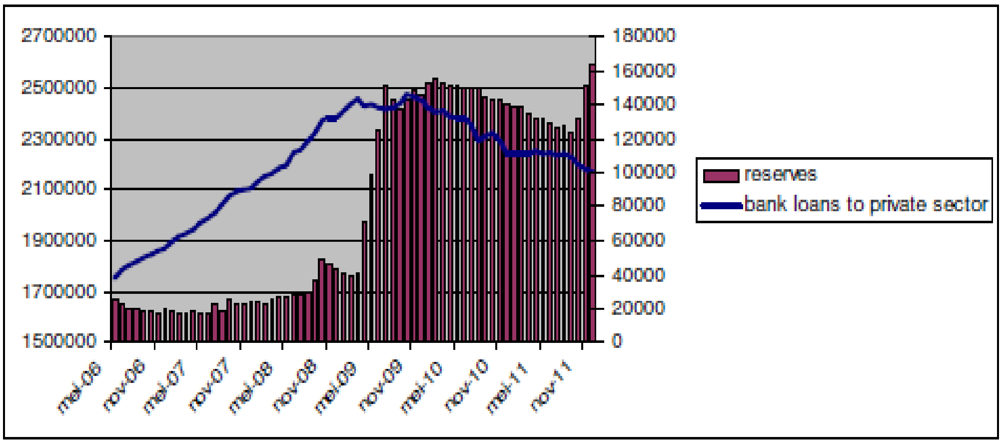


Figure 28: "Quantitative Easing" in the UK: Increased bank reserves held by the BoE (right axis)**, with reduced lending to the real sector** (left axis) **(Bn. Pound Sterling).**



Source: Hudson, Bezemer 2012, p. 4.

Figure 29: ECB interest-rate subsidies to private banks, 2000-2012: Real interest rates corrected by inflation rates.

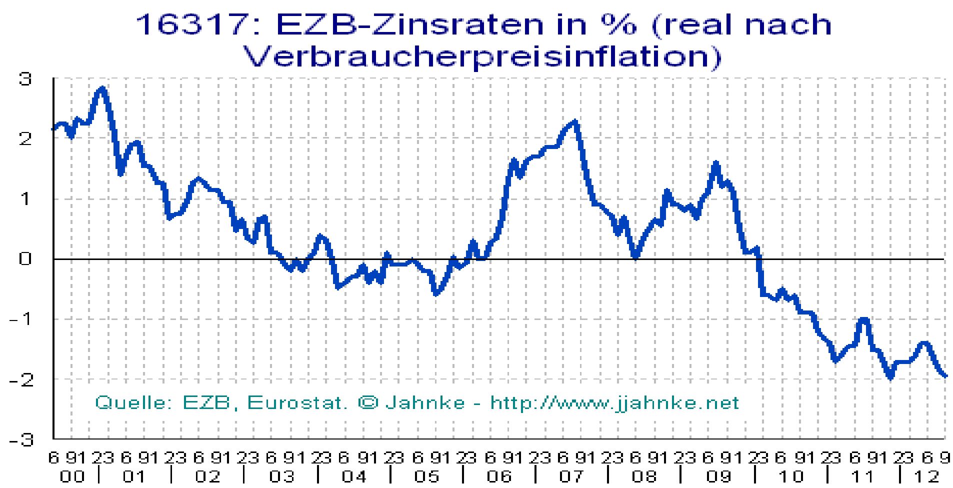
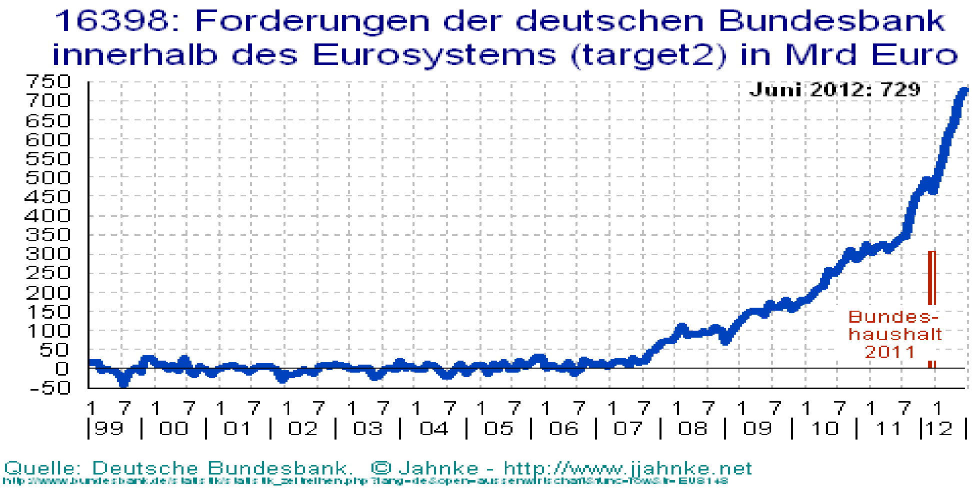


Figure 30: The German special case: German CB Target2 credits, 1999-2012.



Two QE-waves of the ECB in 2011 and 2012, in fact, have piled up to 1,600 Bn. €.
But nevertheless, the deteriorating real economy, in its *government-induced austerity and double/triple dip mode* has unavoidably added, on top of the financial and state budget crises, the *bank crises* that necessarily were to come in spite of public bank flooding. Thus, bank credits given to the real economy tend to increasingly fail:

Figure 31: Share of failing bank credits given to the real economy, Spain and Italy, 2008-2012, % of all credits.

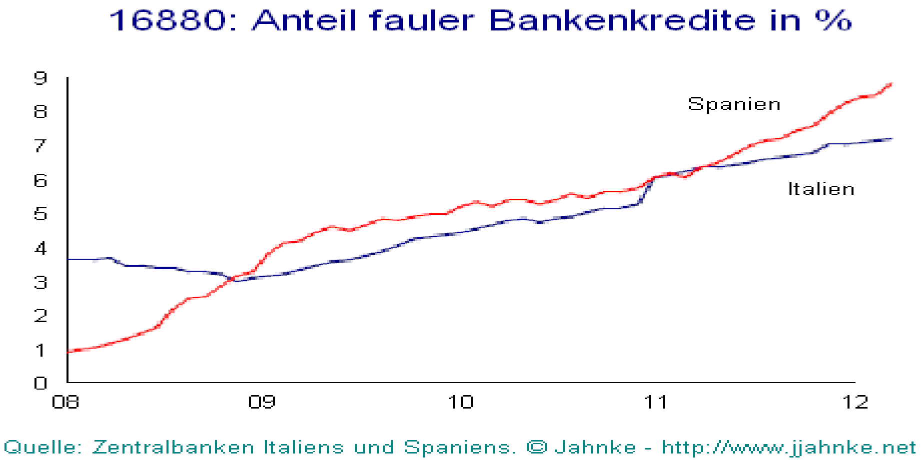
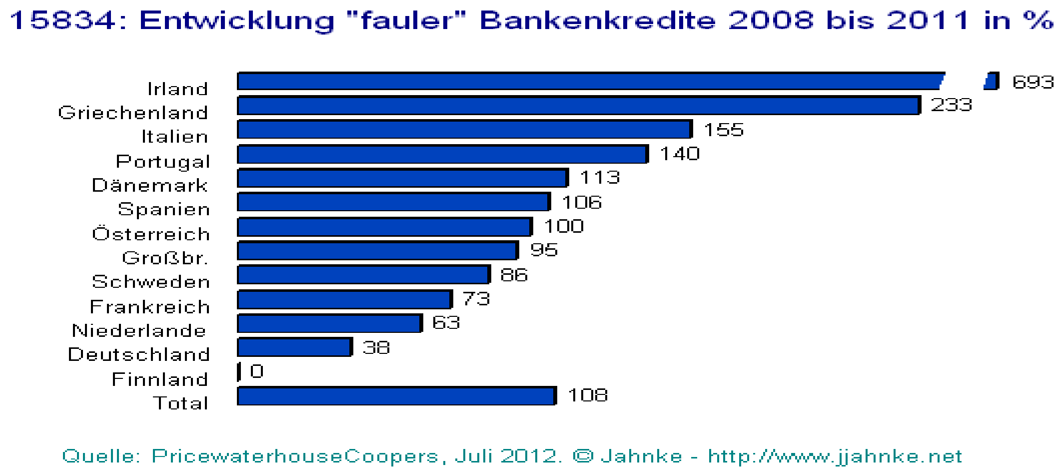


Figure 32: Share of failing bank credits to the real economy, EU countries, 2008-2011, index, 2008=100.



7. Conclusions: At odds with democracy, and no way out other than …

Saving each and every bank, sparing their mega-rich shareholders and creditors from any contribution to pay for the crisis and its social costs, made the *fictitious capital further grow even during the crisis*. Thus, there has so far been *no classical capitalist meltdown of (fictitious) capital*, and, therefore, *no "solution" for the PR* observable. The average PR still remains historically low and tends to further decrease. In fact, the PR itself becomes "*obese*", "*sclerotic*", and no "cleaning" appears feasible, as can be illustrated in a stylized PR:

$$\pi = \left[\frac{\left(\frac{m\uparrow}{v\downarrow\downarrow}\right)\uparrow\uparrow}{\left(\frac{c\uparrow\uparrow\uparrow\uparrow}{v\downarrow\downarrow}\right)\uparrow\uparrow\uparrow\ +1} \right]\downarrow .$$

Note, however, that we do not just advocate a classical capitalist cyclical crisis. Given the power distribution in capitalism, the (social) costs of such crisis were always to be borne by the average people, as wage earners, tax payers, recipients of public services, savers, retirees, … This is also the case in the current crisis and will be that way in the foreseeable future. Therefore, a classical cyclical crisis cannot simply be recommended.

The *values still at risk in the bank balances* alone and the *amounts required to maintain high PRs* of the big players *exceed the redistribution capacities of the public budgets, of the GDP* shares that realistically can be further redistributed, and probably (sooner or later) even the *potentials of the CBs* to bailout the banks (with their still considerable amounts of junk papers, which even further increase through the double dips). Since public budgets, GDPs, and CB potentials already have reached, or probably will reach, their limits and thus do no longer suffice for the redistribution requirements to increase *M* to *M'* (and then *C*), the *weird run for potential future real values in the earth's natural stocks*, in order to generate M'↑ (or *m*↑), becomes comprehensible.

Further redistributing risks and values of the sizes implied, and saving the speculation industry by playing its gamble and betting „against" it with taxpayers' money will further generate social costs and increasingly become *incompatible with democracy*.

In the *Eurozone*, for instance, which has its own specific birth defects on top of the general financial (fictitious) over-accumulation crisis, there is a tendency *towards technocratic governance*: The EU „*Economic and Financial Governance (or Government)*“ by the President of the EU Commission, the ECB president, the heads of IMF and ESM, the Council of Economic and Finance Ministers, and top bankers, may easily become the *post-democratic prototype* and even a pre-dictatorial governance structure against national sovereignty and democracies. Presidential systems, such as that of the US, have always been more akin to decisions structures beyond classical civilian parliamentary systems anyway. And in fact, the actual *main protagonists of some proactive policy* in general already seem to be the *Central Banks* (FED, ECB, BoE, …) anyway – entities that have already deliberately put beyond and above democracy by the “neoliberal” counterrevolution.

Without a *secular re-redistribution* project, freeing the PR and the real-economy from fictitious-capital obesity, and freeing economy and society from the bottleneck of the PR, making them workable again, there will be no way out. “Neoliberal” redistribution has been a *40-year planned secular state-bureaucratic and political-economic project*. Therefore, there is no way out other than to *reverse that very process in the same dimension and strictness* in order to restore a functioning solid real economy. In this way, a *solid credit sector for the real economy* needs to be created *independent of the speculation sector*, and as far as the speculation sector still exists, it needs to be *strictly reduced to gambling for own account* of the mega-rich and their funds and special institutes, with the slightest public bailout strictly prohibited.

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