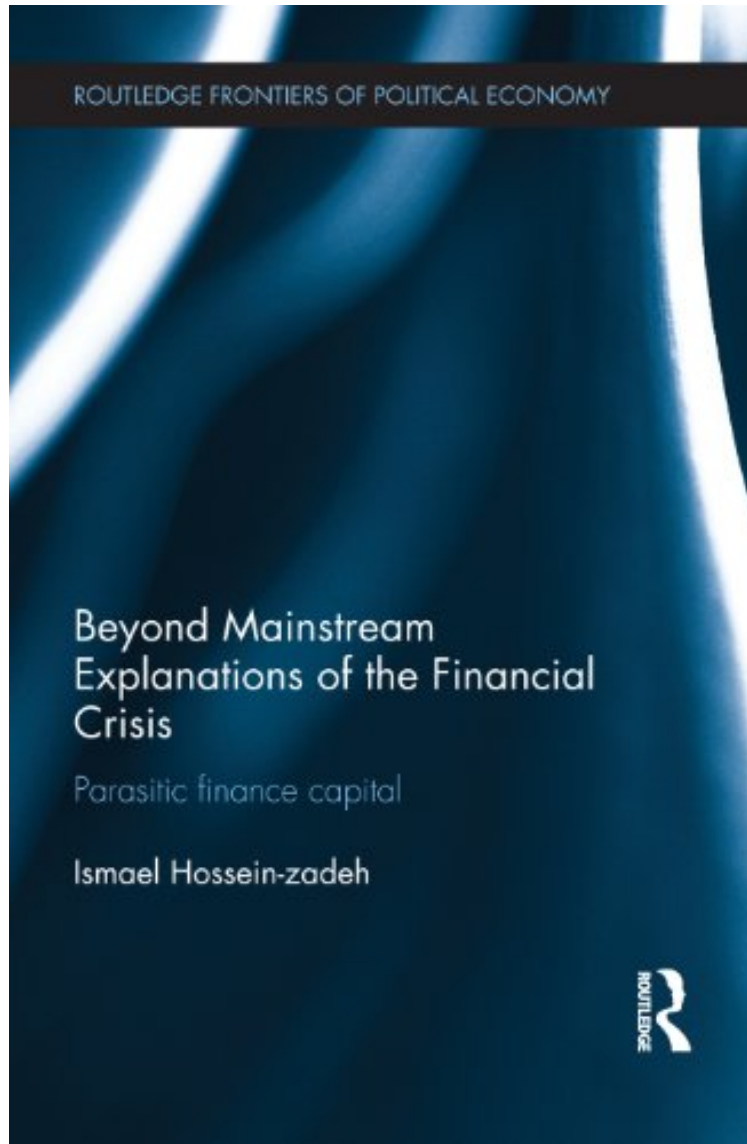


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(Routledge Frontiers of Political Economy)

Beyond Mainstream Explanations of the Financial Crisis: Parasitic Finance Capital (Routledge Frontiers of Political Economy)

Ismael Hossein-zadeh

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Hossein-zadeh, Ismael. 2014. Beyond Mainstream Explanations of the Financial Crisis: Parasitic Finance Capital. Routledge
Frontiers
Book Review
Isaac Christiansen
Ismael Hossein-zadeh has done a masterful job in explaining the causes of the 2007-08 financial collapse and in identifying what must be done in response. He sets out in Beyond Mainstream Explanations of the Financial Crisis to first demonstrate the origins of the crisis and the subsequent transfer of "tens of trillions" of dollars from the vast majority of society into the coffers of the financial speculators through the imposition of austerity cuts on the many for the benefit of the few; and secondly to examine potential societal responses to avoid the repetition of such crises in the future. To do this, he begins by examining the two most prominent explanations for the crisis: the neoliberal explanation, which claimed it was due to irrational market actors and/or intrusive government policies that interfered with the self-correcting market mechanism; and the Keynesian explanation, which explained the crisis as the result of excessive deregulation, "inappropriate" public policy and supply side strategies. The author skillfully exposes the weaknesses of both and offers a compelling and well grounded alternative explanation, as indicated in the book's title. The book is well written and is easily understood by those who may not have an extensive background in economic theory. At the same time, it provides keen insights that are essential to understanding the crisis for those who may be more experienced in the field. It is structured with the first five chapters devoted to understanding crises within advanced capitalism, particularly the role of finance capital in provoking them, while the final three chapters are dedicated to examining solutions. Moreover, the work is an essential heuristic tool for any and all who wish to show how and why advanced capitalist economies tend towards crisis and the role of finance capital as a catalyst of crisis. A more thorough examination of the work's primary contributions follows below.
In Chapter one Hossein-zadeh explains that neoliberal conceptualizations suffer from a misplaced religious-like faith in the market mechanism that led the leading neoliberal/neoclassical economists to remain oblivious to the impending crash. Due to neoliberals' "blind faith in the income-expenditure (or supply-demand) circular flow model, their economic theory is impervious to the fact that contradictions can arise within the real sector itself as well as to the reality that contradictions can also arise between the financial and the real sector. This led the leading neoliberal/neoclassical economists like Ben Bernanke and the IMF financial gurus to predict continual expansion up through the very eve of the crisis, and later to offer mistaken remedies such as quantitative easing and more funds to the financial sector. The impact of these measures is that instead of preventing a new bubble from forming they put us well on the way to creating another one.
In chapter two Mr. Hossein-zadeh delves into the weaknesses of Keynesian explanations of the crisis, arguing that while they are not wrong to signal deregulation as part of the problem leading to this crisis, they naively believe that capitalism will allow itself to be regulated without pressure from the people, thereby ignoring the power relationship between capitalism and the state. Not surprisingly, Keynesians tend to be oblivious as to why their more sane-sounding prescriptions for increasing public demand (through the promotion of New Deal type economic programs) and curtailing the aggressive and irresponsible behavior of financial players through more regulation have not been followed. While their policy suggestions may prove effective under certain circumstance, Keynesians fail to see or acknowledge that profit can also be increased through more intense exploitation of workers, that is, through supply-side measures. Furthermore, while the New Deal reforms were beneficial for the extrication of the U.S. economy from the grips of the Great Depression, these were followed much more as a response to working-class pressure from below than as a deliberated response to the writings of Keynes. In addition, the long economic expansion that followed was also due to the specific global economic situation of vast amounts of capital destroyed in Europe leaving the U.S. without much competition for its exports.
Much of the weakness of Keynesian economic theory, like all neoclassical economics, is their rejection of the category of value, and thus any real understanding as to the origin of social wealth and class dynamics. The general weaknesses of neoclassical economics are covered expertly in chapter 3. This chapter examines the weaknesses in the neoclassical understanding of the relationship between industrial and finance capital. The neoclassical position traditionally argues that the latter is limited by the real expansion of the former, and thus remains oblivious to the possibility of a crisis forming in the financial sector and spreading to the real "productives" sector. To understand the real developments, Hossein-zadeh convincingly argues, we need to turn to Karl Marx's Volume III and look at what he termed "fictitious capital", when Marx examined how value tended to be siphoned from the sector in which it was produced to the unproductive sectors of the economy in pursuit of speculative investment.
Chapter 4 looks at the historical growth of finance capital (whose share of GDP in 2008 was more than double its share on the eve of the Great Depression in 1929), the growth of speculative activities (derivative markets, credit-default swaps) and the role of private control of the money supply. Each one of these phenomena is analyzed here in their social impacts and class/political dynamics. Here the author (p76) demonstrates that the speculative activity of finance capital accelerates "accumulation of fictitious capital through asset price inflation" (often with the help of public funds that simultaneously act as insurance protecting the speculators from the potential consequences of their socially deleterious behavior), creating a bubble that eventually

bursts—;with the public left paying the debt for the now-devalued assets. This chapter also demonstrates that the bailouts for the speculators and austerity for the many, which further increased the already sharp economic inequality, were not an economic necessity but a reflection of the power of finance capital over the state and the monetary authority. To this end, Hossein-zadeh reflects on the immense tax-breaks for the wealthy, gargantuan military spending and lucrative contracts for weapons producers that created ‘public debt’ as a pretext to slash necessary social programs. The chapter demonstrates that we live under an economic system where losses are socialized and profits are privatized. In Chapter 5, Hossein-zadeh reflects on Marx’s understanding of parasitic finance capital, its place within labor theory of value, and its contribution to a better understanding of the causes behind the present economic crisis. In Vol. III of *Capital* Marx outlined how the surplus value produced in the industrial and agricultural sectors ends up being divided between the merchant (or commercial capital), finance capital (money lending capital) and ground rent (Marx [1894] 1981). Hossein-zadeh points out that, according to Marx, fluctuations of finance capital could take place independent ‘of the movement of the actual capital it represents’ (p86, quoted in Hossein-zadeh); and that as capitalism develops the movement of money (finance) capital becomes more and more independent of the movement of industrial capital. This is critical for his argument that crisis can hit the speculative financial sector at a moment when there is not a crisis within the real sector, but that through the tightening of credit and asset price deflation spread the crisis from the speculative to the productive sector. The author further argues in this chapter that contemporary Marxists, unlike Hilferding and Lenin who expanded in the early 20th century on Marx’s work on finance capital, have largely abandoned systematic explorations into the workings of finance capital (generally viewing it as secondary to their conception of a Marxian theory of crisis), and focused primarily on the movements within the productive sector. It is not that Hossein-zadeh disagrees in principle with the contemporary Marxist scholars about the potential for crisis to arise within the circuit of productive capital; but that many of these Marxists have overlooked the fact that crisis can and does at times start within the financial sector and proceeds to spread to the real sector. Many contemporary Marxist theoreticians and economists seem to argue, in an inconsistent or self-contradicting fashion that ‘asset price inflation can boost demand and cause or magnify an expanding real cycle; but debt and/or asset price deflation cannot cause or aggravate a real-sector recession!’ (p107). In Chapter 6 the author explores the historical record of debt cancellations/writedowns, dating back to Bronze Age Mesopotamia (2400-1400 BCE) and running through the 5th and 4th centuries BCE. Here he examines the evidence that suggests that not only were debt cancellation and land restitution/reform common practices in this epoch, but that they often led to economic renewal. While there are moral and ethical arguments that can easily be made in favor of the biblical Jubilee and debt cancellation in general, Hossein-zadeh goes beyond these points to argue that the historical record offers clear evidence that an economic recovery would not occur so long as the vast majority of the population is saddled with overwhelming debt and interest payments. The author further argues that the decline of these socially-beneficial practices coincided with the rise of private property and the growth of power of landowning and rentier classes, and that these classes exerted influence over the state/religious authorities to deemphasize these central aspects to the Old Testament’s socio-economic reforms. In Chapter 7 the author makes the case for public banking. Here he underscores once again the pernicious role of private banking in advancing the interests of the wealthy few in general and finance capital in particular at the expense of the many. He argues that while private banks ‘create financial bubbles during expansionary cycles and credit crunch during contradictory ones’, public banking ‘can provide steady, reliable financial resources as dictated by a nation’s industrial and/or commercial needs’ (p129). Crucial here is the superior economic record held by the BRICS (Brazil, Russia, India, China and South Africa) countries in weathering the 2008 financial collapse and the ensuing economic crisis. Contrary to a situation in which the state becomes beholden to creditors, when banks are nationalized the state has additional resources with which to engage in essential public projects that both serve a social purpose and stimulate demand. While acknowledging that public banking by itself is insufficient to prevent the recurrence of all economic crises, Hossein-zadeh successfully makes the case that this is a necessary first step to avert crises that originate within the financial sector. In the final chapter, the author soundly argues that there are no shortcuts to superseding capitalism by solely nationalizing the banking system; and that we must move beyond capitalism itself, or else we would be subjected to the throes of its logic. Here he examines the role of labor as one of the key players in confronting capital. Sadly, as he points out in this chapter, many unions have become caught up in business unionism and have tragically become vehicles for transmitting the dictates of capital to the workers (as opposed to vice-versa!), and have been unable (or unwilling) to resist the generalized assault on labor in the form of layoffs, wage cuts and outsourcing. A central explanation for the debilitation of unions offered here lies in capital’s global reach and the globalization of production. Capital has free global movement and is organized on an international level and thus is able to play off workers in various countries against each other in a race to the bottom in terms of worker safety, salaries, benefits, labor laws and environmental protections. Labor must therefore organize internationally so as to be able to effectively resist a globalized capitalist system. A key element of this strategy lies in resisting all forms of chauvinisms, and reactionary nationalisms that have at times infected the labor movement and can lead to what Edna Bonacich (1972) referred to as a split-labor market. Dr. Hossein-zadeh in this

chapter also looks at the limitations of the Occupy movement, arguing that while their heart was in the right place, Occupy activists had condemned themselves to be ineffective as a long-term force for change by refusing to adopt an organizational structure or outline specific demands. The author thus points us back to the critical role of labor to play in this regard, but that it is essential that they organize and coordinate globally, otherwise capital will be able to outmaneuver workers' resistance and subject labor to its logic. In the end, Hossein-zadeh remains hopeful based on the seeds of international labor organizing that labor will be able to meet this challenge in the future and serve as a primary catalyst for meaningful socio-economic transformation. In summary, I recommend this book without reservation, as a critical component of the library of those who are not just concerned with understanding the dynamics of finance capital and its role in facilitating economic crisis, but to all those who are genuinely interested in bringing about a more socially just and equitable society.

Works Cited
Bonacich, Edna. 1972. "A Theory of Ethnic Antagonism: The Split-Labor Market"; *American Sociological Review*, 37:5 547-559.
Marx Karl. [1894] 1981. *Capital* Vol. III Penguin Books in Association with New Left Review. London WI.12

12 of 13 people found the following review helpful. Another tour de force
By Michael Gillespie
Ismael Hossein-zadeh's *Beyond Mainstream Explanations of the Financial Crisis* has exceeded my expectations. As a lay reader, one who is widely read but whose formal training in economics is limited, I was delighted to find that this work makes even complex issues accessible and interesting. Its interdisciplinary approach, which illuminates historical, political and sociological aspects of economics, captured this reader's interest and held it. Having read the author's previous work, *The Political Economy of U.S. Militarism*, I was prepared for a fearless, thought-provoking analysis that challenges mainstream paradigms. Even so, Hossein-zadeh's latest contribution to the public discussion about economics surprises again and again. Closely-reasoned and meticulously-crafted, *Beyond Mainstream Explanations of the Financial Crisis* took this reader places he did not expect to go and offered unexpected insights along the way. Isn't that what the best writers do? Enjoy!

This book provides a critique of the neoclassical explanations of the 2008 financial collapse, of the ensuing long recession and of the neoliberal austerity responses to it. The study argues that while the prevailing views of deregulation and financialization as instrumental culprits in the explosion and implosion of the financial bubble are not false, they fail to point out that financialization is essentially an indication of an advanced stage of capitalist development. These standard explanations tend to ignore the systemic dynamics of the accumulation of finance capital, the inherent limits to that accumulation, production and division of economic surplus, class relations, and the balance of social forces that mold economic policy. Instead of simply blaming the "irrational behavior" of market players, as neoliberals do, or lax public supervision, as Keynesians do, this book focuses on the core dynamics of capitalist development that not only created the financial bubble, but also fostered the "irrational behavior" of market players and subverted public policy. Due to its interdisciplinary perspective, this book will be of interest to students and researchers in economics, finance, politics and sociology.

About the Author
Ismael Hossein-zadeh is Emeritus Professor of Economics at Drake University, USA.