

Financialization and the dynamics of contemporary capitalism. Presentation

Daniela M. Prates *
Giuliano C. Oliveira **
Adriana N. Ferreira ***
Carolina T. Baltar ***

Since its launch in 1992, *Economia e Sociedade*, a journal published by the Institute of Economics at the University of Campinas (IE/Unicamp), has publicized and helped to develop a critical thinking in the fields of economics and economic history, embracing the heterodox tradition inspired by Marx, Keynes, Kalecki and Schumpeter as well as by Latin American thought on economic development. The journal, which marked its 25TH ANNIVERSARY in 2017, has published 61 regular volumes and two special volumes: the first, in December 2008, in light of the first meeting of the Brazilian Keynesian Association (AKB), which took place at IE/Unicamp, and the second, in December 2012, on “Development and developmentalism(s) in Brazil”, to celebrate the 20th anniversary of the journal.”

This third special volume was conceived at the time of the international conference “Financialization and the Dynamics of Contemporary Capitalism” that took place at IE/Unicamp in November 2016. The aim of the conference was to provide a comprehensive analysis of that phenomenon of modern capitalism and honor Professor José Carlos Braga for his original and valuable contribution on such issue¹.

The International conference was organized by the Center of International Economic Relations (Ceri), under the direction of Professor Giuliano Contento de Oliveira, and was sponsored by the São Paulo Research Foundation (FAPESP). Invaluable support was given by the directors of IE/Unicamp, professors Paulo Sérgio Fracalanza (Director) and André Martins Biancarelli (Deputy director).

* Editor in chief of *Economia e Sociedade* / Associate Professor at the Institute of Economics/University of Campinas (IE/Unicamp) / Researcher at the National Council for Scientific and Technological Development (CNPq). Email: prates@unicamp.br.

** Lecturer at IE/Unicamp / Researcher at the Center for International Economic Relations (Ceri/IE). Email: giueco@unicamp.br.

*** Co-editors of *Economia e Sociedade* / Lecturers at the IE/Unicamp. Emails: adrinf@unicamp.br; cbaltar@unicamp.br.

(1) The conference lectures can be accessed at:

<https://www.youtube.com/watch?v=WDG7DKAAsdPg&list=PLHK-p1PtWCjwn2r1pG7fvDDf8XjRtJ0-R>.

In addition to Professor José Carlos Braga, the event was attended by the following speakers: Professor Jan Kregel (Levy Economics Institute of Bard College), Professor Robert Guttman (Hofstra University and Paris XIII), Professor Arturo Huerta (National Autonomous University of Mexico), Professor Luciano Coutinho (IE/Unicamp), Professor Wilson Cano (IE/Unicamp), Professor Laura Tavares (Federal University of Rio de Janeiro), Professor Frederico Mazzucchelli (IE/Unicamp) and Professor Giuliano Contento de Oliveira (IE/Unicamp)².

Professor José Carlos Braga's contribution to the understanding of contemporary capitalism based on the concept of financialization has been fundamental, allowing the understanding of financialization as a systematic pattern of wealth, namely, new ways of defining, managing and realizing. The development of this idea has begun at the end of the 1970s and beginning of the 1980s in the fruitful intellectual environment of the IE/Unicamp with the support of his interlocutors and masters, among which stands out professors Maria da Conceição Tavares and Luiz Gonzaga de Mello Belluzzo.

The seminal idea of Professor Braga has been developed in his PhD thesis, which he defended in 1985 at the Institute of Economics at the University of Campinas, entitled "The temporality of wealth – A contribution to the theory of capitalist dynamics"³, and, in 1993, with the publication of the article "The financialization of wealth: the financial macrostructure and the new dynamic of central capitalisms", in the second volume of this journal.

Hence, Prof. Braga was a pioneer in the organized and deep understanding of the notion of "the financial dominance of capitalism", which could be summarized by the expression "financialization of wealth", having studied this phenomenon using the logical-historical method, in the tradition of political economy of the "School of Campinas". His approach was drawn on the works of prominent authors in this field of study, especially Marx, Keynes, Kalecki, Hilferding, Hobson, Steindl and Schumpeter, as well as of his masters.

The importance of Prof. Braga's contribution can be attested by several references to his studies made by authors who have studied the subject or employed the idea of financialization as a systematic pattern of wealth. He has also received recognition from many of his peers for his studies on this topic. Coutinho and Belluzzo (1998) and Belluzzo (1997) made a point of recognizing Prof. Braga's pioneering and relevant contributions. According to Belluzzo (1997, p. 191):

(2) Many people were involved in the organization of the event, including employees, researchers and docents, without whom the conference would not have been possible, among which Paulo José Whitaker Wolf (whose role was crucial) and professors Alex Wilhans Palludeto, Ana Rosa Mendonça and Simone de Deos.

(3) An extended and revised version of the thesis was later turned into a book. See Braga (2000).

[...] the logic of patrimonial valorization is taking control of all aspects of the economy [...] It not only deals with the fact that the calculation of the present value of productive investment is affected by the liquidity preference level in financial markets [...] but that the productive accumulation has become “financialized”, as professor José Carlos Braga has explained in his groundbreaking works.

In summary, Prof. Braga aimed to demonstrate, throughout his brilliant investigation on this highly complex subject – due to its multifaceted and multidisciplinary nature – that financialization is a way of being of contemporary capitalism and does not represent an anomaly of this system. From that perspective, financialization does not guide capitalism to a stationary state, but exacerbates the intrinsic tensions between expansion and crisis. Therefore, the relationship between states and markets has become even more intricate. Moreover, the idea of financialization as the domination of the financial sector over the other economy sectors becomes invalid as far as this pattern of wealth became systemic, in the sense of involving all relevant actors guided by the logic of a general financial calculation, which includes operations with financial and non-financial assets. This growing and permanent fusion of the partial forms of capital was suggested innovatively by Hilferding (1910) and very competently revisited by Braga (1985; 1993; 1997; 2000) in order to develop his concept of financialization, summarized as follows.:

It is a systematic pattern since financialization is made up of fundamental components of capitalist organization, interlinked in such a way to establish a structural dynamic according to principles of a general financial logic. Thus, it is not only derived from the praxis of segments or sectors – banking capital, traditional rentiers – but has, on the contrary, outlined the strategies of all relevant private agents, conditioning financial operations and public expenditures, changing the macroeconomic dynamics. In summary, it has been intrinsic to capitalist system such as this system is actually configured (1997, p. 196.).

From this perspective, financialization should be understood as a consequence of the general movement of capital towards its own concept, i.e., value in process of incessant valorization, and not as an anomaly of the capitalism system logic (Braga, 1997; Tavares, 1978).

Finally, it is worth stressing that, mainly from the 2000s onwards, the use of the word “financialization” has significant risen in academic journals, yet with different meanings. It is no exaggeration to affirm that the different definitions of this phenomenon, from a conceptual point of view, on many occasions, complicated rather than clarified its fundamental features. The articles published in this special volume aim to cast light on this and other issues related to such subject, indicating the need to investigate more and more this complex topic in terms both of its nature and its diverse economic and social implications.

The articles were selected in the same way as in regular volumes, i.e. the 36 articles were submitted to blind review of two referees (from research centers and universities in Brazil and abroad). The thirteen manuscripts with the highest evaluations were chosen (including one book review). It is important to highlight that, due to space limitations, several outstanding contributions could not be included in this special volume.

The first three articles present more general approaches to the phenomenon of financialization. The opening article of this special edition, authored by **José Carlos Braga, Giuliano Contento de Oliveira, Paulo José Whitaker Wolf, Alex Wilhans Palludeto, and Simone Silva de Deos** provided a summarized and updated version of the original approach on financialization presented by Professor Braga in 1985, as mentioned above. **Robert P. Guttmann**, based on the theoretical approach of the French Regulation School, also provides a key contribution to the subject, analyzing the dynamics of finance-led capitalism from its rise (1982-2007) up to what he considers the structural crisis (2007-2012) of this regime of accumulation. **Jan Kregel**, following the lines of Keynes, Schumpeter, and Minsky, criticizes the dichotomy between production and finances sometimes supported in the literature on financialization, suggesting that the innovation process subjacent to the creation of liquidity by the financial system provides a more in-depth analysis of the implications of such phenomenon.

The remaining articles study the different aspects associated to the topic of this special volume from a theoretical and/or empirical perspective. **Paulo F. do Nascimento and Antônio Carlos Macedo e Silva** analyze the macroeconomic models that take into account the financialization using the stock-flow consistent approach, in order to evaluate whether this approach is able to formally represent this phenomenon and overcome the limitations presented by the other attempts of formal analysis. **Bruno Hofig** rescues Marx's analyses on social forms in capitalist production and on the nature of fictitious capital to build an original interpretation of the recent development of the equity capital, anchored in the hypothesis that its autonomization is the necessary result of the historical evolution of this mode of production, and not the mere consequence of random decisions taken by the individuals involved in the process, as the majority of the literature seems to interpret. **Raquel Ramos** also provides an original contribution in her analysis on the manifestations of financialization on a global scale and in the so-called emergent economies, presenting empirical evidences (based on financial integration indicators and on features of currency markets) on the presence and varying degrees of financialization in these economies.

The following contributions focus on Mexico and Brazil, two highly financialized Latin American economies according to Ramos's study. **Arturo Huerta** analyzes the situation in Mexico, highlighting the negative implications of

financialization on policies and macroeconomic performance. The following four articles are dedicated to the case of Brazil.

Miguel Bruno and Ricardo Caffé also adopt a regulationist approach to understanding the structural relationship between the state and the Brazilian economy in the long-term. Their study provides both empirical and methodological contributions to the existent literature on the subject. **Flávio Arantes and Geraldo Biasoto** focus on the fiscal policy, a key dimension of this relationship. They present the argument that the conception of such policy in the dominant thinking in macroeconomics (i.e. the New Consensus in Macroeconomics – NCM) and the traditional fiscal indicators, besides not considering relevant aspects of the performance of public accounts, are even more inadequate in the finance-led capitalism, whose dynamic is no longer based on flows, but on the management of assets and the increase in financial wealth. Social policies are another important dimension of the state-economy relationship and is discussed by **José Antônio de Freitas Sestelo and co-authors** (all of whom are from the Group of Research and Documentation on the Business of Health Henry Jouval Jr., Federal University of Rio de Janeiro). The authors identify repercussions of financialization on social aid, welfare, housing, education and, in particular, health, arguing that, in the case of health, the change in the sectorial pattern of accumulation accompanied the deepening of financialization. In addition, they highlight the need to look deeper into empirical research and the theoretical debate, in order to establish links between financialization and the increased profitability of companies in this sector.

The article written by **Mariana F. Corrêa, Pedro de M. Lemos and Carmem Feijó** contributes to understanding this link between corporation profitability and financialization, but from a multisectoral perspective, based on an empirical analysis of a sample of non-financial Brazilian companies in the 2000s, characterized by the intensification of financialization. Based on an analysis of the heterodox literature on financialization and on Minsky's approach of financial fragility, the article concludes that the recent economic recession in Brazil constituted a crisis of Minskyian character. Hence, the crisis would only be overcome if the capacity of these companies to accumulate capital, as well as the degree of confidence in expectations to induce investment in capital assets, were recuperated. **Bastiaan F. Reydon and Vitor B. Fernandes** focus on the process of financialization in Brazil, analyzed from a post-Keynesian perspective. Based on an analysis of both the data on foreign investment in agriculture and cattle breeding and the legal and institutional aspects related to the land owned by foreign investors in Brazil, the authors find that the phenomenon of purchasing land by these investors has always had a speculative component, but has been heightened by the deregulation of financial markets and the deepening of financialization in a context of inefficient attempts to regulate and control this market.

In the final contribution to this special edition, **Bruno M. de Conti** presents a review of Professor Robert P. Guttman's book *Finance-Led Capitalism: Shadow Banking, Re-Regulation, and the Future of Global Markets*, published in 2016 by Palgrave Macmillan.

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