CÉDRIC DURAND

THE END OF FINANCIAL HEGEMONY?

Behind the headline inflation figures—above 8 per cent in the US for the third quarter of 2022 and over 11 per cent in the EU—there are unmistakable signs of a new macroeconomic regime taking form. The surge in prices marks a striking contrast with the deflationary tendencies that followed the 2008 financial crisis or the so-called great moderation of the long 1990s. As price rises gathered pace during 2022, the dovish 'Team Transitory' camp lost ground. In April, the Bank for International Settlements took stock, warning of price spillovers across sectors and between prices and wages, and that the structural factors that had kept inflation low might be waning with the retreat of globalization. The General Manager of the BIS announced a policy turn:

> The adjustment to higher interest rates will not be easy . . . Households, firms, financial markets and sovereigns have become too used to low interest rates and accommodative financial conditions, also reflected in historically high levels of private and public debt . . . Nor will the required shift in central bank behaviour be popular. But central banks have been here before. They are fully aware that the short-term costs in terms of activity and employment are the price to pay to avoid bigger costs down the road. And such costs represent an investment in central banks' precious credibility, which yields even longer-term benefits.[1]

Since then, his colleagues from the FED, the ECB and the BOE have promised to continue with rate rises, while anticipating higher unemployment as a result of a worldwide shift towards this stricter monetary regime.[2]

And here we are. In its 'economic outlook' for 2023, the IMF offered a gloomy prognosis:

> The 2023 slowdown will be broad-based, with countries accounting for about one-third of the global economy poised to contract this year or next. The three largest economies, the United States, China and the Euro Area will continue to stall. Overall, this year's shocks will re-open economic wounds that were only partially healed post-pandemic. In short, the worst is yet to come and, for many people, 2023 will feel like a recession.[3]

The financial sector has pushed back, increasingly nervous about its own stability in the face of this hawkish stance. In October 2022 Robin Brooks, chief economist at the Institute of International Finance—the global association of the financial industry—noted on his way back from an IMF/World Bank meeting that there had been no consensus on monetary policy: most policymakers wanted to keep hiking aggressively; most market participants wanted central banks to slow. 'When I drive into fog, I slow down', Brooks tweeted. 'There's massive global uncertainty. Slow down!' On the same day, Macron took up the call with an undisguised attack on the ECB, expressing his concern at the European monetary-policy actors' 'explaining that we should wreck European demand to better contain inflation.'[4]

This is no time for *Schadenfreude*, given the scale of the hardship facing the popular classes and the low- and medium-income countries with alarming levels of distressed debt.[5] Nor will it be sufficient for socialists to take advantage of the divisions between fractions of capital, in this highly volatile conjuncture. In politics as in finance, instability is raising the stakes. We are entering a high-risk moment, where it is important to identify the logic of the tectonic movements taking place. Rampant financial, ecological and geopolitical crises, exacerbated by the turbulence of the pandemic and the war in Ukraine, are fuelling the present

---

[1] Agustín Carstens, 'The Return of Inflation', BIS, 5 April 2022.

[2] Howard Schneider and Ann Saphir, 'Fed Delivers Another Big Rate Hike; Powell Vows to "Keep at It"', Reuters, 22 Sept 2022.

[3] Pierre-Olivier Gourinchas, 'Policymakers Need Steady Hand as Storm Clouds Gather Over Global Economy', IMF, 11 Oct 2022.

[4] See @RobinBrooksIIF, 16 October 2022: https://twitter.com/RobinBrooksIIF/status/1581626808856121346; Nicolas Barré et al., 'Emmanuel Macron: "Il faut une politique massive pour réindustrialiser l'Europe"', *Les Echos*, 16 October 2022.

[5] 'UNCTAD Warns of Policy-Induced Global Recession', UNCTAD, 3 Oct 2022.

instability. While that is the backdrop to the return of inflation, the phenomenon has a logic of its own. It involves three distinct mechanisms, with combined political-economic dynamics:

- First, the exogenous shocks and imbalances caused by the pandemic's disruption of global supply chains, just as demand was boosted by massive state support, and a composite energy shock turbocharged by the war in Ukraine.

- Second, distributive capital–labour struggles, engendered by the initial surge in prices and exacerbated by falling real wages and companies' price gouging.

- Third, the unravelling of over-accumulated fictitious capital, which is what gives the return of inflation its structural character; it threatens the hegemony of finance within the mode of regulation.

In what follows, we examine each in turn. But first, a brief note on the hegemony of finance. The basis for the rise of the financial sector—from the post-1971 liberalization of exchange rates and deregulation of the great savings funds, to the dramatic growth of shadow banking, derivatives and FX trading and the explosion of public and private debt—has been the exhaustion of the productive dynamic in the advanced economies and the reorientation of capital away from domestic productive investment to seek higher returns in financial profits and in globalized production chains, exploiting cheaper labour. Leveraged credit granted a reprieve to sluggish economies, boosting consumption beyond what stagnant real wages could afford. But finance is only relatively autonomous; it cannot entirely free itself from the underlying economic realities and proceeds by shocks and blowouts that require ever-greater public intervention. Since the 2001 dot.com crash, it has relied upon continual political support. With the partial exception of the digital sector, hypertrophied finance has ceased to be a dynamic factor in accumulation and has become a deadweight on social reproduction as a whole.[6]

But finance is a master blackmailer. Since the 2008 crisis, it has retained its hegemonic position thanks to uninterrupted monetary infusions

---

[6] Cédric Durand, *Fictitious Capital: How Finance Is Appropriating Our Future*, trans. David Broder, London and New York 2017, pp. 66–8, 151–5; first published as *Le capital fictif*, Paris 2014.

from the central banks. This allowed it to pursue valorizations that were completely out of touch with reality, as was demonstrated in March 2020, when the financial crash that would logically have followed the lockdowns was averted by massive and coordinated purchases of public and private assets by central banks. But in the new inflationary context, this monetary guarantee is finally reaching the limits of its effectiveness. If central banks were to keep pursuing their tightening, a full-blown financial crisis would follow. A more likely outcome, therefore, is a real devaluation of financial assets through a crisis *rallentando*, in the form of permanent mid-level inflation. The pace of the shift may be relatively moderate, but the structural implications are unmissable. If the hegemony of finance is on the wane, who will step up to the vacant throne? Labour and ecologists will need to battle for the new order.

Shocks and imbalances

There is little controversy about the immediate causes of the return of inflation: they are cost-push. When the lockdowns and Covid-19 restrictions struck the global factory and transport system, the just-in-time 'management of business inventories' hailed by the then chair of the Federal Reserve turned out to be a costly liability.[7] The lean structure of supply chains deprived the intricate networks of production and logistics of any slack, and this became a major propagator of shock when factories shut down, shipping stopped, workers stayed home and ports emptied, as the virus spread. And once broken, these links proved difficult to repair. Moreover, the bottlenecks were tightened by firms' strategic adaptation to the situation, leading to a 'bullwhip effect': the initial shortages led to anticipation of future supply problems, and thus to precautionary hoarding all along the supply chain.[8] China's zero-Covid lockdowns, affecting the world's major production centres, perpetuated these constraints well into 2022.

In the meantime, vigorous state intervention in the advanced-capitalist countries, aimed at preventing a spiral of impoverishment and mass

[7] Ben Bernanke, 'The Great Moderation', speech to the Eastern Economic Association, Washington, DC, 20 February 2004; available on the Federal Reserve website.

[8] Daniel Rees and Phurichai Rungcharoenkitkul, 'Bottlenecks: Causes and Macroeconomic Implications', *BIS Bulletin*, no. 48, 11 November 2021.

bankruptcies, flooded their economies with liquidity. In the US, the extraordinary fiscal stimulus witnessed between March 2020 and March 2021 amounted to over $5 trillion, or a quarter of GDP. In the EU, too, the fiscal response was significant, although only half the size of the Trump–Biden packages as a share of GDP—an important element in accounting for the stronger recovery of the US economy and the differences in the inflationary dynamic on each side of the Atlantic.[9] This unprecedented stimulus allowed demand to rebound very rapidly, boosted by the accumulation of savings in the richest half of the population, after months of consumption famine due to lockdowns and restrictions. The quantitative push of demand was magnified by a qualitative change. Adjusting their spending to social-distancing norms, consumers shifted demand from services to manufactured goods, piling further pressure on factories, transport and retail services. The trade magazine of the auto industry, *Motor Trend*, offers a telling example of the mechanisms behind the price surge in this sector:

> The crisis dates to March 2020 when the pandemic forced automakers to shut down plants and temporarily halt orders from suppliers. At the same time, the electronics industry faced increased demand for cell phones, televisions, computers, games, and home appliances from customers abiding by stay-at-home orders. Chipmakers rerouted their supply to the electronics industry, which also showed a willingness to pay more for the silicon wafers. When the auto industry came back online faster than expected in the summer of 2020, it found the chips needed weren't available and suppliers were content to keep their more lucrative contracts with others. Big orders can't be met quickly; it takes about three months to make even the simplest of semiconductors.[10]

Deprived of these crucial components, carmakers were unable to meet the booming demand. In spite of sanitary restrictions easing in 2021, the number of new car registrations in the US plunged to a level not seen since the 1950s, with a global production shortfall estimated at over 11 million vehicles and losses of $210 billion for the industry worldwide.[11] In this dire situation, global carmakers began bypassing their Tier 1

---

[9] See 'Covid-19: The EU's Response to the Economic Fallout', available at consilium.europa.eu.

[10] Alisa Priddle, 'What Happened with the Semiconductor Chip Shortage—and How and When the Auto Industry Will Emerge', *Motor Trend*, 27 Dec 2021.

[11] Data: OECD and European Automobile Manufacturers' Association (ACEA).

suppliers and reaching out directly to chipmakers in hope of stockpiling this strategic input, which further intensified the shortages.[12] The case of semiconductors illustrates a more general point. The bottlenecks have been particularly severe in upstream industries such as raw materials, energy and transportation. Though in each case the dynamic has its specificities, a price surge for upstream products has ramifications for the whole economy.

In the case of energy prices, which were driving inflation even before the invasion of Ukraine, pouring fuel on markets that were already on fire due to the challenge of the carbon transition had far-reaching repercussions.[13] The brutal delinking of European energy markets from Russia had dramatic reverberations in price levels, as surging costs and opportunistic rents cascaded through the production chains to consumers; by October 2022, annual inflation rates were running at 11.6 per cent in Germany, 12.6 per cent in Italy and over 20 per cent in the Baltic. The spectacular deterioration in the Eurozone's trade balance (Figure 1), from a structural surplus to a substantial deficit, shows that the surge in

Figure 1: *Eurozone Trade Balance, 1999–2022*

Source: Eurostat.

[12] Joe Miller, 'Carmakers Order Enough Chips for Record Rebound in Global Production', *FT*, 5 October 2022.

[13] Cédric Durand, 'Energy Dilemma', NLR–*Sidecar*, 5 November 2021.

energy prices is a cost for the whole European economy, corresponding to a degradation of the terms of trade. The counterparts are the record surpluses registered by oil-exporting countries such as Saudi Arabia and, ironically, Russia.

If the sole causes of the current rise in inflation were the lockdowns and the war, it would be a temporary phenomenon. It could even reverse, with a vengeance: the same forces that amplified the bullwhip effect could precipitate a decline in prices, once shortages were eliminated and inventories stockpiled along supply chains; a ceasefire and negotiations to end the war in Ukraine could eventually cool energy prices—or send them into a slump, if accompanied by a slowdown in China. If inflation is rooted in temporary imbalances between sectors, not much can be done in the short run to extend supply.[14] This is not to say that surging inflation is painless, or that there is no alternative beyond austerity or wait-and-see; rather that short-run, cost-push inflation cannot be dealt with satisfactorily by fiscal or monetary tightening, without adding unnecessary pain.[15]

For firms, however, a cost-push inflationary moment is a great opportunity for price gouging. Producers in the relevant sectors benefit from these bottlenecks as they increase their mark-up. The extraordinary profits for energy and shipping companies are a case in point. The consequence of such behaviour is far greater disruption: not only do real shortages hurt, but buying agents also experience a deterioration of their balance sheet due to these rising bills, which reverberate throughout the economy and squeeze real incomes, ultimately leading to stagnation.

Capital's assault

A changing price level is never homogeneously distributed between sectors and agents. It always entails a change in the matrix of relative prices: some sectors and agents lose and others win. Here we see signs of the

[14] This was initially acknowledged by ECB director Isabel Schnabel. 'There is very little we can do about current high inflation', she told the *Financial Times*. 'Even if we hiked rates now, this would not bring down today's energy prices': interview, 15 February 2022; available on ecb.europa.eu.

[15] In such circumstances, as discussed below, strategic price controls are a far better way to prevent inflation from spiralling, without crashing the economy. See Isabella Weber's compelling argument, 'Could Strategic Price Controls Help Fight Inflation?', *Guardian*, 29 December 2021.

emergence of a new macroeconomic regime, distinct from these immediate supply shocks and demand counter-shocks: the evidence of the past two years indicates a move by capital from the sectoral instrumentalization of asymmetric shocks to a general onslaught on labour income.

Leveraging their market power, companies have used the surge in costs as a pretext for increasing their mark-up. They are quite frank about this when talking to investors. Andre Schulten, the CEO of Procter & Gamble, explains that 'building on the strengths of its brands', P&G is 'thoughtfully executing tailored price increases.' Miguel Patricio, CEO of Kraft, Heinz, expects to 'continue delivering positive pricing.'[16] Meanwhile, it takes time for organized labour to react to the new situation. On the back of a decades-long weakening of the labour movement, firms have benefited from a first-mover advantage, as unions lag months behind in claiming pay increases and lack the muscle to impose an indexation of wages to prices. Companies are thus pocketing the price differential, raising the general rate of exploitation of the labour force. American corporate profits have soared—2021 was their best year since 1950—and the top firms are distributing record dividends, pushing the pre-pandemic trend to a new high.[17]

For American labour, the immediate consequences have been mixed. On the one hand, workers' real wages have been declining: average US private-sector hourly earnings fell by 4.2 per cent between January 2021 and October 2022. On the other, labour incomes were compensated by huge fiscal transfers during the pandemic. The Trump–Biden stimulus not only rescued profit levels and enriched the richest but also helped the poorest workers to cope with surging prices, in a context where workers' bargaining power was not sufficient to defend labour's share. Overall, in spite of declining real wages, this facilitated a change in the dynamic of employment in favour of low-wage workers.[18] Moreover, the stimulus made for a high-pressure economy, allowing production and

---

[16] Dion Rabouin, 'Big Companies Thrive During Periods of Inflation', *Wall Street Journal*, 10 February 2022.

[17] For profits: Matthew Boesler, 'Profits Soar as US Corporations Have Best Year Since 1950', *Bloomberg*, 30 March 2022; Edward Yardeni and Joe Abbott, 'S&P 500 Sectors & Industries Profit Margins (quarterly)', Yardeni Research, 28 November 2022. For dividends, see 'Janus Henderson Global Dividend Index', no. 36, November 2022, available on janushenderson.com.

[18] See US Bureau of Labor Statistics; Thomas Blanchet, Emmanuel Saez, Gabriel Zucman, Realtime Inequality database, Dept of Economics, Berkeley CA.

employment to rebound. This is the basis for the conventional, hardline argument for raising interest rates—to weaken labour's wage-bargaining position by chilling the economy, throwing people out of work and making households take the hit of rising prices.[19]

In Europe, corporate profits have also soared, buoyed up by energy stocks.[20] But the situation has been far worse for labour, due both to less supportive macroeconomic policies than in the US and greater exposure to the energy shock of decoupling from Russia. The ECB is warning that the Eurozone is in the midst of a cost-of-living crisis, with a decline in real wages of over 4 per cent between summer (Q3) 2021 and spring (Q2) 2022, while the poorest have also been hardest hit by inflation, with the prices in their consumption basket rising faster than those of the richest.[21] To the limited extent that there is an autonomous movement of price acceleration in the Eurozone, beyond the supply shocks, it is thus not a price-wage spiral but a profit-price spiral, which calls not for monetary tightening but for a disciplinary policy on capital, with a cap on price increases linked to the dynamic of production costs. Conversely, the defence of the working class should first focus on wages and social benefits, but must also encompass detailed attention to the real consumption patterns behind the price index and focus on the affordability of essential goods and services.

The fork against finance

A fork, in chess, is a position from which a piece can simultaneously threaten multiple enemy pieces. Inflation is *de facto* operating a weapon

---

[19] 'What [central bankers] have to do is prevent a wage-price spiral, which would certainly destabilize inflation expectations. Monetary policy must be tight enough to achieve this. In other words, it must create/preserve some slack in the labour market. What degree of policy tightness is needed to achieve this we don't know. And it is certainly possible that headline and most measures of core inflation will continue to be high even if a degree of labour market slack does exist. But there is no point in permitting a level of aggregate demand that aggregate supply, given the pattern of demand, cannot meet. Central banks must tighten accordingly': Martin Wolf, quoted in Robert Armstrong and Ethan Wu, 'A Third Option in the Inflation Debate', *FT*, 17 February 2022.

[20] Tajinder Dhillon, 'STOXX 600 Q2 2022 Earnings Halfway Review: Growth Remains Resilient', *Lipper Alpha Insight*, 11 August 2022.

[21] Isabel Schnabel, 'Monetary Policy in a Cost of Living Crisis', remarks at a panel on the 'Fight against inflation' at the IV Edition Foro La Toja, 30 September 2022; available at ecb.europa.eu.

of this kind against finance. On the one hand, inflation calls for a restrictive monetary policy and a reduction of liquidity that would deprive financial markets of the continual support they have received over the years in bailouts and quantitative easing; it could provoke a sudden drying-up of liquidity and the onset of financial panic.[22] On the other hand, inflation devalues the price of accumulated debt and the real rate of interest, tilting the relationship between debtor and creditor to the former's advantage. The erosion of the value of debt means that the amount the debtor must repay diminishes in real terms, impoverishing the creditors—the owner of financial assets—accordingly. Such a mechanism lies behind Keynes's famous punchline calling for 'the euthanasia of the rentiers'.

Either way, financial hegemony will be diminished. For the sector as a whole, the inflationary fork means a choice between apoplexy and slow-motion agony. But although there has been much posturing this year about Volcker's heroic stand against inflationary pressure in 1979, there are serious reasons to doubt we are in for a repeat, unless as farce. If its hegemony is weakening, finance remains a powerful player with a central structural position. In spite of central banks' tightening, the real cost of borrowing—that is, the nominal interest rate minus the rate of inflation—is still deep in negative territory on both sides of the Atlantic. Yet financial distress signals are already going up. The Goldman Sachs index, which reflects the availability of funding, covering not just interest rates but exchange rates and equity swings, is reaching levels not seen since the depths of 2009.[23] This does not mean that a major financial crisis is around the corner, however. It means that the central banks will change course.

The Bank of England's intervention following market reactions to the Truss–Kwarteng mini-budget in September 2022 corresponds to that pattern. After investors' abrupt sell-off of British public debt and a sharp devaluation of sterling, the liquidity of UK pension funds was in danger

---

[22] An industry analyst is blunt about the dilemma: 'In an inflationary world, central banks have to focus on anchoring inflation expectations. This means that financial-stability concerns, even if they are relevant for the growth outlook, become secondary. This is different from the situation we have been in for the last 20–30 years, when central banks always stepped in when there was meaningful financial-market tension': Jens Nordvig, 'Money Inside and Out', Exante Data, 16 October 2022.

[23] Davide Barbuscia and Lewis Krauskopf, 'Analysis: Worries over Global Financial Stability Mount as Central Banks Tighten Policy', Reuters, 13 October 2022.

due to margin calls related to derivatives contracts, linked to gilt movements and managed by companies like BlackRock. To break the doom loop, the Bank of England moved in a matter of hours from quantitative tightening to a new buying programme. 'We're seeing financial sector worries override monetary policy concerns', the *FT*'s chief economics commentator noted. A granular investigation suggested—helpfully for the Bank—that it had stepped in not to save pension funds or giant asset managers but to prevent the government-bond market spiralling into chaos, with all the associated increase in UK risk premia that would involve.[24]

Even if nobody knows for sure where the next blast will occur, there is not much doubt that other bombs are ticking. Housing markets are faltering, albeit after a vertiginous rise during the pandemic. More surprisingly, the unusual stress on the Swiss Franc following some setbacks at Credit Suisse illustrates the extent of market strains. It is taken for granted that central bankers will still rush in, when needed, to fix the pipes in an overleveraged non-banking financial-plumbing system. The ECB made a preventive step in that direction in July 2022 when, in the middle of a cycle of monetary tightening, it set in place a 'Transmission Protection Instrument' to back the public debt of member states, lest this come under the kind of strain suffered during the Eurocrisis. By taking this decision, the ECB too implicitly acknowledged the primacy of financial stability over price stability.[25]

Moreover, for some important players, the fork in which inflation holds finance is single-pronged. Unlike long-term lenders, such as banks, the big asset managers are more relaxed about inflation—and would prefer it to a spike in interest rates. A BlackRock analyst (and former Canadian central banker) argues that the world economy is in the midst of a massive process of structural resource reallocation which may take five years or more, given the shock of Covid, the delinking of Europe from Russian hydrocarbons and the transition to renewable energy, which will work itself through by creating inflationary bottlenecks in some sectors and slack in others. As long as it remains 'anchored'—that is, as long

[24] Martin Wolf, 'Larry Summers: "The Destabilization Wrought by British Errors Will Not Be Confined to Britain"', *FT*, 6 October 2022; Toby Nangle, 'Who Exactly Has the BoE Bailed Out?', *FT*, 30 September 2022.

[25] See respectively: Jamie McGeever, 'Rare Swiss franc stress reflects deeper market strains', Reuters, 18 October 2022; Daniela Gabor and Jakob Vestergaard, *Towards a Theory of Shadow Money*, Institute for New Economic Thinking, April 2016; ECB, 21 July 2022.

as wages don't start to catch up with prices—inflation resulting from sectoral reallocation should be 'accommodated'. Price rises are the market's way of dealing with these readjustments; trying to crush them with interest-rate hikes will only prolong the painful process.[26]

While BlackRock's emphasis on the sector-specific dimension of inflation is correct, it is not the whole story. The political economy of finance explains why asset managers might prefer a relatively accommodating stance. This is not your grandfather's finance capital, as Benjamin Braun notes:

> The variables of the greatest interest to asset managers are *aggregate* asset prices. This is because the fees they charge are calculated as a percentage of the current value of a client's assets. Across a large asset manager's portfolio of funds, the impact of individual fund performance on the growth of assets under management is far less than the impact of aggregate asset price developments . . . Hence BlackRock's preference for macroeconomic policies that sustain high asset prices, powerfully illustrated by its strategic and persistent lobbying for expansionary monetary policy.[27]

As Braun goes on to explain, this growing relevance of aggregate asset prices vis-à-vis returns has substantial implications for the political economy of monetary policy.

> The financial sector has long been treated as the most powerful 'hard money' constituency because inflation devalues banks' nominal claims against borrowers. Asset managers, by contrast, fear a devaluation of their asset base more than inflation, making them a powerful 'easy money' constituency. BlackRock's deep ties with central banks across the world illustrate the point.

Can we measure the decline of finance? As a relation of forces—both within capital and vis-à-vis labour and the state—financial hegemony cannot be reduced to a single metric. However, one way to estimate its intensity is to look at the scale of anticipated valorization, measured by the value of financial assets in relation to the nominal size of the economy. The turnaround of equity markets after a decade-long rally was a first indication in this regard. In the year since November 2021, the *FT*

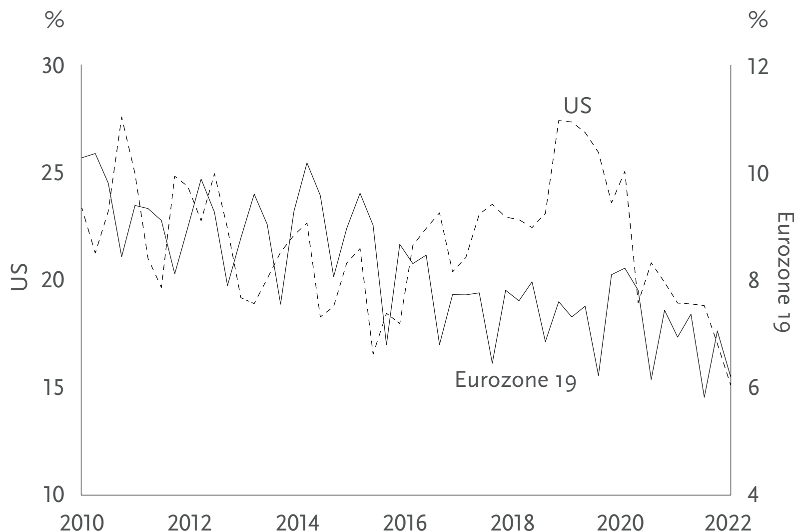
[26] Jean Boivin, head of the BlackRock Investment Institute, cited in Armstrong and Wu, 'A Third Option in the Inflation Debate'.

[27] Benjamin Braun, 'Asset Manager Capitalism as a Corporate Governance Regime', in Jacob Hacker et al., eds, *American Political Economy: Politics, Markets and Power*, Cambridge and New York 2021; a pre-print version is available at *ArXiv Papers*, 15 March 2022.

Wilshire 5000—the broadest index of the US investable market—has fallen 17.5 per cent. As a share of GDP, this development is even more noteworthy: total market capitalization in the US fell from 200 per cent of GDP to 150 per cent, below its pre-pandemic level.[28] The trend is similar in Europe: the STOXX Europe 600 dropped 12.6 per cent over the same period. More dramatically, the crash of crypto markets—where the most speculative class of assets has been traded—reflects the abrupt closing of finance's new frontiers.

Another indication of finance's weakening position is the decline of its share of total profits (Figure 2). In the US, financial-sector profits fell from a peak 27 per cent share at the start of 2019 to just 15 per cent in

FIGURE 2: *Financial Sector Profits as a Share of Total Profits, 2010–2022*



Sources: BEA National Income and Product Accounts, October 2022, Table 6.16D and Eurostat non-financial quarterly data, October 2022.

Notes: US data: other financial (not central bank) percentage of domestic industries; Eurozone 19 data: financial corporations percentage of financial corporations + non-financial corporations. These data are not immediately consistent between the US and Europe.

[28] Data from Wilshire Associates and the US Bureau of Economic Analysis.

the second quarter of 2022; in the Eurozone, the decline has been from 10 to 6 per cent. At a deeper level, the 'power of finance' lies in liquidity, which grounds finance as an autonomous activity.[29] Liquidity embodies the sector's claim to stand for value—and its ability to discipline productive units and state actors by pitting them against each other. As such, the wider the reach of liquidity—that is, the more fluid and integrated financial markets are—the greater its power. The draining of liquidity in the new inflationary context affects financial hegemony, too. And, of course, inflation as financial drought is aggravated by more restrictive monetary policy. Fretting about the impact of Fed interest-rate rises on 'the liquidity of a hyperfinancialized system', heavily exposed to risky assets, one investment manager questioned 'the stock and flow of the system's aggregate financial balance sheet'—that is, that of the central bank and the commercial banks combined. 'How big is it relative to requirements and is it growing or shrinking?' He goes on:

> My argument is that it is not just the size of balance sheets that matters, their composition does too. And, right now, composition matters more than size. The shift in the composition of the Fed's balance sheet from bank reserves to RRP liabilities drains liquidity from a broad risk-taking banking system to a very narrow risk-taking one. The shift in composition of commercial bank balance sheets from financial circulation to industrial circulation in order to support a larger nominal economy reduces the liquidity available to financial markets. And regulatory pressure impedes their ability to expand risk taking. Suddenly, the idea of excess liquidity in the system starts to look very tenuous, particularly from a financial-market perspective.[30]

Balanced against this 'financial-market perspective', it seems probable that the shock of the rigidities of the globalized economy revealed during the pandemic, combined with rising geopolitical tensions, have contributed to a re-evaluation of the merits of the sector, leading to its relative downgrading by US policymakers and cautious capitalists alike. Federal legislation—the CARES, Infrastructure and CHIPS Acts—has meanwhile poured capital into the productive sector.

Provisional lessons

In 1879, in the depth of the Long Depression, Marx joked that it was necessary to study the course of things through to their maturity before

[29] André Orléan, *Le Pouvoir de la finance*, Paris 1999.
[30] Internal memo drafted by Henry Maxey, chief investment officer at Ruffer, cited in Robin Wigglesworth, 'Liquidity Rules Everything Around Me', FT, 20 September 2022.

one could 'consume them productively, meaning *theoretically*.'[31] Such a cautionary note is plainly required here; Minerva's owl is not yet ready to pronounce its verdict on the underlying logic of the highly volatile conjuncture we are living through. Much more will be learned. But three provisional lessons can perhaps be drawn, as an intermediary balance-sheet of the past year.

First, on the politics of monetary policy versus price controls: Isabella Weber was right to argue that monetary tightening was a wrong—and harmful—response to cost-push inflation; strategic price controls are a more effective way to prevent inflation from spiralling without crashing the economy.[32] Though not a panacea, they have proved their worth time and again as a damage-management tool. Weber's argument was initially attacked by the likes of Paul Krugman, but has since attracted much interest. For European rulers, pincered between their NATO pledges and the cost-of-living crisis ravaging their electorates, the demands of the conjuncture have taught a hard lesson regarding a stubborn piece of mainstream economic wisdom. Price policy is making a comeback to deal with the energy crisis, constituting something of an ideological U-turn.[33] The acknowledgement that prices are not natural and immanent phenomena but can and should be managed to avoid unnecessary pain could have far-reaching implications. Price, credit and investment policies are once again becoming legitimate instruments for governments to deploy. This denaturalization of the market is an important reopening of the policy space.

True, the EU has struggled to agree on a price-control mechanism, but Brussels is crossing a Rubicon. Since price capping must be complemented by non-price mechanisms to reduce demand and avoid aggravating shortages, some politicization of resource allocation is inevitable, a path at the antipodes of neoliberal principle. When the market breaks down, 'clear targets and fair burden-sharing' must be negotiated,

---

[31] Marx to Nikolai Danielson, 10 April 1879, in Marx and Engels, *Selected Correspondence*, Moscow 1975.

[32] Weber, 'Could Strategic Price Controls Help Fight Inflation?'.

[33] An illustration: Mario Draghi, of all people, while still acting Italian Prime Minister, launched a scathing attack on Ursula von der Leyen, arguing that by not doing anything to cut the link between gas and electricity prices, the EU had 'made a colossal mistake' and 'impoverished millions of people': Virginie Malingre, 'L'Europe peine à s'entendre sur un plafonnement du prix du gaz', *Le Monde*, 13 October 2022.

in order for demand to accommodate the supply constraint, using tools such as progressive pricing and priority planning of distribution in cases of major strain.[34] Negotiations of this type are becoming a reality in Europe today.

The second lesson of the new inflation is Kaleckian. In a 1962 model, Michał Kalecki identified a threefold income-distribution dynamic that helps shed light on the experience of the past year. Kalecki pointed to the class character of inflation: surging big-business profits, falling real wages and the (relative) impoverishment of the rentier. As he noted: 'real wages are usually falling, and the fact that their level is much less than normal can be seen from the distribution of national product . . . Another phenomenon reflected in it is the impoverishment of the rentier. A counterpart to this is the enormous profits of entrepreneurs in general and big business in particular.'[35] Hence, one of the characteristic features of the conjuncture is the surge in profits along with a downward turn in asset values. This has two implications. First, the battle for real wage increases is an issue of absolute urgency. But, second, this should not be confused with a general hostility to moderate inflation and its anti-rentier aspect.

The third lesson, one taught by Suzanne de Brunhoff, is that the persistence of inflation may have a monetary dimension. As she explained in the late 1960s, 'no monetary policy can abolish the economic causes of financial stresses; the relative autonomy which makes it possible for monetary policy to have an effect also sets the bounds of its field of action.'[36] Since 2008, central banks have sustained the value of financial assets with their expansive monetary policies. They provided a monetary validation of the private anticipations of the owners of financial assets, anticipations that concern real future valorization and rely on a multiplicity of uncertain and dispersed labour processes that have not taken place yet. Since this monetary activism was not matched by a surge in productive investment, the ante-validation far exceeded the effective ability of the system to generate surplus value.

---

[34] Karsten Neuhoff and Isabella Weber, 'Can Europe Weather Looming Gas Shortages?', *Project Syndicate*, 2 May 2022.

[35] 'A Model of Hyperinflation', *The Manchester School*, vol. 30, no. 3, September 1962, pp. 275–281.

[36] Suzanne de Brunhoff, *Marx on Money*, trans. Maurice Goldbloom, London and New York 2015, p. 126; first published as *La Monnaie chez Marx*, Paris 1973.

The present upsurge of inflation reveals that the monetary validation of financial capital by central banks was, in fact, a pseudo-validation. This is what de Brunhoff was referring to when she wrote that 'Inflation—formally—does have the characteristics of a crisis and is not a substitute for it (there is no miracle of inflation).' But 'the effect of non-validation is diluted and extended.'[37] In other words, inflation is a slow-motion financial crisis. In such a perspective, the grammar of the new inflation is not confined to the conjunction of the pandemic, the material tensions arising from the green transition and the war in Ukraine. It is also to some degree a lag effect in the monetary system of the 2008 financial crisis and the financial boom that followed it in the 2010s, fuelled by unconventional monetary policies. Through the present devaluation of financial assets, over-accumulated fictitious capital is being slowly digested. It is conceivable that the major 'contraction of financial markets' that has been overdue since 2008 could occur in a relatively orderly manner.[38]

Following Althusser, the regulationist framework proposes that capitalism 'has the unity of a structure in dominance'. Coming after the wage-labour nexus in the post-war era, finance has been the dominant element of the system for the past few decades. Its reign is weakening, opening the contest for the throne. What the next leading component of the structure might be is not clear and not decided yet. The extensive reach of intellectual monopolists could provide a systemic anchor, leading to a regressive 'techno-feudal' mode of production.[39] Alternatively, some in the investment community are expecting that financial repression and economic *dirigisme* will engineer a productivist rebound of accumulation.[40] The left wants something else: after decades of commodity delirium, a turn to democratic planning—channelling investment according to social need and ecological boundaries—would be the revenge of use value.

---

[37] Suzanne de Brunhoff, *Les Rapports d'argent*: *intervention en économie politique,* Grenoble 1979, p. 126.

[38] James Crotty, 'Structural Causes of the Global Financial Crisis: A Critical Assessment of the "New Financial Architecture"', *Cambridge Journal of Economics*, vol. 33, no. 4, July 2009.

[39] Durand, 'Scouting Capital's Frontiers', NLR 136, July–August 2022.

[40] Russell Napier, 'We Will See the Return of Capital Investment on a Massive Scale', *The Market NZZ,* 14 October 2022.