



Published on Thursday, April 2, 2009 by Open Democracy

Too Big to Save: The End of Financial Capitalism

The financial logic of neo-liberal capitalism has devoured the world and exhausted itself in the process. A new model beyond "financialization" is needed, says Saskia Sassen.

by Saskia Sassen

The misnamed "Group of Twenty" (**G20**) meets in London on 2 April 2009 to discuss how to save the global financial system. It is too late. The evidence is in: we don't have the resources to save this system - even if we wanted to. It has become too big to save: the value of global financial assets is several times the size of global gross national product (GDP). The real challenge is not to save this system but to definancialize our economies, as a prelude to move beyond the current model of capitalism. Why should the value of financial assets stay at almost four times the overall GDP of the European Union, and even more of the United States. What do everyday citizens - or the planet - gain from such excess?

The question answers itself. To explore further the inner workings of the financial system that has brought the world to this predicament is also to glimpse a future beyond **financialization**. The task the G20 should actually address is not to save this financial system but to begin to definancialize the major economies to a significant degree, so that the world can begin to move towards the creation of a "real" economy that delivers security, stability, and sustainability. There is much work to do.

The logic

A defining feature of the period that begins in the 1980s is the use of extremely complex instruments to engage in new forms of *primitive accumulation*, with taxpayers' money the last frontier for extraction.

Global firms that **outsource** hundreds of thousands of jobs to low-wage countries have had to develop complex organizational formats, using enormously expensive and talented experts. For what purpose? To extract more labor at the cheapest possible price, including unskilled labor that would be fairly low in the developed countries as well. The insidious element is that millions of saved cents translates into shareholders' gains.

Finance has created some of the most complicated financial instruments in order to extract the meager savings of modest households: by offering credit for goods they may not need and (even more seriously) promising the possibility of owning a house. The aim has been to secure as many credit-card holders and as many mortgage-holders as possible, so that they can be bundled into investment instruments. Whether people pay the mortgage or the credit-card matters less than securing a certain number of loans that can be bundled up into "investment products". Once thus bundled, the investor is no longer dependent on the individual's capacity to repay the loan or the mortgage. The use of these complex sequences of "products" has allowed investors to

reap trillion-dollar profits on the backs of modest-income people. This is the logic of financialization, which has become so dominant since the neo-liberal era began in the 1980s.

Thus in the United States - ground zero for these forms of primitive accumulation - an average of 10,000 homeowners have been losing their home to **foreclosures** every day. An estimated 10-to-12 million households in the US will not be able to pay their mortgages over the next four years; under current conditions they would lose their home. This is a brutal form of primitive accumulation: presented with the possibility (which is mostly a fantasy, a lie) of owning a house, many people of modest income will put whatever few savings or future earnings they have into a down-payment.

This type of complexity is aimed at extracting additional value from wherever it can - the small and modest *and* the big and rich. This too explains why the global financial system is in permanent crisis. Indeed, the term "crisis" is in some respects a misnomer: for what is happening is more nearly business as usual, the way financialized capitalism in the neo-liberal era works.

The financializing of more and more economic sectors since the 1980s has become both a sign of the power of this financial logic and the sign of its auto-exhaustion. When everything has become financialized, finance can no longer extract value. It needs non-financialized sectors to build on. The last frontier is taxpayers' money - which is real, old-fashioned, not (yet) financialized money. **Krzysztof Rybinski's "zombies"** are also parasites.

The limit

The difference of the current crisis is precisely that financialized capitalism has **reached** the limits of its own logic. It has been extremely successful at extracting value from all economic sectors through their financializing. It has penetrated such a large part of each national economy (in the highly developed world especially) that the parts of the economy where it can go to extract non-financial capital for its own rescue have become too small to provide the amount of capital needed to rescue the financial system as a whole.

By way of illustration: the global value of financial assets (which means: debt) in the whole world by September 2008 - as the crisis was **exploding** with the collapse of Lehman Brothers - was \$160 trillion: three-and-a-half times larger than the value of global GDP. The financial system cannot be rescued by pumping in the money available.

This in turn explains the abuses of entire economies made possible through extreme forms of financializing. Before the current "crisis" erupted, the value of financial assets in the United States had reached 450% of GDP that is to say 4.5 times total GDP (see "**Mapping global capital markets**", *McKinsey Report*, October 2008). In the European Union, it stood at 356% of GDP. More generally, the number of countries where financial assets exceed the value of their gross national product more than doubled from thirty-three in 1990 to seventy-two in 2006.

Moreover, the financial sector in Europe has grown faster than in the United States over the last decade, mostly because it started from a lower level: its compound annual growth rate in 1996-2006 was 4.4%, compared with the US rate of 2.8%.

Even capitalist economies - leaving aside assessments of whether this is the most desirable economic system - do not need an amount of financial assets that is four times the value of GDP. Thus even within a capitalist logic, giving more funds to the financial sector in order to solve the financial "crisis" is not going to work - for it would just deepen the vortex of financializing

economies.

The scale

Another way to portray the current situation is via the different orders of magnitude involved in (respectively) banking and finance. In September 2008, the value of bank assets amounted to several trillion dollars; but the total value of credit-default swaps (**CDS**) - the straw that broke the system - stood at almost \$60 trillion. That is a sum larger than global GDP. The debts fell due, and the money was not there.

More generally - and again, to give a sense of the orders of magnitude that the financial system has created since the 1980s - the total value of derivatives (a form of debt, and the most common financial instrument) was over \$600 trillion. Such financial assets have grown far more rapidly than has any other economic sector (see Gillian Tett, "**Lost through destructive creation**", *Financial Times*, 9 March 2009).

The level of debt in the United States today is higher than in the depression of the early 1930s. In 1929, the debt-to-GDP ratio was about 150%; by 1932, it had grown to 215%. In September 2008, the outstanding debt due on credit-default swaps - a Made-in-America product (and, it should be recalled, only *one* type of debt - was over 400% of GDP. In global terms, the value of debt in September 2008 was \$160 trillion (three times global GDP), while the value of outstanding derivatives is an almost inconceivable \$640 trillion (fourteen times the GDP of all countries in the world).

These numbers illustrate that this is indeed an "extreme" moment - but, again, it is not anomalous nor is it created by exogenous factors (as the notion of "crisis" suggests). Rather, it is the normal mode of operation of this particular type of financial system. Moreover, every time governments (that is, citizens and taxpayers) have bailed out the financial system since the first crisis of this phase - the New York stock-market **crash** of 1987 - they have given finance the instruments to continue its leveraging stampede. There have been five bailouts since the 1980s; on each occasion, taxpayers' money was used to **pump** liquidity into the financial system, and each time, finance used it to leverage. *This* time, the end of the cornucopia is near - we have run out of money to meet the enormous **needs** of the financial system.

The bridge

The implication of the foregoing is that two major challenges need to be faced:

- the need to definancialize the major economies
- the need to move out of the current model of capitalism.

Both will be difficult, but it will help to focus on some very basic facts. The current estimate of official global unemployment is 50 million; the International Labor Organization (**ILO**) calculates that 50 million more could **lose** their jobs as the recession deepens. These figures are tragic for those affected. They are also relatively modest (without minimizing the human reality in any way) when set against the 2 billion people in the world who are desperately poor. But this raises the question: how many "jobs" would be created if there were a system that aimed at housing and **feeding** those 2 billion? The world would then need those 50 million currently unemployed to go to work - and another billion more workers into the bargain.

If seen in this light, the financial "crisis" could serve as one of the bridges into a new type of

social order. It could help all involved - citizens and activists, NGOs and researchers, local communities and networks, democratic governments - to refocus on the work that needs to be done to house all people, clean our water, **green** our buildings and cities, develop sustainable agriculture (including urban agriculture), and provide healthcare for all. This innovative order would employ all those interested in working. When all the work that needs to be done is listed, the notion of mass unemployment makes little sense.

The technology to underpin this work - in helping to eliminate diseases that affect millions, and to produce enough to feed all - has existed for several decades. Yet millions still die from preventable diseases and even more go **hungry**. Poverty has become more radical: no longer about having only a plot of land that did not produce more, today it means having only your body. Inequality too has intensified and taken on new **dimensions**, including a new global class of super-rich and the impoverishment of the traditional middle classes.

The history of the last generation confirms that the neo-liberal form of market economy cannot deliver answers to these problems of disease, hunger, poverty and inequality - indeed it **reinforces** them. Some mixing of clean markets and a strong welfare state has (as in Scandinavia) produced the best outcomes yet; but for most capitalist economies even to come near to this model would **entail** sweeping internal change (see Amartya Sen, "**Capitalism Beyond the Crisis**", *New York Review of Books*, 26 March 2009).

In any event, the increase in the financializing of market economies over the last generation has further sharpened the negative effects of profit-maximization logics. To move even a little in the direction of addressing the problems financialization has created means entering an economic space that is radically different from that of high finance. The challenge is there for those attending the **G20 summit** in London - and for those outside the gates.

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