Centre for Labour and Social Studies

# Think Piece

## State and finance in financialised capitalism

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# Policy Series

## In the public interest: *the role of the modern state*

All societies across the world have some kind of state - the question is not whether the state should play a role in society, but what sort of role that should be. Neoliberalism, the dominant political orthodoxy since the 1980s, views the state as primarily the defender of national sovereignty, protector of private property, and maintainer of social order. Under neoliberalism there is no role for the state in promoting sustainability, social justice or technological progress. Initially the financial crisis of 2008 seemed also to be a crisis of neoliberal thinking, but the implications of neoliberal failure upon the role of the state were never seriously debated.

Too often, the left has succumbed to the 'small state' arguments of neoliberalism without considering rationally the appropriate role and place of the state in a 21st century economy and society confronted with major problems. Five years after the financial crisis, and with an ecological crisis looming, it is time to ask how a modern state can play a major role in securing social and ecological justice in the UK. This paper was commissioned as part of a series that will seek to address these issues and creatively explore the role of the modern state. Contributions will address options for new decentralised and local models; new forms of ownership and governance; as well as high-level interventions on how to increase investment and end out-sourcing and profiteering in our public services.

## Author

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# Executive summary

The structural problems within the UK and other mature economies were brought to the surface during and after the crisis of 2007-9. This paper argues that these problems are inherent to contemporary mature capitalism and have to do, primarily, with financialisation. The exceptional rise of finance in terms of size and penetration across society, the economy and the policy process, is apparent to all. The rise of finance is a sign of a fundamental transformation of mature capitalism within commercial and industrial enterprises, but also banks and perhaps most strikingly, within households.

The period of financialisation, lasting from the 1970s to the present day, has also wrought profound changes to the social structure of contemporary capitalism. It has been a period of extraordinary income inequality, wiping out all of the gains that came in the period following the Second World War. This paper notes that the ability of the rich to extract enormous incomes has been associated with the financial system. Inequality is a characteristic feature of financialisation.

Financialisation has been marked by the ideology of neoliberalism, promoted by universities, think-tanks and a variety of other institutions. Neoliberal ideology ostensibly treats state intervention in the economy with extreme suspicion, but the reality has been very different. The financialisation of mature economies would have been inconceivable without the facilitating and enabling role of the state.

Intervention by the state has taken several forms, including handing a dominant role to central banks to offer vital support to the financial system by providing liquidity and through their ability to influence interest rates. The state has also offered guarantees to bank deposits, boosted the capital of banks out of tax income and implicitly guaranteed bank survival through the 'too big to fail doctrine'. Finally, the state has fostered financialisation by altering the regulatory framework of finance. The critically important role of the state was demonstrated at the point of the 2007-9 crisis as the state rescued banks and prevented the collapse of the financial system.

Confronting financialisation must start from the realisation that it is a deeply rooted development, a historic transformation that could potentially be reversed, though with considerable difficulty. Regulation alone will not be enough to confront it. The question of public ownership and public mechanisms of intervention over financial institutions and other areas of the economy must also be placed on the agenda.

Reversing privatisation and re-establishing public ownership over key areas of the economy would directly reduce the room for financialisation. It would also provide a broader basis for public investment and the systematic creation of employment. On these grounds the financialisation of private industry could also begin to be reversed. If the public interest was fully represented and democratically expressed within finance, it could help re-establish public service as a superior motive compared to private gain across the economy. This would be a vital step to reversing the ascendancy of finance, while also laying the foundations for a broader transformation of the economy in the interests of the many.

# Introduction: Financialisation is a deep structural transformation of mature capitalist economies

The presence of finance in contemporary capitalist economies is extraordinary in terms of magnitude, penetration and influence over policy. It is fair to say that contemporary capitalism has become financialised, even if there is no clear agreement on the meaning of the term. At the same time, finance has come to depend thoroughly on the state for its operations, indeed for its very survival. The financialisation of capitalism would have been unthinkable without the active intervention of the state.

The financialisation of capitalism is best understood as a period of historic transformation, an epochal change rooted in the processes of capitalist accumulation[1]. To be more specific, financialisation is the sum of the following three fundamental tendencies that are widely observed in mature capitalist countries.

First, large, non-financial enterprises (industrial and commercial) have become more independent of banks, but are more heavily involved in financial transactions on their own account. They possess huge amounts of cash through retained profits, and are increasingly using those monies to engage in financial transactions – to a certain extent they have become financialised themselves.

Second, banks have transformed themselves by redirecting their activities toward open financial markets and households. Banks continue to earn profits, in part, through the traditional business of lending for production, but the most dynamic area of profit-making has been through transacting in a variety of financial assets to earn fees, commissions and profits, in addition to their more conventional dealings with households.

Third, households and individual workers have been heavily drawn into the formal financial system. Wages have been rising slowly, or even stagnating for long periods of time, and working people have supplemented their income with borrowing. Furthermore, households have traditionally met basic needs for housing, health, education, pensions, insurance, and so on, to a large extent through public provision.

However, during the last four decades public provision has retreated and private provision has taken its place. Private finance has become the mediator of this process and consequently households have become more indebted and more reliant on the financial system for assets – households are now a field of profit-making for banks.

Financialisation commenced in the 1970s and, like all historical transformations, took time to emerge clearly. During the following four decades it established itself in mature capitalist countries, although it still takes variable forms among leading countries. Thus, financialisation in the USA and the UK exhibits a far closer connection between households and finance than in Japan and Germany, even if there is no doubt that both of the latter have also financialised. In the 1990s and 2000s financialisation also began to spread in middle-income countries, such as Brazil, Turkey, and Mexico, but in a subordinate fashion, exhibiting features that derive from global capital flows and the international role of the dollar as reserve currency[2]. New patterns of economic, financial and ultimately political power have, therefore, begun to spread across the world economy.

Financialisation has wrought profound changes to the social structure of contemporary capitalism. For one thing, it has been a period of extraordinary inequality, wiping out all of the gains of equality achieved during the decades immediately after the Second World War and reviving an outlook of capitalism that is strongly reminiscent of the inter-war years. Inequality has increased dramatically in income terms but also in terms of the functional distribution of national income between capital and labour[3]. The highest echelons of the income distribution have appropriated the bulk of the productivity gains of the last four decades, to a large extent by using the mechanisms of finance. Similarly, capital has appropriated an ever larger part of annual output at the expense of labour. New forms of profit have emerged as financial transactions have allowed for the transfer of income and wealth directly from households and other wealth holders. Well-placed financiers, but also industrial and commercial capitalists, have appropriated vast profits in the form of bonuses and remuneration through financial assets. These phenomena have contributed to the financial expropriation of large layers of the population by small groups of economic agents that are strategically located within large enterprises and large financial institutions. It is remarkable that the rich have accrued huge incomes ostensibly as salaries and other payments for 'work' rather as remuneration for owning capital.

# State and finance in the period of financialisation

Financialisation has witnessed a profound change in the dominant ideology of contemporary capitalism, ranging from the rarefied fields of academe to the smaller niches of everyday life. The period has been marked by the ascendancy of neoliberalism, a set of concepts that form an appropriate ideology for the era of financialisation. Thus, neoliberal ideology has ostensibly treated state intervention in the economy with extreme suspicion, or even outright hostility[4]. Its bywords have been deregulation, privatisation and liberalisation, lending to it an apparently hostile attitude toward the state. But neoliberalism in not truly hostile to the state. On the contrary, the underlying aim of neoliberal ideology is to take over the state, deploying its mechanisms to apply neoliberal policies across economy and society. No sector of the economy has benefited more from the neoliberal capture of the state than finance. The financialisation of mature economies would have been inconceivable without the facilitating and enabling role of the state.

To be a little more precise, the role of the state in the economy during recent decades has been quite variable among mature countries depending on their institutional structures and historical trajectories. In the realm of finance, however, three features of state intervention have been generally observed, thus placing their mark on the period of financialisation. All three are evidence of the pivotal role of the state in shaping capitalist accumulation during the last four decades, thus lending to contemporary capitalism its financialised character.

First, the state has commanded and methodically deployed central bank money. As capitalism has matured, money has continued to evolve and its absolutely dominant form has become valueless credit-money[5]. This form of money is typically created by private banks as they extend loans to businesses and others. It is an inherently valueless money (essentially bank deposits) that is not compulsorily convertible into anything containing value. Ultimately, it could only be compulsorily converted into a similar form of credit money (banknotes and deposits) that is also created by the central bank.

Central bank money is, thus, a form of legal tender, backed by the power of the state and accepted in payment for goods or settlement of other obligations, although it is not itself convertible into anything of value. In short, in contemporary capitalism, the dominant form of domestic money (created by private banks) depends entirely on a valueless form of money created by the central bank, which is essentially an arm of the state. The enormous structure of other monetary forms in contemporary capitalism relies in good part on the say-so of the state for its acceptability. The state has absolute monopoly over the final means of payment and has not failed to use it to support financialisation.

Command over valueless legal tender has enabled the central bank to function as the ultimate support of the financial system in terms of liquidity. The importance of this role of the central bank was demonstrated clearly during the crisis of 2007-9. The Federal Reserve, the European Central Bank, the Bank of England and other important central banks, intervened extensively to assuage the scarcity of liquidity in the money markets, thus rescuing the global financial system from catastrophic shrinkage. Command over liquidity (i.e., valueless legal tender) was secured through the central banks holding enormous amounts of state securities as well as having an implicit state guarantee of their solvency. These functional characteristics of central banks also provided the ultimate foundation for their ability to influence interest rates. In sum, the dominant role of the central bank in financial markets, including its ability to influence interest rates, has relied on state control over money, state securities and state guarantees.

Second, the most powerful states in the world – above all, the USA – have acquired command over international reserve money during the last four decades. From the end of the Second World War to the first half of the 1970s, the role of world money was played primarily by the dollar which was, however, compulsorily convertible into gold at a fixed rate, at least in transactions among states. The final collapse of the Bretton Woods Agreement in 1973 released the USA from this obligation. During the next four decades the US dollar (and to a much smaller extent other currencies) has played the role of international means of payment and reserve currency, without being convertible into anything of value. Quite apart from the considerable freedom to the US government to pursue its own domestic monetary policy, this development has also enabled the global spread of financialisation.

In the years of financialisation there has been enormous export of capital, establishing productive capacity across borders and also spreading the operations of banks. The great bulk of capital exports have occurred mostly among developed countries, but in recent years there have also been substantial flows to developing countries. However, as financialisation picked up speed in the 1990s and 2000s, a remarkable phenomenon has taken place, namely the reversal of global capital flows on a net basis. As developing countries have been accumulating reserves of dollars by buying US state securities, capital has been flowing back to the USA, exceeding the flows of direct and portfolio investment abroad by US businesses. Developing countries have found themselves financing the activities of the most powerful state in the world, and paying a considerable cost for the privilege, since they hold enormous amounts of money capital in the form of US dollars, earning very little.

The reverse flows of capital – created by transactions among states rather than private businesses – have favoured financialisation at both ends. The funds arriving in the USA have increased the volumes of liquidity available for investment and speculation in the financial markets. This was an important part of the vast financial bubble of 2001-7 that eventually led to the crisis of 2007-9. In developing countries, on the other hand, the holding of huge reserves of dollars meant that central banks had to intervene in financial markets to prevent a rise in inflation. Consequently, central banks in developing countries have created highly liquid securities which were made available to domestic banks[6]. The increase of liquidity available to domestic banks, together with flows of portfolio capital coming from abroad spurred financialisation, the key practices of which were transferred to developing counties by foreign banks entering in large numbers. There has been remarkable growth of finance across a range of developing countries during the last two decades. Once again, this growth is in good part the result of state policies and actions.

Third, and most relevant to this essay, the state has fostered financialisation by altering the regulatory and supervisory framework of finance. Financialisation has been directly facilitated by the deregulation of the domestic financial sphere in terms of interest rates, but also in terms of the activities and practices of financial institutions. Even more decisively, financialisation has been facilitated by the lifting of international monetary and financial controls. Once the Bretton Woods Agreement had finally collapsed in 1973, exchange rates among mature countries became flexible and cross-border flows of capital were progressively deregulated. These decisive forms of deregulation, together with new and different forms of regulation of finance, have been instrumental to financialisation. This issue is explored in greater detail in the following section.

# Regulation and state intervention in finance in the years of financialisation

From the end of the Second World War to the mid-1970s, a range of regulations and controls were applied to the financial systems of mature economies, as well as to the international operations of finance, which were summed up as 'financial repression'. Financial repression had its roots in the great crisis of the 1930s, which ushered in major regulatory changes with the aim of placing finance under control, most notably in the USA. It was also spurred on by the vast accumulation of public debt that took place in mature countries in the course of the Second World War. The leading states of the world economy, confronted with public debts that were held by both financial institutions and households, adopted administrative measures to regulate interest rates, often forcing real interest rates into negative territory. Financial repression effectively worked as a subsidy to states allowing for the gradual reduction of public debt.

The system of regulation applied to both money and finance, domestically as well as internationally. It relied, on the one hand, on the role of the dollar as world money under the Bretton Woods Agreement and, on the other, on administrative controls on prices, quantities and functions within the domestic financial system. Thus, first, there were controls on interest rates, earned by and paid to, financial institutions, and on quantities of credit generated by financial institutions; second, there were controls on the range of functions that financial institutions were allowed to undertake; and third, there were controls on international capital flows, a necessary measure if exchange rates were to be kept fixed in line with the Bretton Woods Agreement. To support fixed exchange rates it was necessary to regulate international capital flows, which meant controls on the capital account, including outright prohibition on acquiring foreign assets, applying differential exchange rates to financial, as opposed to commercial transactions, and taxing foreign financial returns[7].

Theoretical justification for financial repression in developing countries was typically sought in the dominant Keynesian ideology of the time, which treated finance as a sector of the economy that tends intrinsically to generate instability. Repression began to unravel in the late 1960s and collapsed in the 1970s as the ascendancy of

Keynesianism came to an end. One factor that contributed to its decline was the rise of unregulated markets in finance that lay outside the system of controls both internationally and domestically. A major role was played by the so-called 'Euromarkets', that is, financial markets in which internationally active corporations and banks could hold and trade assets beyond the regulatory reach of the authorities. Another factor was the collapse of the Bretton Woods Agreement in 1971-3 which ushered in flexible exchange rates that have been characteristic of financialisation. Volatility of exchange and interest rates spurred the growth of new financial markets, above all, derivatives markets, that have been pivotal to financialisation. These developments have been instrumental to financial innovation, a process that has transformed the conduct of banks in the period of financialisation. Lifting international capital controls and abolishing domestic regulations, thus ending financial repression, laid the ground for financialisation.

However, it is a mistake to think that financialisation has been characterised by absence of regulation. On the contrary, it has been marked by a profusion of regulation, but regulation that has been shaped by private financial institutions, operated by semi-public bodies, and largely focused on the practices of individual financial institutions. At the same time, there has been a profusion of systematic state intervention to sustain financialisation, including the central bank acting as lender of last resort, and the state offering explicit protection of bank deposits as well as implicit guarantees of the solvency of large financial institutions. The regulatory and interventionist attitude of the various components of the state has been a cornerstone of financialisation.

Regulation in the years of financialisation has drawn ideological sustenance from neoliberal economics which typically stresses the beneficial and efficient character of markets. However, neoliberalism also recognises that there might be institutional and other features of economies that preclude markets from delivering their generally optimal performance. A typical example would be information asymmetries between lender and borrower. To be a little more specific, the borrower knows much more about the project for which the money has been borrowed (an enterprise or other activity) than the lender, who needs to find out from the outside, as it were. This asymmetry could presumably lead to problems of fraud and accumulation of bad debts as the borrower would take advantage of superior information to mislead the lender, thus resulting in suboptimal results in financial markets, including the failure of markets to provide credit to businesses that require it. These presumed deficiencies provide grounds for regulating finance, a point on which both supporters and critiques of financial deregulation are agreed upon. The aim of such regulation would be to ameliorate problems of presumed market failure, not to repress finance. It should aim to improve the functioning of financial markets and institutions by providing better information to lenders and borrowers as well as bolstering the confidence of those who use the services of financial institutions.

The neoliberal approach to regulation has been institutionalised in the Accords known as Basel I and II, which are currently under review to form Basel III. The Basel Accords were essentially formed by banks for banks, and promulgated internationally by bodies that have only loose connections with nation states. The Accords have been produced by the Bank for International Settlements (BIS) a body established to promote cooperation among central banks through a variety of institutional methods, including regular meetings. They do not have legal force yet states have agreed to enforce their supervisory standards. The primary aim of the Accords has been to ensure the capital adequacy of international banks, that is, to determine a level of capital for banks that could protect them from the risk of default by borrowers (credit risk). It is notable that, as financialisation proceeded and banks turned increasingly toward trading in open markets, the determination of capital adequacy came also to depend on market risk and operational risk, i.e., on risks arising from transacting in derivatives and other markets, rather than lending. Under Basel II, large international banks were allowed to determine the level of their own capital adequacy depending on the mix of securities and other assets carried on their balance sheets as well as on their technical skills[8].

The approach to regulation embedded in the Basel Accords failed to prevent the gigantic crisis of 2007-9 and the emergence of insolvency among international banks. However, at the point of the crisis the state intervened in a variety of ways to rescue banks and prevent the collapse of the financial system. The USA, in particular, took decisive action to confront the crisis demonstrating the critical role of the state in supporting financialisation. First, the central bank drove its own interest rates close to zero, thus creating a profit margin for private banks lending at commercial rates. Second, the central bank intervened as lender of last resort to provide private banks with enormous volumes of liquidity. Third, the state offered implicit and explicit guarantees to deposits held by private banks, thus forestalling, or staunching, bank runs. Fourth, the state made capital injections into private banks by acquiring stock, i.e., effectively nationalising them but without taking over their management. Large private banks, in particular, were treated as 'too big to fail' on the grounds that failure would have had severe negative implications for the financial system as a whole.

In sum, the state has been critically important both to enabling and to rescuing financialisation. It has provided a regulatory framework that does not have sufficient teeth to prevent financial institutions from engaging in activities that could potentially lead to crisis, while setting the terms on which competition takes place among large international banks. Much more significant than that, the state has used a variety of public levers (public interest rates, public liquidity, tax income, public creditworthiness) to buttress the solvency of private banks and to ensure their return to profitability. The state has acted as an agent that has subsidised private banks out of public resources, shifting the costs onto society as a whole. The crisis of 2007-9 offers a particularly brazen instance of the class interests of finance being defended by the state with the aim of protecting and maintaining financialisation.

# What to do about state and finance in financialised capitalism?

Confronting financialisation must start from the realisation that it is a deeply rooted development, a historic transformation that could be reversed, though with considerable difficulty. The state could play a decisive role in this regard, but it is important to be clear about the range and type of interventions it could undertake. Thus, reintroducing effective regulation that could restrain the operations of private finance would be a fundamental step. In particular, it would be important to reintroduce regulation of interest rates, of the quantities of credit created by financial institutions, and of the activities in which institutions engage. None of these regulations would be effective, however, without the simultaneous introduction of regulation to control and limit cross-border capital flows. Some of this would be feasible for individual countries but clearly there would be a need for international cooperation, if the regulations were to be truly effective.

Yet, such is the deeply rooted nature of financialisation that the introduction of regulation alone would not be enough to confront it. The question of public ownership and control over financial institutions and other areas of the economy must also be placed on the agenda. It is notable that public ownership of banks and other major financial institutions was openly mooted in the course of the crisis of 2007-9, even in the USA. However, public ownership has typically been treated as a temporary counter-crisis measure aimed at restoring the solvency of banks with the aim of returning them to private ownership. Governments have consistently refused to exercise effective control over the banks in which they hold a dominant ownership stake; the typical concern has been to avoid making losses at the time when the banks would be returned to private hands. Financialisation has, meanwhile, continued apace.

Public ownership and public mechanisms of intervention would be necessary in a variety of ways to confront and reverse financialisation. They would be, first, required to reverse the financialisation of industrial and commercial enterprises. Reversing privatisation and re-establishing public ownership over utilities and other key areas of the economy would directly reduce the room for financialisation. It would also provide a broader basis for public investment and the systematic creation of employment. On these grounds the financialisation of private industry could also begin to be reversed.

Public ownership of banks would be a further step in reversing financialisation. The issue is not merely to nationalise failed private banks, but to establish new public institutions, run with a public mandate and operating under a fresh public spirit. If the public interest was fully represented and democratically expressed within finance, it could help re-establish public service as a superior motive compared to private gain across the economy in general. A re-strengthened spirit of public service would be a vital step to reversing the ascendancy of finance in recent decades, while also laying the foundations for a broader transformation of the economy in the interests of the many.

Public banks could support the provision of banking services to enterprises engaged in production and trade as well as to households in a manner similar to providing public utilities, for instance, transport, electricity and water. There is no simple analogy between the provision of credit and the operation of a public utility, since credit is a set of economic relations based on trust and anticipation of returns, but there is no intrinsic difficulty to managing the flow of credit to households and non-financial enterprises to achieve socially-set objectives, without financial expropriation.

Public credit could be supplied to non-financial enterprises to buttress circulating capital as well as to facilitate the flows of trade credit. It could further be supplied to households for housing, education, and health as well as for smoothing general consumption. The supply of public credit would typically be on condition of regular repayment at publicly determined rates of interest. Interest payments would then represent a public charge for the service that would cover costs as well as expanding the scope for future provision. The rate of interest and the general terms of repayment could vary among borrowers according to the broader objectives of social policy. Public banks could also easily provide a full range of monetary services to non-financial enterprises and households, including payments, safe-keeping and value transfers.

More broadly, public banks could also enter the field of longer-term lending for large-scale investment. Funding could be secured in a variety of ways, including preferential access to deposits and issuing publicly-guaranteed bonds. After all, private banks have been able to grow enormously in the years of financialisation by relying on explicit and implicit deposit insurance guarantees by the state; the result has been to exacerbate moral hazard and to boost private returns. If public guarantees were removed, public banks would benefit from a steady supply of funding as deposits would migrate from private banks. Public banks would thus be able to adopt a longer-term horizon in lending, helping to strengthen the productive sector and to reverse financialisation.

The reversal of financialisation, finally, would require public intervention in the field of household income, expenditure and saving. The restoration and broadening of public provision in goods and services in mature countries, including housing, health, education and pensions would deliver a decisive blow to household financialisation. The issue here is not to supplant all provision of these goods and services by one centralised state mechanism but rather to instigate new public mechanisms of provision that could also have communal and associational aspects. With public mechanisms of provision in place the need for households to borrow would lessen and so will the pressure to accumulate financial assets. Public provision could naturally combine with public banking to cover the needs of households in flexible, efficient and socially-minded ways. There are no insurmountable difficulties in delivering systems of provision on this basis and there is reason to believe that they would operate more efficiently than the financialised mechanisms currently in existence.

# Conclusion

Financialisation is a deeply rooted development, a historic transformation that could potentially be reversed, but the task would be far from easy. Regulation alone is not enough and the issues of public ownership and public mechanisms of intervention over financial institutions and other areas of the economy must also be placed on the agenda. Reversing privatisation and re-establishing public ownership over key areas of the economy would directly reduce the room for financialisation. It would also provide a broader basis for public investment in the economy, for measures to redistribute income and wealth, and for the systematic creation of employment.

Specifically, the financialisation of private industry ought to be reversed by reorganising the internal structure of enterprises and directing them away from making financial profits. Furthermore, if the public interest was fully represented and democratically expressed within finance, it could help re-establish public service as a superior motive compared to private gain across the economy. A new public financial sector would be a vital step to reversing the ascendancy of finance, while also laying the foundations for a broader transformation of the economy in the interests of the many. Finally, public systems of provision for housing, health, education, and pensions as well as a systematic policy of redistribution of income and wealth would begin to tackle the financialisation of households.

In sum, reversing financialisation and establishing a new relationship between state and finance requires a broad programme of public intervention across a variety of fields which would do no less than transform the entire economy. It would form an inherently anti-capitalist programme that would strengthen labour at the expense of capital and spur social development in the direction of socialism. This is the greatest challenge facing organised labour, social movements and the political left today.

# Notes

[1] This view of financialisation, and indeed the entire argument in this essay, draws heavily on **Lapavitsas C.** (2013), *Profiting without Producing: How Finance Exploits us All*, Verso: London and New York.

[2] For an outstanding analysis of subordinate financialisation see **Powell J.** (2013), *Subordinate Financialisation: A Study of Mexico and its Non-Financial Corporations*, Unpublished PhD Thesis, SOAS, University of London.

[3] See **Lapavitsas** (2013: ch. 7).

[4] **Mirowski** (2013), *Never Let a Serious Crisis Go to Waste: How Neoliberalism has Survived the Financial Crisis*, Verso: London and New York provides an outstanding analysis of the intellectual core of neoliberalism and its deeply ambivalent relationship to the state.

[5] See **Lapavitsas** (2013: ch. 4).

[6] For an excellent analysis see **Painceira J.P.** (2011), *Central Banking in Middle Income Countries in the Course of Financialisation: A Study with Special Reference to Brazil and Korea*, Unpublished PhD Thesis, SOAS, University of London.

[7] For the rest of this section see **Lapavitsas** (2013: ch. 10).

[8] For a penetrating discussion see **Lindo D.** (2013), *Political Economy of Financial Derivatives: A theoretical analysis of the evolution of banking and its role in derivatives markets*, Unpublished PhD Thesis, SOAS, University of London.

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