BRILL
PGDT 8 (2009) 315-346
PERSPECTIVES ON GLOBAL DEVELOPMENT AND TECHNOLOGY
brill.nl/pgdt

Hilferding's Finance Capital versus Wal-Mart World: Disaggregating the Dollar's Hegemony

Gregory P. Nowell
State University of New York, Albany

Abstract
This paper analyzes Hilferding's Finance Capital as a robust representation of a certain form of capitalist organization. This organization is characterized by industrial production in the core, trade surpluses as a feature of military and economic power, and the gold standard as the institutional metric of sound banking. Banks are the central organizing node of industrial production and favor tariffs and monopoly. The focus on gold-finance-industry leads Hilferding to foresee extreme concentration of capital as the ultimate end-point of capitalism. But the economic foundations of Wal-Mart world, where industry is subordinated to retail and is also divorced from banking, show that completely different mechanisms are at work. In contemporary capitalism trade deficits are not necessarily a sign of weakness, and the most powerful firms tend to favor free trade. The gold standard has long been a relic. For our time key questions are: what gives value to paper assets, and what sorts of spatial asymmetries are evident in the production and consumption process? How does Keynes's "sudden decrease in the marginal efficiency of capital"—as the precursor to recession—take on differing characteristics depending on where one is in the division between production and consumption?

Keywords
Hilferding, Keynes, imperialism, Wal-mart, free trade, gold standard, banking

Hilferding's Finance Capital versus Wal-Mart World

Rudolf Hilferding's *Finance Capital* (1910) is nearly a century old. As an analysis of capitalism at the turn of the last century it is more intellectually integrated and rigorous than other classic contributions of the period.[1] Hilferding turns the phenomenon of highly-concentrated industry, linked through an even more concentrated network of banks, into an ideal national type. This

[1] Other classic works from the period with similar themes include Hobson (1902), Lenin (1917), Luxemburg (1913), and Bukharin (1916, though not published till 1929). Hovde (1928) is unsympathetic to the socialist theories but offers a large panoply of additional citations. Eckstein (1991) is an excellent resource on scholarly debates concerning the implications of Hobson's and Lenin's imperialist models.

DOI: 10.1163/156914909X423917

ideal type offers descriptive insights into today's industrial economies that still retain such linkages, including Germany, Japan, Korea, and other parts of Asia.[2] Nonetheless, capitalism now is "anti-Hilferding" in almost every sense; and in some ways it is even anti-Marxist, in that emphasizing capitalism as a "mode of production" directs our attention to the act of producing goods, which process has become (at least for now) the weakest node of capitalist society. To understand capitalism today, we need to know more about it as a "mode of consumption." The dominant features of the current system appear to be the pre-eminence of horizontally integrated retail operations and the separation of finance from industry. My goal is simple—to set out features of the "mode of consumption" as an antithetical ideal type to Hilferding's *Finance Capital*, using some of Hilferding's premises.

The radical differences between capitalism in 1910 and in 2008 underscore just how far "obvious contemporary trends" can deviate from future developments. The expectations built into Hilferding's *Finance Capital* embody norms that are relevant to Marxist and non-Marxist conceptions of financial power. When capitalism "went off gold" in 1971, virtually everyone thought it was "a bad thing for the United States." Today, we still look for the "imperialist plan of domination" at the core, trying to figure out how the United States is manipulating the system to stay on top. One paradox is that powers "subordinate to the hegemon" are lending it money to finance its vast military apparatus, as well as consumer consumption, with apparent enthusiasm. That is the riddle to be explored.

We shall look at the "contemporary capitalist" system as an aggregate of pieces, the main agents of which are all improvising.[3] For convenience we refer to Hilferding's model as the appropriate eponym for "the period of finance capital," versus Wal-Mart World, by which we mean the collection of characteristics to be described below.

Our analysis will focus on three themes. *First, the importance of high volume on differing economic sectors*. In Hilferding, these are concentrated in industry; the industrial system is consciously organized to maximize them. In Wal-Mart World, high-volume, thin-margin sales are distributed among various sectors, which are de-linked, and therefore do not coordinate with one another: the most important de-linked sectors are finance and retail. *Second, the spatial sepa-*

[2] On chaebols, see Chang (2003); on Germany, Neumann (1942), Gerschenkron (1962), Kaltenhaler (1998); on Japan Katz (1998), Morkawa (1970), and Alley (1997) which has an interesting discussion of definitional issues on the Japanese keiretsu.

[3] Contemporary analyses of the system are of course important—e.g. Gowan (1999), Seabrooke (2006), Arrighi (1994, 2006), Wallersetein (1977, 1980, 1988).

ration of the acceleration principle, and the related "mode of consumption's" dominance over the nineteenth century "mode of production." I consider two forms of spatial segregation. One is that the "export-led development" in nations with lagging consumption (typified by a high savings rate) signals a dominance of industrial capital and, along with that, of investment goods over consumption goods. This means that vulnerability to the acceleration principle is not "smoothed out" as they might be in a theoretical economy where consumption plays a greater role than investment and hence is "more balanced" in the national income equation. Exporting countries are heavy on industrial production and importing countries are heavy on consumption infrastructure. Exporting countries experience downward pressure on wages because their industrial sector's profits, and hence ability to pay wages, are kept on a short leash by the dictates of importing country's retail chains, whose shelf spaces determine, for producers, total sales volume through economies of scale (number of shelves offered worldwide) and turnover (number of times an item sells in a given period). Importing countries are under downward wage pressure because of the spread of the low-wage retail service sector (Wal-Mart type jobs) and the loss of high-wage industrial jobs to the exporting-intensive countries. This is paired with the spatial development of consumption in the importing countries, where suburbanization and the automobile are linked to the economics of mass retail. *Third, the combined impact of leverage and volume on the financial sector*. These effects contrast markedly with the "buy and hold" implied in Hilferding's financial sector. It is a critical feature of the current (collapsing) credit system, in which a major weakness is the expansion of debt faster than the aggregate income needed to service it—the Achilles heel of financial remedies proposed in late 2008.

1. "The Flip"—The Effect of Sales Volume and Turnover in Hilferding vs. Wal-Mart World

I use the term "flip" to refer to the sale of a product and its replacement in the capitalist's inventory. The vernacular term is colorful and clear (used in such places as real estate, finance, selling cars, etc.).

"The flip" turns the naïve conception of profit upside down. Sales, volume, and rate of profit are inseparable. If McDonald's sells a hamburger for $1.00 and that price includes a one-cent profit, the naïve view of the profit is that it is 1 percent. But McDonald's immediately turns around and uses the 99 cents that are not profit to buy another hamburger, bun, etc., which it sells the next day. It collects an additional penny on that sale, and flips the 99 cents that are not profit into a new burger and bun.

Annualized rates of return are the benchmark of capital's productivity. As I write rates of return on high quality bonds are well under 5 percent per annum. But if we look at McDonald's 99c, it earns one penny per day. That's $3.65 over the course of a year, and so the rate of return is actually $3.65/.99=3.67, or 367 percent, some sixty times the rate of interest.

That's a "whopper" of a return, in reality rare outside the legal and illegal drug trades. More realistically, to keep one burger on the grill McDonald's needs to keep four additional burgers in the supply chain. The capital tied up in the hamburger rises to 99 cents times five, or $4.95, and the rate of annual return (at one penny per burger sold) is now $3.65/$3.95. Adding a tad of real world to our simple example cuts the "whopper" return to 92 percent, and we didn't say anything about labor, taxes, amortization of capital, and rent, as well as separating inventory from capital costs. [4] Still, the burger flip dramatizes the importance of volume: thin-margin, large-volume markups can lead to industrial profit margins of up to thirty percent, remembering that the reverse side of such profits is that it is also possible to incur heavy losses. For example, returning to the case of the 367 percent return, all it takes is a downward price movement of one cent to reduce the return to nothing; and a downward price movement of two cents or more per unit sold puts the company under extreme pressure.

Hilferding and "The Flip"

Hilferding develops the logic of "the flip" in several directions. First, he observes that the primary way to achieve high-volume production is through greater market area. Derived from Adam Smith's observations about market size and the division of labor, this idea has fairly direct connections to the growth of national markets and also to theories of imperialism. (Tables 1 and 2 summarize *Finance Capital* and Wal-Mart World).

Second, and more importantly for Hilferding's model, scaling up production to serve large market areas requires huge investments of capital. One need only consider the difference between the capital investment required for one blacksmith to pound out one horseshoe versus huge steel facilities capable of supplying the needs of transcontinental railroads. Hilferding's perceptions in this regard are heavily colored by German experiences, notably the difficulties Germany had in raising capital for both domestic and foreign railroad projects.[5]

---

[4] The importance of just-in-time delivery of production materials emerges readily from the example provided here; see Womack, Jones, and Roos (1990). We exclude cartels in the example.

[5] Dunlavy (1994); Nowell (1994); Kent (1976). German capital markets were not "deep"

Third, in spite of the fact that the capital requirements tend to increase, the profitability of large scale manufacturing is greater. A blacksmith making horseshoes marks them up, say, by a factor of two. But he only sells a few a month; his "flip," as is the case of most craft production, is very limited.[6] As steel gets produced more efficiently it resembles the foregoing hamburger example. The per-unit mark up falls, the good itself becomes cheaper, and the profitability on invested capital actually increases. A factory of five thousand workers will put out of work forty thousand blacksmiths around the world and in the process boost output thousands of times. Technological development requires "an increasing ratio of organic capital," Hilferding's jargon that means that the role of expensive machinery in production gradually comes to dominate the role of wages. Today, a standard-sized oil super freighter or an oil finery might run with the services of several computers and as few as half a dozen employees; wages have become a vanishingly small component of operation, compared to capital costs. When Hilferding was born in 1877, Romanians produced oil by digging it out with shovels and buckets and heating it in a large vat to separate the kerosene from heavier components.

Hilferding argues that as real factories face competitive pressure, they outrun their ability to raise capital. They need to improve production by buying more expensive equipment. But retained earnings fall under competitive pressure. Therefore, industries are *forced* to turn to the banking system to raise more capital.[7] Hilferding assumes that bank-directed capitalism was a necessary institutional form; with hindsight we know that capital markets are perfectly capable of allocating capital without banks.

Hilferding is building a keiretsu-style capitalist development model, from the ground up, as it were, arguing that these institutional forms are dictated by the technological forms of the capitalist process. Industry progressively uses more capital, less labor, and produces for larger markets at lower per unit costs. Profits earned on "the flip" are not only lucrative, but also attract the eager attention of banks like flies to the jam pot.

On the other hand, profits earned on the thin per-unit margins implicit in "the flip" are quite vulnerable to new entrants and loss of market share: a shorter production line threatens the economies of scale that undergird the

---

enough to finance the Baghdad railroad and related oil development; therefore, as German development groups were interested in collaborating with British companies.

[6] Former President Jimmy Carter as a hobby makes and sells high quality furniture for up to $100,000 which he donates to charity. His per-unit markup is extremely high, his flip very low. See Blackmon (2008).

[7] Hilferding's critics, including Sweezy (1942) and Neumann (1942), argued that retained earnings in cartelized subsidiaries allowed industries to break free of their finance capital masters. There may be something to that, but I think the model has more durability than they suggest.

Table 1

Finance Capital

Attribute	
Industry	Vertically integrated; concentrated in core; oligpolistic.
Investment	Rationalized & controlled by cartels and finance Sylos-Labini effect.
Imperialism	Financed by debt markets of core powers.
Finance	Banking system tightly connected to industry; most capital raised through banks; buy and hold.
Currency	Fixed-rate exchange system with loans, tariffs, unemployment as major adjustment tools.
Banking System's Core Asset	Gold.
Balance of Payments	Imperialism tends to surplus trade balance.
Consumer Credit	Low everywhere.
Speculation	Mainly in progress of "real" investments such as land along proposed railroad route; stocks.
Military-Industrial Complex	MI expenditures essential to spur aggregate demand in flagging oligpolistic economies.
Military Activity	Colonial conquests; World Wars.
Weapons Sales	Third-rate weapons to third-rate countries.

basic calculations about production profitability. In our hamburger example, if a Burger King sets up next to McDonalds and the latter's sales volume falls from 2000 burgers a day to 1000, McDonald's profits evaporate. Cartelization from suppliers also threatens throughput and profits (for example, by raising the price of beef.) Macroeconomic factors also loom large. A decline in national income, which allows people to eat out, is as threatening as an increase in competition.

Capital intensive industry's exposure to risk is high, and the only way "out" is "through": that is, once the physical productive structure is built, the only

Table 2

Wal-Mart World

Attribute	
Industry	Minimal vertical integration; Competitive pricing; Producers subordinate to retailers.
Investment	Acceleration principle concentrated in the "Hilferding" countries; consuming "credit countries" less vulnerable.
Imperialism	Core powers' military-industrial complex financed by countries with raw materials, export surplus, or industrialized export surplus.
Finance	Banking system part of a highly-diversified financial market; industry largely divorced from relationship to banking fees and volume combined with buy & hold.
Currency	Floating rate; Fixed rate seen as cheating (China).
Banking System's Core Asset	Triple-A public debt (requires secure tax base, stable property rights.)
Balance of Payments	Trade deficit required to finance industrialization.
Consumer Credit	High in consuming countries; Low in producing countries.
Speculation	Mainly in complex, leveraged financial instruments with high turnover (stocks, debt instruments, derivatives, etc.)
Military-Industrial Complex	Military budgets secondary to income transfers that shore up consumer demand.
Military Activity	Multilateral "peacekeeping"; Nuclear peace.
Weapons Sales	First-rate weapons to third-rate countries that lack spare parts and technical expertise.

way to get the money back out is through production and sale of goods. Hilferding's banking system becomes deeply embroiled in industrial risks. It has advanced capital in the form of equity (buying stocks to keep in bank portfolios) and loans. If industrial income falls the loans have lower market value, and the stocks decline as well. The asset side of the banking ledger declines, which implies among other things a fall in lending and the possible start of an economic contraction. Bankers therefore ally with industry to make sure that product markets are (1) stable, and (2) large and expanding. With regard to (1), banks and industry converge on market stabilization: tariffs to prevent entry from foreign firms, and cartelization to boost per unit markup. Vertical integration is encouraged to insulate downstream activity from upstream prediction: the steel companies buy their own coal companies to escape being squeezed by the coal cartel. As for (2), market size, Hilferding elaborates an excellent description of dumping wherein price discrimination between two different markets[8] is used to secure greater production volumes. The quest for market size is also linked to imperialism, meaning the conquest and direct rule over what become captive markets, and military expenditure, which generates additional demand for the creation of weapons systems (e.g. battleships) whose required inputs stabilize demand for heavy industry.

Hilferding (1910) takes the logic of vertical integration, cartelization, and protected markets to their extreme conclusion in a remarkable paragraph that epitomizes his views of capitalism's immanent developmental tendencies:

> If we now pose the question as to the real limits of cartelization, the answer must be that there are no absolute limits. On the contrary there is a constant tendency for cartelization to be extended. As we have seen, the independent industries become increasingly dependent upon the cartelized industries until they are finally annexed by them. The ultimate outcome of this process would be the formation of a general cartel. The whole of capitalist production would then be consciously regulated by a single body which would determine the volume of production in all branches of industry. Price determination would become a purely nominal matter, involving only the distribution of the total product between the cartel magnates on one side and all the other members of society on the other. Price would then cease to be the outcome of factual relationships into which people have entered, and would become a mere accounting

[8] The classic example is where the domestic or "home market" is priced high while the foreign market is priced low. Between the two markets, manufacturers capture gains on the resulting economies of scale; they can make more money on the same capital investment even if they jigger the price structure "at the margin" to subsidize foreign consumption at the expense of domestic consumers, who, because of tariffs, have little alternative. But price discrimination need not work against the e.g., foreign and domestic, but it can work the other way, high prices in Asia might be used to subsidize competition for market share in Europe. See Verdier (1998) for an interesting political model; economic literature includes Greenhut, Ohta, and Sailors (1985); Brander and Krugman (1983).

> device by which things were allocated among people. Money would have no role. In fact, it could well disappear completely, since the task to be accomplished would be the allocation of things, not the distribution of values. The illusion of the objective value of the commodity would disappear along with the anarchy of production, and money itself would cease to exist. The cartel would distribute the product. The material elements of production would be distributed to the working class and the intellectuals, while the rest would be retained by the cartel to use as it saw fit. This would be a consciously regulated society, but in an antagonistic form. This antagonism, however, would concern distribution, which itself would be consciously regulated and hence able to dispense with money. In its perfected form finance capital is thus uprooted from the soil which nourished its beginnings. The circulation of money has become unnecessary, the ceaseless turnover of money has attained its goal in the regulated society, and the *perpetuum mobile* of circulation finds its ultimate resting place (p. 234).

This is "Hilferding world" as an ideal type, not something that Hilferding thought had already happened. It is easy to say, now, that certain developmental tendencies that Hilferding saw as inevitable in 1910 were in fact contingent, and largely *ad hoc* institutional adaptations. For starters, the Glass-Steagall act of 1933, separating banks form industrial holdings in the United States (thus ending J.P. Morgan's *keiretsu* of industry and finance),[9] showed that capitalism could bypass the "inevitable" joining of banking and industrial production. Moreover, the post-World War II emphasis on free trade is incompatible with Hilferding's theses, as is, I will show below, the abandonment of the gold standard in 1971.[10] Pairing Hilferding's *Finance Capital* with the little-known but meritorious *National Socialism versus International Capitalism* (Tenenbaum 1942) highlights the different organizational forms of capitalism that fought for world dominion in World War II.

Hilferding demonstrates the centrality of high-volume, capital-intensive production to modern capitalism. Industry is drawn to banking by its need for capital, and banking becomes complicit in managing the economy to control prices and competition. Industry builds its power and scale on "the flip", banking participates in the profits through stockholdings and corporate bond issues. Retail is scarcely present in Hilferding's theses: it is either a venue for the sale of cartelized products, or brushed aside through mechanisms of vertical integration.[11] Wage, banking, tariff, and foreign policies are oriented towards

---

[9] The Morgan *keiretsu* included US Steel and General Electric, as well as the famous banking operations.

[10] The gold standard fell apart in two phases, the end of convertibility, in 1971; and the decision to float the dollar following failure to maintain a fixed exchange rate, in 1973. See Garber (1993).

[11] Car dealerships and branded gasoline stations still retain significant vertical integration. But Hilferding seems unaware that some retail chains in his era purchased upstream manufacturing facilities for high-volume products and thus became vertically integrated. See Strasser (2006:47).

the maximization of profits for a declining number of producers. These are characterized by vertical integration, increasing capital requirements, and larger production scales. The business of finance capital is controlling production and consumption.

Wal-Mart World and "The Flip"

The financial and retail sectors' pursuit of "the flip" has turned upside down the system of power outlined by Hilferding. The current collapsing world economy is linked to the collapse of loans to consumers, most spectacularly in automotive sales and housing. Today the retail sector, nearly invisible in Hilferding's producer-dominant model, is the force that drives down producer margins as well as wages in the production sector. Producers have been subordinated to the power of retail, in the latter's capacity as the gateway to consumption.

In banking, "the flip" is associated with two characteristic features of the current economy: credit cards and the mortgage market.

Credit cards are actually commercial paper at the retail level.[12] When a merchant takes delivery today for goods and services and signs over an IOU to pay for them at a later date, the result is a negotiable instrument, an IOU, called commercial paper. The party holding the IOU keeps it to collect principal and interest, or sells it to a third party, a discount operation. The discount broker collects a transaction fee.

In retail discounting, tens of millions of customers are tracked via statistical profiles of their payment behaviors and histories. The retail customer presents a vendor, say a restaurant, with a piece of plastic that certifies membership in the retail credit system, e.g., a Visa card. These days the "bill of exchange" is a stream of encrypted electrons. The electrons are presented to Visa, which discounts the bill. The restaurant redeems the electrons, and Visa collects the "note due" from the customer who ate the meal at the end of the month. Visa as broker collects a fee of typically 1.5 to 3 percent depending on the volume-related contract with the merchant (we use 3 percent here).[13] By paying off merchants and keeping the 3 percent difference when the customer pays, the

[12] The credit card took installment credit, which accounted for the majority of consumer durable purchases as early as 1930, one step further. See Calder (1999).

[13] The transaction fee structure is tiered by volume and by size of the charge. Paypal's fees are similar (and Paypal issues credit cards) and readily consulted on line: 2.9% up to $3,000, plus a thirty cent fee on transactions under $100. Most transactions are under $100, and the thirty cent fee significantly boosts revenue. For merchant transactions of more than $100,000 a month fees drop to 1.9% . Large customers such as Walmart may negotiate lower fees. Large retail vendors often contract directly with Visa and Mastercard to put their name on the plastic and collect a portion of the transaction fees they otherwise lose. In the extreme case they may try to start a rival card, as Sears did with Discover.

company realizes a return of 3 percent per month, or 36 percent per year. Credit card companies are anxious to raise interest rates to 24 to 30 percent for customers who don't pay their bills in full each month. That is because the interest the customer pays on the unsecured loan (the monthly unpaid balance) is a "losing allocation of capital" in the eyes of the credit card companies, for whom grossing 36 percent a year by financing transactions is better than collecting from outstanding balances at 18 percent or lower.

With a vast computerized billing and transaction verification network, security costs, on-line and 24-hour phone banks, the credit system itself represents a significant expenditure of capital. The eighteenth century bill discounter ran a labor-intensive paper operation of limited scale, like the blacksmith referred to earlier. Modern credit card companies are capital intensive, and extensive, and their bill-discounting rates are about the same as they were in the eighteenth century. So, we have something Hilferding did not envision—industrial scale finance, requiring large-scale throughputs in order to be a money-making machine. Credit card companies resort to teasers (introductory interest rates, and points earned) similar to those once pioneered by manufacturers and retailers (some may remember blue chip stamps and the days when oil companies gave away glassware in attempts to lure customers). Debit cards allow the companies to collect the same transaction fee without having to advance their own capital; in the case of debit cards Visa and MasterCard provide an electronic checking network on which they collect 3 percent per transaction. This is a bonanza and, save for the costs of erroneous debits and fraud, represents an almost infinite rate of return. Very little capital is fronted by the company (as it is in the case of credit cards) and most of the hardware installation costs were already paid for by the prior development of the credit card system.

The "flip" is also seen in the retail mortgage market.[14] Let us say a bank advances $500,000 on a mortgage and in so doing collects $5,000 in various origination fees. The mortgage is executed, the fees are collected, and the mortgage is resold to a third party investor in the same week. The bank gets back its $500,000 and is ready to sell it again to another party the following week. In this case the bank would gross $5,000 per week on a $500,000 capital that turns over once a week—a cool $260,000 per year. Though exaggerated, like our McDonald's example earlier, this 50+ percent rate of return points to why holding the 6 percent mortgage is for losers—or at least, for players that have other concerns than those that motivate the bank. The bank wants to get out of the "holding" business so it can flip its capital—flip it in

[14] See Schwartz (2008, forthcoming) on the housing market in international finance.

credit card transactions, flip it in mortgages, flip it in car loans, flip the capital anywhere one can devise a flip.

This accounts for the profusion of exotic interest rate arrangements in the mortgage market. These are the low and no-interest rate "introductory" mortgages, where the actual accrued interest is put on the "back end" of the loan. The "re-set rate of interest" was never intended to be borne in fact by the customer; it was intended to give the customer an overwhelming incentive to flip the mortgage for yet another mortgage that would replace it, a process that can be kept relatively painless to the consumer as long as interest rates are low and the costs of each new mortgage are rolled on to the back of the new loan. This is possible in a rising market because the mortgage-which-is-never-paid-down is still secured by the rising value of the property.[15] Customers, who are only interested in their monthly payments, pay little attention to the details.

The exotic mortgages that have bankrupted the international economy are, in a very narrow sense, a "reinvention" of the "normal" mortgage that prevailed before the 1930s. The 1930s mortgages featured variable-interest rates and normally terms of five to ten years, and often of as little as one year. The bank held no interest rate risk and, with large down payments, little default risk compared to the no-money-down mortgages of recent times. But the consumer was forced to refinance, then as with today's Adjustable Rate Mortgages which reset to punitive rates. The 1930s banks built a "flip" (mandatory refinancing costs) into their mortgages by keeping the term of the loan short. The thirty-year mortgage's denial of the "the flip" to the lender, forcing the lender to assume the interest rate risk by offering a fixed rate mortgage, reflects the regulatory spirit of the New Deal.[16] Today's exotic mortgages, put another way, have seduced borrowers, and with them the general economy, into the hazards of the 1930s, with even less protection against fluctuations in the housing market than was available then (due to that era's prevailing norm of a large down payment).

The "flip" has worked its way root and branch into the structure of American finance, via the powerful mechanisms of credit cards and mortgages.

[15] The mortgage that is never paid down is not necessarily a bad thing, and might even be a good one. In the United States as people pay down their mortgages, their per-month cost to inhabit the house actually increases over the life of the "sober" thirty-year mortgage. That's because the interest portion is continually decreasing, which diminishes the value of the interest deduction from the income tax. The last fifteen years of a thirty-year loan are more expensive to the US homeowner unless inflation has eaten away at the total value of the loan.

[16] See Green and Wachter (2005), who remark "The invention of the fixed-rate, self-amortizing, long-term mortgage was, above all else, a response to the general crisis, as opposed to a design for the promotion of home ownership per se." (Pp. 94-96) The Great Depression foreshadowed today's housing crisis—10% of homes were in default and home prices declined 50%. See Bartlett (1989).

Unsurprisingly the cascade of mortgage defaults is having secondary repercussions in seemingly unrelated markets such as credit cards and student loans. When the losses on the loans become large, the capital committed to covering the "writing down" of bad loans must come from somewhere. Capital normally allocated to earning a "flip" in some other market must be diverted to cover the losses of the defaulting market. Less capital is available for lending and the economy must slow. But curiously, in the current economy, export-oriented industry fares well because the American dollar is collapsing. In Hilferding's model such industrial profits would have been the bedrock of the banking system's portfolio; not so today.

In retail goods, the "flip" is of course the essence of the game and always has been. Wal-Mart's advantages over its competitors include better inventory control and aggressive anti-labor policies.[17] In Wal-Mart's early years, growth was based primarily on low in-store wages and passing much of the savings gained from bulk purchases on to the consumer. That was only enough to get the company started, however. At some point it got big enough to "grow" through an altogether different dynamic—being able to dictate terms to producers. These dictates include mandatory outsourcing for American firms, a "plus one" policy that requires manufacturers to lower the price on the items they make every year; and total indifference to the needs of recognized national and international brands, including some of the mightiest (Nabisco), to engage in promotional activities. The company also refuses to engage in slotting, the practice of selling conspicuous shelf or floor space to major brands for promotions.[18]

Wal-Mart's pursuit of the flip goes beyond pressure on manufacturers—it includes choosing the right demographic. The company's mainly rural and suburban locations means that the poorest of the poor, the urban poor, are not a major part of its customer base. The customer base has to at least have enough income to maintain a car. In the US, the customers are concentrated in the 80 percent of income earners who collectively take home the other 50 percent of the national income, not the 20 percent who take home 50 percent. But of the 80 percent who share among themselves only 50 percent of the income, Wal-Mart excludes the bottom decile through its spatial positioning. The remainder, the working poor and median income deciles, have a very low savings rate. That means they reliably spend what they have, much more so than the 20 percent who take home 50 percent, and who actually save a good

[17] See Strasser (2006) and Adams (2006); Adams is emphatic on the role of volume and turnover.

[18] See Petrovic and Hamilton (2006), especially p. 132.

chunk of that income for college funds and retirement.[19] The working poor and median income demographics have income to spend, but limited discretionary income to switch to other retailers if they do not like the quality of the goods.

Following Moreton's (2006) emphasis on Wal-Mart's culturally "agrarian" roots in Arkansas, I would suggest that the Wal-Mart's chief advantage is spatial—a vast network of large stores. Ordinarily an agrarian market can be thought of as "thin" in comparison to dense urban markets. But in the age of the automobile that is not so; the Wal-Mart model requires automotive access as a precondition to getting enough people in to justify the size of the store, which must be large enough to have the volume of sales that permits Wal-Mart to dictate terms to overseas producers. In Ghemawat and Mark's (2006) words, "Wal-Mart operates 2-1/2 times as much selling space per inhabitant in the poorest one-third of states as in the richest one-third."[20] The lower cost of real estate makes possible the vast parking lots that bring the customers in for the high turnover sales. Box stores are efficient consumption factories with scale economies.

So Wal-Mart's ability to dictate to producers stems from its size, and its size is a proxy indicator of its market: large numbers of working poor with enough income to finance their own automobiles, thereby supporting Wal-Mart's scale, and enough income to "vote" for Wal-Mart with their high marginal propensity to consume—what they have, they spend. Ironically, Wal-Mart does better in a recession than its rival Target. The higher income demographic that frequents Target has more latitude to cut back on non-essential expenditures, so the "luxury" inventory in Target does not move as quickly as the "essentials" found in Wal-Mart.[21]

The scale of Wal-Mart's operations also makes it capital intensive, in the sense of deterring entry; its stores command vast market areas (up to an hour by car in any direction) and can't be beat in terms of prices. While Wal-Mart "in its maturity" can be identified as one of the causes of deindustrialization (outsourcing), overseas export of jobs had been going on well before Wal-Mart's rise to retail dominance. Wal-Mart's use of high volume throughput has given it a command of "the accumulation process" which it (and other retailers that follow the model) use to further their spatial control of access to the consumer's pocketbooks. Direct investment in production, anywhere, is shunned, since

[19] The argument by Cox and Alm (2008) that the lower income deciles spend more than their income and account for a greater share of expenditure is interesting, and possibly flawed. For our purposes we may note simply that if it is true, then Wal-Mart is even smarter to be "grazing" in the low-income demographics.

[20] Ghemawat and Mark (2006).

[21] Cheng (2008).

the costs of production can be minimized by squeezing suppliers. Hilferding (1910) wrote:

> The transition from commercial to investment credit is also apparent in international markets. In the early stages of development England . . . extended commercial credit to countries which bought English products. The situation is different today: credit is not provided exclusively or mainly in the form of commercial credit, but for capital investment, the object of which is to gain control of foreign production (p. 92).

A more different situation from today's practices cannot be imagined. Today's retail behemoths do not gain control (ownership) of foreign production because they can do so less expensively by fiat. They say, "if you want access to the aggregate demand of which we are the gatekeepers, price as you are told to price." It's true that many producers have moved operations overseas, but they do so to have the prices that will get them shelf space at Wal-Mart, which forces their production overseas.[22]

In Hilferding's day imperial power controlled credit as well as exports. Production in the metropole fueled credit in the metropole that was extended to borrowers in the periphery. Today's exporters, like their imperial predecessors, are doing the lending to the buyers, but now it is consumption in the metropole that fuels the development of credit in the periphery which is extended to further consumption in the metropole. But the exporters so far are not positioned to gain control of the importer's productive assets. Indeed exporting "peripheral" countries provide credit, through their lending, to a hyper-developed military power whose adventures they might in theory fear. But in fact they don't really fear invasion and appear to have subcontracted military issues (including fiascoes like Iraq) to the hegemon.

The debtor as hegemon would have been seen as aberrant in Hilferding's era; it is the vexing issue that elaborate theories of US hegemony continue to dodge. I cannot fix the problem here and that is why I look at these factors as disaggregated. Some first-world firms (oil, automobiles, pharmaceuticals, cigarettes) do in fact exhibit high degrees of global reach and do so without significant need for access to Wal-Mart's and like companies' shelf space. Perhaps this is the old "Hilferding classic" economy still visible under the overlay of the more recent production model wherein retail is king. Perhaps, too, we need to re-think the whole "retail service sector" definition. McDonald's is not a service industry—it is a food factory with vertically-integrated delivery, like the oil industry.

---

[22] See PBS Frontline documentary, "Is Wal-Mart Good for America?" (2004) available http://www.pbs.org/wgbh/pages/frontline/shows/walmart/etc/script.html.

2. Spatial separation of the acceleration principle and the "mode of consumption's" triumph over the "mode of production."

The acceleration principle, first identified by Clark in 1917, analyzes asymmetries among sectors that grow at different rates. Imagine a small town housing 20,000 families. There, the building sector knocks down 50 dilapidated houses a year and replaces them with 50 new ones. The demand for bulldozers and other heavy equipment reflects this equilibrium. Now imagine a major manufacturing firm breaks ground on a major facility. Five thousand families will be joining the community over the next five years, and projected growth will continue with the addition of 100 families per year after that. The trend is all "up."

Instead of building 50 houses per year, the housing sector will be expected to build 1,000 units a year for the next five years. Orders are placed for new heavy equipment, stimulating the bulldozer industry elsewhere, and wages rise as construction attempts to lure workers from other businesses in the town and coax others into the work force. The added employment in construction is a huge spur to the town's service economy.

After five years, however, the 5,000 units have been built. There is a new equilibrium level: we have 20 percent more housing units, and thus a 20 percent increase in the number of older houses that get knocked down (rising from 50 to 60), and we have a new regional employer that continues to add jobs to the area to the tune of 100 additional families a year. So because we have a baseline of expanded equilibrium output and *continued expanding growth* from the new firm we should be making 160 houses a year compared to 50 before the new company arrived.

But the town goes into a recession. One-hundred sixty houses a year is only 16 percent of the 1,000 units a year the industry has produced for the past five years. Workers in this sector are laid off, and bulldozer makers outside the town see the area's demand for heavy equipment crash. Perfectly good bulldozers are mothballed, obviating any need for new ones. Basically the housing industry has to "step down" its production outlook from 1,000 to 160 units a year and the town is going to have to adjust to the associated decline in aggregate income. The new factory leads economic growth, but there is a simultaneous recession in the "overextended sector," construction. Many people are, thanks to the factory, doing very well and indulging in gadget consumerism. They think the future looks bright because their company is doing well. This dichotomy between the prosperous export sector (the factory) and the collapsing or stalled local economy is a first approximation of Japan in the 1990s.

Samuelson's (1980) textbook calls the acceleration principle "a powerful factor making for economic instability."[23] It has generated its own literature.[24] The reason that the acceleration principle is "something to consider" but not "continually in our faces" can be deduced from the example just provided. If bulldozer makers can lease to another town when one town slacks off, they move their unused inventory of bulldozers to another town that is entering an upswing. Many of the workers needed for new housing development are mobile and follow their jobs. In addition there are many economic sectors developing and contracting at any given time. For example, the airline industry's growth cycle need not be the same as the software industry's. The acceleration principle's effect can be "muffled" in everyday experience.

I propose that with regard to Asian development "to service Wal-Mart" the effects are not so muffled, but in fact exaggerated by the spatial separation of the consumption sector (the rich importing country) from the export sector (the much less rich exporting country).

The Hilferding Model and the Acceleration Principle

Differences in timing, industrial sectors, and other factors "muffle" the acceleration principle in a generic capitalist economy. In Hilferding's *Finance Capital* the effect is, however, not just controlled, but also strangled. In the mature "Finance Capital" economy investment is essentially controlled by the large banks linked to existing physical capital. Any new investment is planned with an eye to the orderly phasing out of the physical capital already in place. More plainly, if I am heavily invested in a 30-year-old steel factory I approach the prospect of building a new one more cautiously than if I have no such factory. Enterprises in *Finance Capital* cannot assume perfectly competitive conditions because they themselves have reduced those conditions to a minimum. Under perfectly competitive conditions a company assumes that its own contribution to the market won't affect price levels. In Hilferding's world of *Finance Capital* the assumption is quite different—investors (oligarchs) view the entirety of the production process from their "commanding heights." As a result the investment component of national income is less subject to speculative frenzy and overgrowth. Indeed, if export dumping combined with tariffs is systematically practiced, the tariff already is a consumption tax on the domestic economy, dampening demand. Cartelization of the domestic market basically insures

[23] Samuelson (1980:248). This is the 11th edition.

[24] See for example Bernanke (1983), Chenery (1952), Clark (1917), Eisner (1963, 1989), Kashyap, Lamont, and Stein (1994).

that the increasingly tiny competitive sector is at the mercy of pricing decisions by bank-directed cartels and combines.[25] The effect of systematically raising prices through cartels and tariffs is to diminish the real wage, so consumption preferences are not likely to drive investment spirals as implied in the acceleration principle.

Sylos-Labini's *Oligopoly and Technical Progress* (1962) describes some of the traits of a finance capital system. Sylos-Labini notes that technical progress in production is guaranteed even under stagnant growth conditions, because as productive equipment wears out it is replaced with more efficient equipment. So, even in a stagnant market, increasing technical unemployment can occur as a result of efficiency gains. Investment in totally new sectors—where we would expect to see the acceleration principle manifesting its strongest effects—is relatively restrained because the available income for consumption is set by the dominant cartelized industries, leaving little discretionary income to fund innovative technologies. For example, in cartelized late nineteenth century Britain there is little consumer income to spur the development of a telephone system.[26]

Our discussion of the acceleration principle could end here were it not for a paradox—outside of Germany, the most Hilferdingesque economies in the world are the Asian development models, which feature strong banks linked to major productive networks. And, below, I am about to argue that these economies are precisely those that are most vulnerable to the acceleration effect. But these exceptions help make the case. Of this group of countries, Germany is the most redistributive with a social security system that is not based on consumption-killing personal savings.[27] Hilferding envisions a world in which aggregate demand in the producing country is endogenous and thus administratively decided "in an antagonistic form" (p. 234, see long quotation *supra*) by a banking and finance cartel that control incomes by setting the levels of wages and investment. To the extent that administered production creates a trade surplus, gold is accumulated which can become the basis for the further expansion of credit and lending. But this credit and lending is used to further demand for finance capital's own industries: a bank will lend money to a foreign country to generate demand for a railroad which will lead

[25] For example, the competitive sector gets what is left of the consumer dollar after the cartels and combines have set their prices and wages, just as today, the competitive restaurant sector gets whatever is "left over" of the consumer dollar after the oil cartel has had its slice of consumer income.

[26] Cartelization was legal in Britain during Hilferding's life, and cartel contracts were enforceable in court. See discussion in Nowell (2002).

[27] On Germany's social security as a "pay as you go system" see Potrafke (2007).

to sales of steel and locomotives from industries in which the bank has a major stockholding.

In Wal-Mart World, the demand that drives the development of exporters is exogenous to the exporting country. Dependency on exogenous demand may even be more restricting than dependency on exogenous capital investment in earlier times.

Wal-Mart World and the Acceleration Principle

Wal-Mart World's distinctiveness compared to Hilferding's *Finance Capital* is the extent to which production is outsourced to low-wage, third world countries. This does not mean that all aspects of the capitalist economy are outsourced. Anything to do with the consumption sector is privileged.

One of the most powerful developmental dynamics of capitalism is speculation on land and its relationship to transportation. In the age of canals, land speculation centered on territories proximate to the canal transport; the age of the railroad opened up additional vast new tracts.[28] The trolley helped spur the initial wave of suburbanization, but ultimately the automobile trumped them all. Unlike canals, automobiles could go over virtually any terrain, as do railroads; but unlike trolleys and railroads, the capital and operating costs are transferred to the user—only road upkeep is required from the social system. The automobile transforms transportation from a social product to a personal consumption good. Developers find that almost anywhere they can persuade the state to pave a road, they have an opportunity to realize large gains by building a house. With the homes comes the related service sector, i.e. malls and Wal-Mart, which provide further personal consumption goods.

Developers realize speculative gains on the land; automobile producers sell outsized cars for prestige; and the retailers come in to make their billions on the "flip." This is a continental-sized investment in the physical structure of consumption. Real goods and physical assets are made (roads, stores, gasoline stations, restaurants, movie theaters) and some of these consumption goods (e.g., agricultural products, some automobiles) are even made (for now) in the United States.

Financial services companies participate in this bonanza through their high-volume credit card fees and by selling commercial and residential mortgages. The notion of the United States as "consumer of last resort" is well-worn

[28] On canals see Hartz (1948); this is Hartz's better book, the one for which he is not known, and where he attributes ideological change to changes in the productive structure, rather than vice versa. On trolleys see Warner (1969).

territory.[29] Consumption is, at least until recently, more stable over time than investment. Accordingly, the economy that "depends on export-led investment" to fuel its domestic economy is really the one that is most vulnerable to "a sudden decrease in the marginal efficiency of capital" which Keynes identified (315-332) as the cause of an economic bust.

The current economic crisis in the United States shows it is not immune to recession and bubble-related contraction of credit. Moreover, consumption is falling.[30] Indeed, given that Clark's 1917 essay on the acceleration principle is actually based on the housing sector, and the United States is in a housing sector crisis, it takes some chutzpah to suggest that the nation with the most serious "acceleration principle" problem is not the United States, but Asian style exporters who follow various versions of the Hilferding *Finance Capital* model. Nonetheless the scale of US consumption is so vast that even in contracted condition it will dominate world markets. If one is to choose one's structural economic weakness, a country with over-consumption is likely to triumph over a country with under-consumption every time. And under-consumption, or excess savings, characterizes the Asian exporters.[31] US consumption of $9.5 trillion is six times more than Indian and China combined; put another way, ten percent of US consumption equals the entirety of China's. Smick (2005) is correct to note that China cannot continue with a 40 percent investment and 9.5 percent per annum rate of growth.[32] The country is headed for some kind of deflation—Japan in the 1990s, or the broader "Asian Contagion" of 1997-1998—and when it does, upheaval may result. So far China has dodged Japan and "Asian contagion" style calamity by pegging the Yuan to the dollar.[33] Decoupling the two currencies would certainly lead immediately to deflation in China as US assets in the Chinese banking system shrank relative to the Yuan.[34] The asset side of bank balances (as is happening in the United States, due to default risk) would shrink, forcing banks to "cover" losses by decreasing lending and/or increasing interest rates. Or, the two currencies can

[29] The phrase draws thousands of hits on the Internet, but Tabb (2006) is very good, as is a powerpoint presentation authored by Stiglitz (2005).

[30] Healey (2008). Also Kelly Evans and Robert Matthews, "Manufacturing Tumbles Globally," *Wall Street Journal*, 3 January 2009, download from http://wsj.com.

[31] Bernanke (2005) resurrects the over-savings hypothesis typically associated with pre-Keynesian theorists of capitalist disequilibria such as J.A. Hobson and J.K. Rodbertus.

[32] Smick, Pp. 8-9.

[33] See McKinnon (2005).

[34] Asset deflation can happen even when most of the assets are good. Whalen (2005) is among those who think the Chinese financial system is stuffed with worthless assets. The extent of the US sub-prime mortgage crisis raises the question of "worthless under what conditions," i.e. Bear-Stearns may harbor better quality assets bankrupt and selling for 3% of its net asset value a week earlier, than China's banks under boom conditions.

stay coupled, and the deflation will occur when Keynes's dreaded "decline in the marginal efficiency of capital" finally strikes home either in China's real estate, equities, or perhaps in some other sector.[35]

The asymmetries in investment spending in the industrializing countries—their vulnerability to variations in investment due to the low wage structures that are the reason they attract investment—is part of the analytical problem represented by the role of debt in Wal-Mart world. In Hilferding's model, an imperial or core country accumulates gold reserves, which strengthen its financial system and provide the means to make loans which provide further demand to the industrial core. The periphery transfers gold to the core countries and gets into debt; reserves are returned in the form of loans which then present a debt service problem to the colonial dependencies. The colonial IOU is held as an asset (bond) on the balance sheets of first-world lending institutions. So, gold reserves are an asset which end up moving to the core country "as a rule," and so are the paper assets, the bonds. This is a double win for the banking system of the core power which thereby keeps control of what would we would call today "Tier I capital" (gold) and also gets to hold the inferior but interest-producing paper IOU as an asset. Servicing the debt is the chronic burden of peripheral economies, whether colonial (part of formal empires), semi-colonial (e.g. Ottoman Turkey, Iran) or post-colonial (the third world). Such debt is criticized as an income transfer from core to periphery.[36]

In Wal-Mart world gold is no longer privileged. The primary assets that are "good as gold" are triple-A rated government debt: debt issued by governments of the OECD, but mostly US debt. In racking up a current account deficit, the US exports debt instruments to foreign holders, and in effect funds liquidity in other banking systems. This is a stark contrast to days of yore when imperial arrangements in Hilferding's day drained the premium financial asset, gold, to the metropole, and with it, liquidity from the periphery's banking system. But nowadays the core asset is the government bond. In the case of China this works in the following way: (1) a Chinese exporter receives payment in dollars, is required to convert the receipt into Yuan, and receives either Yuan cash or a Chinese Yuan bond in the conversion; (2) the Chinese government buys a US Treasury bond or other dollar denominated instrument; and (3) the US economy has now taken out a loan with which to finance further imports. Schwartz (2008) has argued that the US, through a process of

[35] China is building fifty 300 megawatt coal powered stations a year, an example of an investment sector ripe for the abrupt discipline of the acceleration principle.

[36] Examples are numerous, but Williams (1978) summarizes a number of African cases associated with the oil-debt crises of the 1970s. See also the World Bank's "Global Economic Prospects" (2003). Feis (1930) is the classic resource on the pre-World War II period.

disintermediation, can actually turn a profit on these exchanges by using the cash thus generated to purchase other, higher risk assets and therefore, on average, a higher rate of return. That would certainly be a key to the system's unexpected viability.

But the issue here is that the US is exporting an asset that in theory is "good as gold" (government bonds are formally categorized as Tier 1 capital) and that ends up incorporated into the Chinese banking system. The Chinese government can hold this US public debt as an asset to offset the liability of its own circulating currency. The potential is that the accumulation of the US assets translates into currency expansion, "easy money," and as a result, asset inflation, which in any case has been seen in such diverse cases as Norway, Iran, Saudi Arabia and Texas (oil producing surpluses) and also in economies that accumulate surpluses in another manner, i.e. by exporting goods, as is the case of the Asian tigers. That this expansion should have an "unreal" bubble-like quality to it, and a very real danger of eventual deflation, does not change the fact that real physical assets are created in the upward part of the boom/bust cycle.[37]

The exported US bonds, which theoretically represent the "riskless rate of return," constitute a socio-political asset whose function is to be "as good as gold." Imagine for a moment what the late nineteenth century European economies would have looked like if each country's central bank had possessed its own inexhaustible gold mine. Would history have been any different? The gold would not have been given away, but rather the colonial dependencies would have had to borrow it at interest to invest in productive assets. But as the colonies developed, what then? Perhaps the core countries would have chosen to export gold in exchange for goods, allowing the dependencies to develop their own financial systems.

But what is the value of a credit system? Only that it can facilitate exchange and investment needed to create aggregate income, and thus the aggregate demand that allows the products to be profitable. So what is the true deficiency of being a poor backward country? That one has an insufficiency of aggregate income. This very insufficiency—low wages—is the reason why one can attract investment and to generate income. And even that is true only up to a point. The security of property rights linked to a market system of

[37] It is true that the Chinese government "sterilizes" some of the Yuan that it issues to holders of foreign currency by selling bonds to Chinese investors. The money that comes into the central bank decreases the money supply. But the Chinese bond, whose value is now in a sense "linked" to the payment of the underlying US treasury held by the Chinese central bank, is itself an asset. By raising the net worth of the person that holds it, it raises that person's eligibility for credit. The sterilization is at best partial. See Phillips, Batson, and Ip (2006).

exchange is possibly the biggest asset of all, and one reason why rich countries preferentially invest in each other, often for lower rates of return, than in countries with lower wage rates and insecure property rights system. The country with highest aggregate demand, the country with higher wages, is rich. Even if the colonial dependencies had had gold, they would have been poor, so long as they depended on foreign demand and neglected their own domestic consumption with punishingly low wages. And of course, gold and silver reserves have not propelled peripheral countries into full economic development, whereas many other countries have developed without these assets. The metal means nothing; it is the structure of production and consumption, and most particularly consumption, that appears to drive development.

When the United States exports bonds to China it is the same as if it were exporting gold, but with some crucial differences. When one has gold the physical presence of the gold is independent of where it came from. If China had amassed a pile of gold from the United States, the potential bankruptcy of the American system of finance would shake the Chinese economy but not the financial core asset of gold accumulated by its central bank. Other players, e.g. the European economies, would recognize China's gold as a value "independent" of the solvency (and taxing capability) of the US government. But investors' valuation of Chinese productive assets, in the absence of an American market to make them profitable, would decline. But US debt is not a lump of metal, it is a social and political relationship. If, as the *Wall Street Journal* recently put on the front page, US debt is downgraded from its Moody's Triple-A rating in the next ten years,[38] it would imply that the Chinese central bank is operating on two sets of illusory relationships: its investments in its own country's poor quality debts, and the American.[39] China is at risk of emerging from its rapid development with a domestic economy starved for aggregate demand because of low wages, and a banking system gorged with poor quality Chinese and poor quality US debt. If the world bond market cannot sustain the huge expansion of American debt under deliberate deficit stimulus, China is in for big trouble.

The alternative, however, of spending US-earned dollars on American products is deflationary for the Chinese economy and runs counter to the goal of amassing quality assets to build the financial system that finances the extraordinary growth rates.

---

[38] Phillips and McKinnon (2008:A3).

[39] Charles X lowered the interest rate on French bonds in 1825 to fund an indemnity to nobles that had lost land in the revolution. Parliaments exist to control this sort of "unthinkable" behavior, but it is a theoretical risk run by anyone who accumulates a great deal of another country's debt. For his pains Charles X lost his throne and died in exile.

If China collects goods (buying them with dollars) it cannot collect banking assets. Alternatively China can divest itself of its dollar hoards by selling them to other speculators. But this pushes down the value of the dollar and makes it easier for someone else to buy US goods, purchasing which is the only thing one can "do" with dollars if one discounts the value of holding dollar denominated financial instruments. In sum, China can divest itself of dollars only up to its desired level of unemployment; other countries holding US assets face much the same quandary. Moreover they are exposed to management risks related to the US economy: inflation, for one, and currency fluctuations, for another.

The spatial division of the acceleration principle leads, in some parts of the world, to a mode of production that is recognizably Marxist in character replete with modern exploitive horrors that mirror the worst of nineteenth century conditions. Simultaneously, in other parts of the world, a mode of consumption is created whose physical infrastructure is characterized by the suburban landscapes that are part and parcel of Wal-Mart World. Here children are schooled in the wisdom of protecting the environment while their parents drive them around in SUVs, while in China their age group peers gasp in a variety of pollutants that range from arsenic to coal dust, lead, mercury, barium, cobalt, fluorine, etc.

The consumption economy has its own particularities. It cannot exist without a system of social protections that boost aggregate demand, but the corporate actors within Wal-Mart World are hell-bent on beating wages down because it is Wal-Mart World's ability to do that which helps generate the volume demand that allows it to place orders in China. We can call it class conflict or a system of dynamic tension.

The acceleration principle is bottled up and contained inside the restraints of economic concentration and tariffs in Hilferding's model. But it is a genie unleashed in Wal-Mart World. The vulnerabilities of the exporting countries are patent.[40] In the consuming countries the suburban "mode of consumption" is more insulated from economic shock due to consumption being a steadier component of national income than investment. But nonetheless the shocks can occur and this is the current crisis. And so the consumption-driven economy has its acceleration principle where investment in building consumption infrastructure "hits a wall." This is true not only of construction, but the financial industry which also expands its flotilla of agents, offices, and computerized processing in order to accommodate an expansion in demand that comes to an abrupt halt when lending standards are tightened up. Hilferding

[40] See Barta and Walker (2008).

suggests that the end point of capitalism is a coterie of shrewd financial and industrial oligarchs allocating investment with a keen eye to the functioning of the whole. Wal-Mart World returns us to the anarchy of production, but in a manner that is free from the institutional constraints of the gold standard and which inverts a number of power relationships built into Hilferding's model. Wal-Mart World is in sum investment *tous azimuts* (in every conceivable direction), with the separation of production from consumption, and where retail is king.

The Current Crisis

Events have overtaken this article which was written to explore the issues that the ongoing economic collapse of October 2008 has now made plain for everyone. Revising the article in early January 2009, I will do something which academics are not supposed to do, which is make a few predictions.

First, the trillion dollar stimulus package envisioned by the Obama administration is better than nothing, but will fail. The reason it will fail is that stimulus measures designed to resuscitate the suburban consumption economy of Wal-Mart World can't work, because the banks are no longer in a position to inflate consumption by deceiving investors and themselves. Loans are the foundation of investment, investment is the source of income, and all of that has collapsed and may collapse more, of which the single biggest indicator will be home prices. I expect the US unemployment rate to go well over 10 percent for some time, more than prognostications I have seen in the press. The collapse of the economy means that there are even fewer people with "good incomes" to support borrowing than there were before the collapse; credit worthiness of the *hoi polloi* is a direct function of the performance of the economy as a whole. Many of the jobs for those loan officers, real estate agents, securities vendors, as well as residential and commercial developers will not come back soon. The primary extractive industries (timber, copper for wiring, etc.)[41] are already suffering and are part of the worldwide commodity collapse.

Second, some types of modernization, such as to the power grid and the communications network, may help the US economy find its way to a new cycle of growth. The economic collapse of the 1930s, taken as part of the grand sweep of capitalist industrial development, occurred during a period when the nineteenth century industrial structure was fading (trains, steel, shipping, and coal, coal, coal) and the "new age" was beginning: the automobile, paved highways, commercial aviation, and oil, oil, oil. In the 1950s the new patterns became obvious: the Interstate highway pushed the automobile and the trucking

---

[41] Faiola (2008) describes the collapse of a Canadian lumber town.

industry to commercial supremacy, commercial aviation killed off transatlantic passenger shipping, agriculture became universally mechanized in the metropolitan countries, and so on. It is very difficult to see, right now, what lineaments of the "next wave of development" are already here among us and waiting to be pushed into dominance in the next cycle of economic growth. By dominance I mean a cycle of economic development that deploys new technologies and new patterns that all but obliterate the old way of life—the McMansion and the SUV—making these as quaint as the family gathering around the radio to listen to broadcasts in the 1930s. It could be that I am just too unimaginative to see these alternatives, and that the forerunners are already here.[42] But in my view the "next wave" of development will have to leave the oil age behind, and that future is not easy to envisage at this time. If I am right, economic stagnation could be prolonged.[43]

Third, the collapse of the consumption model that has fueled Wal-Mart World will be hard on Japan and brutal for China. I think the emphasis on industrial expansion in China, with comparatively limited domestic consumption, will lead to an exaggerated impact of the acceleration principle.[44] Arguments that domestic Asian consumption will kick start the faltering export-driven economy strike me as surreal—where will the aggregate income for domestic demand driven growth come from, if the export industries are collapsing, taking with them the investment driven growth of the capital goods sectors that service production? Economic growth there will not just slow down, but is likely to become negative; that is what recessions do, after all. Significant political instability is a likely result. But upheaval may not just be confined to China.

So much for predictions. The other point is that the crisis has made a mockery of everyone who thought that the supremacy of the dollar was under challenge. This was always dubious, but the crisis has shown to what extent all parties are pretty much stuck with what they have. At the beginning of the crisis there were worries that Sovereign Wealth Funds from China and Saudi Arabia would end up scooping up the pride of American equities and assets. Now we find that they are loath to exchange performing paper assets for non-performing ones, because that is the choice: accumulate paper assets, or import goods. Massive purchases of US private equity or shaky corporate bonds would

---

[42] My pessimism contrasts, say, with the optimism about alternative forms of capitalism and "flexible production" as a means of economic adaptation. See for example Sabel (2002).

[43] Usually when Marxist writers predict a prolonged crisis in capitalism it is a strong "buy" signal for an upturn in the market. Since I am influenced more by Keynesianism than by Marxism, it is unclear whether this rule holds.

[44] Glenn Kessler, "Plunge in Exports Reverberates Across Asia," *Washington Post*, 23 December 2008, p. A1.

simply transfer poorly performing US assets (such as the banking sector or General Motors) into Chinese and Saudi portfolios and good US assets—the government bonds they have already bought—into the hands of American sellers. And this game will work only so long as investors are confident in US treasury bonds. So, while the *Washington Post* reported that China was insisting on a bailout of Freddie Mac and Fannie Mae in September 2008, leading some of us to think that the day was at hand when a massive sell off of US assets to "solvent" overseas holders of US dollar surpluses was part of an inevitable day of reckoning, no such transfer occurred. Rather, as one academic wryly noted: "It was only a few months ago that we were worried about sovereign wealth funds from the Middle East and Asia taking sizable stakes in US and Western European banks. Now the sovereign wealth fund is us."[45]

And now we know why: as export earnings diminish, the accumulation of US paper assets (in China or elsewhere) to back the expansion of domestic lending slows or even begins to turn negative. Under such conditions the export-driven economy can't afford to use its trade surpluses to purchase assets in the importing country on which it depends for its market. In the meantime the declining exports lead to declining real estate and equity prices which put the export economy's banking system under further stress.[46]

Oil-producing countries have traversed a violent speculative cycle and need to hoard their dollar assets for needed expenditures as their income falls; this trap has caught the Middle East producers and Russia as well. Finished goods exporters such as China and Japan are no more immune to recession than the commodity exporters such as Russia and Saudi Arabia.

Meanwhile, everywhere we turn, in Europe, in southeast Asia, in Russia, in China, there is a critical need for dollars to compensate for the crash in dollar-based assets. Those of us who wasted the 1980s expecting the rise of Japan to supreme economic superpower status must now move down the bench and make room for the politicians and academics who worried about the increasing irrelevancy of the dollar. The decade-long decline in exchange value of the dollar against the Euro and other currencies proved only this: dollar denominated assets got cheaper to acquire, so the world bought more of them and in the process got more hooked on dollar liquidity. Europe's central bank turned to the Fed to save the continental banking system.[47]

---

[45] Cornelius Hurley of Boston University's Morin Center for Banking and Financial Law, cited in Enrich, David and Steven Power. 2008. "Nations Face Thorny Issues in Acquiring Stakes in Banks." *Wall Street Journal*. October 11. Accessed at http://wsj.com.

[46] Batson, Andrew. 2008. "China Aids Homebuyers to Curb Impact of Slump." *Wall Street Journal*, October 24, Accessed at http://wsj.com.

[47] Reddy, Sudeep and Joellen Perry. 2008. "Fed Opens Cash Spigot to Overseas Credit Markets." *Wall Street Journal*, Accessed October 14 at http://wsj.com.

Capitalism's exact institutional mechanisms are always different, but when a collapse comes, it invariably has the shape of a sudden decrease in the marginal efficiency of capital (profits), and a sharp contraction of liquidity as investors and banks are forced to write down losses. Hilferding's *Finance Capital* and Wal-Mart World are two patterns of capitalist growth that have been immensely historically significant. Elements of Hilferding's *Finance Capital* economics are still visible today in economies where industrial banks participate directly in organizing production. Wal-Mart World's consumerism has taken ill, but will be with us for a very long time. The main lesson seems to be that there is no end state for capitalism, no final institutional adaptation, and no one particular mode for accumulating profit. The forms are so varied that our theoretical understanding of the adaptations that drive capitalism forward lag woefully behind the complexity of its rapid, and even nimble, evolution.

Bibliography

Adams, Thomas Jessen. 2006. "Making the New Shop Floor: Wal-Mart, Labor Control, and the History of the Postwar Discount Industry in America." in N. Lichtenstein, ed., *Wal-Mart: The Face of Twenty-First-Century Capitalism*. NY: The New Press.

Alley, Wilson A. 1997. "Partial Ownership Arrangements and Collusion in the Automobile Industry." *The Journal of Industrial Economics.* Vol. 45, No. 2. (Jun.): 191-205.

Arrighi, Giovanni. 1994. *The Long Twentieth Century: Money, Power, and the Origins of Our Times*. New York: Verso.

Barta, Patrick, and Marcus Walker. 2008. "Developing Economies Can't Shake Global Risk: Growth Is Dependent On Export Engines; 'Decoupling' Unlikely" *Wall Street Journal*, Acessed January 24 at www.wsj.com.

Bartlett, William W. 1989. *Mortgage Backed Securities: Products, Analysis, Trading*. New Jersey: Prentice-Hall.

Batson, Andrew. 2008. "China Aids Homebuyers to Curb Impact of Slump." 24 October, *Wall Street Journal.* Accessed at http://wsj.com.

Bernanke, Ben S. 2005. "The Global Savings Glut and the US Current Account Deficit," April 14, Remarks by Governor Ben S. Bernanke, At the Homer Jones Lecture, St. Louis, Missouri. Accessed March 5, 2008 at http://www.federalreserve.gov/boarddocs/speeches/2005/20050414/default.htm

——. 1983. "Irreversibility, Uncertainty, and Cyclical Investment." *The Quarterly Journal of Economics.* Vol. 98, No. 1. (Feb.): 85-106.

Blackmon, Douglas A. 2008. "Jimmy Carter Carves New Role in His Garage." *Wall Street Journal.* 9 February:A1.

Brander, J. and Paul Krugman. 1983. "A Reciprocal 'Dumping' Model of International Trade." in *Journal of International Economics.* v. 15: 313-321.

Browning, Martin, and Annamaria Lusardi. 1996. "Household Saving: Micro Theories and Micro Facts." in *Journal of Economic Literature.* v. 34 no. 4 (December): 1797-1855.

Bukharin, Nikolai. 1973. *Imperialism and World Economy*. New York: Monthly Review Press.

Calder, Lendol. 1999. *Financing the American Dream: A Cultural History of American Credit*. Princeton: Princeton University Press.

Chang, Sea-Jin. 2003. *Financial Crisis and Transformation of Korean Business Groups: The Rise and Fall of Chaebols*. Cambridge: Cambridge University Press.

Chenery, Hollis B. 1952. "Overcapacity and the Acceleration Principle." *Econometrica.* Vol. 20, No. 1: 1-28.

Cheng, Andria. 2008. "Retailers' Sales Results for January Could Be Worst Since 1969: Multiple Measures Point to Malaise; Salvaging Winners." *Wall Street Journal*, February 6: B4A

Clark, J. Maurice. 1917. "Business Acceleration and the Law of Demand: A Technical Factor in Economic Cycles." *The Journal of Political Economy.* Vol. 25, No. 3. (March): 217-235.

Collot, Philippe, and Kelley Ritchey. 2001. "Structured Investment Companies: Factors for Success," *Alternative Investment Management Association (AIMA) Newsletter*, June. NY: Citicorp. Available http://www.aima.org/uploads/2001%5CJun%5CCiticorp.pdf

Cox, Michael W., and Richard Alm. 2008. "You are What You Spend."*New York Times*. February 10.

Dunlavy, Colleen. 1994. *Politics and Industrialization: Early Railroads in the United States and Prussia*. Princeton, NJ: Princeton University Press.

Egan, Timothy. 2008. "The Pools of Riverside County." in *New York Times.* January 30.

Eisner, Robert. 1989. "Divergences of Measurement and Theory and Some Implications for Economic Policy." *The American Economic Review.* Vol. 79, No. 1. (Mar., 1989): 1-13.

——. 1963. "Investment: Fact and Fancy." *The American Economic Review.* Vol. 53, No. 2, Papers and Proceedings of the Seventy-Fifth Annual Meeting of the American Economic Association. (May, 1963): 237-246.

Eckstein, A.M. 1991. "Is There a 'Hobson-Lenin Thesis' on Late Nineteenth-Century Colonial Expansion?" In *Economic History Review.* New Series, v. 44 no. 2, (May): 297-318.

Enrich, David, and Steven Power. 2008. "Nations Face Thorny Issues in Acquiring Stakes in Banks." *Wall Street Journal*, October 11, downloaded http://wsj.com.

Faiola, Anthony. 2008. "Canadian Mill Towns Pay For US Housing Collapse." in *Washington Post*, February 1: A1.

Feis, Herbert. 1930. *Europe, the World's Banker, 1870-1914: An Account of European Foreign Investment and the Connection of World Finance with Diplomacy before the War*. NY: Council on Foreign Relations and Yale University Press.

Fitch, Thomas. 1997. *Dictionary of Banking Terms*. Third edition. Hauppauge, NY: Barron's Business Guides.

Fender, I., and J. Mitchell. 2005. "Structured finance: complexity, risk and the use of ratings." *BIS Quarterly Review*, June.

Fraker, Harisson, Jr. 2006. "Unforbidden Cities: Can a New Type of 'Gated Community' Reverse China's Ecological Debacle?" in California Today, v. 118 no. 5, September/October. Available http://www.alumni.berkeley.edu/calmag/200609/fraker.asp

Garber, Peter M. 1993. "The Collapse of the Bretton Woods Fixed Exchange Rate System." in *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform.* eds. Michael D. Bordo and Barry Eichengreen, Chicago: University of Chicago Press: 461-585.

Gerschenkron, Alexander. 1962. *Economic Backwardness in Historical Perspective: A Book of Essays*. Cambridge, MA: Belknap Press of Harvard University Press.

Ghemawat, Pankaj, and Ken A. Mark. 2006. "The Real Wal-Mart Effect." August 23, *Harvard Business School: Working Knowledge.* downloaded http://hbswk.hbs.edu/pdf/item/5474.pdf.

Gowan, Peter. 1999. *The Global Gamble: Washington's Faustian Bid for World Dominance.* New York: Verso.

Green, Richard K., and Susan M. Wachter. 2005. "The American Mortgage in Historical and International Context." in *Journal of Economic Perspectives.* Vol. 19, No. 4. (Autumn): 93-114.

Greenhut, M.L.; H. Ohta; Joel Sailors. 1985. "Reverse Dumping: A Form of Spatial Price Discrimination." in *Journal of Industrial Economics.* Vol. 34, No. 2. (Dec.): 167-181.

Hartz, Louis. 1948. *Economic Policy and Democratic Thought: Pennsylvania 1776-1860*. Cambridge, MA: Harvard University Press.

Healy, Jack. 2008. "A Record Decline in October's Retail Sales," *New York Times,* October 14, 2008, Accessed at http://nytimes.com.

Heath, Thomas. 2008. "Carlyle Fund's Assets Seized: Leaders Fail to Stop Securities Sell-Off." *Washington Post.* Thursday, March 13: D1

Hilferding, Rudolf. 1981. *Finance Capital: A Study of the Latest Phase of Capitalist Development*. Ed. Tom Bottomore. NY: Routledge and Kegan Paul. First Published 1910.

Hobson, J.A. 1965. *Imperialism: A Study*. Ann Arbor, MI: University of Michigan Press. First Published 1902.

Hovde, Brynjolf J. 1928. "Socialistic Theories of Imperialism Prior to the Great War." in *Journal of Political Economy.* Vol. 36, No. 5. (Oct.): 569-591.

International Bank for Reconstruction and Development (World Bank). 2003. "Global Economic Prospects: Realizing the Development Promise of the Doha Development Agenda." Washington, D.C. Available http://siteresources.worldbank.org/INTRGEP2004/Resources/gep2004fulltext.pdf

Kaltenthaler, Karl. 1998. *Germany and the Politics of Europe's Money*. Chapel Hill, NC: Duke Univ. Press.

Katz, Richard. 1998. *Japan, the System that Soured: The Rise and Fall of the Japanese Economic Miracle*. NY: M.E. Sharpe.

Kashyap, Anil K.; Owen A. Lamont; Jeremy C. Stein. 1994. "Credit Conditions and the Cyclical Behavior of Inventories." *The Quarterly Journal of Economics.* Vol. 109, No. 3. (Aug.): 565-592.

Kent, Marian. 1976. *Oil and Empire: British Policy and Mesopotamian Oil 1900-1920*. London: Macmillan.

Kessler, Glenn. 2008. "Plunge in Exports Reverberates Across Asia." *Washington Post*, 23 December: A1.

Laidler, David. 1984. "Misconceptions about the Real-Bills Doctrine: A Comment on Sargent and Wallace." *Journal of Political Economy.* Vol. 92, No. 1. (Feb.): 149-155.

List, Friedrich. 1999;1840. *National System of Political Economy: The Theory*. (v. 2) San Francisco: Dry Bones Press.

Lenin, V.I. 1917. "Imperialism: The Highest Stage of Capitalism." In *Selected Works* (1963), v. 1, Moscow: Progress Publishers: 667-766.

Luxemburg, Rosa. 2003. *The Accumulation of Capital.* New York: Taylor and Francis. First published 1913.

McKinnon, Ronald. 2005. "China's New Exchange Rate Policy: Will China Follow Japan into a Liquidity Trap?" Stanford University. Accessed at http://www.asiapacificresearch.ca/caprn/dss_project/resources/mckinnon/exchange_rate.pdf

Moreton, Bethany E. 2006. "It Came from Bentonville: The Agrarian Origins of Wal-Mart Culture." in N. Lichtenstein, ed., *Wal-Mart: The Face of Twenty-First-Century Capitalism*. NY: The New Press.

Morikawa, Hidemasa. 1970. "The Organizational Structure of Mitsubishi and Mitsui Zaibatsu, 1868-1922: A Comparative Study," in *The Business History Review.* Vol. 44, No. 1, (Spring): 62-83.

Neumann, Franz. 1942. *Behemoth: The Structure and Practice of National Socialism*. Oxford: Oxford University Press.

Nowell, Gregory. 2002. "Imperialism and the Era of Falling Prices," in *Journal of Post Keynesian Economics.* v. 25, no. 2, Winter 2002 / 03: 309-329.

——. 1994. *Mercantile States and the World Oil Cartel, 1900-1939*. Ithaca, NY: Cornell University Press.

PBS Frontline. 2004. "Is Wal-Mart Good for America?" transcript available http://www.pbs.org/wgbh/pages/frontline/shows/walmart/etc/script.html.

Petrovic, Misha, and Gary G. Hamilton. 1996. Making Global Markets: Wal-Mart and Its Suppliers." N. Lichtenstein, ed., *Wal-Mart: The Face of Twenty-First-Century Capitalism*. NY: The New Press: 107-142.

Phillips, Kevin. 2006. *American Theocracy: The Peril and Politics of Radical Religion, Oil, and Borrowed Money in the 21st Century*. NY: Penguin Books.

Phillips, Michael M., Andrew Batson, Greg Ip. 2006. "China Entreats US to Broaden its Understanding," *Wall Street Journal.* 15 December.

Phillips, Michael M., and John D. McKinnon. 2008. "Legacy of Deficits Will Constrain Bush's Successor: Soaring Costs Threaten to Impose a Harsh Reality." February 1: A3.

Potrafke, Niklas. 2007. "Social Security in Germany: A Prey of Political Opportunism?" DIW Berlin Discussion Paper No. 677, Berlin: German Institute for Economic Research. Available http://www.diw.de/documents/publikationen/73/55857/dp677.pdf

Reddy, Sudeep, and Joellen Perry. 2008. "Fed Opens Cash Spigot to Overseas Credit Markets." *Wall Street Journal*, October 14. Accessed at http://wsj.com.

Sabel, Charles F., Jonathan Zeitlin, Maurice Aymard, eds. 2002. *World of Possibilities: Flexibility and Mass Production in Western Industrialization.* N.Y.: Cambridge University Press.

Samuelson, Paul A. 1980. *Economics*. 11th edition, NY: McGraw Hill. First edition 1948.

Seabrooke, Leonard. 2006. *The Social Sources of Financial Power: Domestic Legitimacy and International Financial Orders*. New York: Cornell University Press.

Schwartz, Herman. 2008. *Global Arbitrage and American Growth: Power, Finance, and the Housing Boom*. Forthcoming.

Sloan, Robert, and Krishna Prasad. 2004. "The Impact of Portfolio Financing on Alpha Generation by Hedge Funds." *Asset Management*. September, NY: S3.

Smick, David M. 2005. "Chairman Bernanke's First Concern: What if the World's Economy Slows?" *International Economy: The Magazine of International Economic Policy.* September 22: 8-9.

Strasser, Susan. 2006. "Woolworth to Wal-Mart: Mass Merchandising and the Changing Culture of Consumption." in N. Lichtenstein, ed., *Wal-Mart: The Face of Twenty-First-Century Capitalism*. NY: The New Press.

Stiglitz, Joseph. 2005. "IMF Strategic Review: Risks for Emerging Market Economies Amid Increasingly Globalized Financial Markets," powerpoint presentation, June, Accessed at http://www2.gsb.columbia.edu/faculty/jstiglitz/download/papers/powerpoints/IMF_STRATEGIC%20_REVIEW.ppt

Sylos-Labini, Paolo. 1962. *Oligopoly and Technical Progress*. Cambridge, MA: Harvard University Press.

Sweezy, Paul. 1942. *The Theory of Capitalist Development*. NY: Oxford University Press.

Tenenbaum, Edward. 1942. *National Socialism versus International Capitalism*. New Haven, CT: Yale University Press.

Tabb, William K. 2006. "Trouble, Trouble, Debt, and Bubble." *Monthly Review*, May, v. 58 no. 1.

UBS Investment Bank. 2005. "UBS Synthetic CDO: Leverage and Control." Zurich: UBS AG Marketing Structured Products.

Verdier, Daniel. 1998. "Democratic Convergence and Free Trade." in *International Studies Quarterly*, Vol. 42, No. 1. (Mar.): 1-24.

Wallerstein, Immanuel. 1977. *The Modern World System*. 3 vols. NY: Academic Press.

——. 1980. *The Modern World System*. 3 vols. NY: Academic Press.

——. 1988. *The Modern World System*. 3 vols. NY: Academic Press.

Warner, Sam Bass. 1969. *Streetcar Suburbs: The Process of Growth in Boston, 1870-1900* Cambridge, MA: Harvard University Press.

Whalen, Christopher. 2005. "The Next Great Pyramid Game," in *International Economy: The Magazine of International Economic Policy*. Fall: 22-25, 56.
Williams, Alexander O. 1978. "External Debt-Servicing Capacity in Developing Countries," in *The Review of Black Political Economy.* v. 9 no. 1, September: 79-89.
Womack, James, Daniel T. Jones, and Daniel Roos. 1990. *The Machine that Changed the World.* New York: Free Press