Capitalism, Crisis and Finance: A Forum on *Paper Boom* by Jim Stanford

Two central questions have dominated radical economic analysis for some time now: why did the advanced capitalist countries enter a sustained period of stagnation in the mid-1970s, and what is the significance of the striking rise of financial capital through the extraordinary growth in credit, equity, currency turnover and derivatives markets, in reproducing the long phase of stagnation? The empirical foundations for these questions are clear enough. The performance of the advanced capitalist economies over the last 25 years compared to the first 25 years after the war has sharply deteriorated. Average rates of growth of real wages, productivity and output have been cut by one-half to one-third. The average rate of unemployment is comparable to the 1930s. In contrast, trade volumes have increased such that the ratio of exports to output in the OECD zone has about doubled; and turnover in financial transactions is often estimated at $3 trillion US daily, one indicative measure of the growth of financial markets in all forms. Rivalry for export markets in conditions of stagnation has produced a process of competitive austerity in world capitalism.

The examination of these developments has suffered no lack of rival explanations. Indeed, radical economic analysis has enjoyed something of a renaissance. Several strands of Marxist, Kaleckian and post-Keynesian analysis have forwarded alternate accounts of the economic turning point and the subsequent processes of economic restructuring. The most recent intervention of note is Robert Brenner's controversial book-length manuscript in *New Left Review*,[1] which locates the protracted stagnation since the 1970s in the horizontal relations of competition between national complexes of fixed capital, rather than in the vertical relations between the social classes. He argues that the large pools of capital tied up in fixed capital, compelled by technological development and capitalist competition, are inevitably vulnerable to newer complexes of fixed capital that are more productive. This process of uneven development tends to over-competition and the development of excess capacity and stagnation. Thus the global economic turbulence witnessed over the 1990s as rivalrous zones of the world attempt to shift the devalorization of capital elsewhere through the mechanisms of devaluation and austerity.

As insightful as it is, Brenner's account leaves out the discrepancy between productive capital stagnation and financial market boom. This disparity is fundamental to analyzing both the temporal and spatial processes of restructuring that is so central to understanding current economic developments, and the credit mechanisms which have enabled the US to become the "spender of last resort" preventing a complete collapse of international economic demand.

These questions equally resonate in Canada where the growth in real GDP per capita has been well under one percent since the 1980s (and has even declined over some phases). Canada's relative economic position has clearly entered a phase systematic of "falling behind." Financial capital assets, however, have grown at a pace nearly ten-fold to that of GDP over the 1990s alone. In the early 1970s the New Left warned, to the derision of defenders of the established order in the academy and politics, of economic stagnation and the relative economic decline of Canada. As Canada's slide down the capitalist pecking order continues unabated, the thesis now seems incontestable. The possibility of matching capitalism with a just society in Canada has irrevocably parted.

It is difficult to avoid pointing out that Canadian economics has not stood up nearly as well to the challenge of analyzing the stagnation of Canadian capitalism. The disciplinary practice of economics in Canada is in terrible disarray intellectually, dogmatically defending the most discredited neo-classical parables of microeconomic efficiency and macroeconomic general equilibrium in a world of stock market panic, global trade imbalances and growing inequalities. Its academic apogee was the economic studies prepared for the Macdonald Royal Commission on the Economic Union of the mid-1980s. North American economic integration and freer markets were the means by which Canada's economic slide was to be reversed. This view is badly discredited by the "lost decade" of the 1990s. There is nothing in this strand of Canadian economic thought that has yet displaced the older Innisian tradition's insights into the Canadian economic problem. The intellectual narrow-mindedness of Canadian economics has been singularly uninviting to bold conjectures and new thinking.[2]

The significance of Jim Stanford's book *Paper Boom* lies in its challenge to the conventional wisdom of Canadian macroeconomic policies that have underpinned the financial explosion and reproduced the economic impasse.[3] Stanford scrutinizes, in a fashion parallel to Doug Henwood's *Wall Street*,[4] the linkages between financial investment and real investment in aggregate economic performance. Stanford seeks to establish that: investment in Canada has taken the form of a dizzying array of financial assets held in individual and institutional portfolios; the financial sector has not proven an efficient market conduit into real capital spending in plant and equipment; economic policy has recklessly abetted the expansion of the paper economy; and the actual yield of financial market growth has been "permanent recession" in Canada. These are all central aspects to understanding the role of financial capital in contemporary Canadian capitalism. The analysis is a significant step beyond the reflationary Keynesian position forwarded in the annual Alternate Federal Budgets in opposition to neo-liberalism (and in which Stanford has played a major role in authoring). But *Paper Boom* still leaves open several crucial questions for our age of fictitious and speculative capital: the reformation of finance capital, the particular interpenetration of industrial and financial capital, as a central feature of the restructuring of the power bloc over the last two decades; the displacement of a "national bourgeoisie" by what Nicos Poulantzas called an "internal bourgeoisie" whose space of accumulation is both national and international in alliance with imperialist capital; the temporal displacement of the processes of economic restructuring and devalorization into the future through massive credit structures; and neo-liberalism as the ideological expression and economic practice of finance capital.[5] There is no possibility for an economic alternative in Canada without dissecting and confronting this matrix of political power.

The commentaries that *Studies in Political Economy* has gathered in this Forum on *Paper Boom* all note its contribution to a critical understanding of the sustained stagnation and relative decline of the Canadian economy. They acknowledge, too, its debunking of the metaphysics of efficient financial market theory touted indiscriminately in the business press, and the outline of an alternate investment strategy. But the reviews are not without serious disputes. On the Marxist side of the ledger, Wally Seccombe challenges a fixation on the rentier aspects of financial capital to the neglect of its rationalizing role in the restructuring of capital, while Michael Webber contests that Canadian stagnation cannot be set apart from global developments and analysis of the composition of fixed capital. In the tradition of radical institutionalism, Marjorie Cohen finds shortchanged in the analysis the implications of both the service sector and free trade for Canadian policy, and Hugh Grant and Henry Thille advance a quite different view of the macroeconomic dynamics underpinning Canadian economic under-performance. This type of sustained debate on the trajectory of the Canadian economy and the emergent role of finance capital is desperately needed. Further discussion of the parameters of an economic alternative and its political agencies is, as well, an imperative for the Left in Canada. The vigour of intellectual debate needs to be matched by political and organizational inventiveness. As with Canadian economics, Left political formations has been arid terrain for far too long. Stanford will reply to his critics in a future issue of SPE.

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Notes

1. "Uneven Development and the Long Downturn: The Advanced Capitalist Economies from Boom to Stagnation, 1950-1998," New Left Review 229 (1998). See the subsequent debate in, amongst many, *Historical Materialism* 4 (1999).
2. This is not to say that there have not been notable interventions from the Left. Neil Bradford, Brian Maclean and Lars Osberg, Steve McBride, Isa Bakker and Peter Graefe, for instance, have contributed a great deal to our understanding of the decline of Keynesianism and the limits of neo-liberalism and social democratic progressive competitiveness in Canada. And Murray Smith, Bob Chernomas and Michael Webber and David Rigby have done immense work in outlining a Marxist analysis of the economic crisis in Canada. Similarly, Manfred Bienefeld, Bill Coleman and Tony Porter have mapped out key dimensions of financial market transformations in Canada.
3. Jim Stanford, *Paper Boom* (Toronto: Lorimer, 1999).
4. Doug Henwood, *Wall Street* (London: Verso, 1997).
5. See the unmatched analyses of Bill Carroll, notably, his "Neoliberalism and the Re-composition of Finance Capital in Canada," *Capital and Class* 38 (1989).