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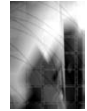
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Finance versus democracy? Theorizing finance in society

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Abstract

What should be the place of finance in social theory? What is the relationship between finance and democracy? The article identifies four major frameworks that analyse finance: orthodox, drawing on Adam Smith; political economy, drawing on Marx; heterodox, drawing on Keynes and Minsky; and societal, drawing on Polanyi. These frameworks are critically analysed along five dimensions: the conceptualization of finance; the relations between finance and the economy; the relations between finance and the state; the relations between finance and society; and the nature of the social system. A new framework for the analysis of finance in society is constructed from these elements. This is used to analyse the relations between finance and democracy and the prospects for the regulation of finance.

Keywords

crisis, democracy, economy, finance, gender, social system, social theory

Introduction

The crisis in finance is leading to ever deeper repercussions in economy and society. But how is finance to be understood? While some suggest social science did not see the coming crisis, this is not true. Rather, most of those who did had been marginalized. It is important to excavate these analyses and critically examine them to build a more developed approach.

Finance has diverse implications for work, employment and society: financial instability generates unemployment through economic recessions (Appelbaum, 2011); the rise of shareholder value leads firms to reduce the conditions of workers (Clark, 2009; O'Reilly et al., 2011); financial interests drive the political project of neoliberalism that seeks to marketize, financialize and de-democratize public services (Harvey, 2011). According to Haldane at the Bank of England, the crisis reduced world output in 2009 by

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around 6.5 per cent (\$4t) and in the UK by around 10 per cent (£140b). If the losses persist, then the loss in output rises to between \$60t and \$200t for the world economy and between £1.8t and £7.4t for the UK (between one and five times annual GDP) (Haldane, 2010: 3). The uneven distribution of these costs by class and gender relations has been exacerbated by policy responses. In the 2010 Budget in the UK, the House of Commons Library (2010) reported that, of £8.1b net personal tax increases/benefit cuts, £5.8b (72%) was to be borne by women and £2.2b (28%) by men. Finance has become larger than the productive economy and is challenging democracy.

There are four main types of framework of analysis. First, orthodox, which draws on Smith and treats finance as a neutral medium within a self-correcting market. Second, political economy, which draws on Marx, analyses finance within the development of regimes of capital accumulation. Third, heterodox, drawing on Keynes and Minsky, which treats finance as a distinctive part of the economy, the expansion of which causes instability in the rest of the economy, but could potentially be regulated by the state. Fourth, Polanyian, which considers the excessive marketization of money to be a consequence of the failure to regulate finance, which can be remedied by a democratic response.

A model of the relations between finance and society needs to address five issues: the conceptualization of finance as an object or social relationship; the relationship between finance and the economy; the relationship between finance and the state; the relationship between finance and society; and the nature of the social system as a whole.

Finance should be analysed within a theory of society as well as of economy. Finance is not reducible to the economy, nor is it neutral in its workings. Keynes, Schumpeter and Minsky were correct in their criticism of the equilibrium nature of the orthodox economics that rests on Smith, Hayek and Friedman. But they underestimated the extent to which the social relations of finance were embedded in wider systems of power, contributions of the political economy and Polanyi-led schools. There is a specific question as to whether democratic forces can regulate finance in the wider social interest, or whether finance has defeated democracy.

The article starts by discussing the definition of finance; proceeds to critically assess the four major frameworks; constructs a new framework for analysis of finance; and then analyses the relationship between finance and society.

What is finance?

The definition of finance is contested. One issue concerns whether finance, or money, is an object or is a set of social relations. A second concerns the range of activities that are included within finance, which is linked to the conceptualization of financialization and financial crisis. A third issue concerns the nature of the relevant social relations, which may include not only class but also gender.

The first issue is whether money is an object or a social relationship. The conventional understanding of money is as a thing, object, or commodity; while an alternative approach treats money as a social relationship. The traditional approach to finance considers that financial activities distribute capital to places where it can be used most effectively (Krippner, 2011). This approach is the application of 'efficient markets' theory to finance (Friedman, 2002 [1962]). Banks take deposits from savers and make loans as investments

in firms. The banks lend more than they receive, the ratio between bank capital and loans constitutes the leverage that contributes to their profits. Finance companies redistribute risk through insurance to where it can be borne with greatest resilience.

By contrast the treatment of money as a social relationship rejects the assumption of efficient markets and replaces it by one of unstable institutionalized competition. In this view, money is a promise to pay; a claim rather than an object. Money connects the present to the future through such a claim (Keynes, 1936; Mellor, 2010; Minsky, 2008 [1986]). Ingham (2001, 2004) develops this further, locating the social relations of money/finance at the centre of the power struggles in modern capitalism. The key social relations are between those who produce money – institutions such as banks and ministries of finance – and those who produce commodities, goods, capital and labour. There is a tension between the producers of money and the producers of goods as each manoeuvres for advantage in the possession of value. At stake is not only the distribution of value, but also the stability of the financial system which is vulnerable during this contest.

Agents attempt to monetize their market power either by bidding up prices in money of account or by the expansion of value through borrowing and the creation of money. [...] This trade off and tension between the expansion of value through the elasticity of supply of credit-money supply and the breakdown of monetary stability is arguably the central dynamic of the modern capitalist system. (Ingham, 2001: 318–19)

The conceptualization of money as a social relationship enables a more effective analysis of the relations between finance and society that includes relevant institutions and dynamics, than does the conceptualization of money as an object that draws on misleading abstracted fictions of perfect markets.

The second issue concerns the range of activities that are included within the notion of finance, potentially including: money; speculation in currency, assets and risk; tax avoidance/evasion; investment in firms; corporate financialization; and individual investment products. The more narrowly finance is defined, the less significant it appears to be for society; the wider, the more important. The processes of financialization and financial crisis link finance and society. ‘Financialization’ refers to the increased significance of finance in the economy and society in both scale and depth. ‘Financial crises’ are a form of instability generated by finance that has consequences for society.

Financial markets have extended the range and scale of the financial products in which they trade, from currencies and stocks to complex financial derivatives. Increasing amounts of financial activity involve speculation in the future prices of currencies, assets (not only stocks and shares, but also property, oil, food and other commodities) and their future prices. Developments in derivatives, futures markets, collateralized debt obligations, credit default swaps and securitization attempt to price and sell ‘risk’ (Epstein, 2005; Krippner, 2011; Krugman, 2008; MacKenzie, 2006). Finance grew larger than the productive part of the economy in some countries, including the UK, where ‘debt’ rose to around five times the size of GDP in 2007 (Turner, 2009: 18). These practices generate considerable profits, but little additional production. Turner, Chair of the UK Financial Services Authority, famously described much finance as ‘socially useless’ activity (Turner, 2010).

Tax is not conventionally regarded as part of finance. However, it should be, since the development of complex financial arrangements to avoid, evade or dodge tax is a significant part of contemporary financial activity. This involves the use of tax havens (secrecy jurisdictions) as well as the movement of funds between different tax regimes to take advantage of lower rates of taxation. Tax avoidance is legal and evasion is not, though the location of the boundary is often disputed. Finance companies not only search for loopholes in the law to provide tax dodging services to rich clients but also lobby governments to ensure that such legal opportunities exist (Palan et al., 2010; Shaxson, 2011). Tax dodging is gendered, since more taxes are paid by men than women while women are disproportionately beneficiaries of public expenditure (Browne, 2011; De Henau and Santos, 2011; Walby, 2011). The development of tax dodging devices by finance companies challenges the democratic will expressed in state policy and increases social inequalities.

Finance capital is often considered to be different from industrial capital, which is fixed in buildings and machines. However, this analytic distinction has become blurred in practice. The rise of 'shareholder value' has increased the extent to which competition between firms to make profits occurs on finance and capital markets rather than in more productive activities (Lazonick and O'Sullivan, 2000). This increases the incentive to financialize assets and to drive down the position of suppliers and workers (Baud and Durand, 2012). 'Shareholder value helps to legitimize the predominance of shareholders over other stakeholders, and the predominance of a capital market view of the firm over an industrial one' (Aglietta, 2000: 148). This new approach to company ownership shifts the focus to realizing value through buying, restructuring and selling companies rather than through long-term investment and incremental improvement of a specific company (Clark, 2009). These processes increase the proportion of profits derived from financial rather than industrial activities while blurring the boundary between industrial and financial capital (Krippner, 2011).

Finance is usually considered in relation to institutions and banks, but it is wider than this. The sphere of finance is extended by the financialization of everyday life (Martin, 2002). Individual (consumer or household) investment products claim to redistribute money across the life-course from times when most income is earned to those when it is least earned and most needed. This includes mortgages to access housing (Young et al., 2011), pensions to access income in old age (Blackburn, 2002), credit cards and other forms of consumer debt (Lapavistas, 2011). These financial products are uneven in their class and gender effects; for example, women typically have access to loans under worse conditions than men, which means that they are more vulnerable to acquiring debts they have difficulty in repaying (Fishbein and Woodall, 2006). When the definition of finance is extended to include individual consumer products, many more individuals are seen to be incorporated into the web of financial interests.

Financial crises are one of several forms of instability generated by finance in the economy, with significant effects on wider society. Smaller forms of instability have been analysed as 'business cycles'. In a 'credit crunch' banks cease to perform their usual function of lending money. In a 'bubble', asset prices rise and fall, benefiting those who invest during the upswing (the insiders) and disadvantage others (often outsiders). There is a sudden loss of value as finance is restructured; the losses being

borne unevenly. Crises are moments of redistribution of value. Bubbles sometimes leave a residue of productive investment (Perez, 2002). Financial crises often lead to recessions in the 'real' economy and to unemployment. A wide formulation of the concept of crisis is helpful in encompassing the effects on the 'real' economy of financial collapse, including economic recessions, governmental policy responses to the recessions, government budget deficits, currency crises and economic restructuring. The effects of recessions are unevenly experienced, with those already disadvantaged often bearing the larger costs. For example, the 2010 budget restructuring in the UK is gendered, as cuts in welfare state programmes disproportionately affect women (House of Commons Library, 2010; Walby, 2011; Young et al., 2011). This 'instability' of capitalism is conceptualized by Schumpeter (1954) as 'creative destruction' through which old industries are destroyed when new more productive forms have been developed. Another approach views crises as potential critical turning points to a different kind of society. Rather than the effect of the crisis being temporary followed by a return to business as usual (Crouch, 2011), it may be more profound (Robinson and Barrera, 2012); indeed crises can be opportunities for neoliberal restructuring (Klein, 2007). Financial crisis can be seen as a sign of the exhaustion of a regime of capital accumulation, heralding a shift in the capitalist hegemon (Arrighi, 1994), or even the end of capitalism (Harvey, 2011; Hilferding, 1981 [1910]). The theorization of 'financial crisis' is thus an important part of the analysis of the relationship between finance and society.

Frameworks of analysis

Four major frameworks for the analysis of finance can be identified: orthodox economics, drawing on Adam Smith; political economy, drawing on Marx; heterodox, drawing on Keynes and Minsky; and societal, drawing on Polanyi. They differ along five major dimensions: whether finance is conceptualized as an object or a social relationship; whether finance is seen as neutral in its effects on the economy; whether the state can effectively regulate finance; whether civil society and other aspects of society are significant; and whether the social system, of which finance is part, is assumed to return to equilibrium.

The orthodox framework draws on the heritage of Adam Smith (1986 [1776]), Hayek (2001 [1944]) and Friedman (2002 [1962]). Money is conceptualized as an object rather than as a social relationship. Finance (as money and investment) is either invisible or treated as neutral, with the implication that it is not important in shaping the economy. Money is treated as if it can and should be seen through, as if it has no impact on the rest of the economy, or society; the functioning of finance reflects the rest of the economy. Money is a superficial cover or veil over the processes that really matter and should be ignored to understand the economy properly. The important processes in the economy are the production of goods and their exchange at their value. For example, Friedman, despite being known as a 'monetarist', thought money should be treated as passive in the economy: 'the central characteristic of the market technique of achieving coordination is fully displayed in the simple exchange economy that contains neither enterprises nor money' (Friedman, 2002: 14).

The notion that finance has no independently significant effects on the economy further rests on the thesis that markets are efficient and effective, leading to the exchange of goods at their value. It is assumed that markets in finance neutrally distribute capital in a rational and efficient way to where it is most productive and profitable. Markets are considered self-equilibrating. Indeed, for Friedman (as for Hayek, 2001 [1944]), since finance flows through free markets, which are self-regulating, there is no need or good purpose served by state intervention: political freedom is considered to follow economic freedom.

More common than an explicit argument for the lack of effect of finance is an implicit assumption that it is neutral. The lack of significance of finance is implicit in the work of many sociological writers on capitalism and modern society (e.g. Giddens, 1984), in which analysis of the economy is centred on employment, in articulation with the welfare state and occasionally with domestic care-work.

In summary, the orthodox framework conceptualizes money as an object rather than a social relationship; treats finance as superficial and unimportant; considers that finance self-balances through markets without state intervention; considers that freedom in society is more likely when the state does not interfere; and assumes that the economic system as a whole is self-regulating and self-equilibrating.

The second framework, political economy, draws on Marx (1959 [1894]) to offer an analysis of finance within a theory of a capitalist system. Finance is a distinctive form of capital that seeks profits from investments and is thereby understood as a social relationship rather than as an object. For Marx, finance (or money) capital was one form of capital, alongside industrial and commercial capital. Only industrial capital is productive of value and surplus value since the value of commodities is determined by the amount of labour embedded in them. Changes in the mode (forces and relations) of production, in the regime of capital accumulation, drive wider changes in social formations. Capitalism is inherently unstable, with tendencies to produce more goods than there are wages to purchase them, producing regular crises of over-production of goods and services or under-consumption since workers do not have the money to buy them. Such crises have the potential to escalate, getting larger and more significant and, in the long term, to lead to system failure. Instability in the economy is understood as an intrinsic feature of a capitalist system (Brenner, 2006; Callinicos, 2010; Foster and Magdoff, 2009; Gamble, 2009). This is a consequence of the difficulties in continuously maintaining capital accumulation. There are variations within the framework as to the relationship between finance capital, industrial capital, the state and society.

There is debate as to the relations between finance and industrial capital. Hilferding (1981 [1910]) argues that there is a tendency for finance capital to come to dominate industrial capital, as part of the process of development of monopoly capital and of imperialist systems. For Bukharin (1972 [1915]) and Lenin (1934 [1917]), the development of financial capital was a stage of capitalism in which imperial rivalries threatened world war. Immiseration leads to political activity that leads towards revolutionary politics. The future they foresaw was a choice between barbarism and socialism, though this moment could be endlessly deferred as a result of changes in production or in state repression.

The regulation school locates the process of capital accumulation within a more nuanced theory of institutions in society (Aglietta, 2000 [1979]; Grahal and Teague,

2000). This situates finance as one of the several institutions that make up a regime of capital accumulation. Variations in the form of state regulation of finance are sources of capitalism's historical variability. In particular, the central bank plays an important role in (usually) ensuring financial stability. The relative importance of the regulation of finance varies, with more recent writings (Aglietta, 2000; Boyer, 2000) attaching greater importance to finance as compared with the wage relation than earlier writing (Aglietta, 2000 [1979]).

A different set of relationships between finance capital, industrial capital and states is identified by Arrighi (1994). This approach draws on world-systems theory (Wallerstein, 2000) to inflect Marx with the insights of Weber and Braudel on the significance of states, especially hegemons. Financialization occurs when a regime of capital accumulation is exhausted, when no more profits are to be made using a particular combination of forces and relations of production, technology and social organization. For Arrighi, the next stage is not barbarism or socialism, but rather a new capitalist hegemon with a different regime of accumulation. Financialization is a signal that the leadership of the global capitalist economy is about to change.

In summary, the political economy framework conceptualizes finance as a social relationship rather than an object. The main driver of change is the regime of capital accumulation. Finance has implications for the economy and society and has varied relations with industrial capital, the state, war and society more broadly; there is no assumption of a system returning to equilibrium. The strength of the political economy framework stems from situating finance within the context of a wider social system and its weakness from the extent to which forces other than capital are neglected.

The third framework, heterodox, draws on Keynes and Minsky. It conceptualizes finance as a social relationship rather than as an object. It treats finance as a component of the economy that is distinct from productive capital. Finance has destabilizing effects on the rest of the economy. These effects can be mitigated by the state.

Within this framework money, or finance, has important effects on the economy. Keynes (1936) demonstrated the significance of money for the social and economic system in his general theory of employment, interest and money. Noting the significance of the balance between financial and industrial capital, Keynes argued that speculation had deleterious consequences for the economy if it became more important than productive capital:

Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. (Keynes, 1936: 103)

Minsky (2008 [1986]) develops this further, arguing that, while finance is a necessary part of capitalism, concerned with investment for profit, it is intrinsically destabilizing rather than self-balancing. Minsky differentiates between three forms of investment and profit-taking: hedging, where income is sufficient to cover interest payments as well as profits; speculative, where income is only partly sufficient; and Ponzi, where there is little income and payments are only met by taking in new funds. While the first practice

appears consistent with stability, the second is less so and the third not at all. In periods of relative tranquility, investors take on increasing amounts of risk that is decreasingly covered from their routine revenues and increasingly dependent upon the investment generating profits; that is, they move from the first to the second then third models of investment. A crisis occurs when this process reaches a peak or tipping point when investors have to sell in order to meet their obligations, but at prices that are falling, thereby creating a downward spiral. The degree of instability of the economy is the consequence of shifts in the balance between these three financial practices. Finance entrepreneurs continually attempt to create new financial practices and, although they are constrained in this by the financial authorities of the state, for example central bankers and financial regulators, during periods of relative tranquillity they usually win this game (Minsky, 2008 [1986]: 279). Whereas in simple commodity markets the self-interest of the producers and consumers might lead to market equilibrium, this is not the case in relation to finance.

In a world with capitalist finance it is simply not true that the pursuit by each unit of its own self-interest will lead an economy to equilibrium. The self-interest of bankers, levered investors, and investment producers can lead the economy to inflationary expansions and unemployment-creating contractions. Supply and demand analysis – in which market processes lead to an equilibrium – does not explain the behavior of a capitalist economy, for capitalist financial processes mean that the economy has endogenous destabilizing forces. Financial fragility, which is a prerequisite for financial instability, is, fundamentally, a result of internal market processes. (Minsky, 2008: 280)

Minsky draws on Keynes; but this is a different interpretation from that assimilated into mainstream neoclassical economics. Keynes understood the inter-connectedness of socio-economic institutions and the mechanisms that mean that capitalism is not a self-balancing system. State intervention was needed to regulate the economy, to pump money into the economy to feed demand to prevent depression, to regulate flows of capital and to develop the financial architecture to stabilize the international financial system. The assimilation of Keynes into mainstream economics was, however, partial and selective; only those parts consistent with econometric modelling and its presumption that the system ultimately returns to equilibrium were included; while the institutional architecture of finance that generates instability was left out of focus. So Keynes is simultaneously a major source of inspiration for the analysis of the relations between finance, economy and society and a disputed intellectual heritage.

For Minsky, capitalism is an inherently unstable economic system when financial institutions develop to trade in capital assets. The larger the scale of capital assets, the more likely is the development of monopolistic practices. The larger the development of innovative financial practices, the greater is the potential for instability. Minsky considers that states can intervene and moderate this instability – Big Government and a Big Bank are needed for this intervention – for example through counter-cyclical spending and dampening the development of financial practices. Minsky does not theorize the circumstances under which this might occur, since he does not embed his theory of finance within a comprehensive theory of society. Others have discussed aspects of

these circumstances, including Krugman (2008), Soros (2008) and Heyes, Lewis and Clark (2012).

Keynes and Minsky analyse finance as a social relationship, as a social system, and demonstrate how it causes instability in the rest of the economy. Finance intrinsically generates instability rather than equilibrium in a capitalist economy, though this effect can be reduced by the state. The circumstances under which states are successful in such intervention are not specified within the theory.

The fourth framework draws on Polanyi (1957) to treat finance within a wider account of society. Polanyi addresses money as a social relationship rather than as an object. Changes in the social relations of money alter its relationship with economy and society. Polanyi includes an analysis of the state and civil society, thereby embedding finance in a theory of society. He offers a wide-ranging historical sociological account of changes in commoditization, its effects on society and the response of society to the effects of this commoditization.

Polanyi suggests that there is a tendency towards the commoditization of money (financialization), of land (environment, nature) and of labour (workers) in capitalism. However, money, land and labour are not really commodities and treating them as such undermines their effective maintenance. This tendency to commoditization is inherently self-destructive because of the instabilities associated with this process. For example, labour needs continuous income in order not to starve to death, but economic recession might mean that this income is not continuously available.

Capitalism only survives because civil society acts to protect these 'fictitious commodities' from the full effects of commoditization. Society responds with support, such as the provision of welfare. There is thus a 'double movement': on the one hand, the commoditization of money, land and labour leads towards their destruction; on the other hand, society responds so as to regulate markets in fictitious commodities in order to protect them. Unless restrained by 'society', capitalism will destroy itself. In this way Polanyi adds civil society as well as state to his theory of the relationship between economy and society.

Polanyi offers an account of financialization (the commoditization of money), crisis and social response within the same text. His book is a series of assertions and fragments of arguments that can be interpreted as weaving these elements into a theory of a social system. Polanyi's text is open to more than one reading. An alternative reading of Polanyi's text is that it is too fragmented to constitute a social theory and that it is merely an account of contingent events in which, at a particular moment in history, forces in civil society responded to ensure state support for workers facing destitution as a consequence of capitalist development. If this reading is followed, then his work has few implications for social theory. This reading is not adopted here. If Polanyi's text is interpreted as social theory, then it can be positioned as challenging the tendencies to reductionism in traditional Marxism because it introduces the concept of civil society into a theory of economy and society. This reading is adopted by Burawoy (2003). In this way Polanyi can be understood as providing a comprehensive social theory that integrates an account of the instability of the financial and economic system and responses to it into a theory of society. However, this reading of Polanyi reveals a weakness in its assumption that the social system is self-equilibrating, that there is an automatic response by civil society when the

processes of commodification of money, land and labour become too damaging. The instability of the financial system is met by feedback that restabilizes the system. Burawoy (2010) uses the phrase 'Pollyanna Polanyi' to describe this assumption of automatic response. This discussion of Polanyi illustrates the difficult issues involved in producing a theory of a social system without the assumption that it is self-equilibrating.

Towards a new model

A model of the relations between finance and society needs to address five issues: the conceptualization of finance; whether finance is neutral or has significant effects on the economy; the relationship between finance and the state; the relationship between finance and society; and whether the social system of which finance is part is assumed to return to equilibrium or not. The four frameworks differ in how they address each of these issues. Building on the discussion of the four frameworks, a new model of the relations between finance and society is constructed by putting together the best answers to each of these five issues.

Conceptualizing finance: finance is better conceptualized as a social relationship, as a social system, than as an object. The orthodox framework treats finance as an object, but the other three address it as a social relationship. Treating finance as a social relationship means the inner dynamics of finance can be exposed for analysis. This is most effectively established in the work of Minsky, drawing on Keynes. Financialized relations have been extending into a wider range of economic practices, from everyday life to tax avoidance. It is useful to adopt a wider range than Minsky, who was writing several years ago, in order to grasp the significance of current processes of financialization for economy and society. The concept of financial crisis also needs to be conceptualized broadly, going beyond banking crises to include economic recession and ensuing policies to restructure economies, if the effects of finance on society and the full range of social inequalities are to be fully captured.

Finance and the economy: finance is better conceptualized as a distinctive part of the economy rather than as neutral in its effects. The orthodox framework treats finance as neutral in its effects on the economy as a consequence of treating money as an object and markets as inevitably efficient. The other three frameworks correctly treat the relationship between finance and the rest of the economy as dynamic. The political economy framework usually treats industrial capital as dominant, though there are exceptions to this. Minsky offers a fruitful way to understand the changing relations between financial and industrial capital as a consequence of shifts between three types of investment. The relations between financial and industrial capital are subject to tension and change rather than being a fixed hierarchy.

Finance and the state: the relationship between finance and the state is best conceptualized as both important and contingent upon other forces. The state is not irrelevant to the effective working of finance, as suggested by the orthodox framework, but rather, as Keynes and Minsky argue, central to whether it has small or large destabilizing effects on the rest of the economy. The political economy framework tends to the view that capital captures the state for its own purposes, but there are significant internal debates as to the extent to which this occurs under different circumstances.

Finance and society: the relationship between finance and society is best conceptualized as contingent on democratic forces. The significance of finance for society depends upon the inter-relationship of all institutional domains, including economy, polity (including states), violence (including war) and civil society. The orthodox framework considers finance not to have effects on society unless the state interferes. The political economy and heterodox frameworks assume that there are indirect connections but these are left out of focus. The significance of violence is rarely noted in theories of finance, but has a small presence in political economy if and when state power over both taxation and war is noted. More important is the potential significance of civil society as a site of democratic forces that might lead to state regulation of finance, as suggested by Polanyi.

Social system: while finance is part of a wider social system, this system is not self-balancing. The assumption of an automatic return to equilibrium is a problematic feature of both the orthodox and Polanyian frameworks. Both approach economic and social systems as self-equilibrating, in the sense that if an external force perturbs the system, then there will be a negative feedback loop that acts to bring the system back into equilibrium. The newer complexity approach to systems drops the assumption of necessary self-equilibration; instabilities, generated internally or externally, may lead to positive feedback loops that drive the system still further from equilibrium, potentially leading to a tipping point with major systemic changes and new paths of development (Walby, 2007, 2009).

Finance and democracy

The significance of finance for society depends upon the relationship between finance and democracy. Can the state regulate finance in the wider social interest, or do finance and its related political projects capture the state? The answer to this question lies at the heart of the differences between the four frameworks: for the orthodox, state action in relation to finance is only interference that makes matters worse not better for society; for political economy, capital is likely to capture the state, though not inevitably so; for the heterodox, state action is necessary to turn capital into the servant rather than master of society and considers such action to be possible though contingent; for Polanyi, societal response is necessary to contain the excesses of the commoditization of money and is likely to happen.

The analysis of the relations between finance and democracy is presented in three parts: first, whether there is a repertoire of technical actions through which finance could be regulated; second, the nature of the political projects and forces engaged with finance; and third, the balance of power between democratic forces and finance.

First is a consideration of technologies through which states could potentially regulate finance. These involve actions against either rogues or regimes. Actions against individual rogues are intended to restrain individuals who might break laws. Actions against regimes (institutions and systems) may be understood either as the reform of malfunctioning practices or, more significantly, as de-financialization, as reducing the size and significance of finance.

The regulation of individual rogues depends upon the enactment of laws to make certain activities illegal or establishment of codes of practice that render practices illicit.

The location of the boundary between legal and illegal activities varies over time and place and is determined variously by technical expertise, politics and power, as is the vigour and effectiveness with which these rules are policed (Conley, 2012; Dorn, 2010; Engelen et al., 2011). Rules include those concerning: theft and fraud; banking and financial markets; corporate governance; tax evasion; and government budgets.

The many proposals to regulate banking include: increasing the ratio of capital held to loans provided in the Basel regulations; quality of collateral; reducing the impact of individual bank failure on other financial institutions and the wider economy by procedures for resolution, such as making banks smaller, so none is 'too big to fail'; separating retail from investment (casino) banks to reduce risk to the public; and state guarantees for small accounts of individuals (Independent Commission on Banking, 2011; Krugman, 2008; Stiglitz and the UN Commission of Financial Experts, 2010). The regulation of financial markets includes: slowing the volatility of speculation on stock markets by making it illegal to borrow (rather than buy) stocks in order to sell them short; determining which innovations in financial derivatives are allowed; requiring registration of exchanges of financial instruments so as to make them transparent and open to scrutiny; scrutiny by credit rating agencies; regulating new financial products such as mortgages, pensions and credit cards (Blackburn, 2002; Krippner, 2011; Turner, 2009); and reducing international trade imbalances (Wolf, 2009). There are different principles of engagement from 'taxing' to 'regulation', to increasing the resilience of the system by increasing its modularity, robustness and incentive structure (Alessandri and Haldane, 2009; Haldane, 2010; Haldane and May, 2011). The more substantial reforms, such as separating retail from casino banking, would reduce the reach and significance of finance.

Corporate governance and company law regulates: the conditions under which legal personhood can be attached to a collective entity such as a company; the limitation of liability for debts; conditionality over (gendered) governance structure and composition; the extent to which a company that is active in one jurisdiction can be registered in a different one for purposes of company law or taxation, with consequent variations in the fragmentation or concentration of accountability; the extent to which 'private equity' can operate; the existence of take-overs of companies through leveraged buyouts; and the extent to which 'codes of practice' produced by trade bodies are voluntary or compulsory (Armstrong and Walby, 2012; Clark, 2009; Shaxson, 2011). The most substantial reforms would prevent leveraged buyouts by private equity and would reintegrate company governance so that a company is registered and taxed and governed in the same location in which it does its business.

The collection of taxes varies significantly. While tax evasion is illegal, most tax dodging appears to take the form of legal tax avoidance which can be affected by variations in the pressure to reduce tax havens and secrecy jurisdictions (Palan et al., 2010; Shaxson, 2011). While there is pressure to reduce tax avoidance and evasion through increasing co-operation, harmonization and transparency, this has had limited success (Dorn, 2012; Genschel and Schwartz, 2011), even though countries such as the UK have substantial control over many tax havens (Shaxson, 2011). Financial transactions are little taxed – there is a proposal to tax international financial transactions (Tobin tax). The regulation of government budgets and deficits by national and international entities varies in: the extent of and implementation of equality regulations (Conley, 2012; Young

et al., 2011); and the extent of surveillance and conditionality by EU and international financial bodies over countries seeking loans, which has implications for the extent of neoliberal restructuring of economic institutions, from welfare spending to collective bargaining arrangements (Krugman, 2008; Lapavistas et al., 2012). The most substantial reforms would be the closure of tax havens and secrecy jurisdictions and the taxation of international financial transactions.

Regulation of finance is technically possible. There is a large repertoire of tools available to regulate finance, from criminal sanctions on rogues to both minor and major reforms of institutional regimes. The most substantial reforms would contribute to definancialization, by reducing the scale and reach of finance capital. These include: separating retail and casino banking; making leveraged private equity buyouts illegal; reintegrating company governance so that governance and taxation are in the same country as a business; closing tax havens and secrecy jurisdictions; and taxing international financial transactions (Tobin tax).

The second question is whether these technical reforms are politically possible. This depends on the political forces and projects engaged with finance. A range of projects and complex political forces are active in the field of finance, both opposing and supporting its regulation. While there are links between financial and economic position and political projects, there is not a simple relationship between them, since how people perceive their interests is shaped by social processes and struggles. It is necessary to identify the projects in both immediate and broader form; to identify the political constituencies involved in these projects and draw boundaries around them.

The projects associated with the interests of finance can be either narrowly or broadly identified. In the narrow sense, there are public relations staff and lobbyists connected with finance companies that seek to influence legislation and codes of practice. Finance companies have lobbied against the regulation of their trade, as documented by Tett (2009). Attempts to reduce the secrecy of tax havens that allows for tax evasion and avoidance are contested by finance companies in the interests of their rich clients (Palan et al., 2010). The City of London Corporation, an association working in the 'square mile' of London where many finance companies have their headquarters, is well funded in order to represent the interests of these firms to government and elsewhere (Shaxson, 2011). There has been resistance to attempts to reform and restructure financial practices, with representations to the press and political committees (Morgan, 2010), while the entity established to run the nationalized banks (UK Financial Investments) was set up at arm's length from democracy, with City personnel and principles of action (Engelen et al., 2011). In a broader perspective, finance is often aligned with a project that can be variously described as promoting deregulation, market fundamentalism, or neoliberalism (Greenspan, 2008; Harvey, 2005; Soros, 2008). The neoliberal project has grown in ascendancy, becoming a governmental programme and embedded in social formations. It has captured think tanks, political parties, states and international financial institutions. It has challenged the basis of alternative political projects, attacking trade unions, welfare states and reducing the depth of democracy (Harvey, 2005; Walby, 2009). It has become sedimented in parties of the centre-left as well as of the right.

Projects seeking the regulation of finance can also be narrowly or broadly defined. In the narrow sense there are organizations seeking to reduce tax dodging, ranging from

NGOs such as UK Uncut to expert networks such as the Tax Justice Network. There are organizations that seek to make visible the unequal impacts of the neoliberal restructuring of the state following post-crisis attempts to reduce the budget deficit, such as the TUC, False Economy and the Women's Budget Group (Conley, 2012). The UN Commission headed by Stiglitz to report on a proposed new global financial architecture suggested that all those who might suffer the consequences of financial failure should share in the governance of financial institutions (Stiglitz and the UN Commission of Financial Experts, 2010). In the broader sense, there is a social democratic project, supported by trade union, labour, feminist and environmental organizations, which is positioned to support the regulation of finance. These coalitions increasingly include a gender component in the analysis, as the gender composition of trade unions and social democratic projects shifts (Walby, 2011). However, analysts of social democracy rarely discuss finance as one of its targets (Cram and Diamond, 2012).

The third issue is to locate these projects and forces within the wider social system in order to analyse the balance of power between democracy and finance.

There is a historical precedent in the regulation of capital by the state in the Bretton Woods institutional system set up after the Great Crash caused by finance capital in 1929. Following the Great Crash of 1929, the ensuing Great Depression, the rise of fascism and World War 2, social democratic forces emerged triumphant to enforce their claim to regulate capitalism, including finance, for the good of society as a whole. The post-war settlement, the compromise between capital and labour, included strong regulations on finance capital. It led to an unprecedented 30 years of economic growth, increasing prosperity, increasing state welfare provision, the partial transformation of the gender regime and reducing class and gender inequalities.

The post-war social democratic project drew on a constituency based in trade unions rooted in skilled manual work in an industrial era of mass production. However, the forward march of labour halted, partly as a result of changes in industrial structure that supported these political projects and partly as a result of the rise of the neoliberal project to contest it. However, there is a new basis for social democracy in the transformation of the gender regime and the institutionalization of feminism in civil society, including trade unions (where women are now half the members) and in the state, where women are increasingly represented in parliament and in the gender equality policy architecture. It is this gendered social democratic project that the current gendered neoliberal project contests. The contestation over public expenditure concerns jobs that are disproportionately held by women (in the public services), services (health, education, care-services) that are disproportionately used by women and disproportionately politically supported by women (Walby, 2011).

Ascertaining the nature and balance of current political forces associated with these projects for and against regulating finance capital is difficult. The Occupy movement suggests that it is 1 per cent against 99 per cent. However, while it is possible to make some distinctions between the various constituencies and projects concerning the regulation of finance, there are challenges to identifying a simple division between the beneficiaries and the losers of finance. The process of financialization has implications for the nature of the constituencies engaged in political processes, in some instances blurring boundaries between what might have been distinct categories of supporters and opponents of finance

capital and its political projects. The financialization of industrial capital reduced the distinction between financial and industrial fractions of capital, while at the same time increasing the power of finance. The financialization of everyday life increases the involvement of many individuals in the web of interests of finance, as the range of financial products is extended to a wider range of consumers. For example the development of mortgaged housing and the sale of council houses gave some households an interest in rising house prices, though this was not in the interests of all. The development of pensions entwines workers and pensioners with finance capital. As Aglietta (2000: 147) asks: 'What is the meaning of, and what are the prospects for, a stage of capitalism whereby pooled savings of labour, whose investment is delegated to professional managers, become the paramount shareholder?' The process of blurring of the boundaries between those who are exploited by finance and those who are its beneficiaries is not unique to finance capital, since wage labourers exploited by capitalist employers simultaneously may benefit in the form of higher wages from the success of their employer. Nevertheless, financialization has significant consequences for the constituencies that might otherwise have supported political projects seeking to regulate finance capital.

The relationship between finance and the state depends on whether states are democratic or captured by finance. Both outcomes are possible. In the UK social democratic period between 1945 and 1975, which followed a period of turbulence in the financial crash of 1929, fascism, holocaust, war and reconstruction, there was a significant regulation of finance in the interests of the wider economy and society. This was a period of unprecedented financial, economic and social stability; economic growth and development; increased democratization; reduced violence and warfare; increasing personal freedoms; and decreasing inequalities of many kinds. It was a period in which the balance of political forces was in favour of the regulation of finance. This social democratic regulation of finance was challenged by the development of the neoliberal project, with its market fundamentalism, deregulation and attacks on alternative projects in trade unions, collective bargaining, welfare states and social democracy. As financialization developed, extending into everyday life through mortgages, pensions and credit cards and into industrial capital through fragmentation of company forms and shareholder value, finance capital increased its power through the associated political project of neoliberalism. The neoliberal project captured many political parties, states and international financial institutions, spreading as a global wave around the world, becoming embedded in governmental programmes and social formations. However, there remain significant variations in the extent to which neoliberal projects are dominant in governmental programmes and social formations; as well as some significant outposts of alternative thinking and practice.

The discussion of the practicalities and practice of regulation of finance by the state has implications for the four frameworks of analysis. The orthodox framework, which treats money as an object and markets as efficient, conceives of little purpose in regulating finance, except to prevent fraud. The political economy framework sees good reason to regulate finance, but little prospect that this will occur within capitalism, given the power of finance capital over state and society. The heterodox framework considers that regulation of finance by the state is necessary for the effective working of economy and society and that it is possible. Polanyi suggests that regulation of finance is necessary to protect

society and likely to happen when the double movement of civil society responds to excessive marketization thereby re-embedding the economy in society. The conclusion drawn here is that the regulation of finance by democratic forces focused on the state is necessary for an effective economy, is technically possible and is supported by a range of projects and forces, but that opposition is strong and the outcome is not yet resolved.

Conclusion

The new framework for the analysis of finance in society constructed here draws on the best elements from the four major existing frameworks – orthodox, political economy, heterodox and societal. This includes: the conceptualization of finance; the relationship between finance, the economy, the state, violence and civil society; and the nature of the social system as a whole.

Finance should be conceptualized as a social relationship, as a social system, rather than as an object, as is argued in all frameworks except the orthodox. Finance is a form of profit-seeking and a form of capital, as noted by the political economy framework. The distinction and relationship between the three stages of investment identified by Minsky, building on the work of Keynes, identifies the nature of the financial system that is simultaneously a necessary part of capitalism and a source of its instabilities, ranging from minor bubbles to major crises. Finance is a site of power struggles at the heart of capitalism, between the producers of goods (capital and labour) and producers of money (central and private banks and financial institutions); this challenges the notion that exploitation takes place primarily at the point of production. The significance of finance grows as processes of financialization spread its influence through economy and society. States can regulate finance so as to mitigate these instabilities, but the extent to which this occurs depends on wider social processes. After the Great Crash of 1929 and its consequent Depression and War, the social democratic project regulated and restricted the scale of finance. The rise of the neoliberal project and its embedding in governmental programmes and social formations has reduced these controls, so that finance capital is again destabilizing the economy. There is a repertoire of technical processes that could contribute to de-financialization, by reducing the scale and reach of finance capital, including: separating retail and casino banking; making leveraged private equity buyouts illegal; reintegrating company governance so that governance and taxation are in the same country as a business; closing tax havens and secrecy jurisdictions; and taxing international financial transactions (Tobin tax). The mobilization of democratic principles embedded in contemporary state and civil society makes it possible for the state to control finance. However, de-financialization depends on the balance of political forces. The neoliberal project is well entrenched and processes of financialization have brought many into the web of financial interests, affecting the constituencies that might have supported state regulation. The notion of a self-equilibrating social system, suggested by Polanyi, in which society inevitably protects itself, is unrealistic. The outcome is unclear.

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