Abstract:
Situated in the age of “new finance capitalism,” this paper explores several ways in which régulation theory’s analysis of financialization could be reinvigorated. The aims of this paper are threefold: (1) to trace the influence of régulation theory within financialization studies, (2) to provide a revised régulationist analysis of a finance-dominated growth regime through a case-study of the American economy, and (3) to highlight opportunities for further engagement with the régulationist problématique in the financialization literature. The paper first outlines how régulation theory has provided a theoretical foundation in conceptualizing financialization as a new regime of accumulation, an approach that was initially popularized by Greta Krippner and further developed in Post-Keynesian Economics, eventually forming one of three primary schools of thought about financialization. Despite the notable theoretical influence of régulationist analyses in the financialization literature, the paper suggests that régulationist frameworks were incorporated in an uneven manner, with the modes of regulation being analytically and empirically subordinated to the regimes of accumulation. Given the systemic neglect of regularization in the financialization literature, the paper emphasizes the importance of examining the modes of regulation specific to finance-dominated (or finance-led) growth regimes. Suggesting that the potential of régulation theory has not been fully realized in the existing literature on financialization, this paper highlights opportunities for further engagement with the régulation theory problématique including (1) possibilities for spatializing financialization as an accumulation regime beyond the confines of nation-states, (2) theorizing contradictions and crises arising out of finance-dominated growth regimes, and (3) pathways for further engagement with the institutionalist analyses of regulatory bodies and institutional investors in the conceptualization of modes of regulation prevalent in finance-dominated regimes. As finance-dominated capitalism has unique contradictions and points of rupture, this paper suggests that the régulationist problématique can enable us to determine which stabilising mechanisms hold this current system in place, explicate the eventual limits of regularization, and identify the roots of the next structural crisis. By examining the existing modes of regulation and the contradictions produced by a finance-dominated regime, this paper argues that régulationist analyses of financialization can help us determine the fundamental contradictions that are not being addressed and thus could cause the next structural crisis of finance-dominated capitalism.

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**Introduction**

In the midst of the Great Depression, the prominent American banker Andrew Mellon, who served as the Secretary of the US Treasury throughout the 1920s, purportedly pronounced that “in a crisis, assets return to their rightful owners” (Harvey, 2010: 20). The rightful owners in Mellon’s conception were the financiers like himself who were able to enrich themselves as the country plunged into a deep recession. Nearly a century later, the response to the COVID-19 pandemic and its attendant economic crisis highlights the extent to which Mellon’s statement still rings true in the United States, as tens of millions of workers were forced to sacrifice their health and safety to preserve the wealth of US elites. As millions across the United States faced eviction, poverty, debilitating health conditions, and death, the composite wealth of US billionaires has increased by 58 percent since the beginning of the pandemic.1 Due to the passing of several corporate stimulus packages combined with the unconventional monetary policies of the Federal Reserve aimed at stabilizing financial markets, in the first 12 months since the declaration of the COVID-19 public health emergency, the market capitalization of American stocks (as measured by the NASDAQ Composite Index) has grown by a shocking 43 percent.2 And while the US asset bubble burst at the beginning of 2022 due to the unexpected surge in inflation (which was followed by substantial interest rate hikes), the increased costs of social reproduction have been more acutely felt by lower income households.3 Relying on the Federal Reserve’s monetary toolbox of interest rate changes to resolve the current inflation surge has meant that lower income households are experiencing a three-way financial squeeze: (1) from the increased cost of living due to inflation, (2) from the increased cost of borrowing due to interest rate hikes, and (3) from the lack of available job opportunities due to reduced business investments.4 The current economic crisis has not only amplified the four-decade long disconnect between the financial performance of Wall Street and the deteriorating economic conditions experienced by the majority of Americans, but more importantly it has revealed a bipartisan political apparatus explicitly concerned with the preservation of the interests of the US capitalist class as compound capital growth has been prioritized above all else.

With the failure to resuscitate the Fordist regime of accumulation following the 1970s recession, in the 1980s the United States entered a period of secular stagnation characterized by slowing rates of economic growth and the marked decline in profit rates across multiple industries (Duménil and Lévy, 2002; Summers, 2015). Yet, despite this persisting economic slowdown, the post-1980 period was characterized by the exceptional growth in US financial markets and the soaring profits of US financial institutions. The puzzle facing us concerns this contradictory development characterized by the ascendance of finance in an economic environment facing structural limits to growth. Taking the rising power and influence of finance—termed financialization—to be one of the defining characteristics of advanced capitalism, this paper examines how régulation theory could be reinvigorated in the interdisciplinary studies of financialization in the post-2008 era through a case study of US finance-dominated regime.

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1 Source: [https://inequality.org/great-divide/updates-billionaire-pandemic/](https://inequality.org/great-divide/updates-billionaire-pandemic/)
2 Source: [https://fred.stlouisfed.org/series/NASDAQCOM](https://fred.stlouisfed.org/series/NASDAQCOM)
4 Source: [https://www.phenomenalworld.org/reviews/sound-finance/](https://www.phenomenalworld.org/reviews/sound-finance/)
Régulation theory provides a theoretical apparatus for conceptualizing distinct growth regimes while acknowledging the historical and geographical variations in the institutional arrangements of capitalist economies. In its analytical apparatus, régulation theory centers the crisis tendencies and contradictions of capitalist economies, and as highlighted by Boyer (2002: 2), the “[t]he theory’s relevance does not derive from an analysis of stabilised regimes, but rather from its capacity to detect and anticipate probable sources of crisis: régulation and crises are linked as intimately as two sides of a coin.” As modes of regulation can only temporarily stabilize the contradictions and antagonisms of a particular accumulation regime, crises are inevitable. This makes régulation theory useful as a framework for understanding the limitations of the existing modes of regulation and for explicating why crises are endemic to capitalism. This simultaneous focus both on the temporarily stabilized regimes of accumulation and their destabilizing crisis tendencies enables one to examine the transitions between different growth regimes.

While much of the initial work of régulation scholars revolved around theorizing the Fordist regime of accumulation, its modes of regulation, and the crisis of the 1970s, subsequent research has shifted its attention to explicating Post-Fordism and the emergent regimes that were developing in the wake of the crisis. Among the potential successors to Fordism, the finance-led growth regime was given special attention (Boyer, 2000), as finance began to occupy an increasingly central role in the global economy starting in the early 1980s (Boyer and Saillard, 1995; Aglietta, 1998a). Concurrently with the emerging focus on finance-led regimes within régulationist writings, scholars across heterodox economics disciplines began to recognize the shift of finance’s position from the periphery to the core of economic activities, culminating in the expansive interdisciplinary literature on financialization (Mader et al., 2020). Although there are many distinct approaches to understanding financialization, the literature on this topic has been broadly categorized into three main schools of thought: (1) scholarship in the tradition of régulation theory that sees financialization as a new regime of accumulation which succeeded the Fordist regime of mass production and consumption, (2) the critical social accountancy school which emphasizes the growing importance of financial markets and the primacy of shareholder value in governing the behaviour of corporations, and (3) the socio-cultural approach which focuses on the financialization of everyday life and interrogates the production of financialized subjectivities (French et al., 2011; Van der Zwan, 2014). While there is not a pre-given or dominant approach to studying financialization, it is worth examining when, where, and by whom régulation theory was introduced and popularized in financialization studies, and the evolution and adoption of régulationist frameworks in this rapidly growing scholarship.

The most cited paper on financialization to date was written by Greta Krippner (2005: 174) who defined it as “a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production.” Krippner has famously shown that the US financial sector has managed to increase its share of corporate profits at much higher rates than its share of GDP or employment, arguing that financialization should be interpreted as change in the patterns of accumulation rather than in economic activities. It was Krippner’s approach to conceptualizing financialization as a regime of accumulation that popularized régulation theory in the broader financialization literature. In a 2017 interview with the French Revue de la régulation: Capitalisme, institutions, pouvoirs magazine, Krippner details how her own thinking on these questions was largely influenced by régulationist writing:
When I began graduate studies in the mid-1990s, there was a lot of interest in trying to understand the proliferation of … new forms of organizing capitalist production. We talked about “post-Fordism,” “flexible specialization,” “flexible accumulation” … I think there was a lot of collective head scratching about what it all meant. I was particularly influenced in those days by the French regulation school – a body of work that raised questions about what had changed in the 1970s that seemed to so dramatically alter the dynamics of capitalist economies (Krippner et al., 2017).

European Post-Keynesian scholars Engelbert Stockhammer and Eckhard Hein also drew heavily on régulationist accounts to formalize the macro-economic dynamics of finance-dominated capitalism (Hein et al., 2014). While Boyer’s (2000) initial conception of a finance-led growth regime presupposed that financialization would drive economic growth, Stockhammer (2008) developed the concept of a finance-dominated accumulation regime to highlight how the economy could be dominated by finance as it experienced an economic slowdown. Stockhammer (2004, 2005) was the first to demonstrate how a higher reliance on rentier income by nonfinancial corporations could impede capital accumulation, while the increased power of the shareholders can lead to increased corporate profits but reduced investment and output. Hein (2012) similarly demonstrated that the most likely outcome of rising shareholder power would be a long-run “contractive” regime characterized by depressed capital accumulation and a decline in productivity growth and long-run economic growth. Hein (2013) further provided a systematic account of the long-run macroeconomic effects of financialization by focusing on (1) the redistribution of income at the expense of low labour incomes, (2) the dampening of investment in real capital stock, and (3) increased wealth-based and debt-financed consumption, arguing that in the long-run these capital accumulation, consumption, and income distribution dynamics produce unstable and crisis-prone economic regimes. Therefore, while the Post-Keynesian scholarship of financialization drew significant inspiration from régulation theory, it departed from the initial régulationist analyses of finance-led growth regimes à la Boyer (2000) in its assessments of the negative impacts of financialization on aggregate demand and long-term growth.

Régulation theory has also found an outlet in the work of US-based economist Robert Guttmann, who synthesized régulationist insights with Post-Keynesian and Marxist political economic analyses of financialization to theorize the nature of finance-led capitalism in the context of globalization and technological advancements (Guttmann, 2016). Guttmann (2008) examined the systemic crises of capitalism under financialization, focusing on the 2008 global financial crisis and its aftermath. By incorporating régulationist periodization of capitalism into distinct accumulation regimes with Minsky’s Financial Instability Hypothesis (1977), Kondratiev Long Waves (1984), and the Marxist theory of the tendency of the rate of profit to fall (Marx, 1959), Guttmann (2015, 2017) analyzed how the internal dynamics of the contemporary financial system and its tendencies to produce speculative bubbles resulted in the 2008 financial crisis, emphasizing the endogenous character of structural crises of capitalism.

Contrasting the contributions of Krippner, Stockhammer, Hein, and Guttmann, one can note that the financialization literature that was inspired by or explicitly draws on régulation theory is relatively expansive. Yet, one can also notice that the two primary theoretical blocks of régulation theory—regimes of accumulation and modes of regulation—did not receive equal attention in this scholarship. As initially documented by Tickell and Peck (1992) and extensively explicated by Phillips (2022), régulation theory in principle should assign equal importance to understanding both the regime of accumulation and its accompanying mode of regulation. Yet, in
practice, in the existing régulationist analyses of financialization, modes of regulation have been empirically and analytically subordinated to regimes of accumulation. Despite the fact that one of the founding fathers of régulation theory, Michel Aglietta, has written extensively on the stock markets, the primacy of the shareholder value in corporate governance, and the impact of institutional investors (e.g. Aglietta, 2000; Aglietta and Breton, 2001; Aglietta et al., 2012), régulationist contributions to the analysis of financial markets and corporate governance have not always been recognized to the same extent as their work on regimes of accumulation. The régulationist conception of a finance-led growth regime cannot be reduced to its regime of accumulation, as it represents only one of the two constituent parts of which make a particular growth regime cohere. The neglect of the modes of regulation in the existing financialization literature makes it ever so important to study the institutions, norms, and behaviours that serve to stabilize finance-led accumulation. Suggesting that the potential of régulation theory has not been fully realized in the existing literature on financialization, this paper will highlight opportunities for further engagement with the régulation theory problématique.

This paper proceeds as follows. The next section provides a short history of the events and conditions that enabled the financialization turn to take place in the United States and a brief overview of the internal transformations that occurred in the US financial sector since the 1980s. The third section expands on the earlier régulationist accounts of finance-led regimes as a successor to Fordism to provide a macroeconomic analysis of American finance-dominated capitalism. The fourth and final section highlights spaces for further engagement with the régulation theory problématique in the financialization scholarship.

Enabling financialization through monetarism and deregulation

Historically, sustained periods of financialization have emerged from moments of crises when the productive economy experienced significant declines in profits and capital fled production to seek higher returns in speculative and financial investments (Arrighi, 1994). The most recent and still ongoing period of financial ascent in the United States has its roots in the global recession of the 1970s, marking the demise of Atlantic Fordism. In the United States, under the conditions of slowing economic growth (Duménil and Lévy, 2002), financialization was largely brought about by a series of de-regulatory reforms implemented by US policymakers, who, faced with a surge in inflation, moved to extricate themselves from the responsibility of attaining the called-for economic outcomes by asserting market rule, unable as they were to resolve the distributional conflicts through conventional policy approaches (Krippner, 2011).

While prior to the 1980s, the Federal Reserve would have been changing the federal funds rate directly to produce target inflation rates, under the new leadership of Paul Volcker in 1979 the Federal Reserve embraced monetarism, which is a more distanced approach of inflation-management involving targeting the money supply by either decreasing or increasing the amount of currency in circulation, which consequently (yet indirectly) leads to a change in the federal funds rate (Konings, 2011). In an aggressive attempt to break the back of inflation, Volcker drastically curtailed the money supply, which in turn increased the federal funds rate from 10% in 1979 to almost 20% in 1981 (Greider, 1987). The economic experiment that came to be known as “the Volcker shock” plunged the United States into an economic recession, with
unemployment rates reaching double digits for the first time since the Great Depression and heavily impacting US manufacturing (Panitch and Gindin, 2012).

Facing interest rate ceilings, US commercial banks were also hit hard by the rapid growth in prime lending rates, unable to compete with the money market mutual funds of investment banks (Hager, 2012). The drainage of funds from depository institutions created significant imbalances in the financial system, convincing the US Senate to phase out interest rate ceilings altogether (Krippner, 2011). Instead of having policymakers figure out how to allocate finite resources among competing constituencies and causes, the “impartial” market would decide who would get the capital and for what cost: “interest rate ceilings no longer acted as “speed limits” for the economy: credit simply flowed to the highest bidder” (Krippner, 2011:81). Following the partial repeal of Regulation Q, by 1986 the US economy was flooded with credit, which itself was becoming increasingly securitized (Rosenthal and Ocampo, 1989). While profits of US financial institutions have sky-rocketed, the high interest environment, which enabled US commercial banks to regain their footing after the restrictions on maximum interest rates were lifted, drained funds from the productive sectors of the economy, as financial investments were able to offer much higher rates of return (Duménil and Lévy, 2004). At the same time, the climbing interest rates increased the cost of financing for long-term investment projects, encouraging US non-financial corporations to divert capital from productive to financial channels (Orhangazi, 2008).

Two additional reforms contributed to the creation of a financialized US economy. First, the repeal of the Glass-Steagall Act in 1999 enabled financial institutions to engage in a full range of services for the first time since the Great Depression (Crawford, 2011). Established in the aftermath of the Banking Crisis of 1933 to prevent future bank runs, the act mandated a legal separation between commercial and investment banks. By prohibiting investment banks from engaging in commercial banking activities and vice versa, the act constricted the monopoly-like status of financial empires such as J.P. Morgan & Co, as well as created a politically fragmented financial sector. Its full repeal in 1999 (led by Alan Greenspan) contributed to the consolidation of American finance with the largest investment banks becoming the largest commercial banks almost overnight (Davis, 2009). Concurrently, the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 eliminated most of the geographical restrictions related to interstate banking (Lin and Neely, 2020). As one might expect, repealing legislation that constricted the power of financial conglomerates in the post-War period facilitated the consolidation of US finance throughout the 1990s. Dymski (1999) estimates that following a wave of bank mergers in the 1990s, the number of FDIC-insured commercial banks has decreased from almost 14,500 in 1984 to less than 9,000 by the end of 1999, with the largest 25 banks controlling over 70 percent of all bank assets at the end of the decade—the monopolization trend that continued well into the late 2000s (Christophers, 2018). The repeal of the New Deal legislation following the Federal Reserve’s monetarist turn led to the liberalization and globalization of financial markets, consequently fueling the growth of global finance.

The high-interest environment that fueled financial profits in the 1980s, however, did not last. After the surge in inflation was addressed, to stimulate the economy the Federal Reserve pursued the policy of lowering the federal funds rate with the average rate declining from 10% in the 1980s to 5.1% in the 1990s to 3% in early 2000s and finally to 0.6% in the past decade.5

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5 Source: https://fred.stlouisfed.org/series/FEDFUNDS
historical decline in interest rates is not in any sense trivial and reflects broader macroeconomic shifts occurring in the United States. For once, the expansionary monetary policy made lending less profitable and led to an influx of capital from bond to equity markets, which in turn contributed to asset price inflation (Bordo and Landon-Lane, 2013) and had highly uneven impacts on different segments of finance. If during the earlier phase of financialization it was the credit intermediaries that benefited from financial deregulation and the monetarist turn, the later period empowered financial intermediaries engaged in investment rather than lending—pension and mutual funds, private equity firms, and hedge funds. The internal transformations of the US financial sector characterized by the rise of funds and trusts and the decline of credit intermediation are demonstrated in Figure 1. Since 1980, funds and trusts have increased their share of assets in the US financial sector from 6% to 37%, their share of net worth from 37% to 79%, and their share of net income (i.e. profit) from 33% to 65%. In the same time period, credit intermediaries decreased their share of assets in the US financial sector from 73% to 37%, their share of net worth from 37% to 12%, and their share of profit from 33% to 22%.

By any account, the 1980s and the 1990s was a turbulent economic period in the US. Along with the macroeconomic changes brought about by the Federal Reserve’s monetary policy and their rather successful efforts in deregulating the US financial sector, the crisis of Fordism has also led to the deterioration in working conditions and the broader decline in labour power. With the union membership rate falling by more than half in the past four decades, the wages no longer reflected the productivity gains made by firms. The decline of labour unions across the country has also contributed to the restructuring of workers’ pensions from defined-benefit to defined-contribution plans (Rutterford and Hannah, 2016). The spread of defined-contribution pension schemes created new pools of capital that needed to be professionally managed by financial intermediaries. Initially this new retirement capital was managed by US pension funds, who by the early 1980s controlled about 20% of the US corporate equities market. However, with the introduction of new fiduciary requirements to the Employment Retirement Income Security Act in 1979, pension funds were incentivized to outsource their investment decisions to professional asset managers, such as mutual and exchange-traded funds, which today own approximately thirty percent of the US stock market (Braun, 2021). Due to the economies of scale present in asset management, the sector is now effectively controlled by the “big three” index funds: Blackrock, Vanguard, and State Street (Fichtner et al., 2017). The rise of US institutional investors has not been without consequences for the US productive economy. The concentration of stock ownership enabled a small number of extremely large investment funds to impose shareholder value orientation on US corporations (Crotty, 2002) with financial markets becoming a disciplining mechanism through which firms were directed to maximize short-term returns for investors instead of reinvesting their earnings into productive activities (Duménil and Lévy, 2011). Lazonick and O’Sullivan famously described this as a “shift in the strategic orientation of top corporate managers in the allocation of corporate resources and returns away from ‘retain and reinvest’ and towards ‘downsize and distribute’” (2000: 18). Noting the rising importance played by institutional investors in the US economy, Davis (2008: 11) coined the term “new finance capitalism” to describe this emerging finance-dominated system of corporate ownership, in which “a small number of investment funds find themselves with substantial ownership positions in hundreds of corporations simultaneously.”

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Figure 1: Composition of assets, net worth, revenue, and profits in the US financial sector by financial sub-sector\textsuperscript{7}

The history of financialization in the United States highlights the integral role that regulatory changes played in the production of a financialized regime of accumulation. Finance is shaped, produced, and enabled by law, and financial transactions cannot occur without it. Some forms of law, such as the legal protection of “intangible” property, are absolutely necessary for financial accumulation, others, such as the Tobin tax on short-term currency speculation, discourage certain types of financial activities. The regulatory changes which were introduced, coupled with a new approach to monetary policy, not only produced a finance-dominated regime of accumulation in the United States, but they also stabilized certain parts of the economy while destabilizing others, highlighting how law often plays a contradictory role in ensuring capitalist accumulation. The régulationist conception of modes of regulation, of course, entails a lot more than just the narrow view of regulation briefly described here. Understanding the modes of regulation that stabilize a finance-dominated growth regime thus requires a more expansive conception of regularization that entails considering how both government and private actors facilitate periods of stable accumulations. It requires understanding how cultural norms and ideology encourage certain individual behaviours that are conducive to accumulation. Finally, it necessitates identifying the eventual limits to regularization, examining how the existing modes of regulation can only temporarily stabilize the crisis tendencies of a particular growth regime.

**Macroeconomics of American finance-dominated regime**

How did régulation theorists at the time understand the emerging finance-led growth regime? Robert Boyer (2000) was possibly the first to develop a comprehensive macroeconomic account of what a financialized growth regime would entail by describing the dominant structural forms of the capital relation under financialization. Differentiating a finance-led growth regime from Fordism, he emphasized how not only the specific characteristics of the primary institutional forms have shifted but also the hierarchy among them: the monetary/financial regime has replaced the wage-labour nexus as the dominant and central institutional form, with all other forms being subordinated to the money relation.

As a combination of an accumulation regime and a mode of regulation, a finance-led growth regime aims to describe the economy at the macro-level by understanding how the particular articulation of each of its institutional forms—wage relation, the mode of competition, the monetary system, the state/society relations, and the international regime—produce a coherent system of production, exchange, and consumption. To understand how a finance-led growth regime can function, it is not only important to examine these institutional forms in isolation but also in relation with one another. Boyer (2000) hints that perhaps the most fundamental characteristic that lies at the heart of a finance-led growth regime has been the shift in capital ownership structures that privileged maximizing shareholder value above all else. Describing the new system of market finance dominated by institutional investors, Aglietta (1998b) similarly emphasizes how the financialization of proprietary control over non-financial corporations has transformed the driving logics of capital accumulation from capital-labour compromise that ensured stable economic growth to the maximization of short-term financial gains. The valorization of capital attained through the disembedding of finance capital from its physical, spatio-temporal, and social constraints and the centering of finance’s logics in the operations of firms significantly influenced each of the regime’s institutional forms explicated in Table 1:
Table 1: Institutional forms of Fordism and finance-dominated capitalism\(^8\)

<table>
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<tr>
<th>-wageLabour nexus</th>
<th>Fordist regime</th>
<th>Finance-dominated regime</th>
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<tbody>
<tr>
<td>Mass production and mass consumption enabled by capital-labour compromise, savings in the form of deposits</td>
<td>Suppression of wages, flexible employment, credit-fueled consumption, bifurcation of the labour force, income reliance on financial markets</td>
<td></td>
</tr>
<tr>
<td>Firms competing for consumers and new markets based on prices and product “quality”, nationally competitive but protected markets</td>
<td>Firms competing for investors and capital globally, primacy of shareholder value, tendency towards monopolization in various sectors</td>
<td></td>
</tr>
<tr>
<td>Monetary policy with a dual focus on minimizing unemployment and retaining price stability</td>
<td>Monetary policy focused on stability in financial markets, expansionary monetary policy: incentivizing consumption through low interest rates</td>
<td></td>
</tr>
<tr>
<td>Countercyclical fiscal policy, state involvement during economic crises</td>
<td>High level of public indebtedness, pro-cyclical fiscal policy, state prioritizes stability in financial markets</td>
<td></td>
</tr>
<tr>
<td>National economy: national production and consumption, protective tariffs</td>
<td>Global economy: outsourced production, global consumption, international finance, free trade</td>
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\textit{The wage-labour nexus.} The Fordist regime is commonly characterized as a system of mass production and mass consumption with a capital-labour compromise: wages are tied to productivity gains, workers are offered job security and employer-funded pension plans, unionization is high, and worker turnover is low. The individual savings are deposited in commercial banks to generate fixed but relatively small returns, which are used to provide financing to non-financial firms. Relatively high wages fuel domestic consumption, enabling producers to realize their surplus-value by selling most of the products nationally. In contrast to Fordism, in a finance-dominated regime maximizing short-term financial gains is privileged over long-term growth, workers’ wages are suppressed, employment is becoming increasingly flexible, and retirement benefits are tied to individual financial contributions and the whims of financial markets. Workers end up having some limited access to financial gains in the stock market through investments in their pension plans, while access to capital and the resulting financial gains becomes highly uneven. In the United States, for example, at the end of 2020, the top 1% of households owned 53% of the market for corporate equities and mutual fund shares, while the bottom half owned less than 1%.\(^9\) To compensate for the decline in wages, workers are borrowing at much higher rates. For the bottom half of Americans consumer credit as a share of all liabilities increased from 36% to 46% between 1989 and 2020.\(^{10}\)

\(^8\) Author’s formulation inspired by Boyer (2000) and Jessop (2013)
\(^{10}\) ibid
**Forms of competition.** Under Fordism, firms are competing with one another for new markets, while in a financialized economy firms are competing for investment capital. The shift from a consumer to an investor as the adjudicator of a firm’s performance has significant repercussions for whose interests get privileged in corporate decision making. In principle, consumer-driven competition forces firms to improve product quality while lowering their prices. In contrast, investor-driven competition forces firms to maximize short-term rewards to shareholders, which undermines the ability of firms to improve their products relative to the competition and hinders their long-term growth. At the same time, investors realize the financial benefits of monopoly rents and encourage consolidation of firms across various industries by engaging in horizontal shareholding (Elhauge, 2016). A finance-dominated growth regime is thus characterized by a trend towards monopolization across both financial and nonfinancial sectors.

**The monetary regime.** As the economy becomes more financialized, the goal of monetary policy shifts from achieving relative price stability and minimum unemployment to ensuring an absence of financial bubbles. Opening up the economy to global competition has a deflationary impact with central banks being granted a new degree of freedom to use monetary policy to guide the development of financial markets. This implies having a much more interventionist approach to ensuring long-term capital growth and managing financial crises. At the same time, the central bank aims to stimulate the economy by lowering interest rates and making borrowing cheaper. This expansionary monetary policy aims to address the crisis of underconsumption in the context of stagnating wages by stimulating debt-driven consumption. Finally, minimizing unemployment is no longer a goal the central bank pursues. In fact, retaining certain levels of unemployment might be considered worthwhile as it can have a deflationary impact on the economy.

**State-society relations.** In a finance-dominated growth regime, the state adopts a neoliberal ideology of small government intervention and austerity, involving lowering taxation and cutting back on welfare provisions. Unable to raise needed revenue through taxation, the state borrows heavily to compensate for the shortfall in revenue. As the state is becoming more indebted and reliant on financial markets, the state is being increasingly disciplined by the logics imposed by the financial markets on private enterprises. At the same time, states compete with one another for mobile capital by creating a political environment conducive to endless capital accumulation, undermining their own sovereignty in the process. However, while in a finance-dominated growth regime the state withdraws from many of its social welfare functions, it becomes much more interventionist when it comes to ensuring stability and growth in the financial markets. In times of financial crises, it uses its financial resources and legal authority to pump liquidity into the stock market, all while operating under the ideology of small state intervention (Konings, 2015). Ensuring compound growth of capital becomes one of the state’s primary objectives.

**Insertion into the international regime.** While in a Fordist economy, accumulation was ensured through nationally protective tariffs and subsidies that supported national production, accumulation in a finance-dominated growth regime relies on the global movement of capital, including outsourcing of industrial production to places in the Global South as well as expanding the control over enterprises in other countries through FDI. Advanced producer services play a central role in facilitating the internationalization of production, and financial intermediaries drastically expand their geographical reach to facilitate the global movement of capital. Not being attached to particular places not only allows capital to find the most profitable avenues for
its operations, but more importantly it enables it to move its activity elsewhere at a moment’s notice when eventually faced with the contradictions and crises (Jessop, 2013).

Examining the articulation of each of these institutional forms in relation to one another enables us to unpack the multi-scalar and contradictory dynamics that create a temporarily coherent growth regime. Fundamentally, financialization necessitates the subordination of all other forms of capital relation to the logics and imperatives of finance capital: workers are treated as disposable cogs in the machine, firms are evaluated on their short-term ability to maximize shareholder value for investors, competition is undermined as long as monopolization generates profits, states are disciplined by financial markets yet are expected to ensure financial stability and compound growth of capital, while capital is allowed to roam freely from one place to another in search of the highest investment returns. These contradictory dynamics of a finance-dominated growth regime have been particularly clear in the United States. While during this most recent period of financialization the power of the US capitalist class has been temporarily restored, finance-oriented economic restructuring did not bring back the rates of economic growth and flourishing experienced in the post-World War II era. Figure 2 breaks down the sources of GDP growth and capital growth in the US since 1965 by industry, while Table 2 provides estimates of annual growth in GDP, corporate profit, net worth, investments in private fixed assets, FTE employment, and salaries and wages separately for the Fordist period (1954 to 1980) and the finance-dominated period (1980-2017). Between 1954 and 1980, GDP grew at an average annual rate of 7.9% with many industries contributing to this growth: manufacturing (23%), services (20%), and wholesale/retail trade (16%). Since 1980, GDP has grown at an annual rate of only 5.4% with services accounting for 34% of the growth while manufacturing’s share has declined to 11%. Similar patterns of economic slowdown are observed by looking at the annual growth of corporate investments in fixed assets (declined from 8.8% to 5%), FTE employment (declined from 1.9% to 1.2%) and salaries and wages of FTE employees (declined from 5.7% to 3.8%). While overall economic growth has notably slowed down since 1980, capital has grown at a faster annual rate of 8.8% in the period between 1980 and 2017 compared to 7.8% between 1954 and 1980. What is particularly astounding, however, is how the sources of capital growth have drastically changed with the onset of financialization. Prior to 1980, 38% of capital growth emanated from the manufacturing sector followed by 27% from the finance and insurance sector. Since 1980, finance and insurance alone accounted for a shocking 73% of total capital growth. Not only has capital growth become completely decoupled from economic growth, but it also became detached from accrued profits, whose growth has also declined from an annual rate of 7.5% during the Fordist period to 5.4% in the finance-dominated era. Notably, however, during this macro-economic shift the finance and insurance share of growth in corporate profits has surged from 12% to 51%. The relation between finance and the broader economy in a finance-dominated growth regime is thus best described as parasitic: short-term gains are attained through speculation, hyper-exploitation, and devaluation of the surrounding environment, and the temporary success of a finance-dominated growth regime relies on the depletion of opportunities for capital growth in the long-term. While finance capital is particularly well-equipped to escape its crisis-tendencies through various spatio-temporal fixes, eventually it will have to confront the compounded contradictions that it continues to generate. With so much of the current capital accumulation tied to the expectations of future profits, finance-dominated growth regimes create the conditions for their own demise by undermining conditions for broader economic growth through its focus on short-term financial gains.
Figure 2: Industry breakdown of annual growth of GDP \((g)\) and Net worth \((r)\) in the US\(^{11}\)

Value added growth by industry (in %)

Net worth growth by industry (in %)

* Finance and insurance sector includes holding companies (bank and non-bank) to preserve the historical categorization of finance used in the Standard Industrial Classification (SIC) prior to 1998.

Table 2: Sources of economic growth by industry in the US, 1954-1980 and 1980-2017

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<td></td>
<td>GDP</td>
<td>Net income (less deficit)</td>
<td>Net worth</td>
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<td></td>
<td>7.9%</td>
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<tr>
<td>Agriculture, forestry, and fishing</td>
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<td>1%</td>
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<tr>
<td>Mining</td>
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<td>1%</td>
<td>3%</td>
<td>-3%</td>
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<tr>
<td>Construction</td>
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<td>2%</td>
<td>5%</td>
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</tr>
<tr>
<td>Manufacturing</td>
<td>23%</td>
<td>11%</td>
<td>53%</td>
<td>13%</td>
<td>38%</td>
<td>11%</td>
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<tr>
<td>Wholesale and retail trade</td>
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<td>13%</td>
<td>17%</td>
<td>13%</td>
<td>11%</td>
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<tr>
<td>Finance and insurance*</td>
<td>6%</td>
<td>9%</td>
<td>12%</td>
<td>51%</td>
<td>27%</td>
<td>73%</td>
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<td>6%</td>
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<td>3%</td>
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<tr>
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<td>4%</td>
<td>9%</td>
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<td>Total</td>
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<td>Average annual growth</td>
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<td>Agriculture, forestry, and fishing</td>
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<td>Construction</td>
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<td>Transportation, warehousing, and public utilities</td>
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<td>Wholesale and retail trade</td>
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<td>21%</td>
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<td>Information</td>
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<td>Real estate, rental, and leasing</td>
<td>26%</td>
<td>29%</td>
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<td>Services</td>
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<td>37%</td>
<td>90%</td>
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<td>Total</td>
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*Note: finance and insurance sector includes holding companies (bank and non-bank) to preserve the historical categorization of finance used in the Standard Industrial Classification prior to 1998. Average annual growth of salaries and wages measures the growth in salaries and wages per FTE employee.

Unrealized potential of régulation theory problématique

The previous sections discussed how earlier régulation theory scholarship conceptualized the dominant characteristics of a finance-led growth regime at the dawn of the new millennium, the actual shape it took in the United States in the past four decades, as well as how the financialization literature incorporated some of the régulationist frameworks in its analysis. In this section, the paper highlights opportunities for further engagement with the régulationist problématique, making full(er) use of its theoretical apparatus.

Financialization as a transnational but variegated regime of accumulation

One of the main limitations of régulation theory has been the conceptualization of growth regimes on the national basis. As explained by Dunford (1990: 310), “[t]heories of regulation are founded on a division of the world into a system of states and of multiple sovereignties and an identification of national modes of regulation. These national units are organised hierarchically into a global system, and processes of globalisation play a secondary role.” The financialization literature has faced similar methodological difficulties as much of the existing empirical research has focused on economic changes occurring within individual countries with a notable lack of comparative studies (Karwowski et al., 2020). As finance is becoming more globalized, continuing to study financialization solely on a national scale is becoming increasingly problematic (Christophers, 2012). Thus, there is an increasing need to spatialize financialization as an accumulation regime beyond the confines of nation-states. Empirically, this might be accomplished through the analysis of global datasets that highlight existing relations between nations (see Haberly and Wójcik, 2017 for an example of this in geography). Theoretically, there are opportunities for further engagement with the world systems literature and the scholarship on variegated capitalism and uneven and combined development. One commendable example of comprehensively examining the globalized nature of modern finance through a régulationist lens is Guttmann’s (2016) monograph Finance-Led Capitalism: Shadow Banking, Re-Regulation, and the Future of Global Markets. In it, Guttmann develops a new theoretical understanding of shadow banking as network finance and proposes that a finance-led accumulation regime has been accompanied by a new “transnational” mode of regulation since the 1980s. Guttmann’s proposal to conceptualize the mode of regulation of finance-led capitalism in transnational terms is much needed. However, the finance-led regime of accumulation is no less transnational than its mode of regulation. As financialization enabled globalization and vice versa, finance-dominated capitalism is reliant on the transnational movement of capital to facilitate the processes of accumulation through its global networks of investment, production, and trade. Thus, régulationist analyses of financialization need to find methodological pathways to transnationalize both the regime of accumulation and its accompanying mode of regulation.

Theorizing crises and contradictions of finance-dominated growth regimes

For ‘régulation’ theory the challenge is thus to try to determine the roots of the next structural crisis of this emerging [finance-led] growth regime; and to do so before the eruption of a major financial crisis which would demonstrate the structural limits and inner contradictions of such a regime (Boyer, 2000: 142).
In addition to developing a more accurate understanding of a finance-dominated accumulation regime, the régulationist problématique encourages financialization scholars to examine crisis tendencies and contradictions of finance-dominated capitalism. The 2008 global financial crisis highlighted the importance of understanding the ways in which the finance-dominated growth regime is fragile and crisis-ridden. Nonetheless, as the 2008 crisis did not produce any structural change in the mode of financial regulation, with almost none of its crisis-tendencies being resolved in any substantial way, theorizing contradictions and crises specific to financialized regimes of accumulation would be immensely valuable. While the literature on this topic has been growing in the aftermath of the 2008 crisis (e.g. Guttmann, 2008; Mendonça and Deos, 2009; Paulani, 2010; Hofman and Aalbers, 2019), more work systematically exploring the contradictions arising from a finance-dominated accumulation regime is needed. In the context of US-based finance-dominated capitalism, it might be particularly helpful to examine the contradictions related to: (1) the use of personal indebtedness as a way to resolve the crisis of underconsumption in the context of stagnating wages and flexible employment, (2) the systematic underfunding of domestic production in the quest to maximize short-term returns for shareholders, (3) the self-perpetuating speculative bubbles present in financial markets, and (4) the exhaustion of extracting surplus value and profit from abroad. The identification of contradictions specific to finance-dominated growth regimes could enable us to theorize under which circumstances such contradictions might realize themselves in crises and develop a typology of possible crises and their underlying causes. Each contradiction needs to be examined with spatial sensibilities in mind as crises do not occur in a vacuum and are often the result of multi-scalar contradictory processes. Further, it would be worthwhile to develop a theoretical understanding of crises that differentiates between longue durée systemic crises and short-term conjunctural crises related to downturns in business cycles and bursts of financial bubbles (Guttman, 2015). Applying a régulationist framework in the analysis of financialization could help us to identify the structural limits of the financialization turn and possible points of future economic rupture.

**Modes of regulation: how does a finance-dominated growth regime stabilize itself?**

Finally, it would be essential to examine why and how finance-dominated growth regimes are able to continuously reproduce themselves despite the structural crises they bring about by identifying the modes of regulation which temporarily resolve these contradictions. In identifying the primary modes of regulation, it would be important to incorporate a multi-scalar approach and examine them starting at the scale of everyday behaviour and ending at the scale of transnational governance and regulation. There is an opportunity to draw on the literature on the financialization of everyday life that explores the production of financialized subjectivity to examine how the everyday practices and norms (re)produce the global financial system and national regimes of accumulation (e.g. Martin, 2002; Langley, 2008; Hall, 2012).

Another equally important mode of regulation entails the investment and corporate governance behaviour of institutional investors. As institutional investors began to manage increasingly large pools of capital starting in the 1980s, Aglietta (1998b:79) described them as “the most important mediators in the new growth regime.” Three decades later, collectively they became the largest shareholders in the majority of US corporations, directly owning approximately 60% of the US corporate equities market and exerting immense control over national economic activities. By
deciding which companies to retain in their investment portfolios and from which companies to disinvest, they effectively establish short-term and long-term priorities for the US corporate sector, which has broad ripple effects on the state of the economy, society, and environment. Given the central role played by institutional investors in the finance-dominated growth regime as mediators of economic activity, more research examining their decision-making processes, influence on corporate governance, and investment behaviour is needed.

Last but not least, it would be equally important to examine the role played by central banks, such as the Federal Reserve, in trying to address the crisis tendencies endemic to finance-dominated regimes. Even though the 2008 crisis showcased some of these contradictions, it was not catastrophic for the US capitalist class as a whole due to massive government bailouts, while the response to the COVID-19 recession has been to deploy even more effective and extravagant corporate stimulus measures. One promising régulationist research avenue would be to examine how the US government uses the monetary authority of the Federal Reserve to “stabilize” the economy in times of crises through expansionary monetary policies such as quantitative easing. Hillier (2022) addresses this exact question by analyzing the unconventional monetary policy tools adopted by the Federal Reserve following the 2008 crisis, involving lending operations, large-scale asset purchase programmes, negative interest rate policy, and forward guidance. Hillier goes on to suggest that the nature of these economic interventions highlight that the Federal Reserve finally acknowledges the dysfunctional character of modern finance, illustrating that the days of Central Bank Independence might be over.

In addition to domestic modes of regulation, in response to the 2008 financial crisis, policymakers have been advocating for the global implementation of macro-prudential regulatory frameworks, which are based on a new ontology for managing systemic risk grounded in the science of complex adaptive systems. In the decade following the global financial crisis, the underlying concepts pertaining to the management of complex ecosystems, such as tipping points, networks, contagion, interdependency, have been increasingly adopted by the leading central banks and the Bank for International Settlements (BIS) in the form of macroprudential policies. Therefore, it could be worthwhile to investigate how viewing finance and the global financial crisis through the lens of complex adaptive systems represents a particular regulation “fix” that accepts that finance-dominated capitalism is inherently crisis-prone and fragile, while also aiming to develop a technical intervention to the structure of the global financial architecture in order to reduce both the likelihood and the impact of financial contagions.
References


