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By

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Even if Bernie Sanders — or any other democratic socialist — had an electoral majority for our political revolution, we would have to contend with the power of capital. Investment strikes, capital flight, and the power of finance could turn the euphoria of victory into a disaster unless we have a plan to confront them.

A year from now, we might finally have a democratic socialist president.

Bernie Sanders's inauguration would be the product of a hard campaign and years of organizing. But even if he had a majority for his program in Congress, and millions ready to organize on shop floors and in the streets to pursue it, capital will be ready to turn our euphoria into a nightmare.

Our enemies stand a very good chance of smashing the entire Sanders agenda to pieces in a matter of months, relegating it to a large catalog of other failed socialist experiments. It doesn't have to be this way — but we need to take stock of the power that may soon be brought to bear against us.

Socialists in office walk a road to success covered in pitfalls and barriers. There are institutional dilemmas, like the parliamentary constraints they will face, which are all the deadlier with a minority of seats. There are organizational dilemmas, such as the possible bureaucratization of left parties and co-optation of socialist leaders through what Robert Michels termed the "iron law of oligarchy." There are also electoral dilemmas. Working-class politicians need to appeal to a wide swath of the electorate and develop cross-class alliances in ways that will most certainly change their platform.

Let's imagine, for a moment, that all of these are overcome by Sanders with a loyal Congress, a will to stay the course, and a large electoral majority pushing the government to realize its mandate. Even so, Sanders would face a deeper threat to his program through the quiet and seemingly apolitical flows of financial assets in capital markets.

The financialization of the American economy over the last several decades — and with it the partial transformation of capital's fixed assets — poses the biggest threat to a left governing coalition. Any democratic socialist needs a plan to render the power of high finance less deadly. The best chance for implementing even the modest program that Sanders is advocating is to subject flows of capital to democratic control to weaken financial markets' ability to hamstring the project with a recession.

How Ruling Classes Respond

Historically, socialist politicians aiming to radically redistribute wealth and democratize the economy have found themselves skewered on the twin horns of capital. Even when their parties are weak, capitalists retain the upper hand in formal policy-making. Their lobbying capacity, organizational connections, and experience in the political arena confer upon them political power even when they are technically outside the state's formal governing positions. But, more important, capital exerts enormous indirect pressure through the role played by businesses in the accumulation and distribution of goods, services, work, and credit.

When socialist Salvador Allende democratically assumed power in Chile in 1970, his Popular Unity coalition began implementing a redistributive social program that included the nationalization of copper mining, which was dominated by US investors, the nationalization of banking, and land reform. The short-term results were positive, but the government was soon beset by several economic crises. A slide in the price of copper in 1971, which the country financially depended on as its main export, dealt a blow to the program. Then, in 1972 and 1973, with the economy already ailing, nearly 250,000 truck drivers, taxi drivers, and small shop owners (with the support of Washington) repeatedly shut down their operations to make the "Chilean Path to Socialism" even harder to traverse. The economic decisions of these forces were profoundly political, undermining the coalition's legitimacy and opening the door to a bloody military coup in 1973.

But Chile's petty-bourgeois capital strikes and US imperial entanglements were of a very different sort than the ones experienced by François Mitterrand's socialist government in France less than a decade later. In 1981, similarly, the newly elected government began to implement a radical program in the context of a preexisting economic downturn. They nationalized parts of France's uncompetitive industrial sector (where many of the firms were already in the red), changed banking practices, made massive state investments, widened union rights, and increased wages. They took over thirty-eight banks in total. Two of them, Compagnie Financière de Suez and Compagnie Financière de Paris et des Pays-Bas, were major financial institutions with large holdings in industry.

Capital’s reaction was less bloody in France than it was in Chile, but it was crippling nonetheless. When Allende was elected, Chile had been building up its economy on a model of import substitution industrialization for decades. Because of years of high tariffs and exchange controls, compared to France, the country had far less foreign direct investment and a more domestically situated capitalist class.

France’s economy was far more internationalized and its population heavily dependent on imports. And so, even before the socialists began their program, instead of being met with the violence of a coup, they were subject not only to an investment slowdown, as occurred in Chile, but — even more important — unrelenting capital flight out of the country. Ten days before Mitterrand himself was inaugurated on May 21, the Paris stock exchange had to be closed because there were only sellers and no buyers. Billions of dollars of financial assets were moved out of France by their holders, and intense speculation against the franc by international financial markets drove down its value.

The government installed capital controls and spent more, as countermeasures, but ultimately to no avail. The election of a socialist government caused a downturn in the stock market, with investors rapidly exiting the country. Ultimately, a series of severe currency devaluations forced the government to turn from socialism to austerity, pursuing massive public spending cuts and tax increases. The dilemma was simple — stay the course and risk an even deeper recession, or submit to the discipline of international capital markets.

Had the Mitterrand administration stuck to its socialist program, it would have had to face down international financial markets by leaving the European Monetary System and embrace a protectionist model of growth. Such a strategy could only have been successful with a majority fully behind the program, willing to suffer through a transition period of severe economic difficulties as domestic sources of livelihood were built up to fill the gap left by the loss of imports.

As the Chilean and French cases suggest, capitalist constraints on socialist governments don’t exist in the same way in all places. International investors were able to flee from France’s socialist experiment, whereas a more domestic capitalist class in Chile stayed and fought. And both countries were beset by international constraints largely beyond their control that weakened their ability to install democratic socialism: copper price fluctuations in Chile and monetary devaluation in France.

The threats from business that Bernie Sanders could face are contextual, determined by the peculiar characteristics of US capitalism in the 2020s and its role in global capitalism. And today, financialization has fundamentally transformed modern American business power.

Financial speculation and debt are far more important than they have ever been, in advanced and developing capitalist societies alike. Firms that once made their profits from selling products have turned to their financial portfolios for new income. And banks, which once earned most of their profits from lending, are key drivers in speculative financial markets. Even ordinary working-class people, far removed from Wall Street, find themselves saddled with debt and dependent on financial markets for security.

These changes are hardly just economic; they have altered the political terrain of the American state. Financialization has transformed the nature of the wealth held by capital, and therefore the weapons it deploys in political battle. Social dependence on credit and financial markets is what affords finance such incredible political power in the United States today to undermine demands to democratize the economy.

The Asset Paradox

Historically, we need not only look at efforts to establish democratic socialism. Ruling classes have been hostile to the establishment of all forms of democracy. But their reactions are patterned by the kinds of assets they hold.

When the ruling class holds assets that are primarily fixed in a political territory, they are more likely to stay and fight against democracy. When their assets are more geographically mobile, they fight less directly against these efforts precisely because they will be able to avoid the democratic will of the people simply by moving elsewhere. This is the paradox: ruling classes are less violently reactionary against democracy when their assets are mobile, but they are nonetheless more powerful within democracies precisely because of that mobility. The United States today is characterized by this situation.

Where elites have held most of their wealth in fixed assets, like land or people, their reactions to democratic movements have been bloodiest. As Elisabeth Jean Wood recounts in *Forging Democracy from Below*, during the transition to democracy in South Africa, the strongest opposition came from Afrikaner farmers with assets fixed in the land. English-speaking elites in the financial and industrial sectors were more easily able to move their capital elsewhere in the event that a new government tried to tax it on behalf of the people — which is precisely what they did when Nelson Mandela came to power in 1994.

We find this asset-patterned response to democratic expropriation threats repeated elsewhere.

In the antebellum United States, elite Southern resistance to abolishing slavery, an asset fixed in the human body, ignited a massive war. The Reconstruction Acts of 1867 promised to undermine Southern agricultural landlords by forcing a ratification of the Fourteenth Amendment and guaranteeing black people the right to vote. Yet the withdrawal of federal troops in the 1870s led to a hard reversal in which black Americans, now largely subject to relations of debt peonage, were excluded from politics through violence, fraud, and legal barriers such as literacy tests and poll taxes.

Just days after taking power in Russia, the Bolsheviks passed a handful of decrees, one of which asserted that “the landowners’ right of ownership over the soil is abolished forthwith, without compensation.” Estates of landlords and land held by the church — as well as the assets held on that land, such as livestock and equipment — were transformed into the collective property of the peasantry.

Land is not a mobile asset, so the powerful must resort to violence when the expropriators come knocking. Either that or lose it all. In Russia, landlords and the former landed nobility threw their financial support behind the White Army, unleashing terror on the revolutionary government and their supporters. The civil war lasted until 1923.

When movements for political democracy have grown in societies in which the elite held most of their wealth in more liquid manufacturing and commercial capital, democracy has been established with less violence. Although it was the outcome of class struggle and workers' organization, the transition to democracy in the Nordic countries was relatively peaceful.

This matters for democracy because, as elites hold more and more geographically mobile wealth, it becomes more difficult to tax — and, in turn, makes elites less resistant to expanded democratic rights. You can't tax what you can't get your hands on. In the United States today, wealth is increasingly slippery.

Even though elites in advanced capitalist countries now use the club and gun less to enforce their political will, they are nonetheless more powerful. As Mitterrand found out, in our modern political economy, financialization affords capitalists a host of tools to wage a quiet, deadly counterrevolution.

Finance Capital's Moment in the Sun

At the core of finance capitalism is the growth of the sphere of circulation relative to the sphere of production as a center of profit-making. In the United States, as well as in other rich capitalist countries, public debt, credit, and stock market capitalization of listed domestic companies have all seen an incredible boom since the 1970s. Even if situated in a global economic ecology that depends on labor-intensive manufacturing in the Global South and non-urban centers of the core, and cheap labor in the service economy, circulation and management of money and other financial assets have become key modes of value extraction in many advanced capitalist economies.

Finance, insurance, and real estate sectors accounted for 15 percent of GDP in 1960 and nearly 25 percent by the early 2000s. As Cédric Durand demonstrates in *Fictitious Capital*, the upshot is that, increasingly, ruling-class wealth is tied to four forms of financial profit: (1) Creditors collect more profit from debts on the loans they give. In the United States, the proportion of debt to income lurched from 14 percent in 1983 to 61 percent in 2008. (2) Shareholders collect income from the stocks they own in the form of quarterly dividends. Simply having wealth makes wealth. (3) Speculators make money on capital gains when they sell investments. And (4) large financial institutions charge hefty fees to manage pools of financial assets for clients.

Banks themselves have turned to open markets as both a source of trading profit and for profit on fees and commissions on their investment accounts. In the postwar period, investment and commercial banks traded very few stocks on their own accounts. Since the 1980s, proprietary trading, a bank directly playing the stock market rather than managing someone else's money on it, became a critical source of earnings for investment banks and a growing number of commercial banks who bet their own capital on future market moves. Though it has been reduced significantly since the 2007–8 crisis, US regulators appointed by Trump have eased the constraints on banks and seem poised to continue doing so.

The macroeconomic result of these transformations has been significantly more market instability. Volatility in asset prices and the accumulation of debt has heightened systemic risk for another full-blown financial crisis. That risk is of direct concern to socialists in power, because financial crisis can be caused by a political event as investors run to flee democratic expropriation in much the same way as it can be driven by investors dumping toxic mortgage-backed securities.

Consider the longer-term historical causes of the 2007 housing crisis. The rollback of public housing contributed to the housing debts among workers that precipitated the downturn, sinking capitalism itself into a global slump. This volatility isn't solely the result of housing practices, though. The financialization of workers' health, education, insurance, and pensions all contribute to market volatility and financial crises. Short-term investment trends in vehicles like 401(k)s, for instance, greatly increase macroeconomic instability in financialized economies as money managers rapidly chase risk for reward, despite its social cost.

The reason why financialization increases the risk for crisis is quite simple. Financial markets operate quite differently than markets for goods and services. Rising prices in markets for goods and services tend to lower demand, while falling prices increase it. But because of the peculiarly speculative logic of financial markets, when prices go up, so too does demand. That demand falls with price makes the burst of an asset bubble all the more sudden. When considered the cornerstone of a development model, financialization is a heavy bag of fool's gold that can sink an entire economy and devastate a political project. When capitalists and money managers decide where to invest, a socialist government coming to power is often a signal to "sell, sell, sell!"

With respect to the asset paradox, financialization has transformed the nature of wealth — and not only the wealth of capitalists, but also that of middle-income workers. Although housing remains the largest source of wealth for most people, and nothing is more fixed to a place than a house, the composition of wealth has undergone a significant shift over the last three decades.

Using data from the Federal Reserve's Distributional Financial Accounts, in 1989, the top 1 percent of wealth holders held most of their assets in private businesses, with a smaller portion in financial assets, such as corporate equities and mutual funds. Middle- and lower-wealth workers, by contrast, held most of their assets in real estate and pension entitlements.

Much has changed in just thirty years. In 2019, the top 1 percent of wealth holders have most of their wealth not in private businesses but in corporate equities and mutual funds — liquid financial assets. Similarly, an increasing share of workers' income is held in pension entitlements.

The counterintuitive twist is that, as they are currently managed, worker-owned capital is just as likely to flee a socialist government as capital held directly by the rich. Pension fund portfolios themselves are more and more invested in equities and other liquid assets. Retirement funds, even if technically owned by workers, are controlled by fiduciaries and asset managers that invest them in ways that prioritize returns above all else.

In the event that a socialist government came into power and threatened to nationalize industries, democratize the economy, and redistribute wealth — all undermining profits — the first thing the capitalist class would do with their wealth is move it somewhere more profitable, where it wouldn't be as heavily taxed and would stand a better chance of making higher returns. Managers who look after the pools of assets owned by workers will follow those very same market signals.

Keystroke Renegades

Given these structural changes, how might capital respond to a democratic socialist agenda? Business is well equipped for direct combat in politics. Economic inequality, in part driven by the smashing of unions, tax cuts, and changes in corporate governance that have favored major CEO bonuses and payouts over investment in workers, leads to more disposable income for capitalists and their organizations to use to get their way. They spend this actively pressuring the state — there were approximately 12,000 registered lobbyists in DC in 2018. In the United States, the financial sector itself is highly involved in politics. With organizations like the Financial Services Forum led by a set of elite Wall Street CEOs, the sector is regularly consulted on policy. Theirs is an active campaign of influence, not a mere passive advisory role. During the 2017–18 election cycle, financial groups spent $719 million in politics, allocating 60 percent to Republicans and 40 percent to Democrats.

Their direct influence is not merely material. Through their close relationship with policymakers and the promise that many of the elected officials who regulate the sector get positions in it when they leave, they directly deploy their expertise to set the terms of their own regulation. Governing socialists would be the target of an active assault of this sort on their program. But this kind of threat isn't even the most dangerous one we would face.

The quiet disinvestment constraints imposed by capital on policy-making are tightened by the gradual sophistication and swelling of financial markets. Finance itself lays down a series of interconnected traps that, when triggered, are set off in ripple effects. They strike silently but are even more deadly than the sword, because they break the will of policymakers and the people alike to stay the course.

Without capital controls on financial flows, and with plenty of opportunities to invest elsewhere, capital flight would put downward pressure on the country's assets, drive it into a recession, and dry up available credit. All that would be necessary for a recession would be for money managers to disinvest their client's funds in the United States and for creditors to stop offering cheap debt to US consumers.

This is of fundamental importance in a place like the United States, where Wall Street serves as a major hub for the intermediation of financial flows and provisioning of financial services to the global capitalist class. Because financial activities and services have enlarged as a share of GDP, the threat of disinvestment — whether done simply by following market signals or through coordinated political action — weighs on the minds of policymakers who don't want to trigger a recession.

Capital flight is politically powerful because of its ramifications for democratic socialism's very base of support: workers. Working-class communities are directly entwined in these capital markets — finance is not simply something that concerns elites. Finance matters to "Main Street" in three crucial ways. First, the stock values of the corporations they work for directly bear on the interest rates those firms pay on the loans they use to finance themselves. Even though non-financial firms are net creditors, stock sales and loans play a crucial role in business. If their stock plummets because of investors selling off their shares, they would have less access to capital to fund their operations (both because selling new shares would be at a lower cost and because loans would come at a higher cost). Workers would be the first fired to cut costs within the firm. Second, outside of home equity, nearly all the savings of middle-income workers are bound up in pension funds and 401(k) retirement accounts whose assets are directly answerable to financial markets. If financial markets go into a downturn because of disinvestment, workers will lose large swaths of their savings. Third, and critically, low interest rates and cheap lines of credit, alongside stagnating wages and job precarity, have been the core driver of the debt crisis that working-class families in the United States are yoked to. But America's consumption-led growth model since the 1980s has directly depended on that yoke. Cutting off access to that cheap credit for American workers would directly undermine the United States' growth strategy.

This is in part why, since the 1980s, the Federal Reserve has progressively lowered interest rates and propped up stock prices, from the "Greenspan put" in the 1990s to quantitative easing after the 2008 crisis. Policymakers have long understood that an upward trend in the stock market and borrowing is core to finance capitalism.

Economic growth itself has become entangled with finance. Without debt and a stock market that protects worker savings in addition to the wealth of the ruling class, a contraction in demand would lead to a crisis: the state would lose tax revenue, it would be unable to implement its program, and voters would revolt. Disinvestment threatens the democratic-socialist experiment by turning its very supporters and potential beneficiaries against it.

How We Win

America is uniquely empowered to chart its own course. Its weak ties to international creditors, ability to spend more abroad than it earns, and financial institutions that earn the bulk of their profits domestically afford policymakers some tools to outmaneuver flight in capital markets. The key is subjecting its massive financial institutions to public control.

Financialization is a double-edged sword for its power centers. Though it increases the exit threat of financial institutions and other liquid assets held by capitalists, as well as the ruling-class-managed assets of workers, states at the center of the global financial regime can shape the exit options of finance. Finance depends on those states to enforce the rules from which it profits. The American state is singularly powerful in this regard. If it is finance's day in the sun, it is flying awfully close.

Most countries are desperate to maintain or achieve good standing in the global financial system. Global financial markets create profound interdependencies. The centers of finance, like the United States and Britain, draw the liquid assets from other countries into their orbits, exposing them to the events that throw chaos into financial markets elsewhere — subjecting them to crises largely beyond their control. Allende had the misfortune of confronting a bust in copper prices. An economic crisis might play the part of a black swan, stripping a government of assets and an economy of jobs.

Yet the United States does have something of an advantage in the global financial system, since it was constructed largely in that state's interest and to give America severe leverage over others. First, the United States, like other rich capitalist countries, is not bound by tight relationships with external creditors in the same way developing countries historically have been with agencies such as the International Monetary Fund. There is no international body threatening the United States, as the United States has done and is doing with so many, if we decide to pursue another economic model.

Second, and even more crucially, even though the dollar operates in a regime of floating exchange rates, it functions as the world's reserve currency, affording the US state significant leverage over what others (who hold significant portions of their assets in dollars) do and what it is itself capable of.

This is fairly complicated, so let's lay out the political significance of using US dollars as the world currency as clearly as possible. Consider the basic problem of international trade — how do two countries that use different currencies buy and sell goods to one another? One solution is to use a third form of money that those currencies can be fixed to, which is precisely the role that gold played in the Bretton Woods system. Whatever it is, states need to exchange in a currency that is internationally acceptable.

Since 1971, the dollar — not gold — has played the role of that acceptable currency. This means that countries have to earn or borrow dollars before they buy things on the international market. The shift to the dollar–Wall Street regime was, as the late Peter Gowan showed in *The Global Gamble*, a "bid for world dominance." At the same time that Allende was beginning his reforms, Richard Nixon in the United States made the decision to cut the tie between the dollar and gold. Because of America's sheer size and global political dominance, the dollar became the global standard. Now the American state could indirectly push other countries around through its own policy for the dollar.

Most foreign-held public debt in rich countries is held in US Treasury bonds. For other rich countries, if foreign asset holders sold off their debt, it could trigger a depreciation of their currency, increasing the cost of goods that are held in other currencies and sending their economy into a recession. The United States is partially shielded from this process because both its foreign debt and its imports are held in the dollar. And Washington doesn't need to earn dollars in international markets — it can simply print them. The result is that the United States does not have the same constraints as other countries. Uniquely, it can spend more abroad than it earns abroad.

Wall Street has been built up to smash down the walls set up around the financial systems of other countries. The power of the dollar allows the Federal Reserve to directly control international interest rates, which it does simply by adjusting its own — and its flows of credit have been the principal way of undermining democracy elsewhere to reshape economies in its own interest. But that same power affords it significant capacity to adopt a more just approach to growth.

Third, American banks and other financial actors largely depend on the domestic market for their profits. By contrast, for example, British banks make more of their profits outside of the United Kingdom. When it was bailed out in 2008, HSBC made almost 80 percent of its profits in foreign markets. As a British institution that pays salaries in the UK and contributes to domestic growth, HSBC would simply need to move its headquarters if the threat of taxation was too high. Compare this to Wells Fargo in the United States, which makes almost all of its profit domestically. This dynamic affords the American state significant leverage over its financial institutions.

Though the state is dependent on liquidity generated by financial institutions, it also plays the role of protector as the lender of last resort. The relationship between the US state and finance is reciprocal, as we saw so dramatically with the bailouts.

So how does a political revolution avoid the silent constraints imposed by a liquid-asset-holding ruling class? It requires using the leverage of the state to nationalize the financial sector and control the flow of credit.

The public control of American banks under a democratic-socialist government could both reverse the ill effects of financialization and weaken the capacity of disinvestment to fell the government. First, public banking could begin to do away with predatory lending and speculative investing on exotic financial derivatives. By avoiding the toxic assets and casino-style speculation that spur on instability, a public banking sector might instead engage in socially responsible investment with longer time horizons, generating a new form of patient social capital. Public loans, in addition to basic redistribution and direct spending, would be key. When wealth assets are liquid, socialist governments need to control financial allocation where they can and make up for capital flight with new investments like the ones proposed in the Green New Deal.

Speculative investment remains a crucial source of revenue for private banks. Nationalization could help elevate “boring banking” by pushing dominant financial institutions back into basic investments and loans that benefit workers. And their outsize role in financial markets would allow the public institutions to impose pricing and trading-volume constraints and offer similar services at lower costs in such a way that would promote a “race to the top” by the remaining private financial institutions.

The historical remedy to capital moves is capital controls, and they would be crucial in the tool kit of any viable democratic socialist government. Governments should impose controls on both outward and inward flows of capital to minimize the chance of destabilizing investor reactions and predation. But only by challenging the property rights of financiers over their institutions and subjecting them to democratic deliberation would the exit capacity be reversed and the power of financial institutions harnessed for the public good. A Sanders government won’t avoid finance’s counterassault by breaking up the banks — the best chance is to push for public control of them.

Public investment might counter the flight that slips through the cracks, and the elevated stature of the dollar globally might shield an American socialist government from currency depreciation, for at least some time. In an age of liquid wealth, the only viable option for leftist governments, though it is by no means a guarantee, is radically disrupting and transforming the entanglements between finance capital and ordinary people in the economy and abroad. Only a break with the for-profit model of investing and a sharp turn toward allocation of credit for public purposes can provide socialist governments the space to implement their program.

Weakening capital, far more than simply hurting its profit interests, helps to solve the asset paradox that bedevils socialists in rich capitalist democracies. Ironically, the same exceptionalism that has made it so difficult to organize in the United States for so long may give us the capacity to overcome the resistance of capital.

About the Author

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