The Wisdom of Property and the Politics of the Middle Classes

by Jan Toporowski topics: Economic Theory , Political Economy

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At the end of the twentieth century, while financial economists satisfied their intellectual pretensions to useful knowledge by conjuring up visions of a world peopled with materialistic consumer-investors optimizing rationally in accordance with their willingness to hazard their wealth, the propertied classes themselves were succumbing to new delusions fostered by the financial markets. The reasoned response of propertied individuals to their experience of the world of speculative finance has created a new political culture with important consequences for the political economy of capitalism.

The propertied classes of the past were a combination of landowners and rentiers, that is, owners of financial securities. The former were oppressed in most progressive countries by death duties and were made even more insecure by the declining real value of rents, that is, the value of rents in relation to the rising cost of maintaining the style and accommodation appropriate to a landowner. In their turn, rentiers were made insecure by the financial crises and inflation that punctuated the progress of finance from the latter half of the nineteenth century, culminating in the 1929 Crash.

From the 1970s, the growing prosperity of the middle classes in the “financially advanced” countries, such as the United States and Britain, was associated with a switch in their asset holdings, from modest holdings of residential property and direct ownership of stocks and shares, to residential property that was increasing in value, and indirect ownership of stocks and shares in the form of funded pension entitlements and insurance policies. In the early 1960s, the majority of stocks and shares in both countries were owned by wealthy private individuals. A decade later, the majority of stocks and shares were owned by pension funds and insurance companies. This does not mean that such funds were not active before the 1960s. They were, but had only a limited market because their use-value was just that they provided pensions and insurance. After the financial crises of the early 1970s, financial inflation gave such intermediary funds a new use-value: that of financial enrichment.

Pension funds and insurance policies are relatively illiquid, and the cash flow that they provide is restricted to circumstances provided for in the terms of the policies: pensions in retirement, or payments defined by the terms of an insurance policy. However, the long boom in the housing market, with its growing liquidity, allowed additional borrowing against capital gains in that market. Financial inflation and the conversion of capital gains into income change the way in which capitalism is experienced by those living in that system. That changed experience in turn alters the culture, preoccupations, and hierarchy within the propertied classes in the following ways:

1. Humanity as an appendage of asset markets. As a consequence of labor market deregulation, income from employment has become more volatile and uncertain in the United States and the United Kingdom. Those who own property come to be dependent upon capital gains from asset inflation to maintain standards of consumption (see 4., below) and secure a future in which employment income has become more precarious. The prospects for inflation in asset markets take over a dominant part in the rational economic expectations of individuals with property, just as the prospects of acquiring property with the potential for appreciation in value comes to be the focus of the economic ambitions of those without property. Professional or career advancement takes a secondary place to the search for capital gains. In this climate the bureaucracies of the welfare state are balkanized, so that public sector assets can be turned over in asset markets to realize capital gains and replace tax revenues in defraying the cost of public administration (see 4. and 6., below).

In the private sector itself, a new source of alienation emerges as production comes to be incidental to the much more lucrative business of balance-sheet restructuring. Vastly more capital can be turned over even more rapidly in the markets for property or financial assets, while the pedestrian business of production is limited by techniques of production and the relative difficulty with which such techniques may be modified. The value of any labor or effort becomes inconstant since, at any one time, it depends on an ephemeral conjuncture in the financial markets. A productive worker producing a value in excess of his or her wage, may still be negligible if the balance sheet on which he or she might appear as an asset may be sold for even more profit in the financial markets. The residual pride of the producer in the product or service in which her or his labor is embodied, a labor already fragmented by specialization and capitalistic machine production, now becomes even more a melancholic nostalgia for medieval craftsmanship than a realistic attitude to work or professional ambition. The common factor in our humanity at work or at home comes to be our preoccupation with asset values.

This new community emerges as politics, culture, and history, the other sources of our common humanity, come to be private consumption choices or leisure activities, like the preferred television channels that "private individuals" watch, or tracks that they download onto their MP3 players, or collective consumption choices, like sports events or concerts, or the imagined history that people choose when they seek to ennoble their lifestyle by attaching their consumption choices to a particular tradition. These sad attempts to find relief from alienated labor or to realize a common humanity are doomed to eventual frustration precisely because they are private choices in a society whose members' only common preoccupations are debt and the opportunities for easing it with asset inflation. In this way, humanity is reduced to an appendage of asset markets; as under industrial capitalism, we were reduced to appendages of machines; as previously, under the absolutist state, we were appendages, once, twice, or so many times removed, according to our place in the social hierarchy, of the throne; or as, even earlier, in the medieval theocracies, the altar gave us our community. Our dependence on banking and financial markets defines our common humanity, as did our earlier dependence on the throne or the altar.

This social dependence is reinforced by the prior claims that debt has on everyone's income and wealth. Businesses and business individuals may go out of business, bankrupt themselves, in order to avoid their creditors. But, for the reasoning individual with a nonfinancial life, such balance sheet restructuring disrupts the pursuit of personal, family, or professional advancement through which we find satisfaction and respect in our communities. As long as asset markets are rising, debt is easily managed and we can all, with the exception of the asset-poor, proceed with satisfying our personal or social ambitions. When asset markets fall, human advancement is set aside in the effort to reduce debts, in the same way that the feudal peasant left his land and family in order to work on the land of his lord. In a society bound by property contracts, the road to serfdom goes through finance.

2. The social hegemony of investment bankers. As financial markets inflate, their apparent success contrasts with the lagging performance of underinvested industry. At this stage, far from concentrating resources on industrial renewal, financial innovation concentrates on mobilizing financial resources to sustain rising asset prices: *in an era of finance, finance mostly finances finance*. The concentration of financial resources on purchasing financial assets and the extension of credit for such purposes results in financial inflation. Such inflation establishes the reputation of investment bankers whose decisions and advice are responsible for the concentration of resources on buying financial assets. The resulting financial inflation is then attributed to their superior insight and their knowledge of which assets will enjoy price increases.

Such superior insight is, of course, a delusion, as Keynes showed in his famous analysis of investment behavior. Once investment bankers agree on the assets that are most likely to appreciate in value and summon up the buying power of the investment funds that they advise, those assets inevitably will appreciate. Such appreciation confirms the genius of investment bankers who can lead a sufficiently large pack of fund managers into the purchase of particular assets. But the source of their success lies in their ability to concentrate buying, rather than in any ability to identify objective growth prospects. In asset markets, such prospects are not inherent features of particular assets, but reside solely in the minds of market participants.

A more real accomplishment of a good investment banker is the ability to refinance balance sheets in order to convert notional capital gains into cash flow. Such refinancing is easy while financial markets are being inflated and attracting liquidity. The investment banker can then literally take the credit for turning capital gains into cash, money that the market as a whole is attracting in pursuit of such gains. Obtaining such cash flow is by no means so easy when asset prices fall. This concentration on balance sheet restructuring narrows the worldly experience of bankers and financiers. Nevertheless, the dominance of financing arrangements in household and company affairs makes practitioners in finance increasingly sought-after policy advisers. In this capacity, their *déformation professionnelle* inclines them even more to providing a standard solution of balance sheet restructuring to complex social and economic problems.

3. An enhanced delusion of successful thrift among the middle classes. In any scientific study of economic behavior in market economies, it is necessary to distinguish the experiences or perceptions that people may have, from the market process that gives rise to such experiences or perceptions. Individuals who enjoy the benefits of asset inflation only directly experience the purchase of the financial asset that gives them a claim on a capital gain, as opposed to the money coming into asset markets that allows that gain to be realized. Capital gains are therefore "naturally" attributed to provident and well-calculated asset purchase, perhaps even to some intrinsic characteristic of a given asset, rather than generalized asset inflation. In this way, the propertied classes succumb to a comforting illusion, carefully cultivated by their financial advisers and intermediaries, that their foresight and financial acumen have secured them their gains.

In fact, the situation is quite the reverse. The benefits that the propertied classes obtain from inflated property and financial asset markets are increasingly capital gains on wealth, rather than accumulated savings out of income. As property markets inflate and pension funds mature, it is the propertied classes who dissipate on their own consumption the capital gains that they are able to take out of property and financial asset markets. Such capital gains are in turn the product of the "enforced savings" of the young who are compelled to rent or buy housing accommodation at prices that swallow up most of their income and of lower paid workers who are obliged to subscribe to pension funds. In effect, these gains create a double squeeze on those least likely already to own property, the young and workers at the bottom of the hierarchy.[2] The delusion of thrift at the top that this generates reinforces a growing sense of financial self-reliance and independence from the state welfare system.

4. The emergence of inflated property and financial asset markets as a "welfare state of the middle classes." Inflated asset markets act as a welfare state in that they socialize the financial risks of those owning such assets. Asset markets afford asset owners unconditional access to money through the sale of an asset, typically to another asset owner with spare liquidity. Inflated asset markets allow owners of such assets to cross-insure each other in this way against extraordinary liabilities for health care, holidays, school fees, the purchase of housing, or the repayment of inconvenient debt. Such extraordinary liabilities may be accommodated by taking out of those asset markets money that is being put into them by those acquiring such assets. This has the political consequence of alienating those with property from a state welfare system for which they pay, but from which they derive little benefit. This disconnection lies behind middle-class taxpayers' demands to reduce the cost of that welfare state by concentrating state benefits more narrowly on "those in need." In its turn, such concentration reinforces that middle-class alienation from the state system.

5. The marginalization of those without appreciative wealth. They may be home owners in places where wealthy property owners do not wish to buy housing, or without claims on inflating assets, such as housing in places where wealthy property owners are buying housing. Where property owners transfer capital into the housing market, the increase in house prices obliges the young and migrant workers to live in overcrowded conditions, because housing has become a perquisite of property owners, rather than being available to all. Not having property denies marginalized sections of society the opportunity to operate balance sheets actively; their debt is more likely to finance current consumption, rather than the acquisition of inflatable assets. These are the lower-class counterparts of those among the propertied classes whose possession of inflated assets allows them to consume in excess of their incomes. An unequal distribution of income is thus enhanced by a growing distinction between the "balance sheet" rich, and the "balance sheet" poor.

6. State-administered social welfare as a system for prosecuting the poor. While the official welfare state may provide some minimum income for those without means of support, this is at the cost of taxpayers, predominantly among the middle classes. Such minimum income is increasingly delivered with a degree of institutional bullying and hectoring, designed ostensibly to make welfare claimants more active in securing their financial independence but, in reality, designed to reassure propertied taxpayers that those claimants are being penalized for their improvidence in not having property to support them. It is not, as politicians and economic advisers

repeatedly assert, a question of the claimants' "willingness to work": no one threatens, with removal of their income, the propertied classes themselves—for their improvidence in living on unearned income from property or capital gains on that property. The selective penalization of those without property or income is a natural consequence of a state welfare system that is no longer comprehensive because the middle class is increasingly opting out of it.

7. The delusion of risk-taking. The asset-rich attribute their superior capital income to "risk-taking." This is a delusion because the asset-rich have their financing and income hedged by assets, and a hedged risk is no risk at all, or a purely subjectively perceived risk. The biggest risks are undertaken by the asset-poor because their financing and income are not hedged by assets, and an unhedged risk is a real one. When financial markets are being inflated, the structure of rewards in the different trades and professions is such that those who take the lowest risk, because they hazard other people's money, get the highest rewards, while those who take the highest risks, because they entrust their meager savings to financial intermediaries with the least possibility of hedging the hazarding of those savings by those intermediaries, obtain the lowest rewards.

Financial inflation is therefore no mere temporary departure from equilibrium in a standardized model of capitalism. It changes the character of capitalism and the range of choices that firms, individuals, and households face. An enhanced option to consume without income is bought at the cost of financial instability, industrial decadence, and regressive social values.

Gramsci famously observed that the alliance between workers and intellectuals is an alliance between those who think because they suffer and those who suffer because they think. In an era of finance, the mass of the middle class is sedated and deprived of the need to think by escalating property values. In this constituency of financially advanced capitalism, late twentieth-century conservatism found its social base. The financial crisis that now threatens the security of that middle class provides an opportunity to build a new progressive social consensus.

Notes

1. ↩ J.M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan & Co., 1936), chapter 12.
2. ↩ An implication of the recent zero net saving in the household sectors of the United States and Great Britain is that households forced by debt to consume less than their incomes have their counterparts in households that consume in excess of their incomes.