I. Introduction

Financialisation is the result of the transformation of real accumulation in recent years, which has also led to the transformation of the financial system. Real accumulation witnessed a régime-shift in 1973–4, during the so-called first oil-shock that signalled the end of the long post-WWII boom. This régime-shift was accompanied by a profound institutional and political reaction as a response to the failure of official Keynesianism to deal with the stagflationary crises of the 1970s. The recent wave of financial globalisation started in the mid-1980s, with rising cross-border financial flows among industrial economies and between industrial and developing economies. This has, in turn, promoted financial innovation, such as the introduction of increasingly sophisticated financial assets and the growth of new financial players.

Against this background, the financial sector has been entirely transformed through rapid growth, deregulation, global expansion, introduction of new technology, institutional change and financial innovation. The weight of the financial sector has grown markedly in developed countries in terms of
employment, profits, size of institutions and markets. Finance now penetrates every aspect of society in developed countries, and is becoming increasingly important in the developing world, as Lapavitsas notes in this volume.

However, with the surge in financial flows, came a spate of currency- and financial crises in the late 1980s and 1990s. The importance of the central bank has increased as bubbles and financial crises have become a regular feature of financialised capitalism, particularly since their nature has varied significantly from the turmoil of the mid-70s, due to the transformation of the financial system. Nevertheless, much ambiguity and confusion surrounds the operations of the central bank in the new environment, even as it aims to preserve the interests and social dominance of the capitalist class.

A first response to these trends by economic policymakers was to strengthen the monopoly of the central bank over legal tender. The financial system became even more dependent on using central-bank money as obligatory means of payment for the settlement of debts. At the same time, inflation-targeting and central-bank independence were also adopted. Since the early 1990s, inflation-targeting has become the dominant (‘best practice’) monetary-policy paradigm in several high- and middle-income countries. In addition to countries that follow fully-fledged inflation-targeting policies, several dozen countries have adopted it informally or implicitly, for example, by pursuing ‘inflation-caps’ (maximum desired inflation-rates) in the context of IMF-programmes. Such ‘caps’ are insufficient to define these policy-régimes as inflation-targeting, but they are evidence of a medium-term move towards inflation-targeting.

Moreover, the macroeconomic performance of most OECD-countries improved in terms of inflation, unemployment, output-volatility and interest-rates during the last ten to fifteen years. This is the so-called ‘Great Moderation’, which has been attributed by mainstream-theorists to neoliberal policies. In this context, monetary policy has become even more prominent, further strengthening the tendency towards adopting inflation-targeting.

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1. On how the central banks have strengthened their monopoly of legal tender in the era of financialisation, see Kneeshaw and Van den Bergh 1989.
2. The following countries are fully-fledged inflation-targeters: Australia, Brazil, Canada, Chile, Colombia, Czech Republic, Hungary, Iceland, Israel, Mexico, New Zealand, Norway, Peru, Philippines, Poland, South Africa, Republic of Korea, Sweden, Thailand and the United Kingdom (see Carare and Stone 2003 and Stone and Bhundia 2004).