

S&S Quarterly, Inc.
Guilford Press

Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class by
Dick Bryan; Michael Rafferty
Review by: John Milios
Science & Society, Vol. 71, No. 4 (Oct., 2007), pp. 509-511
Published by: [Guilford Press](#)
Stable URL: <http://www.jstor.org/stable/40404452>
Accessed: 11/06/2014 13:12

Your use of the JSTOR archive indicates your acceptance of the Terms & Conditions of Use, available at
<http://www.jstor.org/page/info/about/policies/terms.jsp>

JSTOR is a not-for-profit service that helps scholars, researchers, and students discover, use, and build upon a wide range of content in a trusted digital archive. We use information technology and tools to increase productivity and facilitate new forms of scholarship. For more information about JSTOR, please contact support@jstor.org.



S&S Quarterly, Inc. and *Guilford Press* are collaborating with JSTOR to digitize, preserve and extend access to *Science & Society*.

<http://www.jstor.org>

Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class, by Dick Bryan and Michael Rafferty. New York: Palgrave-MacMillan, 2006. \$85.00. Pp. viii, 236.

This book is a vitally interesting and innovative approach to finance, focusing on derivatives, whose rapid development since the 1980s transforms, according to the authors, not only the financial system but also the way capitalism works.

Derivatives are often highly complex financial instruments that “derive” their value from some underlying asset. Instead of trading the asset itself, market participants agree to exchange some financial or other value at a future date based on the underlying asset. The payments between the counterparties may or may not correspond to the performance of the underlying asset.

The authors deploy a radical theoretical standpoint, declaring that Marxist theory had a “clear influence” on their analysis (21). However, they reject the common conception in many heterodox and Marxist approaches of a “dichotomy” between the “real economy” and a supposedly merely speculative financial sphere. Their main thesis is that financial markets play a decisive role in the expanded reproduction and accumulation of social capital.

In this theoretical framework, derivatives are conceived as keystones of “capital’s own system of regulation” (1), as “they are transforming the system of calculation under capitalism . . . intensifying the process of competition between capitals, with direct pressure on labor” (8). Furthermore, derivatives enhance capital’s ability to dominate and expand on a global scale: They blend together all possible forms of yield and thus make possible the direct comparison of profitability between different assets or “investments.” “Assets that do not meet profit-making benchmarks must be depreciated, restructured and/or sold” (66). The process of profit-rate equalization is, therefore, accelerated.

Furthermore, the authors claim persuasively that derivatives enhance the effect of finance in the formation of spot prices. As Marx had pointed out (*e.g.*, *Capital* I, ch. 8), to the extent that fixed capital is withdrawn from circulation, its price, which is crucial for the estimation of the profit rate, cannot be directly determined (as it changes with technical innovation and competition). This role is being undertaken to a continuously increasing extent by financial products (equities, derivatives).

The book consists of nine chapters. In Chapter 1 (the Introduction), some of the authors’ main theses are brought forward.

Chapters 2, 3 and 4 constitute the book’s Part I, “Derivatives as Capital.” Chapter 2, “A New Perspective in the Role of Finance,” briefly reviews some issues raised by different approaches to finance and derivatives. Chapter 3, “Derivatives and Derivative Markets,” illustrates the major types of

derivatives and the ways derivative markets work. Through this presentation, derivatives are understood as a financial network or “system” enabling the “commensuration of values across time and space” (66). Chapter 4, “From the Joint Stock Company to Financial Derivatives,” reviews the evolution of the financial sphere since the era of pre-industrial capitalism. In this historical framework, derivatives are considered to “involve a form of capital with ownership of the ‘performance’ of a corporation, but without any ownership of the corporation itself” (69). This means that the claim on future (surplus-) value inherent in any financial product now takes a more abstract form.

Part II of the book, “Derivatives and International Finance,” comprises the three chapters that follow. Chapter 5, “Anchoring the Global Financial System,” briefly presents the different exchange rate regimes, in an effort to support the thesis that in the recent volatile regime of floating rates “derivatives are permitting capital and commodities to flow ‘as if’ there were a single anchor” (106). “They can perform this function because they exist at the intersection of money and commodities” (131–32). Chapter 6, “New, Global, Capitalist Money,” further focuses on the thesis that the system of derivatives functions as global (capitalist) money: “What makes derivatives distinctive as a form of money-as-social-relation is that they are, by their nature, the embodiment of competitive calculation” (143). Chapter 7, “Global Competition,” stresses the intensification, through the system of derivatives, of capitalist competition on the global level, which in the last instance accentuates pressure on labor, to ensure higher profit rates. The authors define competition in accordance with Marx’s theory (see, *e.g.*, *Grundrisse*, Penguin, 1993, 650–51) as “being what capital does” (163). “Competition means that where the rate of profit is low, investment withdraws; where it is high, new investment enters” (168).

Part III, “Debating Derivatives,” deals with the questions of speculation and deregulation/regulation of financial markets. In Chapter 8, “Speculation, Derivatives and Capital Controls,” the authors review the functioning of financial derivatives, to argue that any attempt to control derivative markets, as for example through a Tobin tax, is unable to check the speculative aspects they contain and is also bound to fail, as “they are an important expression of capitalist relations, not a pathological growth” (197). Finally, in Chapter 9, “Derivatives and the Development of Capitalist Relations,” the authors summarize the regulatory functions of derivatives and their role in the expanded reproduction of the capitalist system as a whole. So, they conclude, the issue is not to “free” the “real economy” from the yoke of derivatives. “To confront derivatives is to confront the class nature of capitalism itself” (214).

The book is also important for raising crucial issues in Marxist value and monetary theory.

Marxist theorists often accept notions stemming from heterodox bourgeois approaches, according to which finance mainly arises from profits not finding profitable spheres of investment in the “real economy,” which thus get involved in a casino-like zero-sum game of buying and selling fictitious values. This book clearly and originally shows that such approaches have little to do with Marxist theory. The process of creating financial commodities runs parallel to the creation of credit money, in accordance with the dynamics of the expanded reproduction of social capital.

Bryan and Rafferty show in exemplary fashion how derivatives blend together all forms of financial processes and facilitate the “financialization” of enterprises in the contemporary, “globalized,” international environment of volatile exchange rates. The book is well worth reading and should be widely discussed.

JOHN MILIOS

*Department of Humanities, Social Science and Law
National Technical University at Athens
Zografou Campus
15780 Zografou
Athens, Greece
jmilios@hol.gr*