Beyond Capitalism.
Strategies for a Good Society in the "Era of Financialization"

Spyros Lapatsioras, John Milios and Dimitris Sotiropoulos

1. The Problem

In a recent special report of the *Economist* on financial risk it was argued that "the idea that markets can be left to police themselves turned out to be the world's most expensive mistake."[1] This rather unexpected remark reflects the fundamental inability of mainstream intellectuals to interpret capitalist reality. Contrary to their insights, the world economy turned out to be a much more dangerous place. The recent economic crisis clearly shattered all the mainstream presumptions. However, not only did the latter misinterpret the capitalist reality but they also provided the necessary theoretical bedrock for the organization of the contemporary forms of class power.

Contemporary capitalism seems too far away from the implementation of any version of a good society. We shall define the later as a society of equality where democratic decision making is widely spread out to as many as possible social domains. The main problem today is that the idea of good society is totally absent from the policy discussions, even the heterodox ones. Nevertheless, it can be inscribed again in the menu of policy possibilities only if there is reformation and development of contemporary social movements that will dispute in practice the subsuming of social life under the logic of capitalist profit. To our point of view, such a theoretical and material critique of the neoliberal organization of capitalist power shall have as its theoretical horizon the conception of finance as a public good, questioning the workings of capitalism from the perspective of social needs and democracy.

2. Financialized Capitalism?

The vast majority of heterodox approaches observe dysfunctions and pathologies in contemporary capitalism associating them with the recent unprecedented developments in finance. Regardless of the plethora of relative viewpoints, the usual

[1] Special Report on Financial Risk, *The Economist*, February 13th, 2010, p. 3.

argument rests heavily on two key insights. The first one refers to some putative shortcoming in the workings of contemporary capitalism, usually accounted by recourse to underconsumptionist argumentation of various types. The second one regards this shortcoming either as necessary cause or as effect of financialization with the latter being an economic activity that focuses on the searching for profits in the sphere of financial circulation. That is, heterodox economic and social thinking is marked by a specter of catastrophism that provides the basis for apprehending financialization.[2]

By and large, the term financialization has been introduced to denote "the increasing dominance of financial practices and the fusion of business enterprise with 'financial engineering'" (Ingham, 2008, 169; see also Krippner, 2005). Discussing the relevant literature, Martin (2009, 116-7) discerns a "curious processualism" in it since "something like financial hegemony" is usually equated with "persistent or even precipitous growth" of the financial sphere. Yet there is no general agreement on what the term financialization really means, since it is the nature and role of contemporary financial system that is disputed, especially after the recent financial meltdown and the global economic recession.

Many of the analysis of the above kind appeal to Marx's famous formula of capitalist production: *M-C-M΄*, interpreting it as if "use values become subservient to increasing the money capital originally invested in them" (Streeck, 2009, 1). The formula is taken to be a description of a standard and productive form of capitalism in which the making of profits, the valuation of capital as a process of producing more value, is directly linked to the making of use values. Money and use value need to travel on parallel trajectories, if capitalism is to be "healthy" and capable of delivering employment, social coherence, and stability. As a matter of fact, financialization distorts this "natural" or ideal spirit of capitalism by deepening social inequalities, abolishing the social character of the state, and eventually leading into a deranging economic instability. Phenomena of this sort are thought to be immediate consequences of the newly developed capacity of global finance "to make money out of money, avoiding the old-fashioned and tiresome detour through the production of useful goods and services" (Streeck, 2009, 10). According to this approach, no more is finance tied to the production of use value, nor does it run on a parallel trajectory

[2] The list of the works that belong to this category is limitless. For instance see: Harvey (2010), Jameson (1997), Davidson (2002), Ingham (2008), McMurtry (1999), Fine (2010), Callinicos (2010), LiPuma and Lee (2004).

with the latter. Rather, finance circumvents the accumulation of use values in the search for profits in the sphere of (financial) circulation. Hence, what remains from the above circuit is the new formula *M-M´´* that crops up with the use value being left out, no longer being a mediating factor. The "productive" aspects of capitalism become repressed.

The argumentation above is just a general sketching of a vast literature. To be sure, this kind of reasoning is not new in the field of Political Economy. Keynes and Veblen, just to mention two thinkers, appeal to it. We do not intend here to go through a detailed investigation of their approaches. Keynes thought reasonable that the dominance of financial rentiers induce a fall in both the production of use values and the price of labor so as to protect the value of their portfolios, at the same time engaging in financial speculation so as to obtain short-term advantages vis-à-vis rival rentiers (Sotiropoulos, 2011). Veblen claimed that the capital in financial markets assumes "more or less of a character of intangibility" and he concluded that the extension of financial sphere adds dysfunctionality to the system because "the business interest of the managers demands, not serviceability of the output, nor even vendibility of the output, but an advantageous discrepancy in the price of the capital which they manage" (Veblen, 1997, 60). Both thinkers see the dominance of finance as repressing the production of use value and as imposing upon economic life the formula of making money out of money, namely *M-M´´* that is completely detached from the making of use values. Similar arguments can be found in other classic thinkers of Political Economy (from Adam Smith to Schumpeter). However, this is not the case with Marx.

3. *Marx's theory of fictitious capital*

Undoubtedly, Marx makes use of the formula *M-M´´* in describing the financial sphere yet in a strikingly different context of analysis: the latter is not suggestive of a distortion and of a radical departure from capitalist production. We need here to refer to the concept of *fictitious capital*.

When Marx introduces the circuit of interest bearing capital: *M-[M-C-M´]-M´´* and the role of the money capitalist in the third volume of *Das Kapital* he does not speak of a specific fraction of capital but he analyzes the more concrete form of the *circuit of capital itself*. The circuit of interest-bearing capital cannot be thoroughly grasped without reference to the concept of fictitious capital. Lending money to the functioning capitalist in order to organize the capitalist production, the money capitalist becomes the recipient and a proprietor of a financial security *S* which is a written promise of payment. In this sense, interest-bearing capital is a fictitious capital; that is to say, a financial security priced on the basis of the income it is expected to yield in the future for the person owning it (capitalization in accordance with an interest rate that embodies risk), which of course is part of the surplus value that is going to be produced in the future.

At the same time, this financial security comprises the core-form of ownership over capital, whether it is a question of money or material capital, corresponding in this sense to an "imaginary money wealth" (Marx, 1991, 609). Generally speaking, financial security as an ownership title is a "paper duplicate", either of the ceded money capital in the case of bonds, or of the material capital in the case of shares. Nevertheless the price of security does not emerge either from the value of the money made available or from the value of the "real" material capital it represents, but from capitalization of the expected future income streams. Securities should therefore be conceived of as *sui generis* commodities plotting a course that is their very own (Marx, 1991, 597-8, 607-9).

In other words, as far as there are liquid markets, the property on capital is mobile in character. But the key issue is that *its price is linked to future events*. The value of a security – the value of capital – does not follow but precedes the production process. It exists not because the surplus value has been produced and realized in corresponding markets but because financial markets are in some degree confident on this production and realization. It is based on estimations regarding future outcomes and accordingly it presupposes a certain conception of risk.

What is actually involved in the financial sphere are the capitalization of future income streams into present security values and the secondary trading of financial securities as a process of continuous present value assessment. Undoubtedly, this introduces the dimension of risk. Since any future outcome is contingent and non-surely known, without an idea of what does risk "look like" it is absolutely impossible for capitalization to take place. In other words, capitalization presupposes a mode of identifying, arranging and ordering certain elements (social events) of the perceived reality which are first distinguished and then objectified as potential risk-events. To paraphrase Luhmann (2003, 37), financial markets represent the future as risk and base the valuation of capital on this representation. In this sense and only in this sense, every capital title is fictitious capital. Hence, *capitalization could be defined as a technology of dealing with risk or alternatively as a social process of normalizing according to risk*.

Marx explicitly pointed out in his analysis that capitalization must be extended to every future income flow, not necessarily stemming from surplus value – for instance, the financing of both state expenditure and private consumer expenditure – reminding us that capitalization does indeed tend to encompass every aspect of daily life. In this line of thought, his argument is not restricted to the analysis of capitalist production but it must be generalized to the functioning of financial markets in general (Martin, 2002; 2007).

Marx introduces the concept of "fictitious capital" and speaks of fetishism, when he gives an account of the social nature of financial markets. He wants to underline the fact that capital assets are reified forms of appearance of the *social relation of capital* and so their valuation constitutes a structural representation of capitalist relations. They are objectified perceptions, which obscure the class nature of capitalist societies and call forth the proper mode of behaviour required for the effective reproduction of capitalist power relations.

It is in this spirit that we articulate our main suggestion: financial markets have an active role to play in the organization of social power relations. The so-called dysfunctionalities that are associated with it rather form unavoidable moments within *a technology of power that shapes and organizes manners of class exploitation*. In other words, capitalization has to do with valuation because of a particular representation on the basis of risk and the way this valuation reinforces and strengthens the implementation of the "laws" of capital.

8. Finance as Public Good: A Strategy for a Good Society

The theoretical sketching that we tried to present above situates the phenomenon of financialization in a whole series of its "positive" effects in the organization of capitalist reality, even if these effects seem marginal at first sight. In this regard, financialization is apprehended as a complex technology of power, the main aspect of which is not income redistribution and economic instability but *the organization of capitalist power relations*. It should be comprehended as a technology of power formed by different institutions, procedures, analyses and reflections, calculations, tactics and embedding patterns that allow for the exercise of this specific, albeit very complex, function that *organizes the efficiency of capitalist power relations through the workings of financial markets*.

In this final section, we are not going to touch heavily upon a complete investigation of an alternative society but we limit our scopes to defining good society in a rather common manner. As already stated in the Introduction, we see good society as a society of equality where democratic decision making is widely spread out to as many as possible social domains. In this case, the mal-distribution of social power and wealth, being responsible for the multiple class, national, sex and gender divisions, no longer exists. Of course, this alternative society is not to be found in the history books. The way we apprehend it does not correspond to any concrete historical example. The connotations of our description are associated with the socialist and communist movements of the twentieth century, approached in a general sense.

Nevertheless, we have to accept that the abovementioned strategic goals experienced a historical defeat. This defeat has many important consequences that never cease to exert their influence on the contemporary capitalism. One of these consequences amounts to a paradox which came into existence right after the crisis of 2008; while socialism (broadly defined) continues to be a timely ideal that provides the horizon for every reference to a good society, it is no more inscribed with social and political valid terms in the current debates regarding the necessary economic and social reforms. In another formulation, the idea of good society no longer seems to be a possible social target.

This paradox is quite evident in the conjuncture after the resounding historical failure of neoliberal ideas and policies that followed the crisis of 2008. The initial wishful expectations according to which the outbreak of the crisis would necessarily lead to widespread changes in the organization and functioning of the financial system have definitely vanished. On the contrary, we see the return of neoliberal policies in a more crude and violent character with regard to their pretensions. One could assert that the current conjuncture is dominated by an attempt to obliterate from common conscience worldwide all the dangerous for the system economic and social demands of the working classes in developed capitalist societies. In this sense, the range of reference of the concept of good society has been dangerously narrowed down.

The power bloc is well aware of the theoretical critiques to neoliberal policies; for instance, the name of Minsky has gained many references even among the officers of central banks. Despite the arguments emphasizing the endogenous propensity of the existing financial system towards volatility and instability, despite the views that criticize the shareholder's domination over the organization of production, contrary to the significant warnings that contemporary capitalism is concussively linked to severe income inequalities both within and among countries, the nature of the economic policies that ensued the crisis of 2008 continued more or less in the same neoliberal orientation.

According to our argument, the main reason for the above insistence is that the general mandrels of the international financial system have set the underpinnings for an effective organization of the power of capital in neoliberal society. From this point of view, the leading social classes have no reason to endanger the replacement of neoliberalism. Because of this key role of the contemporary financial system, every reform proposal that appears to dispute its overall architecture is immediately rejected by the collective capitalists, the capitalist states.

The idea of a good society can be put forward with social and political validity only in so far as social movements proper for the demands of the 21th century are being organized in a way that contests the existing capitalist system.

A proper development of resistance that is immanent in the organization of the domination of capital may introduce frictions in the functioning of the international financial system. In other words, it may disorganize the efficiency of financialization as a technology of power. The resulting contradictions of the unequal distribution of social wealth, of the violent commodification of common or public goods not only health, education and insurance but also basic nutrition, information, intellectual rights, environment et cetera, of the subsumption of the conditions of production, exchange and consumption under the control of the international financial system all set the base for the development of social movements contesting contemporary capitalist power. Without being their explicit target, these movements are able to block the function of financialization, disorganizing to some extent the hegemony of capital.

Here comes therefore a second paradox: Reform proposals which do not seem to focus on the financial system may contribute to a radical negation of its recent form, eroding accordingly the power of capital. Many are the examples in this line of reasoning and acting, of course. Let us mention some of them: the demand for increases in the taxation of capital and high incomes; the demand for financing forms that bypass the control of markets either through the intervention of powerful public negotiators that focus on employment or by means of a radical restructuring of the rules that govern the banking system (recall, for instance Palley's suggestion regarding "Asset-based Reserve Requirements"; see Palley 2004); the demand that addresses, especially after the crisis of 2008, the problem of high public and private debt in ways that do not injure the economic and social rights of the workers referring to the discussions about the renegotiation of these debts in ways that leave room for policies promoting employment and income redistribution to the advantage of the "lower" social classes; the demand to enhance the political and democratic control in decisions regarding the financing of development; the demand for the extension of non-commodity space, the widening of the spheres of production and distribution that are not organized on the basis of valorization of capital but on the base of the satisfaction of needs.

Nevertheless, the idea of good society can be inscribed again in the menu of policy possibilities only if there is reformation and development of contemporary social movements that will dispute in practice the subjection of social life under the logic of capitalist profit. The point today is that social insurance is dependent on the profitability of the insurance funds, education on the privately funded "research programmes" and on student loans, work on the international evaluation of the profitability of the enterprise on the world's stock exchanges and financial markets, food on the smooth functioning of the futures markets, the operations of the municipalities on mutual funds and international securities markets, the environment on pollution rights, the covering of basic social needs on the level of credit card debt.

In present-day conditions the project of de-commodifying needs, that is to say the defense of social organization on the basis of freedom in satisfaction of needs and not the repressive calculus of valorization of capital is urgent.

To our point of view, such a theoretical and material critique of the neoliberal organization of capitalist power shall have as its theoretical horizon the conception of *finance as a public good*, questioning the workings of capitalism from the perspective of *social needs and democracy*. By this paradoxical but well-addressed formulation we suggest that social movements should demand that *finance and money become collective goods*, that is to say, to subordinate the terms of their "production" to the needs and democratic strategies of the working people and not to let these terms follow the unreasonable claims of capital. In other words, we need to start thinking of finance as a public good and import this idea to the social movements in order to promote political actions and choices that restrict the logic of capitalism. It is only then that communism[3] can emerge as a real option …

References

Badiou, A. (2010), *The Communist Hypothesis*, London and New York, Verso

Balibar, E. (1995), *The Philosophy of Marx*, London and New York, Verso

Callinicos, A. (2010), *Bonfire of Illusions*, Cambridge, Polity Press

Davidson, P. (2002), *Financial Markets, Money and the Real World*, Cheltenham and Northampton, Edward Elgar

Douzinas, C. & Zizek, C. (ed), (2010), *The Idea of Communism*, London and New York, Verso.

Fine, B. (2010), Locating Financialisation, *Historical Materialism*, 18, pp. 97-116

Harvey, D. (2010), *The Enigma of Capital and the Crises of Capitalism*., London, Profile Books Ltd

Ingham, G. (2008), *Capitalism*, Cambridge and Malden, Polity Press.

Jameson, F (1997), Culture and Finance Capital, *Critical Inquiry* 24(1), pp. 246-265

Krippner, G. R. (2005), The Financialization of American Economy, *Socio-Economic Review* 3, pp. 173-208

LiPuma, E. & Lee, B. (2004), *Financial Derivatives and the Globalization of Risk*, Durham and London, Duke University Press

Luhmann, N. (2003), *Risk: A Sociological Theory*, New Brunswick and London, Transaction Publishers

Martin, R. (2002), *Financialization of Daily Life*, Philadelphia, Temple University Press

Martin, R. (2007), *An Empire of Indifference. American War and the Financial Logic of Risk Management*, Durham and London, Duke University Press

[3] We have to notice that the regimes of "really existing socialism" were class societies of a particular type (Milios and Sotiropoulos 2009, Ch. 10). Hence, they do not serve as a point of reference in our line of reasoning. On the other hand, there are important contemporary discussions regarding a different perspective of communism (for instance, see Balibar 1995; Badiou 2010; Douzinas and Zizek 2010).

Martin, R. (2009), The Twin Tower of Financialization: Entanglements of Political and Cultural Economies, *The Global South* 3(1), pp. 108-125

Marx, K. (1990), *Capital*, *Volume I*, London, Penguin Books

Marx, K. (1991), *Capital, Volume III*, London, Penguin Classics

McMurtry, J. (1999), *The Cancer Stage of Capitalism*, London, Pluto Press

Merton, R. C. (1994), Influence of Mathematical Models in Finance on Practice: Past, Present and Future. *Philosophical Transactions: Physical Sciences and Engineering* 347(1684), pp. 451-463.

Milios, J. & Sotiropoulos, D. P. (2009), *Rethinking Imperialism: A Study of Capitalist Rule*, New York and Hampshire, Palgrave Macmillan

Palley, I. T. (2004) Asset-based Reserve Requirements: Reasserting Domestic Monetary Control in an Era of Financial Innovation and Instability, *Review of Political Economy* 16(1), pp. 43–58

Sotiropoulos, D. P. (2011), Kalecki's dilemma: Toward a Marxian Political Economy of Neoliberalism, *Rethinking Marxism* 23(1), pp. 100-116

Streeck, W. (2009), Four Books on Capitalism, *Socio-Economic Review* 4(7), pp. 741-754

Veblen, T. (1997), *Absentee Ownership*, New Brunswick (USA) and London (UK), Transaction Publishers