## Chapter 6

**Demystifying Finance:**

**How to understand financialization and think of strategies for a good society**

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### 1. *Introduction*

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 economists 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. This is our main theoretical insight.

Not subscribing to the much-discussed scenario that portrays modern finance as unrealistic, hypertrophic and dysfunctional, that is, a distortion of some ideal capitalism, this chapter clearly differentiates itself from the analysis that argues that the current global financial situation is only about speculation and growing separation of finance from the "real" economy.[2] It sees financialization as a particular technology that is superimposed upon the existing social power relations in the financial markets in order to organize their functioning. To our point of view this is the true essence of the neoliberal version of capitalism. This process is entirely unthinkable in the absence of (financial) derivatives. The

latter are thus not just the "wild beast" of speculation that can add to the instability of the system, but primarily a fundamental prerequisite for the contemporary organization of social power relations. The Marxian conception of fetishism can help us grasp the social content of financialization that relies on financial valuation as result of a particular representation on the basis of risk and the way this valuation reinforces and strengthens the implementation of the "laws" of capital. This reasoning provides the necessary terms to re-think the organization of social resistances.

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. 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. 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. *Debates on financialization: back to Marx's famous formulas*

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 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.[3]

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 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 (i.e. Adam Smith and Schumpeter). However, this is not the case with Marx.

## **3.** ***The concept of fictitious capital in Marx's analysis and his argument about financial markets***

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.

In what follows we shall attempt to further elaborate on these issues. But before that we need to stress two crucial points for a better understanding of Marx's reasoning. First, 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).

Second, surprisingly enough, a great part of Marxist discussions on the third volume of *Capital* fails to pay attention to the fact that Marx uses the term “fetishism” the very few times he quits commenting on other authors’ arguments in an attempt to put forward concepts that allow the apprehension of the nature of finance. We believe that this is not just a moment of literary digression in his analysis of the financial sphere and financial crises; rather, it contains the essential point of Marx’s reasoning. 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 behavior required for the effective reproduction of capitalist power relations. It is in this spirit that we articulate our main suggestion: financial markets might 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 as a result of a particular representation on the basis of risk and the way this valuation reinforces and strengthens the implementation of the “laws” of capital.

**4. *Rethinking finance in reference to the category of risk***

We have already noticed that the process of capitalization presupposes designation of risk, that is, objective identification of certain social events capable of happening as risks. In order to price securities of different types, financial markets indeed become terrains that every market participant acquires a risk profile to serve as a basis for pricing any contingent

claim on them. They are fields within which risk profiles are actually shaped. Financial markets thus normalize on the basis of risk; within them risks are identified and dispersed. Based on this normalization financial markets represent capitalist reality and its future trends.

Risk profile formation means "adaptation to chance," to borrow an expression from Luhmann (2003, 182). Since "in the real world there is no such thing as chance," it is only by this "adaptation" that financial markets are able to assess risk and develop meaningful representations of reality, which now becomes "a fictional reality, reality of the second order" (Luhmann, 2003, 182). In this regard, it seems reasonable to contend that with the aid of a developed financial sphere "the economy is in a position to observe itself from the view-point of risk; that is to say to choose a highly specific form of self-observation" (Luhmann, 2003, 183). This widespread, in our days, process of self-observation is crucial and absolutely necessary for the valuation of financial securities of different types. We need therefore to stress two straightforward analytical consequences. On the one hand, it is obvious that we cannot have financial values at all in the absence of representation strategies of capitalist reality from the viewpoint of risk. On the other hand, normalization on the basis of risk, which is equal to the attribution of risk profiles to different market participants, is the premise without which there cannot be any coherent representation of reality.

We realize that the idea of risk assumes that all the individuals in the financial markets are on the same footing: each person is exposed to risk (see Ewald 1991). To say this is to admit that risk becomes calculable only when it is spread over a market population. Specification of risk accordingly comprises two concurrent moments. While all market participants are exposed to it, the same risk categories (specified concrete risks) do not apply to them. At the same time, even those who face the same concrete risks do not suffer the same possibilities of realization of these risks. Thus, each market participant is distinguished by both the concrete risks they run and the probability of risk to which they are exposed. A

concrete risk is accessible only as far as it is differentially distributed in a market population, because its chance of realization is not the same for each individual associated with it.

This process of risk-profile formation is at the same time interpretable as a process that individualizes. By attributing risk profiles to market participants, financial markets normalize and distinguish these participants from each other and so individualize them on the basis of risk. This is an individuality that no longer correlates with an abstract invariant norm, but quite on the contrary, it is relative to that of other members of the market (see Ewald, 1991, 203; 2002). It seems as a differential regulation of individuality, if we may use the term.

We are thus approaching a crucial moment in our argumentation. Risk is a specific representation of capitalist reality which serves as basis for every valuation in financial markets – there is not capitalization without risk – and at the same time becomes the perceived reality of heterogeneous market participants. This amounts to a particular mode of representation of capitalist reality from the viewpoint of risk that is properly combined by a specific shaping of social behaviors. Or, in other words, risk is the *node* where the quantification of social conflicts meets the organization of social practices.

## 5. *Risk as ideological representation of the future of capitalist reality*

The discussions on the issue of financial markets have been heavily populated by debates concerning the Efficient Market Hypothesis (EMH) and dominated by the problematic of empiricism. In this context, the representation of reality by the financial sphere is analyzed either as a close accurate knowledge of this reality – EMH as codification of mainstream thinking – or as a major imaginative and foggy departure from it which produces misleading signs adding handsomely to the instability of the economic system, this is the Keynesian alternative. In other words, all these analytical disputes contend that there is either a reality efficiently captured by the complex financial assessments or a reality

completely misted by them (for the relevant debates see Shiller 2000; Davidson 2002; Bryan and Rafferty 2006).

The point of tension in the abovementioned disputes is about the status of truth grasped by the observing subjects and so about the effectiveness of the financial representations: Are market participants capable of grasping the essential part of observed reality, properly assessing and quantifying fundamentals, or the latter remain buried in a non-penetrable economic universe? In other words, the contention is about different perspectives on the status of the observing subjects (being dominated by animal spirits or not) and the nature the observed object (being ergodic or not; see Davidson, 2002). The crucial point here is that, in either case, the observing agents are presented as *external* to the observed object and as *independent* from the status of every financial representation. The dispute concerns the ability of the observing agent to grasp capitalist reality and fundamentals.

Associating fetishism with the financial markets, the Marxian argument in the sections of *Capital* mentioned above sets forth a different approach. In Marx's analytical framework the capitalist reality observed by the financial system is efficiently misrepresented. This is a misrepresentation, though, which is proper for the organization of social power relations, since risk becomes the reality of social agents. This argument ensues from Marx's theory of fetishism and renders financial representations an active role in the organization of social power relations.

Marx's argument of fetishism and materialist conception of ideology breaks with the empiricist problematic (Althusser and Balibar, 1997). A social formation is structured by a whole set of power relations perceptible to each agent as a natural property of things (Balibar, 1995, 67). Hence, the observing subject is always already captured within and dominated by the "supra-sensible" but objective forms of appearance of the existing complex of capitalist power relations (Marx, 1990, Ch. 1). The domain of risk is made of representations like these.

"The commodity, like money, to say nothing of capital and its various forms, is preeminently both a representation and, at the same time, an object; it is an object always already given in the form of a representation" (Balibar, 1995, 67).

Likewise, the financial observation from the viewpoint of risk does not reveal a clear or blurred real object, the so-called fundamentals, but on the contrary is itself dominated by the objective misrecognitions that accompany this object. Far less than an action which decomposes them, financial representation comprises a practice of mere reconciliation and arranging of already given images of reality. In this sense, the observing agents from the view point of risk are constituted as parts of the capitalist objectivity alongside observed social relations and in a proper relation to them.

This is how we should read Marx's argument. If capital as social relation "is consummated in the relation of a thing (…) to itself" – and "this is how the production of surplus-value through capital appears" (Marx, 1991, 518), that is to say as a natural property of a thing: namely the financial security – then the reality of capitalism and its already-given financial perceptions from the viewpoint of risk are immediately combined with "the *norm* of behavior they call forth" (Balibar, 1995, 66). Everyday financial calculations and estimations, every new concrete risk added to the list, thus deform and misrepresent capitalist class reality, imposing upon market participants a particular kind of consciousness and a certain specific strategic behavior. In this sense, financial markets might have an active role in the organization of social power relations and their contemporary trend might not be the outcome or cause of some systemic dysfunctionalities related to a particular model of capitalism but rather the context of a new technology of power that shapes and organizes new manners of class exploitation. Let us be more specific.

## 6. *The view of financialization as a technology of power*

Merton, a well known guru of the workings of the derivative markets, has described as follows the new financial developments:

> "With the vast array of financial instruments and quantitative models for estimating exposures to risk, there is now a greater opportunity to eliminate risk exposures of the firm on a more targeted and efficient basis by hedging specific, non-value-enhancing risks. The cost is that the user of hedging techniques must have *a more precise, quantitative assessment* of the firm's business risks than the user of equity capital. In turn, greater need for precision places greater demands on the use and accuracy of mathematical models that measure exposures" (Merton, 1994, 459-460, emphasis added).

Financialization and derivative markets have made possible the thorough scrutiny of capital assets, in this way measuring in a more detailed manner their capacity for profit making. But financialization is not only about intensive quantitative assessment and information gathering. The valuation process carried out by financial derivatives also has important consequences for the organization of capitalist power relations. From our viewpoint, this is the basic message of Marx's reasoning. Financialization has to do with valuation as a result of a particular representation on the basis of risk and the way this valuation reinforces and strengthens implementation of the laws of capital. In a pointed formulation, Martin (2009, 109, emphasis added) stressed that:

> "financialization, a moment in the genealogy of capital, does extend and refine accumulation, but it also elaborates mutual indebtedness as a more general feature of human sociality from labor to lived experience. More than a shift from one axis to another, it is the way that capital speaks its social relations. *Risk becomes not simply a form of calculation, a way of knowing, but also invites a kind of being*".

We believe that this is exactly what is at stake with financialization: a way of perceiving-representing reality from the viewpoint of risk unified by a particular kind of being. We have

already noticed that the process of capitalization presupposes some designation of risk. This designation is a structural part of the representation carried out by the financial sphere. In order to observe the capitalist reality, financial markets presuppose some normalization based on risk: within them concrete risks are dispersed and identified as necessary moments of a particular representation, which emanates from and hammers out the living experience of market participants shaping their strategies.

In this sense, financial markets become the meeting point of two different normalization processes: normalization based on risk intersects with (disciplinary) normalization which is peculiar to different social power relations marking the existence of different market participants. A capitalist firm that goes to the markets to raise funds acquires a risk profile that depends to a significant extend on its ability to pursue effective exploitation strategies in a competitive economic environment. In quite the same manner, a capitalist state acquires a risk profile which captures its ability to organize neoliberal hegemony avoiding "undesirable" from the perspective of the capitalist power class events. The risk profile of a wage earner depends heavily on its docility to the rampant reality of labor relations. It seems reasonable then to argue that the normalization on the basis of risk does not impose disciplinary roles but it tests and reinforces the compliance to them. It specifies different categories of normality, it accounts the multiple deviations from these categories identifying different probable risks, it further estimates the chance of realization of these deviations, and it properly distributes all these risk categories and probabilities to market participants in an effort to watch reality from the viewpoint of risk. Therefore, normalization based on risk does not exclude the multiple social power relations but rather infiltrates them so as to embed itself in them. Normalization on the basis of risk therefore amounts to a specific technology of power imposed upon the market participants for the purposes not only of controlling financial markets but also of organizing the workings of the different social power relations in order to

make their functioning more efficient and well-targeted. Let us take a closer look into the mechanics of this procedure.

If market participants find themselves captured in a world of risk, then risk becomes their reality. Trapped within social practices that individualize them as 'bearers' of a risk profile, they are necessarily constrained to deal with risk through resorting to appropriate risk management attitudes and strategic action. The latter rather comprises two interconnected moments. On the one hand, given one's risk profile, proper insurance or hedging against risk must be implemented. On the other hand, one can improve their position by exploiting risk, that is to say implementing actions that will foster efficiency in achieving particular targets as defined by co-existing social power relations.

Taken together, these two moments provide the outline for a complex technology of power. The latter embraces an ensemble of different social institutions, reflections, analytical discourses and tactics. A general overview of the agents involved in contemporary financial markets might give an idea of what we actually mean. Not only does risk calculation along with the resultant pricing of the various types of securities imply protection over the future (the aspect of hedging) but also, and above all, it implies control over the present (see Martin, 2002, 105; Ewald, 2002). Attaching a risk profile to someone (a capitalist firm, a state, a wage earner, a student et cetera…) means accessing and measuring the efficiency in docilely conforming to roles within a complex world underwritten by power relations. Risk calculation involves systemic evaluation on the part of every market participant of the efficiency in achieving particular targets as defined by the social power relations. At the same time, every market participant becomes caught up in a perpetual effort to improve their risk profile as a competent risk-taker, in this sense closely conforming to what is required by the "laws" of capitalism.

This argumentation retains a clear Foucauldean flavor.[4] Financialization is apprehended as a technology of power of a particular type superimposed upon other power social relations with a view to organize their effectivity. In this sense, it is also a type of governmentality over the power relations that characterize the financial market participants. It has these relations as its target without excluding them. On the contrary: it dovetails into these relations, integrating them, modifying them to some extent, and above all, using them by infiltrating them and embedding itself in them, to use some of Foucaults's (2003) formulations. The presence of this technology of power is linked to a particular form of capitalism: neoliberalism.

**7. *Value form analysis and the dimension of abstract risk***

The implementation of financialization as a form of governmentality in the sense discussed above has one fundamental presupposition that has not been touched so far: the commensurability of different concrete risks. This is where (financial) derivatives finally appear. In the relevant literature it is striking how rare are the analyses that attempt to touch upon the issue of commensurability, with Rescher (1983) and Lee and LiPuma, (2004) are worth being mentioned as remarkable exceptions. In this section we shall argue that financialization is totally unthinkable in the absence of complex risk management practices.

Different risk profiles are structured out of different identified concrete risks. Very different probabilities of realization underlie every concrete risk. To use Foucault's language, we need different categories of normality – that is, different concrete risks as objectified representations – and different probability distributions of these risks. However, if there is no guarantee that all these significantly different types of concrete risk can ever be compared with each other in terms of a common measure, how can the two-abovementioned moments of financialization as a power technology be satisfied?

It is evident that in order to associate the normalization on the basis of risk with the organization of effectivity of social power relations different types of risk need to become singular and mono-dimensional. We can understand this as follows. While every capitalist power relation has a singular target, the deviations from these targets are multiple and heterogeneous. For instance, what is worse for an exporting capitalist enterprise, questioning its capacity to produce profits: a workers' strike or an exchange rate revaluation? What is worse for a capitalist state: public deficits and debt surging due to tax reductions for capital and the rich people or due to financing social benefits? The process of normalization on the basis of risk will not come to singular and coherent representation of a class reality in the absence of commensurability between different concrete risks. In other words, without commensurability of risks financialization will not be able to become a technology of power and thus financialization will not be able to embed itself in the structure of existing social power relations with a view to organizing their efficiently and reinforcing their functioning. Providing more "precise, quantitative assessment" of the different concrete risks, as denoted by Merton (1994) above, derivatives bring about a not-always-stable commensurability chart that unites and compares these risks.

Derivative markets establish an objective measurement for different concrete risks and shape the dimension of abstract risk (LiPuma and Lee, 2004). The heterogeneity of the former is thus reduced to a single level. Concrete risks are rendered commensurable because derivative markets make available a legitimated representation, comparison and measurement of initially qualitatively different risks. Such measurement is crucial for the organization of the financialization process, if the latter is to be conceived of as a technology of power of a particular type. The process of financialization is indeed entirely unthinkable in the absence of derivatives. They are thus not only the "wild beast" of speculation but a fundamental prerequisite for the contemporary organization of social power relations.

Derivatives are called so because they are based on or "derived from" an underlying commodity or asset(s) or abstract performance index. This is the trivial textbook definition. It is, however, more fruitful theoretically to continue to regard derivatives as derived forms for they actually pertain to a bundle – and usually a complex one – of straightforward basic operations in spot markets. They are the condensation of a bundle of straightforward operations in spot markets into a single financial instrument. This is the only way to isolate and package different specific risks. It is also in this sense that financial derivatives are reducible to an appropriate equivalent structure of assets and liabilities. The main theoretical contribution of Black, Scholes and Merton, who laid the groundwork for the development of derivative markets, comes down to this finding: they realized for the first time that options can be priced by finding proper replicating portfolios of other securities that have the same future payoffs. Using the no-free-lunch principle (efficient arbitrage), they calculated the price of the derivative security in question (Steinherr, 2000). This means also that the uninterrupted and unregulated manner of financial transactions is necessary for the pricing of different risks because in the absence of this unfettered character of the markets there would be no replicate portfolios. Hence, thorough representations from the viewpoint of risk demand highly developed financial systems and uninterrupted short and long transactions.

With the unleashing of financial markets, risk management was largely detached from other balance sheet objectives, because derivatives have been transformed into the key instrument for risk management in general. With derivatives – especially with financial derivatives – concrete risks can be singled out, sliced up, traded and transferred to another party without giving up the ownership of the underlying commodity. The fundamental assertion of mainstream financial theory, namely that derivative markets consolidate the commodification of specific-concrete risks, is therefore worth taking seriously into consideration. This rather practical indication brings to mind a whole series of theoretical

speculations on Marx's value-form analysis to be found in the first volume of *Capital*.[5] How can the "commodification of risk" be understood in Marxian categories and what are the consequences for the concept of financialization?

Marx's value form analysis helps us understand that the commensurability of different, contingent, concrete risks presupposes an abstraction, through the functioning of the market itself, from concrete character of these risks and their subsequent modification into singular and therefore quantitatively comparable risks. What is required is a formative perspective on the actual concrete risks that are involved in the constitution of risk profiles. This would make possible the assessment-representation of the concrete and identifiable risks that are to be associated with the latter. The condition for existence and the possibility of the abstraction along with its modalities are provided through the money form. From this point of view, "the distinction between concrete and abstract risk does not imply the existence of two types of risk, but two inescapable dimensions of risk implicated in the construction and circulation of derivatives" (Lee and LiPuma, 2004, 149).

The derivatives markets are, to put it simply, organized in such a way that a net quantity of value emerges along with the isolation and packaging of a known concrete risk. This quantity is measured in money. As a result, because of interposition of the notional exchange of the derivative with money, one particular and case-specific risk *can be regarded as the same as any other*. Abstract risk is the concrete and specific risk actually involved in a particular situation when seen in the light of formation, organization and measurement of risk as risk that is measured in monetary terms.[6] The form of abstract risk is risk measured in value, that is to say, money. Abstract risk is a mediating factor enabling different concrete risks to become social.

Two different social events capable of happening – risks – can become comparable and exchangeable *only when the social terms of the capitalist exploitation and the conditions*

*of its reproduction can be uniformly represented and thus compared*. The existence of complex and tailor-made financial products in the derivative markets as exchange values rests on this fundamental presupposition: being able to organize the representation and so the commensuration of a universe of social class conflicts (as already identified risks) which determines the dynamics of capital valorization. In this sense, the qualitative institutional difference signified by the emergence of derivatives is that there now exists a more integrated, sophisticated, normalized and accessible way of representing events pertaining to the circuit of capital and the organization of class power in general. The universality of these representations and their reification into commodity values obscure the class nature of capitalist reality calling forth strategic behaviors proper for the effective organization of capitalism.

**8. *Reloading the idea of a Good Society***

The theoretical sketching that we tried to present above does not study the financial mechanisms and financialization concentrating on their "productive" or "counter-productive" effects on capitalist development. It 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 intend to discuss some basic ideas that spontaneously come out of the preceding analysis concerning the *ideal* of a good society. We are not going to

touch heavily upon a complete investigation of the later but we limit our scopes to defining good society in a rather common manner. Without getting into details, 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 good society is not to be found in the history books. The way we apprehend good society 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 are being organized in a way that contests the existing capitalist system. In this regard, the role of radical thinking along with its direct involvement in the production of a critique to the dominant ideology of the ruling classes – which ensures the coherence of contemporary capitalism – become crucial.

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.

Contemporary capitalism seems too far away from the implementation of any version of a good society. But the main problem today is that the idea of good society is totally absent from the policy discussions, even the heterodox ones. Good society is thought as something that does not belong to the future of our history. 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. 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[7] can emerge as a real option …

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***Endnotes***

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

[2] Bryan et al (2009) and Martin (2007; 2009) share this line of reasoning and have to some extent influenced our argumentation.

[3] 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).

[4] See Foucault (2003; 2007). The key concepts that emerged in his relevant writings were "bio-politics" and "governmentality." What interests us in the analysis of Foucault is not to reproduce his argument on how governmentality comes before the capitalist state in the organization of biopolitics. Governmentality has the population as its target and it does not exclude disciplines, but it dovetails into them, integrating them, modifying them to some extent, and above all, using them by infiltrating them and embedding itself in them (Foucault, 2003, 242). We think that the concept of "governmentality" may prove useful for clarification of our point about financial markets should it properly embodied in the Marxian framework. This concept simultaneously captures the two facets of the process of fetishism when the latter is applied to interpretation of the financial markets.

[5] For Marx's value-form analysis see Milios et al. (2002), Heineich (1991), Arthur (2004).

[6] Indeed, this is quite similar to the following remark of Marx: the necessity "to express individual labor as general labor is equivalent to the necessity of expressing a commodity as money", (Marx 1974, 133).

[7] 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).