Financialization: *Market Discipline* or *Capital Discipline*?[1]

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1. Introduction to recent discussions: Neoliberalism, financialization, crisis

A crucial aspect of nearly all contemporary approaches to imperialism is the idea that the domination of neoliberalism and of the globalized financial sector of the economy produces a predatory version of capitalism, a capitalism that inherently tends towards crisis.

The current financial crisis is without precedent in the post-war period. This is acknowledged by the majority of mainstream economists. There is a growing consensus on the need to *regulate* many parts of the economy. Great debates have been set in motion on the future of regulation, proclaiming the end of the Reagan era.

All these discussions are important, but they do not tell the whole story. Financial *instability* and *income redistribution* are crucial aspects of modern capitalism but they do not capture its *essence*.

Recent heterodox literature is dominated by a single and persistent argument. The argument[2] is that contemporary financial liberalization should be approached as a process in which the financial elites and financial intermediaries, i.e. contemporary *rentiers* in the Keynesian terminology, have a leading role in working out the details of the neoliberal form of capitalism. Writing in the mid 1930s, Keynes (1973: 377) predicted the eventual extinction ("euthanasia") of the rentiers "within one or two generations". Many present-day Keynesians portray the developments of the last decades as the return of the rentiers three generations later to take over the economy. Neoliberalism thus amounts to the "revenge of the rentiers" (Smithin 1996: 84, coins this phrase), who are said to have shaped the contemporary political and economical agenda in accordance with their own vested interests.

The relevant economic literature, according to Epstein (2001: 1) coined the term

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[1] This paper derives from John Milios and Dimitris P. Sotiropoulos (2009), *Rethinking Imperialism. A Study of Capitalist Rule*, Palgrave-Macmillan.
[2] For example see Palley (2007), Crotty (2005), Smithin (1996), Pollin (1996), Wray (2007), Dumenil and Levy (2004), Eptein and Jayadev (2005), Helleiner (1994), O'Hara (2006).

financialization to denote this phenomenon of "the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level". In this quasi-Keynesian discourse the economic and political strengthening of rentiers entails: (i) an increase in the economic importance of the financial sector as opposed to the "real" industrial sector of the economy, (ii) the transfer of income from the latter to the former, thereby increasing economic inequalities and depressing effective demand, (iii) the exacerbation of financial instability, transforming it into a central aspect of modern capitalism.

It is not our intention here to provide a comprehensive and in-depth account of neoliberal financialization as seen from the Keynesian standpoint. The analysis in question certainly deals quite competently with such crucial aspects of modern capitalism as structured credit products and the related risky financial innovations, lax oversight, deregulation and financial fragility (Wray 2008). Moreover, it also argues that financialization has contributed to *radical restructuring* and equally radical changes in the behaviour of firms (especially large corporations).

According to recent post-Keynesian and institutional analyses,[3] industrial corporations have ceased to be the "steam-engine of the economy" that Keynes and Schumpeter portrayed them as in the past. Their priority is to serve the interests of rentiers (i.e. of major shareholders and the financial institutions representing them): to increase remuneration for major shareholders, enhancing their influence over company decision-making at the expense of the interests of other stakeholders' (viz. workers, consumers and managers).

It appears that two relevant changes have taken place in enterprises.[4] *Firstly*, joint-stock companies are now conceived of as portfolios of liquid subunits that home-office management must continually restructure to maximize their stock price at every point in time. *Secondly*, and as a consequence of the first change, there is a fundamental (forced) change in the incentives of top managers who now think rather in terms of maximization of short-term stock prices. The end-product of the whole

[3] It should be borne in mind that analyses in the post-Keynesian train of thought (Minsky 1993; Palley 2007; Pollin 1996) are closely associated with the approach of the school of institutional economics (Lazonick and O'Sullivan 2000), with the works of the followers of the regulation school (Grahl and Teague 2000), and with some theories of "financialization" (Froud et. al. 2007, Crotty 2005, Dumenil and Levy 2004).

[4] See Crotty (2005). In the same line of argumentation O' Hara (2006: 165) argues that: "the changing structure and dynamics of the US financial system since the 1970s has increased the conflict between finance and industry, since the real sector has become a sideshow to the main game of capital gains in the equity market".

process is anti-labour business policies on the one hand and on the other a focus on short-term (speculative) gains rather than on long-term economic development, stability, and employment.[5]

Hence, for Keynesian-like argumentation, neoliberalism is an “unjust” (in terms of income distribution), unstable, anti-developmental variant of capitalism whose direct consequence is contraction of workers’ incomes and the proliferation of speculation. It is a regime that *focuses economic activity on the search for profits in the sphere of circulation*. To put matters schematically, the rentier owners of financial securities induce a fall in the “price” of labour so as to increase the value of their stocks (bonds and shares) at the same time engaging in speculation so as to obtain short-term advantages vis-à-vis rival *rentiers*.

This general conception seems to be prevalent in the realm of Marxist discussion also. For a number of theoreticians influenced by it, neoliberal capitalism has not succeeded (at least to date) in restoring the profitability of capital (the rate of profit) to high levels, that is to say to levels satisfactory for dynamic capitalist accumulation (what could such levels be? one wonders)[6]. It appears to be entrapped (since the mid-1970s) in a perennial crisis, the end of which is not readily visible. The result of this is that large sums of capital are unable to find outlets for investment. This has two probable consequences. *Firstly*, this “surplus” capital stagnates in the money markets, creating “bubbles”, or is used to underpin ineffective policies of forced accumulation that depend on lending and debt (Brenner 2001, 2008, Wolff 2008). *Secondly*, this capital circulates internationally in pursuit of *accumulation by dispossession* (Harvey, see Chapter 3), even profiting, that is to say, not from exploitation of labour but from direct appropriation of income chiefly from those who are not financially privileged or do not occupy an appropriate *position* in the market for credit (Lapavitsas 2008).

We do not propose here to undertake a comprehensive critique of the abovementioned views. They doubtless reflect significant aspects of present-day capitalism, but in our opinion are unable to provide a sufficiently inclusive account of the reasons for the neoliberal reforms. Their basic weakness – and it is at the same

[5] These analyses are all more or less variations on the same theme and within the same problematic. Shareholders and the managers they hire are conceptualized as *collective economic agents* with distinct economic behaviours and objectives. Managers are supposedly interested in promoting their personal power and status through an infinite expansion in the size of the firm, but not interested in increasing dividends to shareholders. The renewed dominance of rentiers that has come with the resurgence of neoliberalism has forced managers to comply with shareholder demands. They were obliged to abandon the long-term policy of “retain and reinvest” in favour of a short-sighted practice of “downsize and distribute”.

[6] See also Campbell (2003).

time the link that holds them together – is that *they represent the neoliberal formula for securing profitability of capital not as a question of producing surplus value but as a question of income redistribution pertaining essentially to the sphere of circulation*. It thus appears that the developmental "ineptitude"[7] and the instability of present-day capitalism are the result of a certain "insatiability", or at any rate of bad regulation, in the relations governing income. *Are we in the final analysis all Keynesians*?

Before formulating our negative answer to the above question let us make a passing reference to the present financial crisis.

2. The relationship between the financial system and other elements comprising the core of neoliberalism

The development of the financial system under neoliberal hegemony is linked to four basic elements comprising the core of the neoliberal model.

(i) One declared objective has been to deregulate the labour market as a means of reducing the power of wage-earners to demand wage increases and better terms of employment. This has been pursued both by repressive methods and through monetaristic policies for fighting inflation, and has led to a significant increase in unemployment. *It has also been pursued through the weapon of disciplining and sanctioning the behaviour of business and states that is made available through neoliberal money markets*. Here it should be noted that monetaristic policies of increasing interest rates at the beginning of the 80s, apart from significantly boosting unemployment, also had the result of generating a significant sphere for investment of international capital: higher levels of state indebtedness.

(ii) Second, and in one aspect a continuation of (i): international trade and outsourcing, that is to say the exposure to international competition for the purpose of devaluing and excluding insufficiently valorized (i.e., "non-competitive") capital are predicated, among other things, on the freedom of movement of capital along with the rest of the neoliberal complex of financial regulation (non-bank financing, development of differentiated international financial markets). These elements have been mechanisms for "schooling" labour in the requirements of capitalist restructuring and continuing accumulation. Confining ourselves to the effects that non-bank financing of businesses has had, we detect some significant effects on the mode of

[7] It should be noted that despite a fall in growth rates, particularly in developed capitalist economies, throughout the neoliberalist period, growth remains at more or less "satisfactory" levels (Panitch and Gindin 2003).

operation of these businesses, particularly those that have access to money markets. To name just a very few: *Firstly*, we see an *increase in company debt* in relation to the same capital, insofar as the debt increases the profitability of the capital and so sends signals of profitability to the money markets. *Secondly*, for regular continuation of financing *it is demanded* that every enterprise *have high profit indicators* – every suspicion of insufficient valorization increases the risk of burdensome terms of financing and reduces the companies' competitive potential (e.g. increases the risk of its being taken over). *Thirdly, shares do not comprise the key measure for financing of enterprises* but are raw materials for buyouts and mergers. In other words there is a handling of cash flows and sale and repurchase decisions with shares that increases the share prices (which can play a role in accumulation when what is required is investment that will have a long-term yield). The trade unions, indeed working people in general, experienced these results as loss of bargaining positions. The argument was and is simple: accept what we propose, otherwise the company will lose its potential for financing. Doubts will be generated as to its profitability and there will be danger of it being bought out, with resultant loss of workplaces, or of the production chain being restructured and a part of the chain transferred to other countries.

(iii) *Privatization of sectors of state activity and change in the composition of state activities*. Expansion of the space for investment of individual capital is another central element in the neoliberal model. Privatizations are an important factor in bringing about a broadening of the financial sphere. This too has consequences for wage-earners. At a minimum there is a requirement for increased financing, as distribution free of charge is replaced by commodities which have a price or insofar as the method of costing changes when they pass from the public sector into the control of private capital. As a result, a basis is created for *an increase in the debt of households* that have access to the banking system; but the potential is also generated for penetration, when required, by banks into new sectors of the market, such as, for example, student loans. Within the same logic as privatization and greater sanctification of profit is reduction of tax for businesses that contribute to maintenance of high levels of state debt. Reforms to the insurance system have introduced noteworthy pursuers of risk-free profits into the company of the banks, insurance companies, mutual capital, hedge funds, etc. and so have evidently brought new pressures to bear on wage earners.

(iv) *The securing of consent to the neoliberal model was underwritten by the possibility of access to cheap loans* to finance consumer spending or housing or other

expenditure and by participation in this global hunt for profits (among the most conspicuous examples of such participation being the private insurance funds or mutual funds), so that there would be increased income to substitute in the best way possible for withdrawal of the state from funding universal insurance systems for health, studies, social services, etc. *Accordingly, the seeking out of potential borrowers, that is to say the incorporation into the credit system of certain groups in the population is not merely the result of the greed of the banks and all types of investor but an injunction that is part of the scheme of neoliberal regulation.* The privately-owned home as a dream that could be made to come true by virtue of neoliberal financial regulation became a declared goal of all representatives of the model. The privately-owned home as an item of property became a means for access to other facilities of the credit system.

From a different viewpoint, the squeeze on wages, a result and objective of the neoliberal model, *also* put a squeeze on consumer expenditure, such that the introduction of appropriate measures to facilitate *consumer credit* became an escape-route for the system, a solution to the problem of managing aggregate demand on the part of the collective capitalist. Today's crisis exposes the difficulties involved in this solution for management of aggregate demand and for organization of consent to the neoliberal programme. In the place of subprimes one can very readily imagine problems with securities from credit cards and quite likely tomorrow securities from student loans, etc.

3. From financial crisis to overaccumulation crisis

In the third volume of *Capital* Marx observed: "as long as the *social* character of labour appears as the *monetary existence* of the commodity and hence as a *thing* outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable" (Marx 1991: 649).

As we know, financial crises are sometimes the prelude to, and sometimes the result of, a crisis of over-accumulation of capital. Sometimes, again, the financial crisis manifests itself "independently" of the broader economic conjuncture, that is to say does not have any significant effect on the level of profitability and the level of employment of the "factors of production" in the other sectors of the economy above and beyond the financial sphere or some specific parts of it. This, for example, is what happened in the case of the international financial crisis of 1987, when there was a

collapse of share prices in the international stock exchanges, enabling the international press to speak of a "return to 1929 and the Great Depression".

It is thus evident that each specific financial crisis must be examined both in relation to its particular characteristics and in relation to its interaction with other spheres of economic activity and the wider economic conjuncture, before it becomes possible to draw conclusions as to its causes, its extent and its consequences. *The current crisis is the outcome of permanent characteristics of capitalist relations of production and reproduction, but also of characteristics that are peculiar to the core of the neoliberal organization of this relation, that is to say to the core of the present form of appearance of capitalist relations of production*.

The squeeze on wages and flexibilization of labour relations, that is to say reduction in the bargaining power of workers against capital, are a success story of neoliberalism but *at the same time* represent one of the conditions for the nurturing and triggering of the crisis.

It represents success for the model that it enriches the markets with numerous players and mobilizes every sum of capital that cannot be directly invested in the production process so that it participates in the club of demands on future profit. At the same time, however, this "depth" means ever great pressures for risk-free profit, for issuing of securities, in other words for intense competition, so that unexplored markets can be subordinated to the world of credit, with consequent downplaying of risk and massive withdrawal from participation and funding when secure profit is jeopardized.

It is finally worth noting that the "wisdom of the markets", an important element in constructing the core of the neoliberal model, prescribes market evaluation of property (mark-to-market value). It is this that has caused the lack of trust between the players because the fall in value of the securities has spoilt the balance-sheets of the institutions maintaining them and protracted the uncertainty. The solution adopted is a familiar one. But the result is that it has become possible for a number of elements not to be factored into the overall assessment.

In other words *the conditions for increase in class domination of capital appear simultaneously as conditions undermining that domination*. The crisis designates the moment of convergence of all the abovementioned contradictions.

It is a crisis that has appeared in the financial sphere and is *systemic*. Systemic in the sense that it has been engendered by the elements and the relations that are at the core of the neoliberal model. It is systemic also because it has struck at important

nodal points of the system and through them at the terms of operation of the internationalization of capital. It is systemic also because it has hit the most powerful organizational centre of the model: the markets and the financial institutions of the United States, which were the key control points for the overall system of organizing markets, intervening in them and promoting financial innovations and financial tools. If we take it into account that Britain, the world's second financial centre, has also been affected, and very seriously, we obtain some picture of how the system has been centrally affected. Finally, it is also systemic in that the capacity of the collective capitalist to guarantee the functioning of neoliberal regulation has been crippled.

While the financial crisis is still unfolding, it is now taking on the characteristics of *a crisis of overaccumulation, which, starting from a ruthless squeeze on the financial sector also drags in other sectors and introduces the economic system as a whole to the operations of liquidation of inadequately valorized capital* (obviously at an unequal rate in the different countries and with an intermeshing of the developments in each country both with the developments in other countries and with the financial system).

The interconnectedness of events is thus the reverse of what is often maintained (e.g. Brenner 2008). What is involved is not a continuing crisis of overaccumulation dating from the 70s, which has fed superfluous capital into the sphere of finance, in this way leading to speculation, the "bubble" and the crisis. The preceding crisis of overaccumulation of capital had already been blunted through the contribution of the neoliberal settlement (in which a decisive nodal point was the functioning of the financial sphere). There had been a return of profits to levels approaching those of the early seventies, production had been restructured, labour made more flexible, wage levels frozen (Ioakimoglou and Milios 2005). The share accruing to wages was continually contracting.

But the blocking of the sphere of finance and credit funding on which expanded reproduction of capital was based was inevitably interpreted as "involvement" of this expanded reproduction. It was initially expressed in overproduction of (unsold) goods, given that a credit squeeze implies restrictions on productive and individual consumption (perpetuated by credit). This in turn meant an abrupt fall in profitability and the necessity for cutbacks in production, in other words overcapacity of the means of production, overaccumulation of productive capital, and the need for a new cycle of restructuring.

The latest decision framework for participation of the state in capital or temporary

nationalization of banks and other enterprises (variations on the Brown proposal), is not an answer for the elements that nurtured and triggered the crisis. There has accordingly been a mobilization of the international bureaucracy via various institutions suitably inoculated against the "virus" of democracy, and it is now promising to discuss the crisis and take measures to prevent its recurrence.

A crisis at the heart of the system puts on the agenda the question of rearrangement and naturally registration of the international correlations of power. Systemic crisis does not necessarily spell destruction for the system. It means exposure of its contradictions. And the representatives of the collective capitalist perceive the situation more or less as follows, on the basis of the current dynamic of unfolding and proliferation of the crisis: that it is a disease from which recovery can be assured not just by popping some pill. An operation will be required that will enable the *same* organism to continue to function, albeit in a different way (for example without excessive leverage, to abandon the preceding metaphor). But each attempt at regulation means a redistribution of power and most probably cancellation of functions. From the new arrangements that are anticipated there will be no interference with the international character of the financial system, securitization, the deepening of the market, the squeeze on working people. These are inviolable terms of each new set of arrangements, on the basis of today's strategy of capital. They are strategic options with no fall-back position. *Thus, as perceived by a plethora of organizations and shapers of policy, state intervention must be chronologically limited, must aim exclusively at the generally recognized problem and must leave no trace behind it when the time comes for it to withdraw (particularly traces that would hinder the "free" functioning of markets)*.

If, then, the core of the neoliberal dogma must remain intact (with mere readjustment of the relations and the pace of the functioning of its constituent elements), with the overwhelming correlation of power in favour of capital simply taken as a given, the workforce will continue to be treated as the "flexible" variable, destined to absorb all the shocks, current and future.

Nevertheless, crisis at the heart of the system also entails breaches in the terms of its ideological hegemony. Citizens understand quite simply: if the state intervenes to save the banks why can it not do the same for the insurance funds, for the health system, for... etc.

The traces left behind by the current conjuncture of the crisis do not require any particular skill to detect. *Firstly*, discredit is brought to bear on a basic ideology that

the state is “bad because it is incompetent” and the markets “good because they are both competent and effective”. States are being called upon to act as guarantors of stability, in other words to implement interventionist policies. This is not something easily to be erased from the collective memory. *Secondly*, the crisis is having adverse effects on the capacity for ensuring consensus because of the effects it is having on the working population and “underdogs” generally. The limitations of demand management, not through strengthening of wages and the terms of employment but through encouraging excessive household indebtedness, have become evident to all. Both these phenomena strengthen the political forces that seek a different way of managing the capitalist system. From this viewpoint it should not pass unnoticed that Krugman (Nobel 2008) in his book *The Conscience of a Liberal* (2007) is in effect calling for state intervention for the creation of trade unions in branches where there is an uninsured workforce, defending the idea of a public and universal health system, demands which make manifest the tension that has been accumulated on account of the polarization imposed by the class struggle of capital against labour. *Thirdly*, there is a readjustment in the international correlation of power. A reform of the international financial system always harbours an inherent potential that there will be a rewriting of international rules and obligations, thus affording an opportunity for recording the correlations of power that have emerged.[8]

4. Marx’s problematic: *towards* a different interpretation of neoliberalism

Keynesianism undoubtedly offers a helpful perspective on the neoliberal form of capitalism,[9] mounting a case that is a powerful alternative to the Marxist analysis. It displays *the neoliberal formula for profitability of capital not as a question of*

[8] From a more radical political perspective, the powers of labour cannot comprise part of this new regulation, which is directed against their interests. On the other hand, the crisis for the first time in decades gives them the opportunity to intervene so as to change the correlations of power and impose solutions that secure their own interests in the face of those of capital. 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 banks, food on the smooth functioning of the futures markets, the operations of the municipalities on mutual funds and the international securities markets, the environment on tradable 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 defence of social organization on the basis of freedom in satisfaction of needs and not the repressive calculus of exploitation of capital, is urgent.

[9] Employing their own theoretical resources, Keynesians provide us with a wealth of insights into the workings of the financial markets and so into the great inherent instability of neoliberal capitalism. Minsky’s (1982) analysis of capitalist instability is invaluable for comprehending today’s financial meltdown (see also Wray 2008).

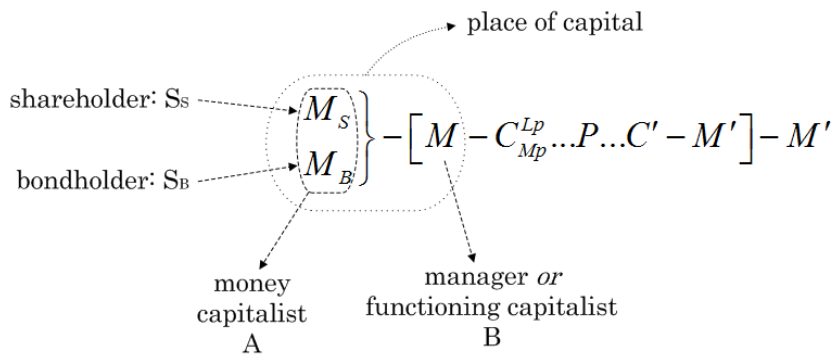
production of surplus value but as a question of income redistribution pertaining basically to the sphere of circulation. If it should prove to have the stronger arguments we would have no choice but to admit *firstly* that Marx is nothing more than a forerunner to Keynes – or, even more so, a theorist who offers a useful complement to the Keynesian approach. *Secondly*, that a political bloc between the "productive" classes (capitalists and workers) is both feasible and necessary for overthrowing the hegemony of the rentiers.

Some time ago, Paul Krugman (1997: 155) asked the following relevant question: *why has the world of finance become so frenetic*? We shall attempt to answer the question in what follows, rejecting Keynesian arguments that the hegemony of the *rentier* lies behind neoliberalism. Returning to Marx's analysis in *Capital* we will put forward the view that present-day capitalism is a form of capitalism *particularly favourable for valorization of capital*, that is to say particularly well-suited, for the bourgeoisie as a whole, for enforcing capital's aggressive exploitation strategies of labour.

4.1 The structure of financial sector in Marx's analysis

As we have already mentioned (see Part II), one comprehensive introductory definition of capital could be the following: a historically specific social relation that expresses itself in the form of "money as an end in itself" or "money that creates more money". At this level of generality, the capitalist occupies a specific *position* and plays a specific *role*. He is, and behaves as, the embodiment of autonomous movement of value, *embodying the "self-movement" of capital M-C-M΄*. The theory of capital is not an analysis of the actions of the capitalist. It is not a response to the actions of a *subject*. On the contrary, *it is the movement of capital that imparts "consciousness" to the capitalist.* The power of capital is impersonal. In reality it is the power of money as such (Marx 1990: 165-6, Balibar 1984).

Proceeding to a more concrete level of analysis, Marx acknowledges that *the place of capital* may be occupied by more than one subject. There may be both a *money capitalist* and a *functioning capitalist*. This means that a detailed description of capitalism cannot ignore the *circulation of interest-bearing capital*, which depicts the structure of the financial system. Marx's argumentation might be represented in the following schema.



In the course of the lending process, the money capitalist A becomes the recipient and proprietor of a *security S*, that is to say a written *promise* of payment (contingent in character) from the functioning capitalist B. This promise certifies that A remains *owner* of the money capital *M*. He does not transfer his capital to B, but cedes to him the right to make use of it for a specified period. We will recognize two general types of securities: *bonds* S_B and *shares* S_S. In the case of the former the enterprise undertakes to return fixed and prearranged sums of money irrespective of the profitability of its own operations. In the latter case it secures loan capital by selling a part of its property, thereby committing itself to paying dividends proportional to its profits. If the company has entered the stock exchange and what is involved is share issue, then capitalist B corresponds to the managers and capitalist A to the legal owner.

In any case, in the hands of B the sum *M* functions as capital. Money taken as the independent expression of the value of commodities enables the active capitalist B to purchase the necessary *means of production Mp* and *labour power Lp* for organizing the productive process. The latter takes place under a regime of specific *relations of production* (comprising a specific historical form of relations of exploitation) and in this way is transformed into a process for producing surplus value. The money reserve that B now has at his disposal is the *material expression of his social power to set in motion* the productive process *and to control it* (see Chapter 5).

Four very basic consequences are implied by this analysis and are, briefly, as follows.

Firstly, the place of capital (the incarnation of the powers stemming from the structure of the relations of production) *is occupied both by the money capitalist and by the functioning capitalist*. In other words, the place of capital is occupied by agents that are both "internal" to the enterprise (managers) and "external" to it (security holders). Marx's general conception abolishes the basic distinction drawn by Keynes between the productive classes "within" the enterprise and the parasitical class of

“external” rentiers. In his own words: “in the production process, the functioning capitalist represents capital against the wage-labourers as the property of others, and the money capitalist participates in the exploitation of labour as represented by the functioning capitalist” (Marx 1991: 504). The *secondary* contradictions developed between the managers and the big investors certainly do exist but they evidently pertain to a more concrete level of analysis.

Secondly, the pure form of ownership over capital (whether it is a question of money or productive capital) is the *financial security*, corresponding, that is, to “imaginary money wealth” (ibid.: 609). The ownership title is a “paper duplicate”, either of the money capital ceded in the case of the bond S_B, or of the “material” capital in the case of the share S_S. Nevertheless the *price* of security does not emerge either from the value of the money made available or from the value of the “real” capital. The ownership titles are priced on the basis of the (future) income they will yield for the person owning them (capitalization in accordance with the current interest rate that embodies the risk), which of course is part of the surplus value produced. In this sense they are *sui generis commodities* plotting a course that is their very own (ibid.: 607-9, 597-8).

Thirdly, the financial “mode of existence” of capitalist property – as a *promise* and at the same time a *claim* for appropriation of the surplus value that will be produced in future – brings into existence a broader terrain within which each flow of income can be seen as revenue corresponding to a “fictitious capital” with the potential to find an outlet on secondary markets (ibid.: 597-9). Hence, we observe that in accordance with Marx’s argumentation, *the potential for securitization is inherent in the movement of capital.* In any case, as Minsky (1987) aptly put it, “any attempt to place securitization in context needs to start with early-19th-century commercial bill banking in Britain and the recognition that accepting contingent liabilities is a fundamental banking act. The modern contribution is the development of techniques to ‘enhance credits’ without accepting contingent liabilities or the investment of pure equity funds”.

Fourthly, one of the basic characteristics of the neoliberal model is the increase in non-bank funding of credit, both by states and by enterprises. Above and beyond the other consequences, this places at the centre of the financial markets *risk management*, that is to say the factoring in of the contingency of non-achievement of the expected yield (particularly in an international market where a number of diverging forces are affecting profitability). Because the very character of production of surplus value as

well as the overall claims being placed on the latter is *contingent*, risk management is organically linked to capital movement as such. Because, as we shall see in what follows, the inner workings of an enterprise constitute a political terrain, the production of surplus value, as a battlefield situation where resistance is being encountered, *is never something that can be taken for granted*. Techniques of risk management, organized within the very mode of functioning of the "deregulated" money market, *are a critical point in the management of resistance from labour*.

4.2 Market discipline or capital discipline? The essence of neoliberal exploitation strategy

The above general framework has a number of less visible but more crucial implications for the analysis of present-day capitalism. Financial markets are for the most part secondary (liquid) markets. This has two basic consequences. *Firstly*, they contribute to the competition and mobility of individual capitals (strengthening the tendency towards establishment of a uniform rate of profit). *Secondly*, apart from dispensing loans, they comprise sites for renegotiation of debt requirements against future production of surplus value and so *sites for evaluation (though with evident deficiencies) and monitoring of the effectiveness of individual capitals*. We will elaborate upon this line of thought, citing in this connection the following three points:

(1) The capitalist firm is totally immersed in class struggle. The functioning capitalist (whether she is a small capitalist or one of the top managers of a large enterprise) is the *point of articulation* between the two distinct fields of capital movement.[10] *On the one hand*, she is called upon to achieve efficient organization of surplus value production inside the factory. This process generally entails a persistent endeavour to modernize the means of production, economize on constant capital and reduce labour's share of the net product.[11] But none of these procedures are mere technical decisions to be taken. They are the mutable outcome of class struggle. Therefore, *on the other hand*, the capitalist enterprise is the location for the organized confrontation of social forces and in this sense comprises, on a continuing basis, a political field *par excellence*. It bears the inherent imprint of class struggle, a reality sharply in conflict with the orientation of neoclassical or most heterodox approaches.

(2) Organized financial markets facilitate movement of capital, intensifying

[10] This aspect of Marx's analysis is very pertinently highlighted by Balibar (1984).
[11] Marx (1991: 170-240), Milios et al. (2002).

capitalist competition. In this way they contribute to the trend towards establishment of a uniform rate of profit in the developed capitalist world and those countries that are tending to enter it (see Chapter 8), at the same time securing more favourable conditions for valorization (exploitation) of individual capitals.[12] Keynes believed that completely illiquid markets would be efficient in the mainstream sense, because "once investment was committed, the owners would have an incentive to use the existing facilities in the best possible way no matter what unforeseen circumstances might arise over the life of plant and equipment" (Davidson 2002: 188). But such a view is very far from the truth. Illiquid financial markets (or highly regulated markets) mean that capital, not being able easily to move to different employment, remains tied up in specific "plant and equipment" for reasons that are not necessarily connected with its effectiveness in producing surplus value (profitability). Or, to put it differently, capital's inability to move generates more favourable terms for conducting the struggle for the forces of labour, given that less productive investments are enabled to survive longer.

Capital does not *necessarily* have to be committed to a particular employment for a long period of time. Given the liquidity of financial markets, it is always in a position to reacquire its money form without difficulty and seek new more effective areas for its valorization. Capital is always on the lookout for opportunities to make a profit, which cannot come from maintaining effective demand but must come from intensifying class exploitation. What capital is "afraid of" is not dearth of demand but dearth of surplus value (Mattick 1980: 78-79). Capital is not obliged to provide for labour employment. On the contrary, a reserve army of unemployed labour is always welcomed by employers. It keeps real wages down and paves the way for compliance with the capitalist's strategies of exploitation (Marx 1990: 781-802). Moreover, flexibility of labour is not only a prerequisite for mobility of capital. It is also the method capital finds most suitable for adjusting to fluctuations in the capitalist economic cycle.

(3) Financial markets generate a structure for overseeing the effectiveness of individual capitals, that is to say a type of supervision of capital movement. Businesses that fail to create a set of conditions favourable for exploitation of labour will soon find "market confidence", i.e. *the confidence of capital*, evaporating. These businesses will either conform to the demands of capital or before long find themselves on a downhill path. *In this manner capital markets "endeavour" (not*

[12] See Marx (1990), Marx (1991, 295-300), Busch (1978), Hilferding (1981: 130-150).

always reliably) to convert into quantitative signs "political" events within the enterprise.

In order to understand the remark above we have to recall that the place of capital is not occupied by one and only one subject. On the one hand, the manager assumes a critical *intermediary function*, becoming the point of articulation between the "*despotism of the factory*", which he himself must ceaselessly impose, and the *market discipline*, to which he himself is permanently subject (Balibar 1984). On the other hand, outside of the precincts of the firm, money capitalists come up against a "performance chart" that is shaped by the financial markets and to a significant extent "monitors" the conditions of accumulation and valorization that prevail at every moment in production (in relation to different parts of the world). In this way the *organized* financial markets exercise a critical function: *they reward profitable and competitive companies and at the same moment punish those that are insufficiently profitable*.

The decisive criterion is that the *value* of the company's securities (shares and bonds) as they are assessed by the international markets, should be *maximized*.[13] Thus, equity holders' and bondholders' interests are basically aligned with respect to enterprise profitability.[14] The demand for high financial value *puts pressure on individual capitals (enterprises) for more intensive and more effective exploitation of labour, for greater profitability*. This pressure is transmitted through a variety of different channels. To give one example, when a big company is dependent on financial markets for its funding, every suspicion of inadequate valorization increases the cost of funding, reduces the capability that funding will be available and depresses share and bond prices. Confronted with such a climate, the forces of labour within the politicized environment of the enterprise face the dilemma of deciding whether to accept the employers' unfavourable terms, implying loss of their own bargaining position, or whether to contribute through their "inflexible" stance to the likelihood of the enterprise being required to close (transfer of capital to other spheres of production and/or other countries). Evidently the dilemma is not only hypothetical but is formulated pre-emptively: *accept the "laws of capital" or live with insecurity and unemployment*.

This pressure affects the whole organization of the production process, the

[13] For the shareholder value maximization strategy see Jensen (2001).

[14] It should be noted that the high profitability of a capitalist firm usually translates into high share prices, but at the same time the low risk that goes with being a healthy firm reduces the rate of discount and thus increases the value of the bonds being issued.

specific form of the *collective worker*, and the income correlation between capital and labour. It ultimately necessitates total reconstruction of capitalist production, more layoffs and weaker wage demands on part of the workers. Restructuring of enterprise, above all, means restructuring of a set of *social relations* with a view to increasing the rate of exploitation. It is thus a process that presupposes on the one hand an increasing power of the capitalist class over the production process itself, and on the other a devalorization of all inadequately valorized capital (downsizing and liquidating enterprises) and thus economizing on the utilization of constant capital (which is assured by takeovers). *It therefore presupposes not only increasing "despotism" of manager over workers but also flexibility in the labour market and high unemployment*.[15]

Economic restructuring of the firm is synonymous with the capitalist offensive against labour. Hence, to us, "*market discipline" must be conceived as synonymous with "capital discipline"*. In developed capitalism the key role of financial markets *does not have only to do with supplying credit to companies*. For example, most trades of shares in listed companies consist of movements from one shareholder to another, with no new capital being supplied.[16] *The complementary function of financial markets is to "monitor" the effectiveness of individual capitals, facilitating within enterprises exploitation strategies favourable for capital. Financial markets commodify the claims on future surplus value. The striking growth of financial derivatives since the early 1980s assists in the consummation of this monitoring process of scrutinizing corporate asset portfolios (i.e. scrutinizing firms' capacity for profit making) by commodifying the risk exposure*.[17]

In conclusion, and in contrast to what the Keynesians assume, *neoliberalism is an exceptionally effective strategy for capitalist (and not rentier) hegemony*. Moreover, the class content of the effectiveness criterion is incontestable. Effectiveness connotes capital's ability to impose the "laws" of capitalist accumulation, overriding labour resistance without significant difficulty. Apart from theoretical consequences, this

[15] See Milios (1999b: 196).

[16] As frequently noted and mentioned above (Section 2), the stock market is not the main means for obtaining investment capital. Even in the extreme case of market-based systems (such as those of the U.S.A., UK and Australia), the main loan sources are retained earnings, bank loans, and bond issues (Bryan and Rafferty 2006; Dumenil and Levy 2004; Deakin 2005). At the same time, it is useful to note that in contrast to what is often asserted by heterodox authors, since the beginning of the 1980s joint-stock companies have become steadily less willing to distribute dividends (Fame and French 2001).

[17] "With derivatives, the ability to commensurate the value of capital assets within and between companies at any point in time has been added as a measure of capital's performance alongside and perhaps above the capacity to produce surplus over time. […] Derivatives separate the capital of firms into financial assets that can be priced and traded or 'repackaged', without having either to move them physically, or even change their ownership" (Bryan and Rafferty 2006: 97).

finding has important political implications: *the community of interest of those "inside" the enterprise (labourers and managers) as against the "outsiders" of the financial markets is a construction of fantasy*. The fantasy is erected upon the no less fantastic distinction between the "productive" and "non-productive" classes, a notion derived from the problematic of Keynes. Such an outlook narrows the strategic horizon of the workers' movement to defence of a "better" capitalism, that is to say a "better" system of class domination and exploitation. The Keynesian critique of neoliberalism places the boundaries of the practice of the social movements inside the framework of the society of bourgeois exploitation.

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