Marx’s Monetary Theory of Value, Fictitious Capital and Finance[1]

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Abstract: Marx developed in *Capital* a monetary theory of value and capital, in radical critique of the Ricardian labor theory of value (and of all later developed versions of bourgeois economic theory). Marx’s theory deciphers the decisive role of finance, as a regulatory mechanism immanent in the capitalist production and reproduction process, and constitutes therefore an indispensable theoretical tool for gaining an insight into contemporary capitalist economies and their crises.

1. Marx’s Monetary Theory of Value

Marx’s theory of value, as developed in his mature economic writings of the period 1857-67, which was concluded with the publication of the first Volume of *Capital*, constitutes not a ‘modification’ or a ‘correction’ of Classical Political Economy’s theory of value but a new theoretical proposition, prefiguring a new theoretical object of analysis. Marx’s notion of value does not coincide with Ricardo’s concept of value as ‘labor expended’: it involves a complex conjoining of the specifically capitalist features of the labor process with the corresponding forms of appearance of the products of labor, making it possible in this way for the capital relation to be deciphered. Value becomes an expression of the capital relation. The Capitalist Mode of Production (CMP) emerges as the main theoretical object of Marx’s analysis (Heinrich 1999, Milios, Dimoulis and Economakis 2002).

Marx constructed thus a new theoretical discourse and a new theoretical ‘paradigm’ for argumentation. He showed that the products of labor become values because they are produced within the framework of the capital relation. He showed

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further that value necessarily manifests itself in the form of money. Money is thus the manifestation *par excellence* of (value and thus of) capital.[3]

From the *Grundrisse* (1857-8: Marx 1993: 776 ff),[4] to *Capital* (1867: Marx 1990: 174),[5] Marx insisted that value is an expression of relations exclusively characteristic of the capitalist mode of production. As 'products of capital' useful objects (use-values) are the bearers of value. Value registers the *relationship of exchange* between *each commodity* and *all other* commodities and expresses the effect of the specifically capitalist homogenization of the labor processes in the CMP (production for exchange and production for profit), as encapsulated in the concept of *abstract labor* (Milios, Dimoulis and Economakis 2002: 17-23).

Value is determined by abstract labor. But abstract labor is not an empirical magnitude that could be measured using a stopwatch. It is an 'abstraction' constituted (i.e. acquiring tangible existence) in the process of exchange (which does not take place just in the mind of the theoretician):

> 'Let us suppose that one ounce of gold, one ton of iron, one quarter of wheat and twenty yards of silk are exchange-values of equal magnitude. [...] But digging gold, mining iron, cultivating wheat and weaving silk are qualitatively different kinds of labour. In fact, what appears objectively as diversity of the use-values, appears, when looked at dynamically, as diversity of the activities which produce those use-values' (Marx 1981: 29).

> 'Social labour-time exists in these commodities in a latent state, so to speak, and becomes evident only in the course of their exchange. [...] Universal social labour is consequently not a ready-made prerequisite but an emerging result' (Marx 1981: 45).

Marx starts by developing his theory of value (and of the CMP) out of an analysis of commodity circulation. So as to be able to decipher the form of

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[3] The product of labour 'cannot acquire universal social validity as an equivalent-form except by being converted into money' (Marx 1990: 201).

[4] 'The concept of value is entirely peculiar to the most modern economy, since it is the most abstract expression of capital itself and of the production resting on it. In the concept of value, its secret is betrayed. [...] The economic concept of value does not occur in antiquity' (Marx 1993: 776 ff.).

[5] '*The value form of the product of labour* is the most abstract, but also the *most general form* of the bourgeois mode of production as a particular kind of social production of a historical and transitory character' (Marx 1990: 174).

appearance of value as money he introduces the scheme of the 'simple form of value' in which, *seemingly*, a quantity of a commodity is exchanged for a (different) quantity of another commodity (x commodity A = y commodity B). Classical economists regarded this scheme as barter; they further believed that all market transactions can be reduced to such simple acts of barter (which are facilitated by money because its mediation dispenses with the requirement for a mutual coincidence of needs).

Marx shows that what we have in this scheme is not two commodities of pre-existing equal value being exchanged with each other ('equal value' implying value. measured independently in terms of *quantity* of 'labor expended' for the production of such commodities). What we have is *one commodity* (the commodity occupying the 'left-hand position', i.e. the *relative value-form*), whose value is measured in units of a different use-value (namely the 'commodity' which occupies the position of the *equivalent* and so serves as the 'measure of value' for the commodity in the relative form). The second 'commodity' (in the position of the equivalent: B) is not an ordinary commodity (unity of exchange value and use-value); it simply plays the role of the 'measure of value', of 'money', for the first commodity.

The value of the relative (A) is expressed *exclusively* in units of the equivalent (B). The value of the latter (of B) cannot be expressed, as it does not exist in the world of tangible reality:

> 'But as soon as the coat takes up the position of the equivalent in the value expression, the magnitude of its value ceases to be expressed quantitatively. On the contrary, the coat now figures in the value equation merely as a definite quantity of some article' (Marx 1990: 147).

In other words the simple form of value tells us that x units of commodity A *have the exchange value of* y units of the equivalent B, or that *the exchange value of* a unit of commodity *A is expressed in y/x units of B*. The 'simple form of value' as propounded by Marx measures only the exchange value of commodity A in units of the equivalent B.

The following scheme illustrates Marx's analysis of the simple value-form:

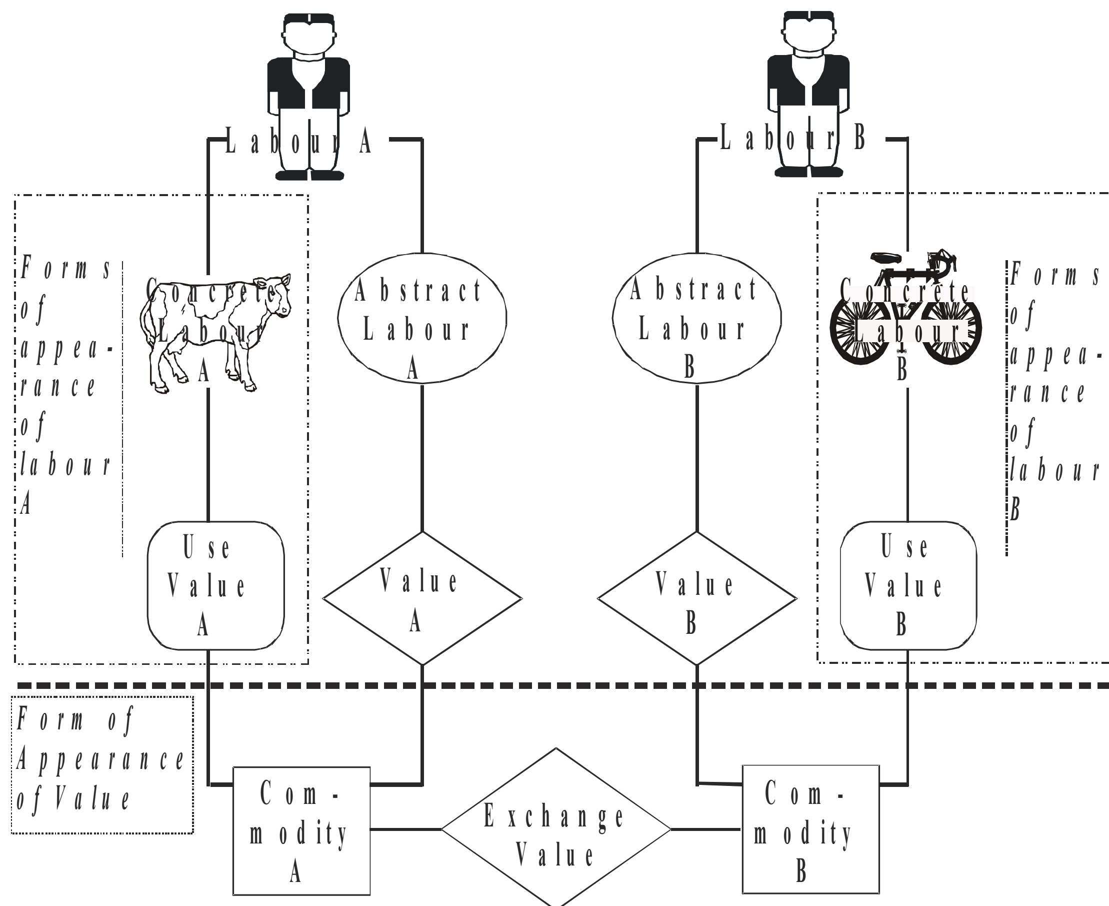

Figure 2.1 The Simple Form of Value: x commodity A = y commodity B or one unit of commodity A has the value of y/x units of B

From analysis of the simple value-form, Marx has no difficulty in deriving the *money form*. He utilizes two intermediate intellectual formulae for this purpose: the *total or expanded* and the *general* form for expressing value. The latter form in this developmental sequence (the *general* form of value) is characterized by one and only one equivalent in which all commodities express their value. These commodities are thus always in the position of the *relative* value-form. Only one 'thing' has come to constitute the *universal equivalent form of value* (Marx 1990: 161).

The first feature of money is its 'property' of being *the general equivalent*. Thus the relation of general exchangeability of commodities is expressed (or realized) only in an indirect, *mediated* sense, i.e. through money, which functions as *general equivalent* in the process of exchange, and through which all commodities (having been inserted into the relative position) express their value.

Marx's analysis does not therefore entail reproduction of the barter model (of exchanging one commodity for another), since it holds that exchange *is necessarily mediated by money*. Money is interpreted as an *intrinsic and necessary element in capitalist economic relations*.

> 'Commodities do not then assume the form of *direct mutual exchangeability. Their socially validated form is a mediated one*' (MEGA II.5, 1983: 42).

In Marx's theoretical system as developed in *Capital*, there cannot be any other measure (or form of appearance) of value. The essential feature of the 'market economy' (of capitalism) is thus not simply commodity exchange (as asserted by mainstream theories) but monetary circulation and money:

> 'The *social* character of labour appears as the *money existence* of the commodity' (Marx 1991: 649).

2. Money as Capital

Having defined value-as-a-social-relation in terms of (1) capitalistically expended (abstract) labor, which transforms individual into social labor (2) the general exchangeability of commodities and (3) money as the general equivalent, Marx argues that money does not only play the role of a 'means' or a 'measure', but also tends to take on the role of an 'end in itself' (hoarding, means of payment, world money). Here we have to do with a preliminary definition of capital, with the (provisional and 'immature') introduction of the concept of *capital*: money functioning as an end in itself. The method that Marx utilises to fulfil his theoretical project is the 'gradual building up' of concepts, by moving on successive levels of theoretical development and including constantly new determinations to these concepts.[6]

[6] The point of departure shall always be a 'simple', i.e. easily recognizable form, which though may lead to the 'inner'-causal relationships: '*De prime abord*, I do not proceed from "concepts," hence neither from the "concept of value," and am therefore in no way concerned to "divide" it. What I proceed from is the simplest social form in which the product of labour presents itself in contemporary society, and this is the "*commodity*." This I analyse, initially in the *form in which it appears*' (MEW 19: 368, Marx-Internet 1881). 'The simple circulation is mainly an abstract sphere of the bourgeois overall production process, which manifests itself through its own determinations as a trend, a mere form of appearance of a deeper process which lies

In order to be able to function as an end in itself, money has to move in the sphere of circulation in accordance with the formula M–C–M, where M stands for money and C for commodity. Due to the homogeneity of money, however, this formula is meaningless unless the contingency is one of quantitative change, i.e. increase in value: The circulation must involve the 'creation' of surplus-money, in which case the formula would become M–C–M′ where M′ stands for M+ΔM .

But money can function as an 'end in itself' only when it dominates the sphere of production, incorporating it into its M–C–M′ circulation, i.e. when it functions as (money) capital implementing the capital relation. The exploitation of labor power in the production sphere constitutes the actual presupposition for this incorporation and this movement. Thus

> '*the circulation of money leads [...] to capital*" (Marx 1993: 776).

In the Marxist theory of the capitalist mode of production both value and money are concepts that cannot be defined independently of the notion of capital. They contain (and are contained in) the concept of capital. Being a monetary theory of value, Marx's theory is at the same time a *monetary theory of capital*.

The motion of money as capital *binds* the production process to the circulation process, in the sense that commodity production becomes a phase or a moment (albeit the decisive moment for the whole valorization process) of the total circuit of social capital: M—C (= Mp+Lp) [□P□C′]—M′, where M stands for money, C for the input-commodities: means of production (Mp) plus labor power (Lp), C′ for the output-commodities of the production process (P), which is finally realized in 'more money' (M′).[7]

> 'Value therefore now becomes value in process, money in process, and, as such, capital. [...] The circulation of money as capital is […] an end in itself, for the expansion of value takes place only within this constantly renewed movement' (Marx 1990: 256, 253).

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behind it, and equally results from it but also produces it – the industrial capital' (MEGA II, 2, 1980: 68-9).

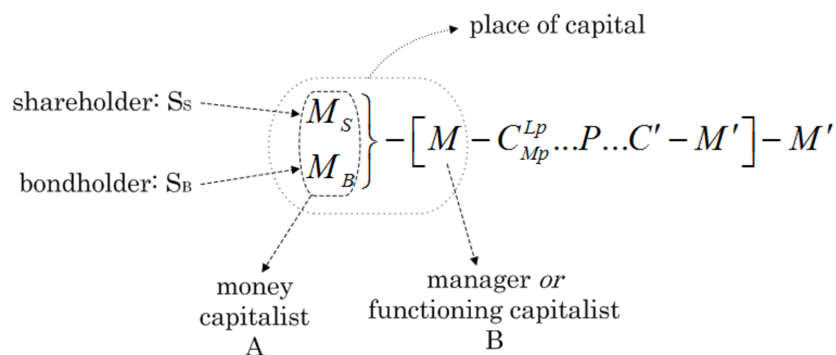
[7] The capitalist appears on the market as the owner of money (M) buying commodities (C) which consist of means of production (Mp) and labor power (Lp). In the process of production (P), the C are productively used up in order to create an outflow of commodities, a product (C′) whose value would exceed that of C. Finally he sells that outflow in order to recover a sum of money (M′) higher than (M).

Capitalist exploitation is not perceived as a simple ‘subtraction’ or ‘deduction’ from the product of the worker’s labor but is seen as *a social relation*, necessarily expressing itself in the circuit of social capital and in *the production of surplus-value, which takes the form of making (more) money.* The question of the ‘measurement of value’ can only be stated at the level of its forms of appearance, i.e. in monetary terms.

3. Fictitious Capital and the Regulatory Role of Finance

Summarizing Marx’s analysis in *Capital*, a 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/she 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 in Vol. 3 of *Capital*, Marx acknowledges that *the place of capital* is in general occupied by more than one subject: 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 promising itself to paying dividends in relation 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 (Sotiropoulos, Milios and Lapatsioras 2014).

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*.

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* by agents that are both 'internal' to the enterprise (managers) and 'external' to it (share and bond 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' (Marx 1991: 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 incorporates 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 (Marx 1991: 607-9, 597-8).

Thirdly, every enterprise is Janus-faced comprising, on the one hand, the production apparatus per se and, on the other, its financial existence, its shares and bonds, which are being traded on the global financial markets. 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 (Marx 1991: 597-9). Hence, *the potential for securitization is inherent in the movement of capital.*

Fourthly, on the basis of Marx's analysis, we can understand one of the basic characteristics of contemporary neoliberal capitalism, i.e. the increase in non-bank funding of credit, both by states and by enterprises. Above and beyond the other consequences, this places at the center 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.

The theoretical sketching that we tried to present above allows us to apprehend the phenomenon of capitalist globalization and financialization as a complex

technology of power, the main aspect of which is the organization of capitalist power relations. It is 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.

4. The Present-Day Relevance of Marx's Analysis: Neoliberalism as Capital Discipline

The above theoretical framework put forward by Marx in *Capital* has a number of less visible but more crucial implications for the analysis of present-day capitalism.

(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. *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 endeavor to modernize the means of production, economize on constant capital and reduce labor's share of the net product.[8] 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 favor movement of capital worldwide, intensifying capitalist competition. In this way they contribute to the trend towards establishment of a uniform rate of profit in the developed capitalist world, at the same time securing more favorable conditions for valorization (exploitation) of individual capitals.[9] 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

[8] Marx (1991: 170-240), Milios et al. (2002).
[9] See Marx (1990), Marx (1991: 295-300).

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 favorable terms for the forces of labor, 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 labor employment. On the contrary, a reserve army of unemployed labor 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 labor 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 favorable for exploitation of labor 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 'endeavor' (not always reliably) to convert into quantitative signs 'political' events within the enterprise*.

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*.[10] Thus, equity holders' and bondholders' interests are basically aligned with respect to enterprise profitability.[11] The demand for high financial value *puts pressure on individual capitals (enterprises) for more intensive and more effective exploitation of labor, 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 labor within the politicized environment of the enterprise face the dilemma of deciding whether to accept the employers' unfavorable 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 specific form of the *collective worker*, and the income correlation between capital and labor. 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*

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

[11] 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.

manager over workers but also flexibility in the labor market and high unemployment (overt or otherwise).[12]

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.[13] *The complementary function of financial markets is to 'monitor' the effectiveness of individual capitals, facilitating within enterprises exploitation strategies favorable 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.[14]

In conclusion, Marx's theoretical analysis in *Capital* allows us to comprehend *neoliberalism* not as an anti-productionist agenda of certain parasitic strata of the society (financial speculators and rentiers), but *as the par excellence strategy for capitalist hegemony*. Apart from theoretical consequences, this finding has important political implications: *the Keynesian or heterodox discourse about the community of interest of those 'inside' the enterprise (laborers and managers) as against the*

[12] Marx's analysis shows that the ability of the capitalist class to reorganize production, is not a technical aspect of the economy but an outcome of the social relation of forces, anchored in class struggle. '[W]ithin the capitalist system all methods for raising the social productivity of labour are put into effect at the cost of the individual worker; all means for the development of production transform themselves into means of domination over, and exploitation of, the producers; they distort the worker into a fragment of a man, degrade him to the level of an appendage of a machine […] But all methods for the production of surplus-value are at the same time methods of accumulation; and every extension of accumulation becomes, conversely, a means for the development of those methods. It follows therefore that in proportion as capital accumulates, the lot of the worker, be his payment high or low, must grow worse.' Marx (1990: 799).

[13] 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 USA, 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 (Fama and French 2001).

[14] '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).

‘outsiders’ of the financial markets is a figment of imagination. Such an outlook narrows the strategic horizon of the workers’ movement to defense of an ‘improved’ capitalism, that is to say a ‘better’ system of class domination and exploitation.

It is however 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). ‘Periodically’ this appears to be the Achille’s heel of the whole system. The fall in value of the securities spoils the balance-sheets of the institutions maintaining them and protracts lack of trust between the players spreading uncertainty. 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.

Besides, the subjection of all parts of social life to the unfettered function of markets and the dictate of profitability may function, beyond certain limits, as ‘political risk’ for the neoliberal establishment, since it can easily trigger uncontrolled social outbreaks.[15]

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[15] It is characteristic that Franklin D. Roosevelt in his speech at Madison Square Garden, New York City on October 31, 1936, presented his New Deal policies as the golden mean between ‘organized money’ and ‘organized mob’. ‘We know now that Government by organized money is just as dangerous as Government by organized mob.’ See: http://www.presidency.ucsb.edu/ws/?pid=15219.

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