Heterodox Economics vis-à-vis Crisis and Finance.
Speculation of the 'absentee rentier' or Mechanism of disciplining social action?

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The 2007-2008 financial crisis is without precedent in the post-war period, a fact acknowledged by the majority of economists. At the same time, the crisis is a 'marginal moment' which unveils and helps us rethink the workings of contemporary capitalism. The latter is mostly grasped under the term of financialization in relevant discussions.

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. the absentee financial proprietors or 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) over the "industrial community" of managers , technicians and workers.

The relevant economic literature coined the term *financialization* to denote: (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.

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, as opposed to some supposedly "just" variant of capitalism (e.g. of the first post-War decades).

Although these heterodox approaches reflect significant aspects of present-day capitalism, they are unable to provide a sufficiently inclusive account of the reasons for the neoliberal reforms and the resulting financialization of capitalist societies. Their basic weakness – and it is at the same time the link that holds them together – is that they represent

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[2] For example see Crotty (2005), Wray (2007), Dumenil and Levy (2011), Helleiner (1994), O'Hara (2006).

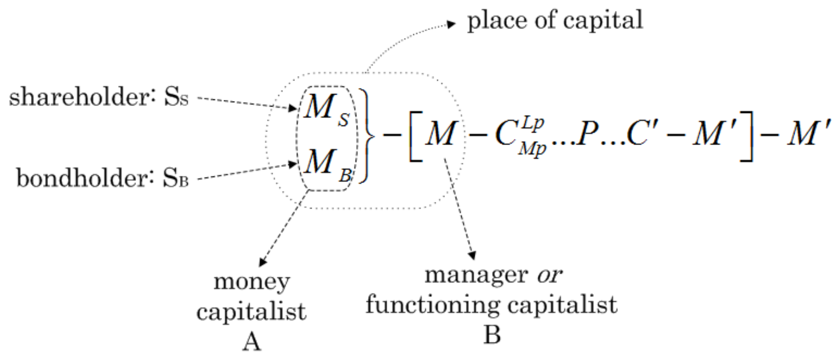
the neoliberal formula for securing profitability of capital not as a question of producing profit but as an issue concerned with income redistribution – one pertaining essentially to the sphere of circulation.

Contrary to these approaches, I will treat financialization as an organic development, and not as a distortion within capitalist production, drawing from Karl Marx's theory.

Marx in his mature writings emphasizes something which is really missing from other heterodox approaches to capitalism: the *conception of value as a social relationship*. From the lengthy manuscript of *Grundrisse* to the first edition of *Capital* (which he edited himself) this conception of value is the starting point of every concrete attempt to analyze capitalism. It is a central theme with important theoretical and political implications. It also means that what is really missing from the non-Marxian heterodox political economy is the understanding of capital as social relationship. That's why in Marx's system the concepts of value, money, capital, ideology, finance and class struggle are systemically interlinked to each other. In Marx's analysis, the value relation is an abstract expression (embryonic form) of the capital relation where the money functions as end in itself. From this point of view, debt as a social category is now subsumed to the logic of capital. This is an important analytical conception with many crucial implications for the understanding of capitalism. Capital's most concrete form in capitalist societies has always been an asset attached to a liability.

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.

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 (see also Milios and Sotiropoulos 2009).



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*.

When Marx attempted to describe the social nature of financial markets he introduced the concept of 'fictitious capital' and spoke of fetishism. He wanted to draw our attention to the fact that capital assets are reified forms of appearance of the social relations of capital. They are in effect structural representations of capitalist relations, objectified perceptions which obscure the class nature of capitalist societies while, at the same time, signaling and calling forth the proper mode of behavior required for the effective reproduction of capitalist power relations.

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 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 estimated (future) income they will yield for the institution or person owning them, 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, 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.*

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). The very character of production of surplus value as well as the overall claims being placed on the latter is *contingent*; therefore, risk management is organically linked to capital movement as such. Because 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 *are a critical point in the management of resistance from labour*.

Marx's major theoretical contribution to the analysis of Finance is the association of capitalization with fetishism. The pure (and most developed) form of appearance of capital is its fictitious form. It is "fictitious," not in the sense of imaginary detachment from real conditions of production, as is usually suggested, but "fictitious" in the sense that it reifies the capitalist production relations. Marx's message is clear and indisputable:

> "Capital appears as a mysterious and self-creating source of interest, of its own increase. The thing is now already capital simply as a thing; the result of the overall reproduction process appears as a property devolving on a thing in itself [. . .]. The social relation is consummated in the relationship of a thing, money, to itself [...] In this capacity of potential capital, as a means of producing profit, it becomes a commodity, but a commodity sui generis. Or, what amounts to the same, capital as capital becomes a commodity" (Marx 1991: 516, 459–60).

Capital exists as a commodity with a certain value. The pricing process is absolutely crucial because it mediates the commodification (securitization) of the capitalist exploitation process. The price of capital is not imaginary, aleatory or psychological: it is fictitious. It does not owe its existence to the "costs of production" and obviously is not equal to the "amount of money that changes hands" or to some principal value written on the IOU. It is an outcome of a particular representation of capitalist exploitation which translates into quantitative signs the results of class struggle. From this point of view, the notion of fictitious capital can only be fully grasped in the context of Marx's materialist theory of fetishism and ideology. This also explains the puzzle of why Marx associated so closely and carefully his discussion on finance with the issue of fetishism.

Financialization embodies a range of institutions, procedures, reflections and strategies that make possible the accomplishment (not without contradictions) of fundamental targets in the context of existing social relations. From the perspective of Marx's analytical framework, this set of institutions, commodities and practices reflects the commodification of social relationships. Financial markets have the dual function of assessing and effectively organizing individual economic actors *and* at the same time promoting a particular form of financing. Derivatives and all other modern financial devices and innovations are the necessary precondition for implementation of financialization. They introduce a formative perspective on actual concrete risks, making them commensurate with each other and reducing their heterogeneity to a singularity.

Their reality as values – the very fact that they are commodities with a price, that is to say economic objects always already quantifiable – makes possible the commensuration of heterogeneous concrete risks. In this sense, they monitor and control the terms and the reproduction trajectories of the contemporary capitalist relation, evaluating and endeavoring to predict (albeit imperfectly) the course of the class struggle, forestalling events that would be unfavourable from the viewpoint of capital.

Financialization is thus not the result of some fatal and persistent inability of capitalism to restore profitability or to realize surplus value. The rise of finance is neither a threat to industrial capital, nor does it indicate a weakness of the latter (its inability to secure proper accumulation patterns). Finance sets forth a particular technology of power (along with a particular mode of funding economic activities) which is completely in line with the nature of capitalist exploitation. Every capitalist enterprise has a Janus-existence, as production means and as financial securities

Financial markets generate a structure for overseeing the effectiveness of individual capitals, that is to say a type of supervision of capital movement. 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*. 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*.

The recent crisis was in fact the outcome of active unfolding of the class struggle within the confines of contemporary social forms. The explosion of financial derivatives and the innovating forms of risk management have helped to fuel the crisis. These instruments should be seen as innovations engendering new kinds of rationality for the promotion of exploitation strategies based on the total circuit of capital; not as a dysfunctional configuration impeding the development of the "real" economy. The new rationalities of financialization presume an attitude of compliance with the laws of the capitalist system. Strange to say, these new rationalities systematically push for an underestimation of risks. Contemporary capitalism is caught in this exhausting tension between the need to be "efficient" and the underestimation of risks (see also Sotiropoulos et al. 2013).

There can never be capitalism without crises and all crises finally attain the form of capital over-accumulation: an abrupt fall in profitability referring to the (temporary) inability of the capitalist class to exploit labour "at a given level of exploitation" (Marx 1991: 364) and calling for the necessity for cutbacks in production, in other words overcapacity of the means of production, and the need for a new cycle of restructuring. The 2008 crisis will not be the last, and almost certain not the most acute over-accumulation crisis of the century.

Neoliberalism and financialization *is an exceptionally effective strategy for capitalist (and not rentier) class power*. It is also the means to cope with the crisis, i.e. *to place all the fallout of the economic crunch on the shoulders of the working people*. In bourgeois terms, effectiveness connotes capital's ability to impose the "laws" of capitalist accumulation, overriding labour resistance.

Apart from theoretical consequences, this 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* 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 fight against finance, is practically a process of de-normalization (de-individualization) which liberates people from the threat of risk, providing them more space to breathe and organize their struggles against the multiple capitalist power relations. But it does not eliminate or disintegrate the latter. In this sense, the fight against modern finance should be associated with a general anti-capitalist plan which among other frontiers must seek to take over and destroy the capitalist state…

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