Financial Capital Globalization as Capital Discipline and the Socialist Alternative

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1. Globalization, financialization, crisis

The current financial crisis of capitalism is without precedent in the post-war period. Regarding the crisis, recent heterodox literature is dominated by a single and persistent argument. The argument is that globalization and 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.[1]

The relevant economic literature coined the term *financialization* to denote this phenomenon which 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.

According to this way of thinking, two relevant changes have taken place in enterprises. *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 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.[2] To put matters schematically, the rentier

[1] For example see Palley (2007), Crotty (2005), Smithin (1996), Wray (2008), Dumenil and Levy (2004), O'Hara (2006).

[2] 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

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*.

Their basic weakness – and it is at the same 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"[3] 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.

2. Marx's problematic: towards a different interpretation of neoliberalism, globalization and finacialization

3.1 The structure of financial sector in Marx's analysis

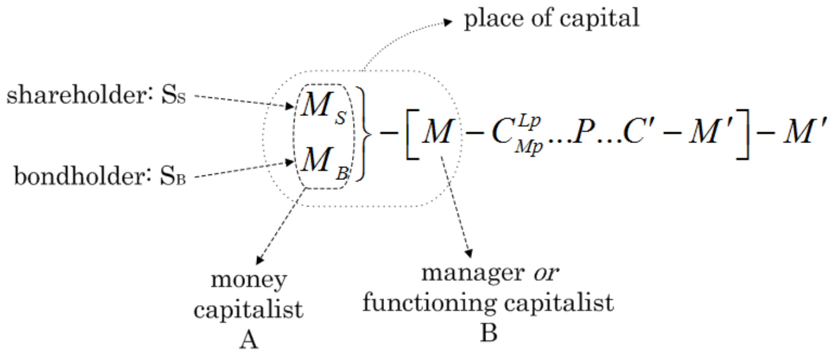
One comprehensive introductory definition of capital could be the following: a historically specific social relation that expresses itself in the form of "money as an end in itself" or "money that creates more money". At this level of generality, the capitalist occupies a specific *position* and plays 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*

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".

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

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 (Marx 1991).



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*.

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). In Marx's 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.*

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 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*.

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.

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

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 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*.[4] Hence, to us, "*market discipline" must be conceived as synonymous with "capital discipline". 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*.[5]

3. Reloading the idea of Socialism as a Good Society and the only alternative to capitalist rule

The theoretical sketching that we tried to present above apprehends the phenomenon of globalization and financialization as a complex technology of power, the main aspect of which is not income redistribution and economic instability but the organization of capitalist power relations. It should be comprehended as a technology of power formed by different institutions, procedures, analyses and reflections, calculations, tactics and embedding patterns that allow for the exercise of this specific,

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

[5] "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).

albeit very complex, function that organizes the efficiency of capitalist power relations through the workings of financial markets.

In this final section, we intend to discuss some basic ideas that spontaneously come out of the preceding analysis concerning the *ideal of socialism as a good society*. Without getting into details, we see good society as a society of equality where democratic decision making is widely spread out to as many as possible social domains. In this case, the mal-distribution of social power and wealth, being responsible for the multiple class, national, sex and gender divisions, no longer exists.

However, let us focus on a paradox which came into existence right after the crisis of 2008; while socialism (broadly defined) continues to be a timely ideal that provides the horizon for every reference to a good society, it is no more inscribed with social and political valid terms in the current debates in the developed capitalist West, regarding the necessary economic and social reforms. In another formulation, the idea of good society no longer seems to be a possible social target.

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

The power bloc is well aware of the theoretical critiques to neoliberal policies; for instance, the name of Minsky has gained many references even among the officers of central banks (see Minsky 1982). Despite the arguments emphasizing the endogenous propensity of the existing financial system towards volatility and instability, despite the views that criticize the shareholder's domination over the organization of production, contrary to the significant warnings that contemporary capitalism is concussively linked to severe income inequalities both within and among countries, the nature of the economic policies that ensued the crisis of 2008 continued more or less in the same neoliberal orientation.

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

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

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

Contemporary capitalism seems too far away from the implementation of any version of a good society. Nevertheless, the idea of socialism can be inscribed again in the menu of policy possibilities only if there is reformation and development of contemporary social movements that will dispute in practice the subjection of social life under the logic of capitalist profit.

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

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