Financial Innovation and Conflict in Heterodox Thinking:
The persistent survival of the labour theory of value and its critique

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Short description: When does a theory really die? In the history of economic thought, it is rather common to assume that the labour theory of value ceased to exert any significant influence on the mainstream economic thinking after Ricardo's death. It is also widely argued that the labour theory served as the base of Marx's theoretical argumentation. We believe that both of the above assumptions are equally wrong. In order to understand this reasoning we need to notice that despite the defeat of the labour theory as a theory of price formation, its immanent logic continued to haunt the non-neoclassical thinking at least a century after Ricardo's intervention. This abstract problematic of the labour theory of value comprises two fundamental aspects that both rely on the conception of labour as a transhistorical source of social wealth: first, social relations that characterize capitalism are conceived of as extrinsic to labour itself; second, the specificity of labour in capitalism is to be found in the way in which it is distributed. This problematic survived and underpinned the approaches of Veblen and Keynes of the structure of modern financial capitalism leading them to contend that financial innovations benefit the group of 'absentee' owners imposing 'sabotage' on the production of use values. On the contrary, Marx's intervention falls out with the framework of labour theory and provides a striking different explanation of modern financial phenomena shifting the emphasis from the sphere of circulation to that of organization of capitalist power relations (production). The essential point is that the Keynesian-like literature is incapable of understanding the essence of contemporary 'financialized' capitalism precisely because of its failure to understand capital.

Keywords: Marx, Keynes, Veblen, labour theory of value, financialization, fetishism.
JEL Classifications: B14, B15, B26

1. Marx's Monetary Theory of Value and Capital as a Critique of Classical Political Economy

1.1. The Circulation of Commodities

As it has been argued elsewhere (s. e.g. Heinrich 1999, Milios et al 2002, Arthur 2002), Marx's theory of value constitutes not a 'modification' or a 'correction' of Classical Political Economy's theory of value, but a new theoretical domain, shaping thus a new theoretical object of analysis. Marx's notion of value does not coincide with Ricardo's concept of value as 'labour expended', but it constitutes a complex notion, a theoretical 'junction' which allows the deciphering of the capital relation, by combining the specifically capitalist features of the labour process with the corresponding forms of appearance of the products of labour. In this way, value becomes an expression of the capital relation and the Capitalist Mode of Production (CMP) emerges as the main theoretical object of Marx's analysis.

Marx shaped thus a new theoretical discourse and a new theoretical 'paradigm' of argumentation. He showed that the products of labour become values because they are produced within the framework of the capital relation, (i.e. as 'products of capital' see Arthur 2002: 39-62). Further, that value necessarily manifests itself in the form of money.[1] Accordingly, money is the par excellence manifestation of value and thus of capital.

Value is the 'property' that products of labour acquire in capitalism, a property which gains material substance, that is actualised, in the market, through the exchangeability of any product of labour with any other, i.e. through their character as commodities bearing a specific (monetary) price on the market. From the *Grundrisse* (1857-8),[2] to *Capital* (1867),[3] Marx insisted that value is an expression of relations

[1] The product of labour 'cannot acquire the properties of a socially recognised universal equivalent, except by being converted into money' (Marx-Internet 1872, Ch. 3; MEW 23: 120).

[2] '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.).

exclusively characteristic of the capitalist mode of production. Value registers the *relationship of exchange* between each commodity and *all other* commodities and expresses the effect of the specifically capitalist homogenisation of the labour processes in the CMP, (production for-the-exchange and for-profit), as delineated through the concept of *abstract labour* (Milios et al 2002: 17-23).

Value is determined by abstract labour; however, abstract labour does not constitute an empirical magnitude, which could be measured by the stopwatch. It is an abstraction, which is constituted (it acquires a tangible existence) in the process of exchange:

> '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 commences with developing his theory of value (and of the CMP) from an analysis of commodity circulation. In order to decipher the form of 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 have thought this scheme to be barter; they further considered that all market transactions may be reduced to such simple barter acts (merely facilitated by money, since, with its mediation, a mutual coincidence of needs is not required any more).

Marx shows however that in this scheme we do not have two commodities of pre-existing equal values (i.e. measured independently, e.g. by the quantity of 'labour expended' for their production) exchanging with each other. Instead we have only *one commodity* (the commodity acquiring the first, i.e. the 'left-hand position' or the *relative value form*), whose value is measured in units of a different use value (the 'commodity' acquiring the position of the equivalent, and thus serving as the 'measurer of value' of the commodity in the relative form). The second 'commodity' (in the position of the equivalent: B) is not an ordinary commodity (unity of exchange

[3] '*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).

value and use value), but plays simply the role of the 'measure of value', of 'money', for the first commodity.

The value of the relative (A) is being expressed *exclusively* in units of the equivalent (B).[4] The value of the latter (of B) cannot be expressed; 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).

It has come out therefore that the 'simple value form' does not amount to an equality in the mathematical sense or a conventional equivalence: x commodity A = y commodity B (which would imply that y commodity B = x commodity A). It is on the contrary characterised by a 'polarisation', i.e. by the fact that each 'pole' occupies a qualitatively different position and has a correspondingly different function. This polarisation and this difference result from the fact that value is manifested (i.e., empirically appears) *only* in the exchange *relation* between commodities, in exchange value.

In other words the simple form of value tells us that x units of commodity A *have the value of* y units of the equivalent B, or that *the value of* a unit of commodity *A is y/x units of B*. In its Marxian version, the "simple form of value" measures only the value of commodity A in units of the equivalent B.

From the analysis of the simple value form, Marx has no difficulty in deciphering the *money form*. For this purpose he utilises two intermediate intellectual formulas, the *total or expanded* and the *general form* for expressing value. The second form in this developmental sequence (the *general form* of value) is characterised by one and only one equivalent in which all the other commodities

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[4] In a letter to Engels Marx noted: 'Messieurs Economists have hitherto overlooked the very simple fact that the form: *20 yards of linen fabric = 1 coat* is only the base of *20 yards of linen = £2,* and thus that the *simplest form of a commodity*, in which its value is not yet expressed in its relation to all other commodities but only as something *differentiated* from its own natural form, embodies the *whole secret of the money form* and thereby, *in nuce*, *of all bourgeois forms of the product of labour*' (MEW, Vol. 31: 306).

express their value. These commodities are thus always in the position of the *relative* value form. Only one 'thing' ('commodity') 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 realised) 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 (acquiring the relative position) express their value.

The Marxian 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: 42).

In Marx's theoretical system 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 maintained by mainstream theories) but monetary circulation and money:

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

The fact that even the most straightforward act, that of exchanging two commodities must be understood as a procedure consisting of two successive monetary transactions, a sale followed by a purchase, in accordance with the formula C-M-C (where C symbolises the commodity and M the money) allows the comprehension of a main inherent trend of the 'market economy': the propensity of money to become independent from its role as a *means* of exchange or a measure of value, its tendency to become an '*end in itself*': On the one hand in the case of 'hoarding' (e.g. as a result of a sale that is not followed by a purchase: C-M), and on the other in the case that money functions as 'means of payment', i.e. when the

purchaser appears in the act M-C as 'debtor', 'as the mere representative of money, or rather of future money' (MEW 23: 149; Marx-Internet 1872, Ch. 3).

> 'The circulation of commodities differs from the direct exchange of products (barter), not only in form, but in substance. (...) The process of circulation, therefore, does not, like direct barter of products, become extinguished upon the use-values changing places and hands (...) Circulation sweats money from every pore. Nothing can be more childish than the dogma, that because every sale is a purchase, and every purchase a sale, therefore the circulation of commodities necessarily implies an equilibrium of sales and purchases. (…) No one can sell unless some one else purchases. But no one is forthwith bound to purchase, because he has just sold' (MEW 23: 126-27, Marx-Internet 1872, Ch. 3).

The above presented theses indicate of two conclusions that are of importance for the discussion on the endogeneity of money:

1) In a 'money economy' (in capitalism), money is not a '*numeraire*'. This means that money functions as measure of values not because it already possesses the same dimension with commodities, but because it expresses the value dimension, it constitutes *the* value dimension: 'Money has no price: money is price' (Arthur 2002: 100). Money is the 'material embodiment' of the social relations immanent in the CMP.[5] With Marx's words:

> 'It has become apparent in the course of our presentation that value, which appeared as an abstraction, is only possible as such an abstraction, as soon as money is posited' (Marx 1993: 776).

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[5] Marx's notion of money presupposes the rejection of all 'historicist' approaches, which comprehend money as a historically shaped 'means of exchange' that has been inherited by capitalism from previous modes of production. Pre-capitalist money is therefore a distinct notion from money in the CMP (the form of appearance of value and capital). Money had a different nature in societies where pre-capitalist modes of production prevailed: In those societies, money as means of exchange or a store of 'wealth' had played a very different, a marginal role, filling up the 'external pores' of society. In capitalism, by contrast, money is the most general form of appearance of the core economic relation, of capital (see the following section of this paper); it is the 'vehicle' through which the economy's structural relations manifest themselves.

2) Since no economic activity is feasible without money's mediation (at least as 'unit of account'), whereas money acting as a store of value may always 'break away' from commodity production and circulation, money shall be regarded as relatively independent[6] from commodity production and circulation. The opposite is not true: 'Commodity creation' (production and circulation of commodities) carries with it or rather presupposes money. With Marx's formulation,

> 'the *social* character of labour appears as the *money existence* of the commodity and hence as a *thing* outside actual production' (Marx 1991: 649).

1.2. Money as Capital

The object of Marx's analysis is, as already argued, the Capitalist Mode of Production (CMP). The method that Marx utilises to fulfil his theoretical project is the 'gradual building up' of concepts, by moving on successive levels of theoretical abstraction and including constantly new determinations to these concepts (Arthur 2002: 33 ff.).[7] One comprehends then that in Marx's theory of money the notion of the 'general equivalent' cannot be the final, but an *intermediate*, provisional and 'immature' concept in the course of the theoretical analysis. The same is valid for the sphere of circulation of commodities, which according to Marx builds the outer husk or the

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[6] *Relatively* independent because when money functions as 'self-valorising value' (i.e. as capital, see the next section of this paper) on the level of the economy as a whole, it necessarily seeks its 'source of increase' in the production sphere, in the exploitation of the labour force: 'To be self-grounded, value must be produced by value' (Arthur 2002: 104).

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

surface of the whole capitalist economy. The sphere of circulation is a structural feature of the CMP; it characterises no other mode of production.[8]

We saw that even from the moment that Marx introduces the notion of money as the general equivalent he argues that money does not only play the role of a 'means' or a 'measure', but that it also tends to attain the role of an 'end in itself' (hoarding, means of payment, world money). Here we have to deal with an introductory definition of capital, with the (provisional and 'immature') introduction of the concept of capital: money functioning as an end in itself.

In order to be able to function as an end in itself, money has to move in the sphere of circulation according to the formula M – C –M. Due to the homogeneity of money however, this formula is meaningless[9], unless for the case that it describes a quantitative change, i.e. an increase in value: The aim of this motion cannot be anything else than the continual 'creation' of surplus-money. The formula becomes then M – C –M′ where M′ stands for M+ΔM .

However, money can function as such an 'end in itself' only in the case that it dominates over the sphere of production and incorporates it into its circulation, M – C –M′, i.e. when it functions as (money) capital. The exploitation of labour power in the production sphere constitutes the actual presupposition for this incorporation and this motion. Thus '*the circulation of money leads (...) to capital*' (Marx 1993: 776).

Marx formulated and then developed the theory of capital on the basis of his concept of value. Capital is value which has been appropriated by capitalists. Precisely because it constitutes value, capital makes its appearance as money and commodities. But the commodities that function as capital are certain specific

[8] 'An analysis (...) would show, that the whole system of bourgeoisie production is presupposed, so that exchange value may appear on the surface as the simple starting point, and the exchange process (…) as the simple social metabolism which though encircles the whole production as well as consumption' MEGA II.2: 52 (*Urtext von 'Zur Kritik der Politischen Oekonomie'*, 1858). As Murray (2000) correctly notes, '*Marx's whole presentation of the commodity and generalised simple commodity circulation presupposes capital and its characteristic form of circulation*. It is perhaps the foremost accomplishment of Marx's theory of generalised commodity circulation to have demonstrated – with superb dialectical reasoning – that a sphere of such exchanges cannot stand alone; generalised commodity circulation is unintelligible when abstracted from the circulation of capital'.

[9] Or, better, aimless: it can neither cause a change in the quality nor in the quantity of the entity in motion.

commodities: the means of production (constant capital) on one hand and labour power (variable capital) on the other.

The capitalist appears on the market as the owner of money (M) buying commodities (C) which consist of means of production (Mp) and labour 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).

In the Marxist theory of the capitalist mode of production both value and money are concepts which cannot be defined independently of the notion of capital. They contain (and are also contained in) the concept of capital. Marx's theory, being a monetary theory of value, is at the same time a monetary theory of capital.[10]

The motion of money as capital binds the production process *to* the circulation process, in the means that commodity production becomes a phase or a moment (although the decisive moment for the whole valorisation process) of the total circuit of social capital: M—C (= Mp+Lp) [→P→C′]—M′

> 'Value therefore now becomes value in process, money in process, and, as such, capital. (...) The circulation of money as capital is, on the contrary, an end in itself, for the expansion of value takes place only within this constantly renewed movement. The circulation of capital has therefore no limits' (MEW 23: 167; 170; Marx-Internet 1872, Ch. 4).

The circuit of social capital attains its dynamics from the exploitation of labour power in the sphere of production. However, it is wider than the commodity production and circulation process, since it embraces also the spheres of credit and finance and the speculation associated with them.

Marx's monetary capital theory implies not only a defend of money endogeneity, but furthermore an 'inversion' of the Post-Keynesian thesis about the endogenous character of money: The creation and circulation of money is not endogenous in the process of commodity production and circulation, but on the

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[10] '(...) value requires above all an independent form by means of which its identity with itself may be asserted. *Only in the shape of money does it possess this form*. Money therefore forms the starting-point and the conclusion of every valorisation process' (Marx 1990: 255).

contrary, the production and circulation of commodities is endogenous in the overall social circuit of money, whose motion is determined by its function as capital.

With another formulation, the analysis on the basis of Marx's categories has shown that all conceptions of dichotomy between the 'real' economy and money shall be abandoned. Money is not simply endogenous in the economic relations. Its motion *is* the material expression of the capitalist economic relations. Commodity production and circulation shall be comprehended as a moment (both structurally and temporally) of these economic relations, i.e. of the overall social circuit of money capital. The fact that commodity production and circulation constitute the decisive moment of the capitalist relations of production (pumping out of surplus value) does not change anything to the thesis just stated:

> 'This circulation of money in turn leads to capital, hence can be fully developed only on the foundation of capital, just as, generally, *only on this foundation can circulation seize hold of all moments of production*' (Marx 1993: 776, emphasis added).

It is neither a matter of a 'money supply' that compels the 'demand for money' to an equilibrium position nor the case of a 'demand for money' to which a 'from outside directed' money supply must adjust. Money is the 'objectification' of the capital relation (the embodiment of 'self-expanding value') and the vehicle of its expanded reproduction.[11]

Money creation can therefore be exclusively the result of the dynamics of capitalist expanded reproduction on the total social level, which, in the last instance, determines the will of all legal, political, technical, etc. agents and the functioning mode of state apparatuses or authorities. The argument that issuing of fiat money is exogenous because it constitutes a state 'decision' and act, does not pose the essential question of 'what determines state decisions'. The fact that, as Marx has shown (see the next section of this paper), credit-money necessarily constitutes the main money form in the CMP means that fiat money cannot substitute for it (or replace it). It is not

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[11] 'In order not to petrify as hoard, money must always go into circulation, exactly as it has come out of it, but not merely as means of circulation but (...) as *adequate exchange value,* but at the same time as *multiplied, increased exchange value, valorised exchange value*' (MEGA II/2: 77).

by chance then that fiat money becomes the main money form only in exceptional conjunctures, such as war or financial collapse.

2. Capital and Financialization

2.1. Non Marxist Approaches to Financialization and their Linkage to Labour Theory of Value

Despite the defeat of the Ricardian labour theory as a theory of price formation, its immanent logic continued to haunt the non-neoclassical thinking at least a century after Ricardo's intervention. This problematic reserves two fundamental aspects of the Ricardian labour theory of value, that both rely on the conception of labour as a transhistorical source of social wealth: first, social relations that characterize capitalism are conceived of as extrinsic to labour itself; second, the specificity of labour in capitalism is to be found in the way in which it is distributed.

In this theoretical framework, the idea is shaped 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. However, 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[12] 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

[12] 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).

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 coined the term *financialization* to denote this phenomenon 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.

According to recent post-Keynesian and institutional analyses, 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. *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.[13]

[13] 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".

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. 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)[14]. 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).

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”[15] 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.

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[14] See also Campbell (2003).

[15] 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).

2.2. Towards a Marxian Interpretation of Financialization and Neoliberalism

Keynesianism undoubtedly offers a helpful perspective on the neoliberal form of capitalism,[16] 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 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.

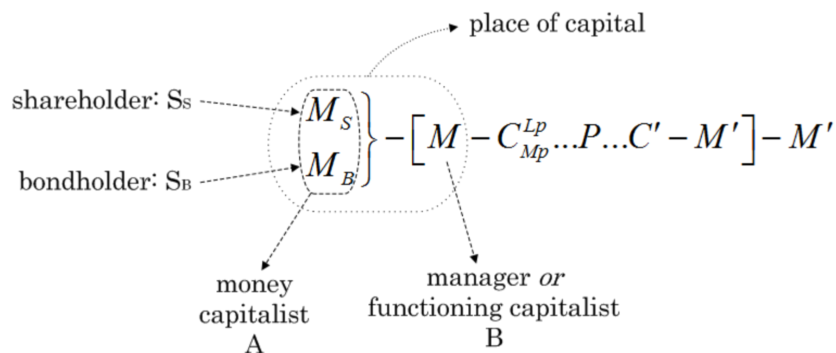
Some time ago, Paul Krugman (1997: 155) asked the following relevant question: *why has the world of finance become so frenetic*? We shall attempt to answer the question in what follows, rejecting Keynesian arguments that the hegemony of the *rentier* lies behind neoliberalism. Returning to Marx's analysis 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.

As we have already mentioned (see Section 1), 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

[16] 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).

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* (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*.

3. Market Discipline or Capital Discipline?
The 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.[17] *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.[18] 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 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.[19] 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

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[17] This aspect of Marx's analysis is very pertinently highlighted by Balibar (1984).

[18] Marx (1991: 170-240), Milios et al. (2002).

[19] See Marx (1990), Marx**Error! Bookmark not defined.** (1991, 295-300), Busch (1978), Hilferding (1981: 130-150).

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 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*.[20] Thus, equity holders' and bondholders' interests are basically aligned with respect to enterprise profitability.[21] 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

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

[21] 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.

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.*[22]

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.[23] *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*.[24]

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

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

[23] 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 (Fama and French 2001).

[24] "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).

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*. 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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