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Value, Fictitious Capital and Finance. The Timeless of Karl Marx's *Capital*[1]

Marx's monetary theory of value[1]

Karl Marx is not a proponent of classical value theory as labour expended. Marx developed in *Capital* and his other mature economic writings a monetary theory of value and capital.[2] He analysed value as an expression of relations 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 homogenization of the labour processes in capitalism (production for exchange and production for profit).[3]

Marx specifies and develops the notion of value and through it all other notions reflecting the capitalist mode of production (CMP) on the basis of a twofold methodology: (a) an analysis on *different levels of abstraction*, which aims at (b) a process of *gradual clarification-concretisation*, starting from a commonly accepted definition of the concept under discussion and reconstructing it step by step into a new (Marxian) concept. It is in this sense that his theory constitutes a *Critique* and not a correction (or a version) of Classical Political Economy.[4]

1 A shorter version of this paper was presented at the first *Historical Materialism Athens Conference: 'Rethinking Crisis, Resistance and Strategy'*, Panteion University of Social and Political Sciences, 2–5 May, 2019.

2 The product of labour 'cannot acquire universal social validity as an equivalent-form except by being converted into money', Karl Marx, *Capital, Volume One*, trans. Ben Fowkes, Penguin Classics, London 1990, p. 201.

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', *Ibid*., p. 174. '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'. Karl Marx, *Grundrisse,* trans. Martin Nicolaus, Penguin Classics, London 1993, p. 776 ff.

4 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

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It is clear then that a comprehensive theoretical investigation of Marx's theory shall not stick itself to the introductory treatment of the notions in question, but take into consideration his whole analysis (in the 3 Volumes of *Capital*, the first draft of which Marx had completed in 1865).

Marx applies the above-described methodology to the elaboration of his concept of value. That is why he makes a Ricardian-like version of value as his point of departure. However, he did not restrict himself to this initial definition (according to which value is identified with the quantity of labour – with socially average characteristics of productivity and intensity – expended on the production of a commodity), but formulated a new, monetary theory of value.[5]

Marx's theory of value shapes a new theoretical domain and a new theoretical object of analysis: Marx's concept of value 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.[6]

"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*' Karl Marx, *Marx-Engels-Werke (MEW*), *Bd. 19*, Dietz Verlag, Berlin 1976, p. 368. Karl Marx, *Notes on Adolph Wagner's "Lehrbuch der politischen* Ökonomie*" (Second Edition), Volume I, 1879*". Available at: https://www.marxists.org/archive/marx/works/1881/01/wagner.htm. See also Christopher Arthur, *New Dialectic and Marx's Capital*, Brill Academic Publ., Leiden-Boston-Köln 2002.

5 Marx introduces, of course, the notion 'labour power', which is a *major* new theoretical concept distinguishing him from Ricardo. However, it is not *the* major point, as we have noted in the past. John Milios, Dimitri Dimoulis and George Economakis, *Karl Marx and the Classics. An Essay on Value, Crises and the Capitalist Mode of Production*, Ashgate, Aldershot 2002, p. 15, 31. When the Classic economists claim that the value of 'labour' (the wage) equals the value of the worker's means of subsistence, it is clear that they speak about something different from the quantity of labour expended by the worker. In other words, the notion of labour power is to be found implicitly in Ricardo's (and Smith's) analysis.

6 Michael Heinrich, *Die Wissenschaft vom Wert*, überbearbeitete und erweiterte Neuauflage, Westfälisches Dampfboot, Berlin 1999. John Milios et. al., *Karl Marx and the Classics. An Essay on Value, Crises and the Capitalist Mode of Production*. John Milios, 'Theory of Value and Money. In Defence of the Endogeneity of Money', paper presented at the Sixth International Conference in Economics, Economic Research Center, METU, Ankara, September 11–14, 2002. Christopher J. Arthur, *New Dialectic and Marx's* Capital, Brill Academic Publ., Leiden-Boston-Köln 2002.

Value is the 'property' that the products of labour acquire in capitalism, which gains material substance, 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. 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*.

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.[7]

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 is exchanged for *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

7 Karl Marx, *A Contribution to the Critique of Political Economy*, Lawrence & Wishart, London 1981, p. 45.

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 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). 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.[8]

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 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

8 Karl Marx, *Capital Volume One*, p. 147.

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*.[9]

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*.[10]

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 and hence as a *thing* outside actual production.[11]

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 (or C-M, 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 ex-

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9 *Ibid*., p. 161.

10 Karl Marx, "'*Das Kapital' und Vorarbeiten, Marx, Das Kapital, Erster Band, Hamburg 1867*", v: *Marx-Engels-Gesamtausgabe (MEGA) II.5*, Dietz Verlag, Berlin 1983, p. 42.

11 Karl Marx, *Capital, Volume Three*, trans. David Fernbach, Penguin Classics, London 1991, p. 649.

change 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 as the representative of future money'.[12]

> The circulation of commodities differs from the direct exchange of products not only in form, but in its essence. [...] The process of circulation, therefore, unlike the direct exchange of products, does not disappear from view once the use-values have changed places and changed hands [...] Circulation sweats money from every pore. Nothing can be more foolish than the dogma that because every sale is a purchase, and every purchase a sale, the circulation of commodities necessarily implies an equilibrium between sales and purchases. [...] No one can sell unless someone else purchases. But no one directly needs to purchase, because he has just sold.[13]

Money is the 'material embodiment' of the social relations immanent in the CMP.[14] Production and circulation of commodities carries with it or rather presupposes money. 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.[15]

Marx's monetary theory of capital

Taking into consideration the above stated analysis, one comprehends 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 com-

12 Karl Marx, *Capital, Volume One*, p. 233.
13 *Ibid.*, pp. 207–209.
14 In contrast, 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 secondary 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; it is the 'vehicle' through which the economy's structural relations manifest themselves.
15 Karl Marx, *Grundrisse,* p. 776.

modities, which according to Marx builds the outer husk or the surface of the whole capitalist economy. The sphere of circulation is a structural feature of the CMP; it characterises no other mode of production.[16]

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,[17] 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*'.[18]

16 "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." Karl Marx, "'*Das Kapital' und Vorarbeiten, Marx, Das Kapital, Erster Band, Hamburg 1867*", p. 52. As Murray 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'. Patrick Murray, "Marx's 'Truly Social' Labour Theory of Value: Abstract Labour in Marxian Value Theory: Part I", *Historical Materialism* 6 (1/2000), p. 41.

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

18 Karl Marx, *Grundrisse,* p. 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 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 CMP 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.[19]

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. It comes out of circulation, enters into it again, preserves and multiplies itself within circulation [...] and starts the same cycle again and again. [...] The circulation of money as capital is an end in itself [...]. The circulation of capital is therefore limitless.[20]

In this process, the capitalist appears to be the producer of value and surplus value. This is much more so, as the worker does not produce commodities (and value) individually, but only as a constituent part of 'the collective worker':

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19 '[...] 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'. Karl Marx, *Capital, Volume One*, p. 255.

20 *Ibid*., p. 253, p. 256.

> [...] the specialized worker produces no commodities. It is only the common product of all the specialized workers that becomes a commodity.[21]

Every capitalist is always at the same time a 'trader' or 'merchant' (who as a money owner buys commodities, the enterprise's inputs: means of production and labour power, in order to sell commodities, the produced output) and 'manager' of a labour and production process, which makes it possible for trading to be effective. This means that, despite certain ambiguities and contradictions to be found in Marx's texts, all forms of labour that produce surplus-value are productive, regardless the branch or sphere of economic activity.[22] As Marx puts it:

> If we may take an example from outside the sphere of material production, *a schoolmaster is a productive worker when, in addition to belabouring the heads of his pupils, he works himself into the ground to enrich the owner of the school*. That the latter has *laid out his capital in a teaching factory, instead of a sausage factory*, makes no difference to the relation'.[23]

21 *Ibid*., p. 475.

22 On the contrary, capitalistically non-productive are all forms of labour that are not being exchanged with (variable) capital: non-remunerated labour (e.g., household labour producing use values for one's own consumption), remunerated labour exchanged not with capital but with private income (e.g., servants, gardeners, housekeepers, etc. in private households), public servants or government employees in state apparatuses that do not sell goods or services (e.g., ministries, the police, public schools etc.), self-employed producers who sell 'simple' commodities (i.e., commodities that are not being capitalistically produced and thus do not contain surplus value to be realized in the market).

23 Karl Marx, *Capital, Volume One*, p. 644. Emphasis added. Marx writes also characteristically: "Since the direct purpose and the actual product of capitalist production is surplus value, only such labour is productive, and only such an exerter of labour capacity is a productive worker, as directly produces surplus value. Hence only such labour is productive as is consumed directly in the production process for the purpose of valorising capital. [...] And only the bourgeoisie can confuse the question of what are productive labour and productive workers from the standpoint of capital with the question of what productive labour is in general, and can therefore be satisfied with the tautological answer that all that labour is productive which produces, which results in a product, or any kind of use value, which has any result at all." *Ibid*.: 1038–1039, the trans. compared with the German original and slightly altered). As regards the circulation sphere, he clarifies: "in so far as circulation itself creates costs, itself requires surplus labour, it appears as itself included within the production process." Karl Marx, *Grundrisse,* p. 524.

After the introduction of his monetary theory of value and capital, i.e., from Part 3 of Vol. 1 of *Capital* onward, Marx analyses the process of capitalist production and accumulation in reference to *labour and surplus-labour*, so that the readers comprehend that surplus-value (which appears as a monetary profit) derives from surplus-labour. In other words, Marx tries in this section of his work to illustrate the process of class exploitation of the working class by capital, a process that is being concealed by the money relations between the capitalist and the worker.[24]

Marx himself warned the reader of the simplistic assumptions in this part of his analysis, namely that when talking about surplus-labour one talks not about the specificity of capitalism, but about an exploitation process which has common characteristics with all modes of production: surplus labour expenditure and the creation of a surplus product which is appropriated by the ruling class (which characterises every mode of production and not only the CMP). He writes:

> Capital has not invented surplus-labour. Wherever a part of society possesses the monopoly of the means of production, the labourer, free or not free, must add to the working-time necessary for his own maintenance an extra working-time in order to produce the means of subsistence for the owners of the means of production, whether this proprietor be the Athenian καλός κ' αγαθός, an Etruscan theo-

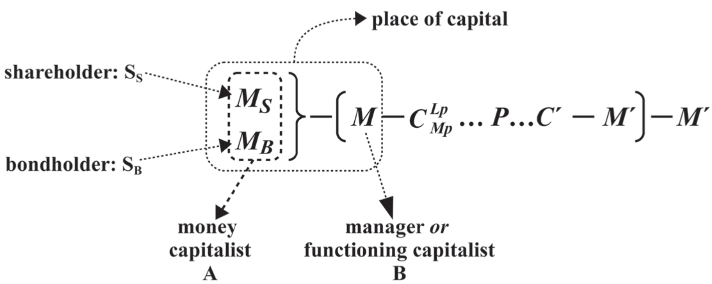
[24] Marx writes: “This portion of the working-day [devoted to surplus-value production, J.M.], I name surplus-labour-time, and to the labour expended during that time, I give the name of surplus-labour. It is every bit as important, for a correct understanding of surplus-value, to conceive it as a mere congelation of surplus-labour-time, as nothing but materialised surplus-labour, as it is, for a proper comprehension of value, to conceive it as a mere congelation of so many hours of labour, as nothing but materialised labour.” Karl Marx, *Capital, Volume One*, p. 325. However, the tribute paid by the peasant communities to the emperor of China or to the Sultan of the Ottoman Empire (e.g. the tenth of their wheat production, etc.) was also the product of surplus-labour. The total working time of those peasants (the direct producers in the specific mode of production) were significantly over the time required to produce their subsistence means. This does not mean, however, that they produced commodities or surplus-value. To analyse capitalism one has to move forward, to the specific forms of appearance of the surplus product produced by surplus-labour. This is what Marx emphasises, when he adds to the above-cited passage: “*The essential difference between the various economic forms of society, between, for instance, a society based on slave-labour, and one based on wage-labour, lies only in the mode in which this surplus-labour is in each case extracted from the immediate producer, the worker.*” Karl Marx, *Capital, Volume One*, p. 325. Emphasis added.

> crat, a civis Romanus, a Norman baron, an American slave-owner, a Wallachian Boyard, a modern landlord or a capitalist.[25]

The reason for this analysis of exploitation on the basis of surplus-labour, (a notion which does not reflect the *specific difference* of the specific mode of production under examination), and not in relation with the specific forms under which the appropriation of surplus-labour manifests itself in capitalism (profit and money relations), is, as mentioned, the existing in these forms self-generating consequences of concealment of class exploitation: The subordination of labour to capital imposes the capitalist as *the* producer of commodities and regulates exchange ratios between commodities in accordance with production costs. Profit is thus presented as proportion of the advanced capital, so that *'surplus-value itself appears as having arisen from the total capital, and uniformly from all parts of it'*.[26]

Fictitious capital and the regulatory role of finance[27]

Proceeding to a more concrete level of analysis in Vol. 3 of *Capital*, Marx acknowledges that *the place of capital* is in general occupied by more than one subject: a *money capitalist* and a *functioning capitalist*. This means that a detailed description of capitalism cannot ignore the *circulation of interest-bearing capital*, which depicts the structure of the financial system. Marx's argumentation might be represented in the following schema:



[25] *Ibid.*, pp. 344–45.

[26] Karl Marx, *Capital, Volume Three*, p. 267.

[27] In what follows in this Section see Dimitris P. Sotiropoulos, John Milios and Spyros Lapatsioras, *A Political Economy of Contemporary Capitalism and its Crisis. Demystifying Finance*, Routledge, Abington and New York 2013.

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 from the functioning capitalist B. This promise certifies that A remains *owner* of the money capital *M*. He only cedes to B the right to make use of it for a specified period.

Two 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).[28]

Secondly, the pure form of ownership over capital is the *financial security*. 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.[29]

> 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.[30]

[28] 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". Karl Marx, *Capital, Volume Three*, p. 504.

[29] *Ibid*., pp. 607–9, pp. 597–8.

[30] *Ibid*., pp. 516, 459–60.

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.[31] 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.

> The formation of fictitious capital is known as capitalization. [...] The market value of these securities is partly speculative, since it is determined not just by the actual revenue but rather by the anticipated revenue as reckoned in advance.[32]

Following Marx, banks, insurance companies, funds, and other forms of financial enterprises are productive, 'from the standpoint of capital' (see also the argument developed in the previous Section of this paper):

> Let us now consider the total movement, M–C...P...C'–M', [...]. The capital that assumes these forms in the course of its total circuit [...] *is industrial capital* – industrial here *in the sense that it encompasses every branch of production* that is pursued on a capitalist basis [...].[33]

Contrary to a classical or historicist reading of Marx, he defines as 'industrial capital' every form of individual capital, regardless of the sphere of production in which it is employed. He further explains that in its circuit, each 'industrial capital' constantly passes through the subsequent phases of money capital, productive capital, and commodity capital.

Marx's second discourse

Marx's theoretical oeuvre does not avoid, however, certain contradictions or ambiguities: At certain points of his work Marx becomes ambivalent towards

31 *Ibid.*, pp. 597–9.
32 *Ibid.*, pp. 596–597.
33 Karl Marx, *Capital, Volume Two*, Penguin Classics, London 1992, pp. 132–133.

Classical (Ricardian) Political Economy. This happens especially at certain points of his 1864–65 draft of Volume 3 of *Capital*, which were edited and published by Engels in 1894.

Before dealing with Marx's ambivalences towards classical Political Economy, let us resume the main theses formulated above, even if some previously stressed points are being repeated here:

Marx's monetary theory of value demonstrates that value and prices are not situated at the same level of analysis. They are not commensurate i.e. qualitatively similar (and so quantitatively comparable) entities. Money is the *necessary form of appearance of value* (and of capital) in the sense that prices constitute the only form of appearance of the value of commodities. The difference between values and production prices (i.e. prices ensuring the average general rate of profit for the whole capitalist economy) is thus not a quantitative one, assuming that the latter simply arise from the former through a 'redistribution of value among capitalists'. It is a difference between two non-commensurate and so *non-comparable* entities, which are, though, intertwined in a notional link, which connects causal determinations (values) and their forms of appearance (prices).

However, when Marx deals in Volume 3 of *Capital* with the 'transformation of values into prices of production', and later with 'absolute ground rent', he distances himself from the implications of his own theory (non-commensurability between value and price) and draws *a quantitative comparison between values and production prices*: through mathematical calculations 'transforms' the former into the latter. In this way, albeit tacitly, he adopts (he retreats to) the Classic viewpoint that values are entities that are qualitatively identical and therefore quantitative comparable (i.e. commensurable) with prices.

Instead, therefore, of re-affirming his theoretical system, according to which prices are derived from values conceptually ('the *social* character of labour appears as the *money existence* of the commodity'[34]), Marx retreats to the *empiricism* of the Ricardian theory: He accepts the problematic that two individual capitals utilising the same amount of living labour but different amounts of

34 Karl Marx, *Capital, Volume Three*, p. 649.

constant capital produce an output of equal *value* but (given the general profit rate) unequal (production) price. He then claims that in order to justify the theory of value one has to prove the two 'invariance postulates', namely that on the level of the economy as a whole *the sum of values equals the sum of commodity prices, while at the same time the total surplus-value shall be equal to the total profit*. The 'transformation of values into prices of production' was aimed to provide that proof.[35]

There so emerges a second discourse in Marx's writings, which adheres to the Classical tradition of Political Economy.

Between the two Discourses there exists a notional gap; they are incompatible with each other.

As shown above, *Discourse 1* (Marx's monetary theory of value and capital), comprehends money as the only empirically tangible measure of value ('value can only manifest itself in the social relation of commodity to commodity'[36]), since it considers price to be the exclusive *form of appearance of value* (both notions, value and money, being situated on different levels of abstraction: 'value, which appeared as an abstraction, is only possible as such an abstraction, as soon as money is posited'[37]). In the value expression, the [general] *equivalent*, i.e, money, constitutes the *exclusive measure of value* of any commodity, (all being situated in the 'relative' position); the value of this general equivalent cannot be expressed ('the magnitude of its value ceases to be expressed quan-

35 It is characteristic that when Marx describes the mechanism for equalising the rate of profit in the various sectors of the capitalist economy by means of competition, he frequently speaks – following the concepts of the Classical system – of the *values* which initially diverge and are then transformed through competition into production prices, instead of the *prices which diverge from the production prices* (and thus entail different rates of profit) but which are finally converted into production prices (which is tantamount to equalisation of the rate of profit). For a detailed analysis see John Milios et al., *Karl Marx and the Classics. An Essay on Value, Crises and the Capitalist Mode of Production*, pp. 111–141. The issue of qualitative identity and thus of quantitative comparison between values and prices appears also in Part VI, Ch. 45 of Vol. 3 of *Capital*, when Marx analyses the 'absolute ground rent': 'If the composition of capital in one sphere of production is lower than that of the average social capital [...] the value of its product must stand above its price of production'. Karl Marx, *Capital, Volume Three*, pp. 892–93.

36 Karl Marx, *Capital, Volume One*, pp. 138–39.

37 Karl Marx, *Grundrisse,* p. 776.

titatively'[38]). Any form of non-monetary exchange or of direct 'value-comparison' between commodities is precluded: 'Commodities do not then assume the form of *direct mutual exchangeability. Their socially validated form is a mediated one*'.[39]

According to *Discourse 2* (Marx's Classic problematic in Sections of Vol. 3 dealing with the 'transformation problem' or 'absolute ground rent'), on the contrary, value and price are situated on the same level of abstraction, are qualitatively identical and therefore quantitatively comparable. The implications are, a) that in practice we are able to measure values independently of (abstracting from) money; b) that 'abstract social labour' belongs to the world of empirically observable and measurable objects, exactly like money[40]; c) that one may undertake quantitative 'comparisons' between values and prices and even calculate the 'money equivalent' of labour time (or its converse) for the aggregate economy.

The question is now raised, of what may be the possible causes of Marx's ambivalences towards Classical Political Economy. Answering in a general way, one may say that the issue simply reflects the contradictions of Marx's break with Ricardian theory, contradictions which are immanent in every theoretical rupture of the kind, i.e. in every attempt to create a new theoretical discipline on the basis of the critique of an established system of thought.

I will let the further discussion of this question open. At this point, it is worth mentioning, though, that the majority of Marxists seem not to perceive the existence of these two deviating discourses in Marx's writings, and, even more, not to understand the theoretical consequences of reducing Marx's theory to (or identifying it with) the Ricardian perception of value as a quantity of 'expended labour'.

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38 Karl Marx, *Capital, Volume One*, p. 147.

39 Karl Marx, "'*Das Kapital' und Vorarbeiten, Marx, Das Kapital, Erster Band, Hamburg 1867*", p. 42.

40 According to *Discourse 1*: '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'. Karl Marx, *A Contribution to the Critique of Political Economy*, Lawrence & Wishart, London 1981, p. 45. Emphasis added.

The present-day relevance of Marx's analysis: Neoliberalism and Financialization as capital discipline

Present-day developments in finance date from the beginning of the 1980s and have their origins in the abolition of the restrictions that had been imposed on banks, on the international movement of capital, and on the mode of operation of stock exchanges after the crisis of 1929 (particularly in London and the USA). In other words, they have their origins in the emergence of what is called the neoliberal framework for regulation of the financial sphere.

One of the basic characteristics of the neoliberal model is the increase in non-bank funding of credit, both by states and by enterprises, and rapid development of risk management techniques and the financial sphere as a whole, a development whch is described by the term financialization.

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.[41]

Financialization is not, as some authors claim, just a political strategy of the ruling class,[42] nor a (political) process of *unequal exchange, permanent theft, dispossession*, etc., i.e. appropriation by the sphere of financial circulation of a surplus

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41 "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". Dick Bryan and Michael Rafferty, *Capitalism with Derivatives, A Political Economy of Financial Derivatives, Capital and Class*, Palgrave Macmillan, New York and London 2006, p. 97.

42 "The establishment of neoliberal capitalism cannot be understood as a merely economic phenomenon, a change in policies and institutions. The crisis of neoliberalism is the expression of the inner contradictions of a political strategy supported by basic national and international economic transformations, whose main objectives are the restoration and increase of the power, income, and wealth of upper classes". Gerard Duménil and Dominique Lévy, *The Crisis of Neoliberalism,* 2016. Available at: http://www.cepremap.fr/membres/dlevy/dle2016d.pdf

produced in the 'real economy', as others seem to believe.[43] Financialization is the present-day development of capitalism.

First of all, the financial existence of capitalism was always there, from its very beginning.

> All these securities actually represent nothing but accumulated claims [...] *In all countries of capitalist production, there is a tremendous amount of so-called interest-bearing capital or "moneyed capital" in this form*.[44]

In other words, it is not a deviation from or a distortion of some 'good' industrial capitalism, or equally a new, predatory, method of exploitation (exploitation by dispossession etc.), a 'bad' exploitation as opposed to the 'good' exploitation by the 'productive' industrial capital, but a historic development expressing the *formal determinations* innate in the capitalist mode of production. As Marx clearly pointed out,

> when we actually examine the social relations of individuals within their economic process, we simply have to adhere to the formal determinations of this process itself.[45]

All discussions about financial instability and income redistribution are important, doubtless reflect significant aspects of present day capitalism, but they do not capture its essence, as they do not 'adhere to the formal determinations' of the capitalist mode of production. Capitalist rule and exploitation is thus presented as being constituted by a virtuous core, productive accumulations which ensures income increase for all participants, which is being corrupted by non-productive financial speculation, casino-capitalism etc.

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43 'The rise in importance of accumulation by dispossession as an answer, symbolized by the rise of an international politics of neoliberalism and privatization, correlates with the visitation of periodic bouts of predatory devaluation of assets in one part of the world or another. And this seems to be the heart of what contemporary imperialist practice is about'. David Harvey, *The New Imperialism*, Oxford University Press, Oxford 2003, p. 182.

44 Karl Marx, *Capital, Volume Three*, p. 599. Emphasis added.

45 Karl Marx, *"Ökonomische Manuskripte und Schriften 1858–1861*", v: *Marx-Engels-Gesamtausgabe (MEGA) II.2*, Dietz Verlag, Berlin 1980, p. 59.

However, 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, an existence with which the Ricardian version of value as 'labour expended' cannot come to grips. In developed capitalism the key role of financial markets does not have only to do with supplying credit to companies. The complementary function of financial markets is *to 'monitor' the effectiveness of individual capitals, facilitating within enterprises exploitation strategies favourable for capital*.

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*. Thus, equity holders' and bondholders' interests are basically aligned with respect to enterprise profitability. 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). The dilemma is not only hypothetical: *accept the 'laws of capital' or live with insecurity and unemployment*.

Besides, organized financial markets favour *movement of capital worldwide, intensifying capitalist competition*, at the same time securing more favourable conditions for valorization (exploitation) of individual capitals.

Strange to say, these new rationalities of the system 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.

Financial 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. At the same time, however, this means ever greater pressures for risk-free profit, for issuing of securities, in other words for intense competition, with consequent a downplaying of risk and massive withdrawal from participation and funding when secure profit is jeopardized.

The 2008 crisis was a systemic one. Systemic in the sense that it has been engendered by the elements and the relations that are at the core of the neoliberal model. It is systemic also because it has struck at important nodal points of the system and through them at the terms of operation of the internationalization of capital.

The interconnectedness of events is thus the reverse of what is often maintained. What is involved is not a continuing crisis of overaccumulation dating from the 70s, which has fed superfluous capital into the sphere of finance, in this way leading to speculation, the 'bubble' and the crisis. The preceding crisis of overaccumulation of capital had already been blunted through the contribution of the neoliberal settlement (in which a decisive nodal point was the functioning of the financial sphere).

The blocking of the sphere of finance and credit funding on which expanded reproduction of capital was based was inevitably interpreted as 'involvement' of this expanded reproduction. This in turn meant an abrupt fall in profitability and the necessity for cutbacks in production, overcapacity of the means of production, overaccumulation of productive capital and the need for a new cycle of restructuring.

In other words, the fall in the general rate of profit was not the cause, but one of the effects of the crisis.

The explosion of financial derivatives and the innovating forms of risk management fuelled the crisis. In other words, *the conditions for increase in class domination of capital appear simultaneously as conditions undermining that domination*. Systemic crisis does not spell destruction for the system. It means exposure of its contradictions.

The new arrangements that were put forward did not question the international character of the financial system, securitization, the deepening of the market, the squeeze on working people.

The core of the neoliberal dogma remained intact, with the overwhelming correlation of power in favour of capital simply taken as a given, so that labour would continue to be treated as the 'flexible' variable, destined to absorb all the shocks, currents and future.

A concluding political remark

Neoliberal capitalism seems invincible in today's financialized economic environment. However, class struggle will always create contingent events. The continuation of neoliberal policies and the stability of capitalism will be a matter of the social relation of contending forces. What Karl Marx commented on the limits of the working-day, is also true for all forms of conflicting class interests in a capitalist society:

> There is [...] an antinomy, of right against right, both equally bearing the seal of the law of exchange. Between equal rights force decides.[46]

Capitalism was always and will never cease to be exploitative, domineering, speculative. But it will not disintegrate or decay due to its exploitative, domineering, speculative character, certainly not due to the supposedly specifically 'predatory' function of the financial sphere – as opposed to the 'productive' role of industry. It will continue to exist until the labouring classes overthrow it. But for this we need a revolutionary political strategy.

46 Karl Marx, *Capital, Volume One*, p. 344.