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Kalecki's Dilemma: Toward a Marxian Political Economy of Neoliberalism

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The financial crisis provides us with an opportunity to rethink the neoliberal form of capitalism. From a Keynesian standpoint, neoliberalism manifests the power of the unproductive class of rentiers to effect an income redistribution so as to gain profits at the level of circulation. The emphasis in our analysis will shift from the sphere of circulation to that of production, a reminder of Marx's basic thesis that capitalist production is a process of generating surplus value. The work of Michal Kalecki, which is useful for its exposure of the limitations of the Keynesian problematic, formulates a dilemma that partially hints at this theoretical orientation. The essential point is that, failing to understand capital, Keynesians are incapable of understanding the essence of neoliberalism, which is particularly well suited for enforcing capital's aggressive exploitation strategies toward labor.

Key Words: Neoliberalism, Financialization, Karl Marx, John Maynard Keynes, Michal Kalecki

The financial crisis that hit in 2008 was without precedent in the postwar period. This is acknowledged by the majority of mainstream economists. There was some consensus on the need to regulate many parts of the economy, and great debates were set in motion on the future of regulation, even proclaiming the end of the Reagan era. All these discussions have been important, but they do not tell the whole story. Financial instability and income redistribution are crucial aspects of modern capitalism, but they do not capture its essence.

The subprime loans crisis on the American markets which was gradually transformed into an international recession was a *systemic dysfunction* of the system of "deregulated" markets. Its origins did not lie in some kind of "irrational exuberance." Those who were caught up in the boom behaved "rationally," at least in terms of the neoliberal model they had developed to guide their behavior. The crisis was thus systemic in the sense that it was generated out of the elements and the relations that comprise the core of the neoliberal model. It was also systemic insofar as it afflicted important "nodal points" in the economic system and, through them, the conditions governing international capital movement. Finally, it was systemic in the sense that it struck at the most powerful center of organization of the neoliberal model: the markets and financial institutions of the United States, which were

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leading centers for the overall system for organization of markets and promotion of financial innovations and instrumentalities.

That crisis has drawn into question the capacity of the contemporary form of the capitalist state to underwrite the functioning of neoliberal regulation. Even if the rating agencies responsible for assessment of the securities had had a different "perception" of them—something that could not have happened given the exceptionally strong performance of the world economy in the years preceding that turbulence (another phase of what came to be known as "The Great Moderation")—a series of questions arise. Would not the affiliated SPVs (Special Purpose Vehicles) managing these titles, in an environment of rising house prices, increase their yields so as to incorporate the higher risk? Would not U.S. households in conditions of overindebtedness resort to refinancing their housing loans so as to maintain consumer expenditures? Would not many working people avail themselves of available credit so as to offset the contraction in their incomes? Would the subprime market stop issuing loans? Would not the big finance houses begin further to extend leverage, pushing credit beyond the bounds set by the expanded reproduction of social capital? Would capital cease seeking high returns in the market for structured credit products? Would there not be a sudden about turn in the behavior of the system, whose instincts are to contract when faced with "bad news"? And when the news becomes "good" again, would not the "deregulated" system again downplay the risks insofar as there had been a return to profitability and stability (Lapatsioras et al. 2009)?

All these questions, however important, failed to give us the whole picture of neoliberalism. Instability and overindebtedness are not its only attributes. After all, modern capitalism can cope with crisis by passing the economic pressures on to labor. What, finally, is the deeper logic of all this hypertrophy of the financial system? What is the logic of the apparent irrationality of financial overgrowth?

As was very properly pointed out by David Ruccio (2003), 85), for all those situated in the Marxian tradition, the "regulation/deregulation debate," however crucial it might be, is not "a battle that is ours": "how and when did left political economy become confined to the choice between different patterns of capitalist development—more or less regulation, more or less state intervention, more or fewer controls, so-called profit-led versus wage-led growth?" The present paper proposes adoption of the above theoretical viewpoint, which, of course, corresponds to a long-standing theoretical tradition within Marxism.

In what follows, I shall endeavor to project a Marxist interpretation of contemporary capitalism while focusing on the issue of financialization of capital markets. To begin with, I shall outline the main arguments as well as the limitations of Keynesian analysis, going back to the work of Keynes himself for the Keynesian problematic that is widely adopted in recent heterodox analyses. Not only will this maneuver not be an obstacle to my purposes, but it will also facilitate reception of Marx's radically different problematic. I shall draw on Marx's analysis as presented in the third volume of *Capital* in order to interpret financialization in contemporary capital markets. My intention is not to underestimate the fact that financialization tends to encompass every aspect of daily life (see Lapatsioras et al. 2009; Milios and Sotiropoulos 2009, chap. 9; Martin 2002). My line of reasoning might enhance our

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understanding should it be applied to other aspects of financialization, a project inviting further elaborations.

By Keynesian logic, neoliberalism is an "unjust" (in terms of income distribution), unstable, antidevelopmental variant of capitalism whose direct consequence is contraction of workers' incomes and the proliferation of speculation.[1] Hence it is a regime that focuses economic activity on the search for profits in the sphere of circulation. The emphasis of the following analysis will shift from the sphere of circulation to that of production, a reminder of Marx's basic thesis that capitalist production is a process of generating surplus value. The work of Michal Kalecki, which is useful for its exposure of the limitations of the Keynesian problematic, formulates a *dilemma* that partially hints at this theoretical orientation. The essential point is that, failing to understand capital, Keynesians are incapable of understanding the essence of neoliberalism.

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Facing Kalecki's Dilemma: The Origins and Discontinuities of the Keynesian Narrative on Neoliberalism

Keynes's Connection with Ricardo's Argument: The Parasitical "Third" Class

Our claim, following Mattick (1980, 20), is that Keynes's "theoretical revolt" against neoclassical analysis "may better be regarded as a partial return to classical theory ... and this notwithstanding Keynes' own opposition to classical theory." This paradoxical conclusion is not baseless. Through this formulation Mattick highlights one of the key aspects of Keynes's critique. In order to be critical of neoclassical dogma, he had to rethink (among other things) the way that income is distributed between social classes. This point of departure is therefore what links him to classical political economy. Smith's analysis (and to a lesser extent Ricardo's) focused attention on issues that have to do with the institutional determination of income distribution (see Sotiropoulos and Economakis 2008). The same issues come to the fore in post-Keynesian readings of Keynes (Garegnani 1979).

It is, however, worth dwelling on another analogy, not so explicit this time, between Ricardo's and Keynes's theoretical views. The theoretical and political approach adopted by Ricardo toward the landowner of his era was also espoused by Keynes vis-à-vis the "*rentier,*" the "professional investor" whose income "rewards no genuine sacrifice" (Keynes 1973, 376). In Keynes's own words, "the owner of capital can obtain interest because capital is scarce, just as the owner of land can obtain rent because land is scarce" (376).

Let us briefly recapitulate Ricardo's argument. In his theoretical schema, there were three social classes: the workers, the capitalists, and the landowners. The

1. It is not my intention here to provide a comprehensive and in-depth account of capital markets' financialization as seen from a Keynesian standpoint. I shall focus on the theoretical elements I regard as essential in the understanding of the relevant Keynesian argument.

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last-mentioned retained possession of a unique and precious factor in production: the land. Because of the declining productivity of the soil, landowners became the sole beneficiaries of the evolution of capital accumulation: increased utilization of "limited" land areas made land more and more expensive. Landowners enjoyed high incomes without a correspondence with any productive contribution. Their profits accrued from the sphere of circulation: namely, from income redistribution at the expense of the "productive" classes. This was what inspired Ricardo to introduce a fundamental distinction between productive (capitalists and workers) and nonproductive classes (landowners), with evident political implications (Rubin 1989).

In the *Tract on Monetary Reform* (1971, 4) (and subsequently in the *General Theory*), Keynes similarly conceives of *rentiers* (the "investing class" or the financial capitalists) as constituting a discrete, unproductive social class, bracketed together with the other two productive classes in a tripartite class stratification: the entrepreneurs or top managers (the "business class") and the workers (the "earning class"). The rentier is the "functionless investor" who retains the "cumulative oppressive power" to exploit the scarcity value of liquid capital (Keynes 1973, 376). Like Ricardo's landowner, he enjoys incomes that do not correspond to any "real productive" contribution. He is furthermore believed to be mostly a newcomer to economic life. According to Keynes, a new configuration of capitalism emerged in the late nineteenth century. The large corporation, which is supposedly structured around a radical separation between ownership of the means of production and management of the production process, gave a new role to rentiers and financial institutions (147–50).

The above argument may appear somewhat strange for those who are more or less unfamiliar with Keynes's analysis in which the quantity of money is determined by demand and investment generates its own savings (Lavoie 1996). If this is the case, how can the rentier be identified with Ricardo's landowner as though he were in possession of a "scarce" production factor? Land scarcity may be taken as given, but finance (loanable) capital does not come to resemble a scarce production factor unless the proprietor is achieving high returns on the battlefield of income distribution. Finally, given that rentiers are typically both the owners of financial assets and the financial institutions that manage these assets, monetarist policies of "expensive" money and low inflation appear to correspond very well with their interests, being policies whose priority is to maintain asset prices and returns.

Two Moments in Keynes's Argument on Rentiers

Keynes's discussion of the relationship between finance and the "real" economy centers on the unproductive (or even parasitical) role of rentiers. His argument in the *General Theory* comprises two basic moments: income redistribution, on the one hand, and inefficiency and speculation, on the other.

First, high financial returns and high interest rates—that is, high gains for financial capital—result in reduction of effective demand, above all through reduction in investment. This is a direct conclusion from the above argument. According to

Keynes, *ceteris paribus,* if the interest rate is high enough, the marginal efficiency of capital will match it before full employment is achieved. Moreover, in the case of a corporation, high rentier income means high security (i.e., debt) and share yields, hence low labor income and low retained profits for corporate spending (investment).[2]

Second, for Keynes the role of financial markets tends to be complex in modern economies where the ownership of big corporations is separated from management, sometimes facilitating investment but sometimes adding "greatly to the instability of the system" (1973, 150–51). According to Keynes, it is entirely unrealistic to assume that the expectations embodied in rentiers' investment decisions could be efficient in the neoclassical sense. These decisions depend on *animal spirits,* not on "the outcome of the weighted average of quantitative benefits multiplied by quantitative probabilities" (161). This is so because financial players are aware of the fact that the distant future cannot be foretold.[3] As a consequence, the "professional investor" is "in fact, largely concerned, not with making superior long-term forecasts of the probable yield of an investment over its whole life, but with foreseeing changes in the conventional basis of valuation a short time ahead of the general public" (157, 154). In other words, rentiers are spontaneously attracted by speculation without this being "the outcome of a wrong-headed propensity" (155).

Summation: Neoliberalism as the Rentiers' Revenge

Writing in the mid-1930s, Keynes predicted the extinction ("euthanasia") of the rentiers "within one or two generations" (1973, 377). Many present-day Keynesians portray the developments of the past 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), who are said to have shaped the contemporary political and economical agenda in accordance with their own vested interests.

Following Keynes's spirit of analysis, recent quasi-Keynesian discourse portrays (not without differentiations) the rentiers' economic and political strengthening as entailing (1) an increase of the economic importance of the financial sector as opposed to the "real" industrial sector of the economy; (2) the transfer of income from the latter to the former, thereby increasing economic inequalities and depressing effective demand (the first moment of Keynes's argument); and (3) the aggravation of financial instability, transforming it into a central aspect of modern capitalism (the second moment of Keynes's argument).[4] The argument is that contemporary financial liberalization should be approached as a process in which

2. For more, see Keynes (1973, 374–7), Wray (2007), Pollin (1996), and Palley (2007).
3. Such a speculation is based on the presupposition that rentiers live in an uncertain world and are well aware of that fact (Keynes 1973, 149; Davidson 2002, 187).
4. For example, see Davidson (2002), Palley (2007), Crotty (2005), Smithin (1996), Henry (2001), Pollin (1996), Minsky (1993), Wray (2007), Dumenil and Levy (2004), Epstein and Jayadev (2005), and Helleiner (1994).

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the financial elites and financial intermediaries (i.e., contemporary rentiers) have a leading role in working out the details of the neoliberal form of capitalism. This is the essence of financialization in the Keynesian narrative. The leading idea behind the above argument is rather simple. Security holders and financial intermediaries possess the power to impose their own logic, which can be summarized as "devaluation" of labor power and expansion of speculation. If this is true, it is entirely accurate to see neoliberalism as a manifestation of *the power of the unproductive class of rentiers to effect an income redistribution that can bring them gains at the level of circulation.*

In order to defend this conception, recent post-Keynesian and institutional analyses argue that financialization has contributed to radical restructuring and equally radical changes in the *behavior* of firms.[5] According to them, industrial corporations have ceased to be the steam engine of the economy that Keynes and Schumpeter portrayed 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 decisionmaking at the expense of the interests of other stakeholders (to wit, workers, consumers, and managers). Joint stock companies are now conceived of as portfolios of liquid subunits that top managers (adapting their behavior to shareholder demands) must continually restructure to maximize their stock price at every point in time (Crotty 2005).

Kalecki's Dilemma: Facing the Discontinuities of Keynesian Discourse

If these are the realities, neoliberalism takes on the appearance of an institutional "conspiracy" against the "productive" classes (i.e., in the Keynesian scenario, capitalists and workers), instigated by an oligarchy of parasitical rentiers. This "conspiracy" is centered on the level of circulation. I now propose, however, to draw attention to an interesting question that has proved to be a hard one for Keynesians to answer. In what follows I draw heavily on Kalecki's work.

Being a genuine Keynesian himself, Kalecki acknowledges that "profits would be higher under a regime of full employment than they are on the average under *laissez-faire*" (1943, 141). He is also quite willing to concede that "even the rise in wage

5. It should be borne in mind that analyses in a post-Keynesian train of thought are closely associated with the approach by institutional economics (Lazonick and O'Sullivan 2000), followers of the regulation school (Grahl and Teague 2000), and some theories of "financialization" (Froud, Leaver, and Williams 2007; Williams 2000; Crotty 2005; Dumenil and Levy 2004). All these analyses are more or less variations on the same theme and within the same problematic. Managers are supposedly interested in promoting their personal power and status through an infinite expansion in the size of the firm, but are 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 their demands. They were obliged to abandon the long-term policy of "retain and reinvest" in favor of a short-sighted practice of "downsize and distribute." However, I have to mention that this issue is debatable in the relevant literature (for example, see Brennan 2008).

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rates resulting from the stronger bargaining power of the workers is less likely to reduce profits than to increase prices. It will thus have an adverse effect only on the interests of *rentiers*" (141). But the "stronger bargaining power" the workers will now possess will fuel their reaction against capitalism. Hence "the *maintenance* of full employment would cause social and political changes that would give new impetus to the opposition to the business leaders ... The social position of the boss would be undermined and the self assurance and class consciousness of the working class would grow" (140–1; emphasis in the original). Kalecki therefore concludes that industrial capitalists and managers consent to neoliberal policies *because they consider it more important to maintain discipline over workers than they do to increase their own revenues*.

> "[D]iscipline in the factories" and "political stability" are more appreciated by the business leaders than profits. Their class instinct tells them that lasting full employment is unsound from their point of view and that unemployment is an integral part of the normal capitalist system ... In this situation a powerful block is likely to be formed between big business and the *rentier* interests, and they would probably find more than one economist to declare that a condition of full employment is manifestly unsound. (141, 144)

One theoretical possibility arises in this connection that is evidently difficult to integrate into the Keynesian problematic. Rentiers, capitalists, and managers are in the final analysis united around the single objective of reproducing hegemony over labor *even* at the expense of business profitability and the expansion of production. In this sense, *power relations* have attained priority over *distribution relations,* an insight definitely foreign to the Keynesian discourse. There seems, in other words, to be a deeper coincidence of interests between industrial and financial capital around the task of maintaining political domination over labor. Generalizing this logic, it is arguable that neoliberalism is not to be interpreted so much as a process benefiting rentiers at the level of circulation but as an economic system that ensures labor discipline, thus serving the interests of both "investors" and "entrepreneurs."

I do not intend here to question Kalecki's argument. I just suggest that we encounter a *discontinuity* in the Keynesian discourse. Faced with a dilemma, Kalecki (perhaps unconsciously) changes tack and, in so doing, sends out a practical signal that points to a new interpretive direction and implies an answer to a question that cannot be raised within Keynesian thought.[6] Keynesians have two options: either they adopt Kalecki's argument and shift to some other interpretation of capitalism (for

6. We should understand this in light of Althusser's analysis (Althusser 1997, 126). Kalecki makes a *practical gesture* pointing to an existing problem that cannot really be posed in terms of the Keynesian problematic.

7. A short comment needs to be made. According to Keynesian logic, the interests of industrial entrepreneurs and managers appear to be somewhere *in between* those of the workers and rentiers. The possibility of an alliance between industrial capital and labor, in other words, cannot be ruled out: "the fact that financial capital has a stronger interest in low inflation and high unemployment than does industrial capital means that these two interest groups can part ways, leaving open the possibility of an alliance between labor and industrial capital" (Palley 1997).

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example, moving closer to Marxism), or they ignore Kalecki's dilemma and defend the reformist strategy introduced by Keynes himself.[7]

Marx's Problematic: Toward a Different Interpretation of Neoliberalism

Some time ago, the recent Nobel Prize winner Paul Krugman asked the following relevant question: *Why has the world of finance become so frenetic?* (1997, 155). 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 favorable for the valorization of capital: that is to say, particularly well suited, for the bourgeoisie as a whole, for enforcing capital's aggressive exploitation strategies toward labor. This criticism of the Keynesian tradition does not mean that all aspects of such an argumentation should rashly be rejected.[8] However, we cannot accept as a departure for a thorough analysis of present-day capitalism the idea that the neoliberal formula for profitability of capital must not be comprehended as a question of production of surplus value, but as a question of income redistribution pertaining basically to the sphere of circulation. In other words, neoliberalism cannot be explained as the revenge of unproductive rentiers, but as a reorganization of capitalist power.

The Structure of the Financial Sector in Marx's Analysis

One comprehensive introductory definition of capital could be the following: a historically specific social relation that expresses itself in the form of "money as an end in itself" or "money that creates more money," in accordance with the formula *M-C-M′* (where M stands for money and C for commodity) (Milios, Dimoulis, and Economakis 2002). Marx has shown that this formula of money circulation is actually the expression of capitalist economic and social relations, incorporating as it does the process of direct production, which now becomes *production for exchange* and *production for profit*. A historically specific form of exploitation now emerges: capitalist exploitation of the laboring classes. Money has become the most general form of appearance of value and thus of capital.

At this level of generality, the capitalist occupies a specific position and plays a specific role. He is, and behaves as, the embodiment of the autonomous movement of value, embodying the "self-movement" of capital M–C . . . P . . . C′–M′ (P stands for production). The theory of capital is not an analysis of the "actions" of the capitalist. It is not a response to the actions of a self-contained subject. On the contrary, the power of capital is impersonal. According to Marx, "the immanent laws" of capitalist

8. For example, Minsky's (1982) analysis of capitalist instability is invaluable for comprehending the financial meltdown. Its conclusions arguably coincide at many points with those of Marx himself in the third volume of *Capital*.

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production "assert themselves as the coercive laws of competition, and therefore enter into the consciousness of the individual capitalist as the motives which drive him forward" (Marx 1990, 92; cf. Balibar 1984).

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 as in Figure 1.[9] In the course of the lending process, the money capitalist *A* becomes the recipient and proprietor of a security *S:* that is to say, of a written promise of payment (contingent in character) from the functioning capitalist *B*. This promise certifies that *A* remains the 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 labor 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.[10]

Four very basic consequences are implied by this analysis and are, briefly, as follows.

First, 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*

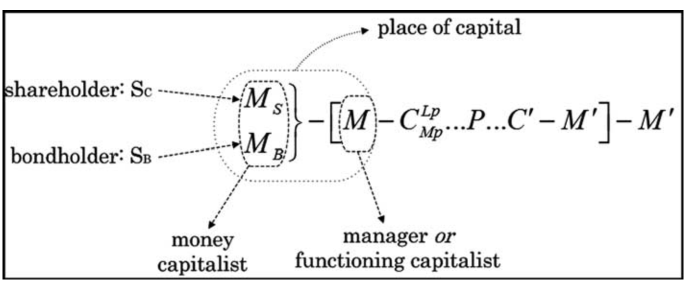

Figure 1 The financial system.

9. In what follows, Marx's argumentation concerning the circulation of interest-bearing capital is set forth (Marx 1991, chaps. 21–4, 29–30).
10. For a general description of capitalist production relations, see Althusser (1997).

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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-laborers as the property of others, and the money capitalist participates in the exploitation of labor 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. (For a similar argument, see Poulantzas 1975.)

Second, the pure form of ownership over capital (whether it is a question of money or productive capital) is the financial security, corresponding, that is, to "imaginary money wealth" (Marx 1991, 609). The ownership title is a "paper duplicate" of either the ceded money capital in the case of the bond S_B, or the "material" capital in the case of the share S_S. Nevertheless, the price of the security does not emerge from either the value of the money made available or the value of the "real" capital. The ownership titles are priced on the basis of (future) income they will yield for the person owning them (capitalization in accordance with a 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 (607–9, 597–8).

Third, 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 (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 puts 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."

Fourth, one of the basic characteristics of the neoliberal model is the increase in nonbank funding of credit by states and enterprises. Above and beyond other consequences, this places at the center of the financial markets *risk management*: that is to say, the factoring in of the contingency of nonachievement of the expected yield (particularly in an international market where a number of divergent forces affect profitability). Because the character of production of surplus value as well as the overall claims being placed on the latter are contingent, risk management is organically linked to capital movement as such. Since the inner workings of an enterprise constitute political terrain, the production of surplus value, as a battle-field situation where resistance is encountered, is never something that can be taken for granted. As I shall point out below, the techniques of risk management (organized within the mode of functioning of contemporary capital markets and serving as a commentary on them) turn out to be a critical point in the management of resistance by labor (Lapatsioras and Sotiropoulos 2009).

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Market Discipline or Capital Discipline? The Essence of the Neoliberal Exploitation Strategy

The above general framework has a number of less visible but more crucial consequences for the analysis of present-day capitalism. Financial markets are for the most part secondary (liquid) markets. This has two basic consequences. First, they contribute to the competition and mobility of individual capitals (strengthening the tendency toward establishment of a uniform rate of profit). Second, apart from dispensing loans, they comprise sites for renegotiation of debt requirements against future production of surplus value and thus sites for evaluation (though with evident deficiencies) and monitoring of the effectiveness of individual capitals. We will elaborate upon this line of thought enlisting the aid of the following three points.

(1) The capitalist firm is totally immersed in class struggle. The functioning capitalist (whether he 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.[11] On the one hand, he is called upon to achieve efficient organization of surplus-value production inside the factory. This process generally entails a persistent endeavor to modernize the means of production, economize on constant capital, and reduce labor's share of the net product (Marx 1991, 170–240; Milios, Dimoulis, and Economakis 2002). None of these procedures is a merely technical decision. They all are the mutable outcomes 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 (Balibar 1984). It bears the inherent imprint of class struggle, a reality sharply in conflict with the orientation of neoclassical and non-Marxist heterodox approaches.

(2) Organized financial markets facilitate the movement of capital, intensifying capitalist competition. In this way they contribute to the trend toward establishment of a uniform rate of profit,[12] at the same time securing more favorable conditions for the valorization (exploitation) of individual capitals (Marx 1990, chap. 22; 1991, 295–300; Hilferding 1985, 130–50).[13] As we saw previously, 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 to move easily to different employment, remains tied up in specific "plant and equipment" for reasons that are not necessarily

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

12. The described institutional organization of neoliberalism affects the trend of the profit rate in ways that are not always easy for someone to predict. I do not intend here to embark upon such an exploration (for that discussion, see Cullenberg 1997).

13. According to Marx, competition and the tendency toward a uniform profit rate are theoretical determinations immanent to the capital relation. Therefore, the financialization of capital markets intensifying capitalist competition "facilitates" the imposition of the "laws" of capitalist production on individual capitals (Milios and Sotiropoulos 2009).

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connected with its effectiveness in producing surplus value (profitability). Or, to put it differently, capital's inability to move generates more favorable terms for conducting the struggle for the forces of labor, given that less productive investments are enabled to survive for a longer period of time.

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 to seek new, more effective areas for its valorization. It 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, 78–9; Resnick and Wolff 2001). Capital is not obliged to provide for labor employment. On the contrary, a reserve army of unemployed labor is always welcomed by employers. It keeps real wages down and paves the way for compliance with capitalists' strategies of exploitation (Marx 1990, 781–802). Moreover, flexibility of labor is not only a prerequisite for mobility of capital. It is also the method capital finds most suitable for adjusting to fluctuations in the capitalist economic cycle.

(3) Financial markets generate a structure for overseeing the effectiveness of individual capitals—that is, a type of supervision of capital movement. Businesses that fail to create a set of conditions favorable for the exploitation of labor will soon find "market confidence"—meaning *the confidence of capital*—evaporating. These businesses will either conform to the demands of capital or, before long, find themselves on a downhill path. In this manner, capital markets "endeavor" (not always reliably) to convert into quantitative signs "political" events within the enterprise. Forecasts and predictions embodied in securities do not need to be right. What really matters is the quantification of political events per se. This process should be seen as a *strategy:* operating within a market "panopticon," individual capitals are disciplined and forced into permanent reorganization (thus facilitating the imposition on them of the "laws" of capital).

In order to understand the above, we have to recall that the place of capital is not occupied by 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 market discipline, to which he himself is permanently subject (Balibar 1984). On the other hand, outside the precincts of the firm, money capitalists come up against a performance chart that is shaped by financial markets and to a significant extent monitors the conditions of accumulation and valorization that prevail at every moment in production (affecting different parts of the world). In this way, organized financial markets put into effect a critical function: they reward profitable and competitive companies and at the same moment punish those insufficiently profitable.

The decisive criterion is that the value of the company's securities (shares and bonds) as they are assessed by international markets should be maximized.[14] This value-maximization hypothesis must be seen as a strategy that disciplines individual capitals, not as a proof of market efficiency. Equity holders' and bondholders'

14. For the shareholder value maximization strategy, see Jensen (2001).

interests are basically aligned with respect to enterprise profitability.[15] The demand for high financial value puts pressure on individual capitals (enterprises) for more intensive and more effective exploitation of labor, for greater profitability. This pressure is transmitted through a variety of 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 expectation that funding will be available, and depresses share and bond prices. Confronted with such a climate, the forces of labor within the politicized environment of the enterprise face the dilemma of deciding whether to accept the employer's unfavorable terms, implying loss of their own bargaining position, or whether to contribute through their "inflexible" stance to the likelihood of the enterprise being required to close (transfer of capital to other spheres of production and/or other countries). Evidently the dilemma is not only hypothetical but is formulated preemptively: accept the "laws of capital" or live with insecurity and unemployment.

This pressure affects the whole organization of the production process, the specific form of the collective worker, and the income correlation between capital and labor. It ultimately necessitates total reconstruction of capitalist production, more layoffs, and weaker wage demands on part of the workers. Restructuring the enterprise, above all, means restructuring 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, increasing power of the capitalist class over the production process itself and, on the other, 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 the increasing "despotism" of managers over workers but also flexibility in the labor market and high unemployment (Milios 1999, 196).

Economic restructuring of the firm is synonymous with the capitalist offensive against labor. Hence, to us, market discipline must be conceived as synonymous with capital discipline. In developed capitalism, the key role of financial markets does not only have 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.[16] The complementary function of financial markets is to monitor the effectiveness of individual capitals, facilitating within enterprises exploitation strategies favorable for capital. Financial markets compose a panopticon

15. It should be noted that the high profitability of a capitalist firm usually translates into high share prices. At the same time, the low risk that goes with being a healthy firm reduces the "rate of discount," increasing the value of the bonds being issued. In any case, securities are fictitious capital (as understood by Marx), which means that they get their value today in connection with expectations of future profitability. The more the expected profits and the greater the degree of confidence in their achievement, the higher the security price will be.

16. As frequently noted, 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 United States, England, 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 (Fame and French 2001).

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(as felt by individual capitals as well) continuously commodifying not only the claims on future surplus value (capitalization) but also the concrete risks associated with the latter (risk management). Such commodification means quantification of the results of class struggle, permanent and ineluctable control and discipline over labor. In this context, individual capitals "have no choice" but to be efficient in labor exploitation. They are "constrained" to worry about the signs generated within this "evaluation process" trying to be competent in the production of surplus value. The striking growth of financial derivatives (commodifications of risk) since the early 1980s assists in the consummation of this monitoring process of scrutinizing corporate asset portfolios: that is, scrutinizing firms' capacity for profit making.[17]

In conclusion, and in contrast to what Keynesians assume, neoliberalism is an exceptionally effective strategy for capitalist hegemony. Moreover, the class content of the concept of "effectivity" is incontestable. It connotes capital's ability to impose the "laws" of capitalist accumulation, overriding labor's resistance without significant difficulty. Apart from theoretical consequences, this finding has important political implications: the community of interest of those "inside" the enterprise (laborers 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 "productive" and "nonproductive" classes, a notion derived from the Keynesian problematic. Such an outlook narrows the strategic horizon of the workers' movement to defense of a "better" capitalism: that is to say, a "better" system of class domination. The Keynesian critique of neoliberalism places the boundaries of the practice of social movements inside the framework of the society of bourgeois exploitation.

In Place of an Epilogue: Fear of "Overcorrection"

In this essay we have attempted to identify some aspects of the contemporary neoliberal phase of capitalism, focusing on structural differences between the Keynesian and Marxian theoretical problematics. These differences have important political implications as well. The basic idea informing the text is simple: to understand present-day capitalism we need a political economy of capital (Marx), not a political economy of the rentier (Keynes). Notwithstanding interesting elements in Keynesian analyses, such understanding can be found only through a return to Marx's work.

The financial meltdown doubtless represented a drastic setback to the functioning of the neoliberal strategy of exploitation. It is still too early to venture a reliable assessment of its—in any case—destructive consequences. The neoliberal form of capitalism was dealt a heavy *ideological blow* whose effects it is for the moment still feeling. In a number of countries, the political consent of subordinate classes to the neoliberal agenda is becoming ever more difficult to organize. The contradictions are expected to sharpen on account of global economic recession.

The point today is that social insurance is dependent on the profitability of insurance funds, education on privately funded "research programs" and student

17. Bryan and Rafferty's (2006) intervention is important in making out this point.

loans, work on international evaluation of the profitability of an enterprise on the world's stock exchanges and banks, food on the smooth functioning of the futures markets, municipalities on mutual funds and international securities markets, the environment on tradeable pollution rights, the covering of basic social needs on the level of credit card debt. In present-day conditions, the project of decommodifying needs—that is to say, defense of social organization on the basis of freedom in satisfaction of needs and not the repressive calculus of exploitation of capital—is urgent. We have to rethink Marx's problematic in order to carry out such a project.

At the institutional level, neoliberalism is the material condensation of a specific correlation of social forces. Adulation of the markets was excessive, but it was not all in vain. To achieve firm implantation of the neoliberal socioeconomic model, political leaders all over the world (following Reagan and Thatcher) doubtless bent the stick too far in one direction, thus now being required corrective adjustment for the sake of the sustainability of the neoliberal system. Confronted by the realities of the crisis, there was some consensus on the need to regulate parts of the economy. Even Fukuyama (2008, 32) admitted that financial markets could not be self-regulating, opining that the Wall Street meltdown marked the end of the Reagan era. But every attempt at regulation means redistribution of power, something necessitated not only by the enormity of the failure but also by the dynamic of social reactions, meaning the class struggle. This would appear to explain why there are those like Fukuyama who hastened to observe that changes or regulations run the risk of "a danger of overcorrecting" (32). They understand only too well that corrections must not be allowed to call into question the overall logic of neoliberalism for fear of triggering a collapse of this specific form of the hegemony of capital. Thus, the strategy of political power might from this point onward be summarized as follows: *moving into a post-Reagan era while staying inside neoliberalism*. What we should bear in mind is that without a significant overturn of the relations of class power that support the existing system, there can be no hope of an exit from the perilous constellation of neoliberalism.

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