Money in Marx: from value-form analysis to an understanding of modern capitalism

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This paper provides an analytical outline that allows us to understand the modern form of the financial system as a system that plays a central role in the organization and reproduction of capitalist power relations. The fact that we will be attempting to examine a range of concepts from simple value-form to interest-bearing and fictitious capital within the confines of a brief paper means that this will necessarily be a sketch, or, alternatively, an overview of the structure of Marxian concepts that allows us to understand core aspects of contemporary capitalism.

There is a thread of interrelated categories that can be considered to be an organizational-programmatic principle in *Capital* and the *Grundrisse*, as well as in Marx's more 'mature' texts (according to Althusser's definition), through which Marx puts forth a theory on the capitalist mode of production. This thread comprises the terms 'money', 'money as money', 'capital', 'capital as money (or as commodity)', 'money as capital', 'capital as capital is a commodity',[1] and constitutes the main axis of what we are presenting.

1. MONEY, COMMODITY, AND VALUE-FORM

We begin the presentation of this sequence with the terms 'money' and 'value-form'. In brief, this is how Marx conceptually produces money in *Capital*:

He starts with a representation of the social division of labour in capital-

1. Despite its awkwardness, we are obliged to use the phrase "capital as capital is a commodity" (Marx 1991: 475). As we explain in Part Four of this paper, this term refers to the point in the thread of categories where capital is presented objectively as *capital* via financial securities and, by virtue of this representation, capital is rendered a commodity. Instead of using the earlier, wordier phrase to describe this category, we can use one of the expressions frequently used by Marx to analyse the transformations to which the concept of 'capital' is subjected when credit is introduced into analysis of the capitalist mode of production. We cannot use the simpler expression 'capital as commodity' because that category (or term) appears in Marx before the introduction of credit – along with the related category 'capital as money' – and concerns other modalities of the meaning of the concept of capital (regarding, for example, the circuits of capital in *Capital*, Volume II).

ism, a representation of a society of commodity-owners where the problem of the power of the product owned by each person as a claim on the products of others' labour is 'solved' within the framework of a specific mechanism of exchange (or more generally, circulation)[2], with the money form and commodity form being the requisite organizational forms.

Bringing her/his product to the market, each commodity-owner regards it "as a claim, so to speak, to a certain quantity of all materialized social labour ..." (Marx, 2010: 331). What interests the individual commodity-owner is the power of this claim and the extent of this power.[3] The power is determined by the assurance that this is a product in demand by the other members of the social division of labour. The magnitude of this power is determined by the labour time socially necessary for its production. The relationship between products of labour is the framework wherein her/his claim can be manifested, and where its social validity can be determined.

The degree to which the money form and the correlated commodity form become established determines how the organizational problem posed by this specific form of the social division of labour can be solved. We can divide the theoretical production of the commodity and money forms in *Capital* into two major theoretical strands:

1. an analysis of the *theoretical* structure of exchange, i.e. of value as a social relation (Chapter 1, Volume I, The Commodity); and,
2. the enrichment of this structure via a social practice (Chapter 2, Volume I, The Process of Exchange), i.e. of conditions under which value as a social relation is consolidated.

1.1 THE FIRST THEORETICAL STRAND: VALUE AS A SOCIAL RELATION

The first strand involves two theoretical movements through which the theoretical field of Political Economy is reconstituted, as Marx immanently criticizes two versions of its foundation. These two versions can be referred to as Ricardo's discourse and Bailey's discourse, and can be expressed respectively as propositions A and B as follows:[4]

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2. We merely note the location where the potential for the contradictory requirements of the capitalist social division of labour to take on a non-contradictory form appears. "Since the producers do not come into social contact until they exchange the products of their labours, the specific social characteristics of their private labours appear only within this exchange" (Marx 1990: 165).

3. "What initially concerns producers in practice when they make an exchange is how much of some other product they get for their own; in what proportions can the products be exchanged" (Marx 1990: 167).

4. We attribute these propositions to Ricardo and Bailey because of the importance attributed to these names by Marx in their being exponents of the corresponding propositions in the

Proposition A: "Commodities are exchanged according to the labour required to produce them", and their exchange value derives from this. We call this the *labour dimension of exchange value*.

Proposition B: Exchange "equalizes different quantities of commodities" with empirically observed exchange ratios (randomly defined in space and time). We call this the *quantitative dimension of exchange value*; in other words, the exchange value of commodity A is *always* a specified quantity of commodity B.

The first proposition leads us to consider the second as a mere phenomenon that negates the form's autonomy, while the second proposition causes us to reject the first as being a metaphysical hypothesis without empirical underpinnings. On an abstract level, this schema summarizes the conflicts existing within Political Economy. Marx's critical argument yields two theoretical outcomes:

On the one hand, the 'labour dimension' does not exist in the way that it is approached in Classical Political Economy. Marx takes the empirical representation of exchange – the 'quantitative dimension' – for granted, and, through the notion of 'commensurability' (what makes exchanged goods commensurate), produces the concepts of 'value' and 'abstract labour', both of which invalidate the proposition that a commodity's exchange value is determined by the quantity of labour (empirically tangible, and therefore *concrete*) expended on it. In other words, from a 'quantitative dimensional' view, we examine the validity of the 'labour dimension' and transform it into a valid proposition.

On the other hand, there is no 'quantitative dimension' as conceived by economists in (Classical) Political Economy. Moreover, the fundamental representation of exchange as barter according to (Classical) Political Economy, C-C[5], is *not fundamental*: this necessarily presupposes both the commodity form C-M, and the money form M-C, as prerequisites. Taking into account the outcome of the first theoretical movement, i.e. the *transformed* 'labour dimension', Marx examines the validity of the 'quantitative dimension' *and then transforms it*, thereby establishing the money form as a concept that cannot be circumvented when the formation of the structure of the object of Political Economy is at stake.

In other words, Marx's analysis in the first sections of *Capital* raises the question of the articulation of the concept of 'value', so that the two propositions outlined above cease being antinomical, given the proper processing and enrichment of the meaning of the terms 'labour' and 'value'. The pres-

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first sections of *Capital*. See Rubin, 1972:107-123 and Rubin, 1978,:127 ff. and Milios et al., 2002, Chapter 2.

5. In this text, 'C' is an abbreviation of 'commodity', and 'M' of 'money'.

entation (*dargestellt*) of this organizational process, on a very broad level, consists in taking the one proposition as a framework for examining the validity of the other. The result is a radical transformation of the theoretical field through which Political Economy composes and considers its object.

This reconstruction can be traced throughout the first three chapters of the first section of Volume I of *Capital* up until the beginning of the section on money as a means of circulation, wherein the concepts of 'money' and 'commodity' are not completely defined, but take on a transitory, functional form in order to produce the concept of 'capital'.[6]

For purposes of textual economy, we will focus on the theoretical production of the money form, beginning with the third subsection of the first chapter of *Capital* and confining the discussion to the simple form of value that is presented therein.[7]

More specifically, through the exposition of the simple form of value, an exposition that explores the presumptions in the form of exchange xA = yB, the 'germinal' composition of the forms 'commodity' and 'money' is demonstrated. The simple value-form constitutes a polar relationship, an *ordered relation* manifested in the formula "A expresses its value in B". In terms of this analysis, B, being the bearer of the equivalent form, counters the magnitude of value A. The equation xA = yB, whereby the problem of *commensurability* between the qualitatively dissimilar use values and the corresponding concrete labours is 'practically' solved, shows a kind of abstraction from (concrete) labour A, and that abstracted labour A is treated *as any other labour*, in this instance as (concrete) labour B. It also shows that there is an abstraction of *use value A* and that *that* abstracted use value is treated like *any other use value*, in this instance, B.

Therefore, the position occupied by B is the position where A's *value appears*. It is thus B's function to appear as *the value of A*. As such, it loses its distinguishing features. Its specific use value is 'erased', and it acquires a new use value: a use value that is directly convertible into any other commodity, in this instance A. Its 'body' is only valid "as materialization of val-

6. We believe that this conceptual production of 'money' pauses temporarily in the paragraph beginning "Commodities, first of all, enter into the process of exchange" in the subsection entitled "The Metamorphosis of Commodities", Chapter 3, Section 2, Volume I of *Capital*, in which Marx summarizes his findings as a conclusion (Marx, 1990: 199). We use the word 'transitory form' because the meaning of the concept 'money' is completed after the meaning of the concept 'capital' is introduced, where money is defined as 'potential capital' (Marx, 1991: 459, 477) (See Part Four in this paper).

7. or further analysis of Marxian theory on the production of money and commodities, see Lapatsioras and Milios, 2012, Lapatsioras 2005, 2009, Rubin, 1972, and Milios, et al, 2002, Chapters 2–4.

ue (Wertmateriatur), as money" (Marx, 1990: 199). Through this analysis, a 'commodity' is defined as a relationship. A, being in relationship xA = yB in 'relative value-form' – that is to say, it expresses its value in terms of another use value – is bearer of the relationship 'commodity' insofar as its use value is brought into relationship with 'money', in this instance B, which (re)presents its value. The 'commodity', in other words, is defined as the ordered relationship C-M, where the use value occupies position C, and the position of value C is M, and consequently, the reference to C as a 'commodity' is a result of hypostatization of a relation to a thing. Correspondingly, 'money' is the 'body' where the specific M-C ordered relationship is hypostatized: position M is where value appears, and C is the position where M can be converted into possible use values.[8] In this analysis, M has the function of presenting[9] value, being the manifestation and the measure of value (its material = 'value materiality'). At the same time it serves as a general equivalent, having a special use value that can be directly exchanged with other commodities.

This 'germinal' form is woven throughout Marx's analysis up to the section on the 'total form of value', subsequently to the 'general form of value', and, finally, to the money form.

1.2 THE SECOND THEORETICAL STRAND: ENRICHMENT OF THE THEORETICAL STRUCTURE OF EXCHANGE BY A PRACTICE

The 'general form of value' is not the 'money form' because there can be as many 'general forms of value' as there are 'bodies' in which value is expressed. The shift from the 'general' form of value to the 'money' form of value requires the restriction of the value expression to only 'one' body, which thereafter assumes the role of the general equivalent.

The process of isolating a commodity to the position of 'general equivalent' is a process by which the conditions for the money form to exist are developing, which is the second theoretical strand. This is how money and commodity forms acquire a fundamental and non-circumventable role, eventually becoming forms with which analysis of the capitalist mode of production can be initiated.[10]

For the sake of brevity we will not analyse the arguments of the second

8. Here, for purposes of textual economy, we make an obvious leap in our analysis. But, taking into account that the "general relative value form has the same shape as their original relative value form" (Marx 1976a: 189), we can easily make the necessary connections if we think of B as M.

9. Concerning the use of the term 'presenting', rather than the more usual term 'representing', we refer readers to Arthur, 2005:217.

10. This is the subject of the second chapter of the first volume of *Capital*.

chapter, but should note that following the analysis of fetishism, the theoretical structure outlined in the first chapter is enriched by *a practice that includes subjects*: commodity-owners, who act in accordance with tangible targets and rules set by the expression of value of their products according to the binding framework of social forms developed therein.[11] Insofar as this practice becomes the dominant one in the organization of the sphere of production, money and commodity forms are produced as dominant forms that shape the exchange.

2. CREDIT-MONEY: MONEY AS A MEANS OF PAYMENT

Typically, in the usual form of buying and selling, commodity and money are simultaneously present, and following an exchange, switch owners. If the condition of simultaneity is withdrawn, there exist the following possibilities: a) the ownership (title) of the commodity is transferred to the buyer before the equivalent sum of money comes into the seller's possession; and b) the seller receives the equivalent sum of money before the ownership (title) of the commodity is transferred to the buyer. The introduction of the time dimension transforms simple commodity exchange into a practice where credit is introduced via promissory payments (in general, IOUs) through which commodities are bought and sold. Herein lies the morphological basis for the emergence of a number of types of derivative securities on commodities (such as forward and futures contracts) that dominate contemporary commodity transactions, and, for the emergence of credit-money and debt securities

The above analysis has some basic analytical implications, which we will briefly list: (1) It is not debt that defines commodity value; the value of a commodity has already been defined in monetary terms. (2) Through the form of buying and selling, all agents/bearers of the existing economic relationships are transformed into agents for whom money becomes an end in itself.[12] The seller's aim is to acquire money through the sale, but also, the buyer, as debtor, is transformed into someone whose aim is to acquire money in order to be able to pay. (3) A new category of money is introduced: credit-money. As money becomes "the universal material of contracts" (Marx,

11. See Lapatsioras and Milios, 2012, for an analysis on the significance of Chapter 2. See also Milios et al. 2002, Chapter 4, for an analysis of fetishism.

12. "The seller turned his commodity into money in order to satisfy some need; the hoarder in order to preserve the monetary form of his commodity, and the indebted purchaser in order to be able to pay ... The value-form of the commodity, money, has now become the self-sufficient purpose of the sale, owing to a social necessity springing from the conditions of the process of circulation itself" (Marx, 1990: 234).

1990: 238), economic relationships are transformed into financial relationships. (4) Two other forms of subjectivity now show up in circulation: the creditor and the debtor, both of whom diverge greatly from analogous types in pre-capitalist modes of production.[13] Their main differences include: the role of creditor and debtor are interchangeable, their relationship is monetary (and not extra-economic), and, more broadly, when our analysis reaches interest-bearing capital, we will see that Marx theoretically analyses the "subordination of interest-bearing capital to the conditions and requirements of the capitalist mode of production" (Marx, 1991: 735).

3. THE FORM OF CAPITAL

In Chapter 4 of Volume I of *Capital*, Marx puts forth a general form for the concept of capital (without, however, taking the credit system into account):

$$M - C - M'[= M + \Delta M]$$

This is also the form 'capital as money'. Marx defines capital as the self-valorization of value. At first, this broad definition is not addressed beyond the determination that profit ΔM is the goal of production. The condition for meeting the desired goal is an exchange of a part of the initial M in the form with labour power, whose consumption process is, at the same time, a production process for commodities and surplus-value.

In the fifth chapter of Volume I of *Capital*, an abstract representation of the labour process is introduced. This process involves raw materials, the means of production and, of course, labour, which uses the means of production with raw materials to produce a pre-determined product. It is purpose-driven activity, and its *specific* purposefulness is what differentiates each, individual use value from other use values.

From this point on, Marx begins a process of transforming these initial representations of *capital as self-valorization of value* and *the labour process* – representations that are now used as theoretical raw material for further elaboration. The results of this process of transformation are the further articulation of the concept of capital and the concept of the *capitalist mode of production*.

A simple way to approach the results of Marx's analysis is to understand *what is not capital*; in other words, *what is not a capital relation*. Capital does *not* consist in simply forcing the profit-making goal of ΔM onto a pre-existing production process, but *modifies all factors involved in the production process,* as it *subordinates* the production process to the purpose of producing

13. An introductory analysis of the differences can be found in Chapter 36 of Volume III of *Capital*.

surplus-value (profit). The capitalist does not view this process as a mere process of labour, but mainly as a process of valorization of the advanced capital, M.

Therefore, the process of capitalist production must be represented as the *unification* of the labour and valorization processes.

3.1 THE CAPITALIST PRODUCTION PROCESS AND THE CONCEPT OF RISK

The organization of the production process under the logic of capital results in two perspectives, discrete but interdependent, on the production process.[14] One perspective is on use value, the production of useful items; and the other is on value, the production of value and surplus-value.

The labour process is determined by the valorization process since the aim of ΔM imposes certain demands: specific *regularity* in the shaping of all its elements. Depending on the magnitude of ΔM, the concrete and specific uses of labour, its labour time and rates are determined. From the perspective of the valorization process, the labour process is a process whose every part is a component of capital and as such, its function is to produce surplus-value, ΔM. From the perspective of capital, the subsumption of the labour process under the valorization process constitutes the capital relation. Here, the means of production *are* capital, and labour *is* labour *of* capital. Nonetheless, on a more specific level of analysis, this subsumption is never without complications.

A particular complication of the entanglement between the valorization and labour processes is that the labour process is *constitutionally* a source of resistance and thus a permanent source of risk in fulfilling the goal of capital to produce 'regular' profit. This is the precise source of momentum for potential transformations in the valorization process. Why the resistance? Because, quite simply, some hammers might not be good enough, and labour may be unable to adapt to what is needed to produce a 'regular' profit. From this standpoint, capital is a continuous, violent process of suppressing any resistance that arises; the valorization process is an attempt to shrink the gap (distance) between the labour process and automation and totally subsume the labour process under capital as an automaton. In other words, capital is a relationship of continuous enrichment and reorganization of the valorization process insomuch as its boundaries are constantly being (re)set by class struggle and end up being barriers that must be overcome. Obviously, we are referring to the subsumption of labour under capital as an articulation of conceptual determination. For this subsumption to be organ-

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14. The arguments developed in this section are part of a critical dialogue with Arthur, 2007.

ized completely, it must be complemented by the appropriate mechanisms of power and mechanisms that produce subjectivity.

We can further organize the concept of 'abstract labour'. The capitalist 'regulates' the (concrete) labour time as required by the goals of the valorization process. This attempt to impose the requirements of profit's production of concrete labour is itself a process of abstraction (erasing) of the purpose of concrete labour, in other words, an abstraction from what makes concrete labour *concrete*. Therefore, the subsumption of the labour process into the valorization process means that all the elements that define it are subtracted (abstracted) as the enterprise's accountants measure everything in money. Production time is shaped through a process of pricing (representation in money) of all aspects of the production process and thus the only possible abstraction of concrete characteristics of the labour process takes place via the pricing process. As a consequence, the representation of concrete labour by a third factor (money) is a process that 'erases' whatever renders labour as concrete and purposeful activity, precisely because this process projects (abstracts) all these different labour processes onto *the same dimension*: the *money dimension*. That is the meaning of 'abstract labour'.

4. MONEY AS CAPITAL

Thus far in this paper we have traced the evolution of the forms through which the capitalist mode of production is organized as they are developed in *Capital*: the form/relationship of money, M-C; the form/relationship of commodity, C-M; the forms of buying and selling; money as credit-money; capital as money, M-C-M΄. However, the adequate forms of money and capital needed to organize circulation and capitalist production explicitly appear when we reach the analysis of the credit system in the form "money that begets money", M-M΄, in Volume III of *Capital*.

Marx offers a very clear explanation of how fundamental central credit is to the capitalist mode of production: "It thus appears as a matter of chance for production based on capital whether or not its essential condition, the continuity of the different processes which constitute its process as a whole, is actually brought about. *The suspension of this chance element by capital itself is credit*" (Marx, 1993:535, emphasis added. See also Marx, 1992:420). Furthermore, Marx observes: "*Money* itself is a form for suspending the unevenness of the times required in different branches of production, to the extent that this obstructs exchange" (Marx, 1993:535).

When Marx's analysis reaches the form M-M΄, money functions *and* appears as capital. In other words, it appears as self-valorized value, so that capital itself as capital can take the form of a commodity (Marx, 1991:463, 475).

The circuit of interest-bearing capital is described by the formulation below:[15]

$$M - M - C\ [Mp, Lp] \ldots P \ldots - C'(C+c) - M'(M+\Delta M) - M''$$

The two extremes, M-M and M´-M´´, state two separate actions: the act of advancing capital, which in this specific form of circulation is 'lending', M-M; and, the act of returning the advanced capital after its valorization, which is the 'repayment', M´-M´´. The immanent connection between interest-bearing capital and production capital is represented by this formula.

4.1 MONEY AS CAPITAL, A *SUI GENERIS* COMMODITY

The first action stated through this form is the act of allocating a sum of money, a defined amount of value that can take the form of credit-money.[16] This action can be illustrated as M(A)→M(B), with M(A) showing that M belongs to person A. In contrast to the typical commodity exchange (buying and selling), we now see that a value, M, is ceded without an equivalent value being returned. There is only promise of future repayment of M plus the additional sum of ΔM. This is an 'irrational' form in terms of typical commodity exchange to the extent that exchange implies an exchange of equivalents. What is thus ceded has the characteristics of a *sui generis* commodity.

From the perspective of use value, there is a use value represented by M: the use value of initiating the production process and producing surplus-value and profit. A use value is thus ceded, money being potential capital. [17] Nonetheless – and this also differs from a typical exchange of commodity for money – the ownership of this use value is not transferred, providing that the borrower does not receive an equivalent value in return.

Like every commodity, this one, too, must have value. By the concept of value we mean the particular fusion of a magnitude of value with value-form. Here, a problem arises: M as a sum of money denotes a certain magnitude of value. If it is used according to use value to function as capital,

15. In this formula, we use M to represent the amount of money loaned to the active capitalist, C[MP, LP] as the conversion of M into means of production MP, and labour power LP, P as the production process, C´(C+c) as the result of the production process, where c is the surplus-product, M´(M+ΔM) the sum of the capital advanced M, and of the surplus-value ΔM which is realized from the sale, while M´´ is the sum of the loaned capital M and of interest, which are returned to the 'borrower'. See also Marx, 1991:461.

16. " ... money – taken here as the independent expression of a sum of value, whether this actually exists in money or in commodities ... " (Marx, 1991: 459).

17. It is obvious here that we are referring to the conditions of possibility of the form of interest-bearing capital. The existence of consumer credit and the allocation of money that the borrower does not use as capital are both possible because the allocation of money as capital is articulated as an activity alongside the reproduction process of the total social capital.

a greater magnitude of value is produced (and returned) than what was initially ceded. More precisely, at the moment of allocation, the ceded sum of money is estimated on the basis of anticipated future monetary flows and is considered as a magnitude of value greater than the magnitude represented at that same point in time (if it is not considered loanable capital). In other words, when money appears as capital, it is self-valorized value as a form, but it has an indefinite magnitude of value, or, more specifically, it has a magnitude of value which depends on the conditions of valorization of the capital used in production.[18]

4.2 THE FORM M-M´

We can observe that the acts of 'lending' and 'repayment' appear as processes *external* to the actual production process. Lending and repayment are acts that seem dependent on an agreed-upon time and not on a time related to actual capitalist production. That is, the act of lending and the act of repayment seem independent of the actual reproduction process and thus acquire the form M(A)→M(B)...M´(B)→M´(A).[19]

In other words, the externality of lending, repayment, and interest in respect to capitalist (re)production renders the form M-M´ as discrete, 'independent', and yet its underlying processes depend on conditions of valorization, so this 'independence' has a fetishistic character.[20] What is distinctive about the form M-M´ in relation to the general form of capital M-C-M´ is that in the latter, in M-C and C-M´, neither M nor C appear as capital in circulation, but merely as money that buys, or as a commodity that is sold.[21]

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18. This is a complete reversal in terms of the discussion on commodity money. Instead of money being viewed as a commodity with embodied (internal) value according to the time required for its production, money appears as a commodity that does not have a specific value size and whose value size is dependent on the conditions of valorization of total social capital. In Marx's words: "The value of money or commodities as capital is not determined by their value as money or commodities but rather by the quantity of surplus-value that they produce for their possessor" (Marx, 1991: 477).

19. "The mere form of capital money that is given out as a sum A and returns as a sum A + 1/x A, after a certain period of time, but without any other mediation besides this temporal interval – is simply the irrational form of the real capital movement" (Marx, 1991: 470).

20. "In interest bearing capital, the capital relationship reaches its most superficial and fetishized form. Here we have *M-M'*, money that produces more money, self-valorizing value, without the process that mediates the two extremes" (Marx, 1991: 515).

21. "In no individual moment of the metamorphosis, taken by itself, does the capitalist sell the commodity to the buyer *as capital*, even though it represents capital for him, nor does the buyer alienate his money as capital to the seller. In both cases the commodity is alienated simply as commodity and the money simply as money, as the means for purchasing commodities" (Marx, 1991: 463-4).

That is, it is not determined to be capital apart from the capitalist's subjective perspective or from a theoretical perspective when we look at the total reproduction process. Conversely, in the first form, M-M´, money appears by itself as a thing that has the ability to 'beget' (produce) more money, while at the same time the category of 'capital' acquires an objective form: it is capital 'for others' and not just from the capitalist's point of view. Given this objective existence of 'capital', it is possible for "capital as capital becomes a commodity" to exist as the form of a claim to future money flows.[22]

4.3 SUBJECTS OF THE RELATIONSHIP M-M'

If we look at the form of lending, two subjects are needed to support the relationship M(A) → M(B). However, we cannot hypostatize this relationship into fixed subjects such as *creditor* and *debtor*. Empirically speaking, the same capitalist enterprise that operates as a lender in one credit market can be a borrower in another, so that in one market it plays the role of money capitalist, and in the other, the role of functioning capitalist (manager).

Proceeding to a more concrete level of analysis, Marx recognizes in *Capital* Volume III that the position of capital may be occupied by more than one subject. Both a money capitalist (the owner of the firm) and a functioning capitalist (the manager) can exist alongside one another. Marx's argument is depicted in Figure 1:

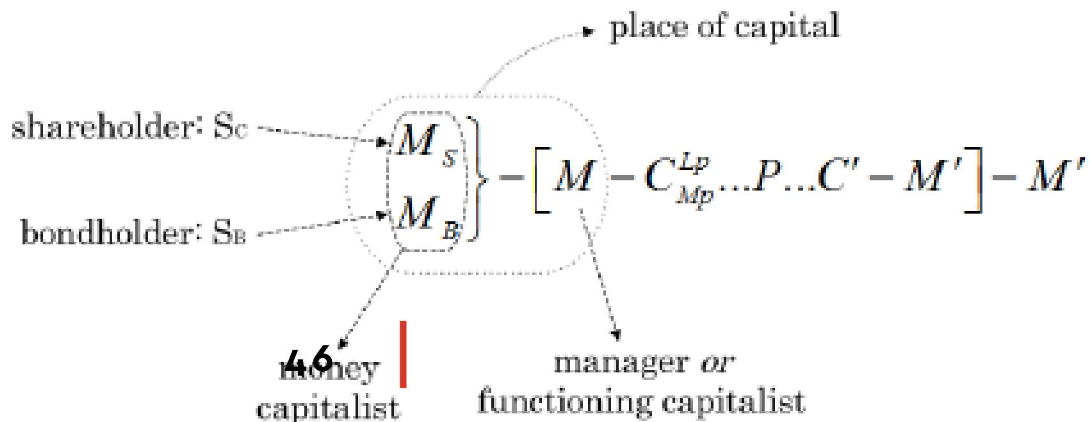

Figure 1. The subjects in the circuit of interest-bearing capital

In the course of the lending process, money capitalist A becomes the recipient and proprietor of security S, which is a written promise of pay-

22. "In this capacity of potential capital, as a means of producing profit, it becomes a commodity, but a commodity sui generis" (Marx, 1991: 459-460, see also 463, 475, 517).

ment (contingent in character) from functioning capitalist B. This promise certifies that A remains owner of 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 time period. We can identify two general types of securities: bonds S_B and shares S_C. In the first case, the enterprise undertakes to return fixed and prearranged sums of money irrespective of the profitability of its operations. In the second case, the enterprise secures loan capital by selling a part of its property, thereby committing itself to paying dividends proportional to its profits. If the company goes public and issues shares, then capitalist B corresponds to the manager, and capitalist A to the legal owner.

In this framework, the pure form of ownership of capital (whether it be money or productive capital) is the *financial security* itself, analogous to "imaginary wealth" (Marx, 1991: 609). The ownership title is a 'paper duplicate', either of the money capital ceded in the case of bond S_B, or of the 'material' capital in the case of share S_C. Nevertheless, the *price* of the security does not come from the value of the money made available, nor from the value of the 'real' capital. The ownership titles are priced on the basis of the (future) income they may yield for the person who owns them (capitalization in accordance with the current interest rate that already contains the risk, which is, of course, part of the surplus-value produced. In this sense, they are *sui generis commodities* plotting a course of their very own. Marx uses the term 'fictitious capital' in order to grasp this aspect of interest-bearing capital (Marx, 1991:526, 601-2, 607-610).

The circuit of interest-bearing capital is an abstract form that demonstrates the syntax of the capitalist production process. Credit makes social capital available to the individual capitalist, and both creditors and borrowers also serve as 'instruments' for conveying the conditions of expanded reproduction and total social capital.

The participation of both money capitalist and functioning capitalist in organizing the conditions necessary to produce a normal rate of profit is what unifies them in the face of the secondary 'contradiction'/conflict between them (e.g. this secondary 'contradiction' arises from the issue of how total profit will be divided into interest and business profit, etc.). This conflict may or may not acquire extreme forms, depending on the total social correlation of power which is also influenced by the phases of the business cycle and the demands of expanded production. Nevertheless, it is a secondary 'contradiction' in the sense that the position of capital *is occupied by both the owner (money capitalist) and the functioning capitalist*.[23]

23. "In the reproduction process, the functioning capitalist represents capital against the wage-labourers as the property of others, and the money capitalist participates in the exploita-

4.4 FICTITIOUS CAPITAL

Analysing interest-bearing capital cannot be properly understood without reference to the concept of 'fictitious' capital. In other words, the 'pure' form of the appearance of capital is necessarily a 'fictitious' one.

Interest-bearing capital is a financial security priced on expected yield. Interest-bearing capital is a concrete form of capital in the shape of a *sui generis* commodity. Marx's major theoretical contribution to the analysis of finance is the association of capitalization with *fetishism*. Interest-bearing capital is 'fictitious', not in the sense of 'imaginary' detachment from actual conditions of production, as is generally suggested, but 'fictitious' in the sense that it hypostasizes capitalist production relations. Surprisingly, a great many Marxist analyses of the third volume of *Capital* have failed to pay due attention to this fact. Nevertheless, Marx's message is clear and indisputable:

> We have seen that although it is a category absolutely different from the commodity, interest-bearing capital becomes a commodity sui-generis (Marx 1991:489); Capital appears as a mysterious and self-creating source of interest, of its own increase. The thing (money, commodity, value) 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 ... In interest bearing capital, therefore, this automatic fetish is elaborated into its pure form, self-valorizing value, money breeding money, and in this form it no longer bears any marks of its origin. The social relation is consummated in the relationship of a thing, money, to itself ... As interest-bearing capital, and moreover in its immediate form of interest-bearing money capital ... capital obtains its pure fetish form, M-M' being the subject, a thing for sale (Marx 1991: 516-7).

To sum up, capitalist exploitation appears as a 'thing', as a *sui generis* commodity, as a financial security. This appearance is a representation of the capitalist reality that comprises ideas, perceptions, and theoretical schemes that are not arbitrary creatures of our subjective imagination, but arise from, and are held in place by, social and economic relationships (Montag, 2003: 62). In other words, fetishism is not a subjective phenomenon based on illusions and superstitious beliefs; it refers to an economic reality mediated by objects (commodities), which are always already given in the form of a (re) presentation (Balibar, 1995: 67).

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tion of labour as represented by the functioning capitalist" (Marx, 1991: 504).

Marx introduces the concept of 'fictitious capital' and speaks of fetishism when he gives an account of the social nature of financial markets. He wants to highlight the fact that capital assets are the *reified* forms of the appearance of the social relation of capital, and their valuation is associated with a particular *organic* representation of capitalist relations. They are objectified representations that obscure the class nature of capitalist societies and 'call forth' the 'proper' mode of behaviour required for the effective reproduction of capitalist power relations.

It is in this spirit that we articulate our main proposition: that financial markets play an active role in the organization of social power relations. The so-called 'dysfunctionalities' that are attached to them comprise unavoidable moments within a technology of power that shapes and organizes different forms of class exploitation.

According to this representation of the capital relation, capitalist exploitation manifests as a financial security that reinforces and strengthens the implementation of the 'laws' of capital. It therefore plays an important role in the organization of social power relations. Financial markets are a place where these functions appear. In this regard, the financial form that represents the existence of capitalist ownership – as both a *promise* and *demand of expected surplus-value to be produced in the future* – is a (financial) derivative, in the sense that its evaluation depends on, and derives from, an 'underlying' entity: the individual enterprise's ability to produce profit. In short, capital appears as a 'securitized' social relation in the economic experience.

5. DERIVATIVES

Finance sets forth a particular way of organizing the capitalist reality and derivatives are a necessary intermediary.[24] Let us see why.

The 'commodification of risk' in the form of derivatives is at the heart of the circuit of capital. The price of capital (as the price of a particular security) is based on a specific (ideological) evaluation of the expected results of capitalist exploitation which has yet to be implemented. It is a process that assesses and evaluates primarily future events of class struggle as *risk* (an enterprise's internal operation is a political field and therefore the production of surplus-value is a 'battlefield', as there is always resistance from workers). The rise of financial derivatives allows the commodification of 'risk' to be associated with the ownership of capital.

Financial markets classify and normalize economic actors on the basis

24. For a review of Hilferding's theoretical intervention on the issue, see Sotiropoulos, 2015.

of risk. Risk profiles are a result of the combination of certain concrete risks with different probabilities of (their) realization. Nevertheless, if we drop the naive hypothesis that there exists a set of homogeneous subjective expectations, then the processes of classification and normalization can have as many versions as the number of individual 'expectations' about future outcomes. In other words, if financial markets set up a particular technology of power, and if normalization on the basis of risk (risk-profile formation) is the basic prerequisite of this, how can a universality of commensurate risk estimations be achieved? Or, alternatively, if there is no guarantee that each of these significantly different types of concrete risks can ever be compared with each other in terms of a uniform standard of measure, how can the above-mentioned objectives of financialization as a technology of power be satisfied?

In order to associate normalization on the basis of risk with the organization of social power relations, different types of risk, along with the subjective probabilities attached to them, need to become: (1) singular, (2) mono-dimensional, and (3) measured in an objective way. We can understand this as follows. While every (capitalist) power relation has a singular objective (it sets a norm), the deviations from it (risks as *ab*normal trends; see Figure 2) are multiple and heterogeneous in character and potential (given the ideological dimension of risk).

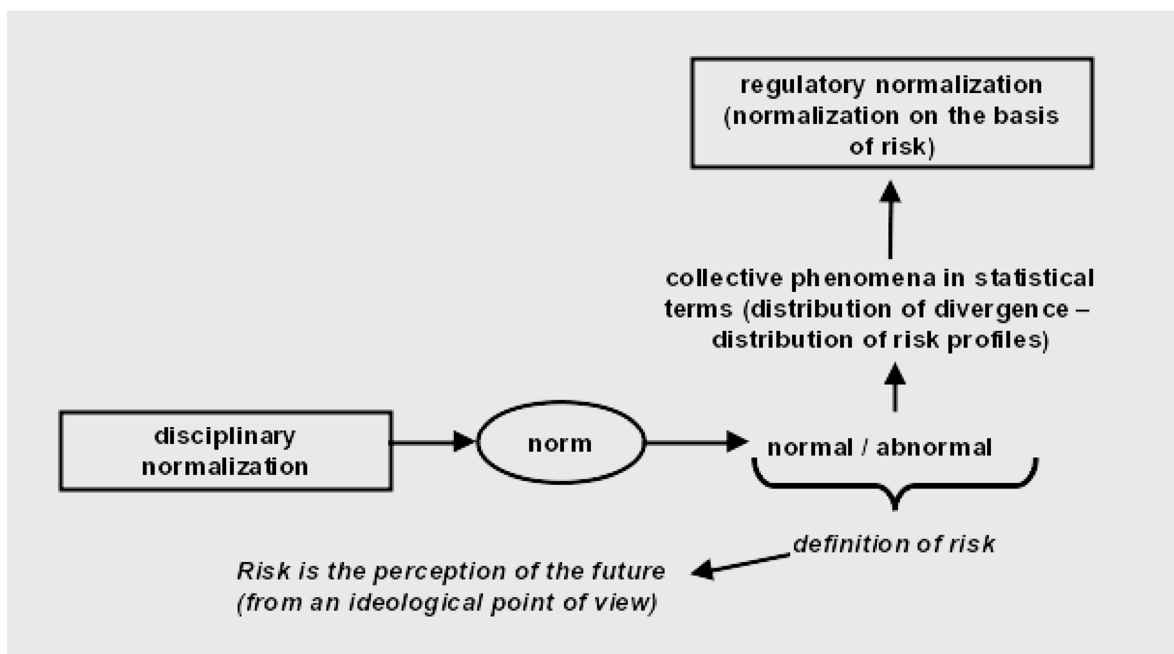

Figure 2. Normalization on the basis of risk

For instance, what is worse for an exporting capitalist enterprise (questioning its capacity to produce profits): a workers' strike or the appreciation of

an exchange rate that leads to the same profit loss? What is worse for a capitalist state: public deficits and surging debt due to tax reductions for capital and for the rich, or due to the financing of social benefits? 'Efficiency' as defined in the context of social power relations (disciplines) is mono-dimensional and singular by definition: it establishes the indisputable norm. The same cannot be said about risk assessment: with risk assessment we have different categories (abnormal deviations) and different 'subjective' estimations of these categories (as always, dominated by capitalist ideology). Hence, the processes of classification and normalization on the basis of risk cannot result in a singular and coherent representation of the class struggle reality due to the absence of commensurability between different concrete risks. Without this commensurability, financialization is unable to become a technology of power.[25]

The need for commensurability is what drives financial derivatives into the picture. Derivatives markets shape the dimension of abstract risk, imposing commensurability upon different concrete risks and establishing an objective standard of measurement for them.[26] The process of financialization (as described above) is indeed incomplete in the absence of derivatives. They are thus not the 'wild beast' of speculation, but the fundamental prerequisite for the contemporary organization of social power relations.

5.1 DERIVATIVES AND THE DIMENSION OF ABSTRACT RISK

The tangible effects of the rise in derivatives are suggested by the fact that as a system, they tend to establish a single and socially-validated standard of measure of different categories of risk. With derivatives, risk is measured in money in an autonomous manner. It is not so much what economic agents believe, but *what the market suggests*.

How can the 'commodification of risk' be understood in the context of the Marxian thread of categories? How can we extend Marx's value-form analysis to the case of derivatives markets? We shall begin with a simple illustration: a trivial fixed-for-floating rate swap. We believe that the swap is a core form that typifies all financial derivatives.

In general, a swap is an agreement between two parties to exchange cash flows in the future (under particular conditions, of course). Let us assume that security A is a sovereign bond of a developed capitalist country that yields fixed income R_A, while B is a loan to a capitalist firm in the US with

25. For an analysis of financialization, see Sotiropoulos et al, 2013.

26. This idea can be found in LiPuma and Lee, 2004, whose analysis we follow; however, we diverge from it on certain points, as can be seen below.

a floating interest rate of R_B (both rates are defined by the same principal). On an abstract level, the swap embodies an equation between two monetary income streams (because it is the two income streams that are 'exchanged'):

$$xR_A = yR_B$$

Income streams R_A (in euros) and R_B (in dollars) are commensurable because they are already monetary expressions. What are the social preconditions for their quantitative confrontation in the ratio x/y? The monetary streams of *A* and *B* can be rendered comparable and exchangeable only when the social terms of capitalist exploitation (in the case of B), and capitalist governance (in the case of A), can be uniformly represented and thus comparable. The above equation (within the swap) rests on this fundamental presupposition: it is capable of representing and making commensurate a series of class conflicts (already identified as risks), which are involved in the valorization of capital in general. Or, alternatively, the above income stream equation is made possible by organizing an objective representation – and hence a commensurate representation – of a universe of concrete risks (already identified as events involving class struggle) which determine the dynamics of the valorization of capital and the reproduction of capitalist power.

In this sense, the qualitative institutional difference signified by the emergence of derivatives is that there now exists a more integrated, sophisticated, normalized, and accessible way of representing events pertaining to the circuit of capital and the organization of class power in general. The result is that concrete risks, along with the accompanying probabilities, tend to become objectively assessed: they acquire a status independent of any subjective estimation.

Given that standardized or tailor-made derivatives incorporate some concrete (known) risks, derivatives can be understood as commodifications of risk C – M. As a consequence, every risk traded in derivatives markets can be approached from one of two perspectives: it can be seen as either concrete or abstract. The conditions of the existence and the possibility of abstract risk stem the money form. From this point of view, "the distinction between concrete and abstract risk does not imply the existence of two types of risk, but two inescapable dimensions of risk implicated in the construction and circulation of derivatives" (LiPuma and Lee, 2004: 149).

Abstract risk is the mediating dimension of any concrete risk, thus enabling all concrete risks to become social. Under such social conditions the plurality of heterogeneous types of risk tends to be reduced to a single level measured in money. The form of abstract risk is risk measured in value, in other words, money.

6. EPILOGUE: THE DYNAMICS OF CONTEMPORARY CAPITALISM

Marx demonstrates in *Capital* that capitalism is not just a system of extraction and appropriation of surplus-labour and surplus-product (surplus-labour and surplus-product characterize *every* type of class society: slave, feudal, Asiatic, etc). What makes capitalism specifically different from other systems is that the process of creating the surplus-product takes the form of money that produces more money, of money as an end in itself. In this framework, money is the reification of the capital relation.

Money is produced in relation to the dynamics of the reproduction of the capitalist power relation, primarily as credit-money, that is, as a discount of future profitability and thus of future income. Capitalism is "a system of production, where the entire interconnection of the reproduction process rests on credit" (Marx, 1991: 621) and would not exist without credit. "This also disposes of the pointless question of whether capitalist production on its present scale would be possible without credit ... . It would clearly not be possible" (Marx, 1992: 420). The credit system is thus a key figure in the expanded (re)production of the total social capital.

The tremendous growth of the derivatives markets is an integral component to the financial sphere in the wake of the collapse of the system of fixed exchange rates and the liberalization of the financial markets. In light of the above analysis, the growth of derivatives markets is a spontaneous result of the organization of the circuit of capital in the contemporary, institutional setting of capitalism. This makes financialization a specific technology of power in line with the overall workings of the financial system.

The rise of finance makes capitalist exploitation more effective but heavily reliant on market liquidity. When the latter evaporates, the whole setting quickly disintegrates. In other words, the demand for more discipline within capitalist power relations makes the economic milieu more vulnerable and fragile. Financial instability in our contemporary societies is the unavoidable trade-off. In times of distress, the valuation of risk changes (for many reasons related to class struggle), the prices of assets used as collateral go down, market participants cut credit lines and/or raise margin requirements to defend themselves against counterparty risk, liquidity disappears when most needed, and practically the whole pricing process breaks down. This is a reading of what may be called Marx's "financial instability hypothesis": capitalist exploitation is destabilizing.

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