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Financialization and Marx: Some Reflections on Bryan's, Martin's and Rafferty's Argumentation

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Abstract
The recent theoretical works of the authors mentioned in the title of the paper provide thorough insights into the workings of contemporary capitalism. Derivatives are the key issue involved here. They comprehend financialization as a development within, rather than a distortion of, capitalist production. They nevertheless underestimate the ability of Marx's analytical categories to capture the essence of contemporary organization of capitalism. A return to Marx is not only helpful but is also indispensable for clarification of some unformed aspects in their analysis. What is actually involved in financialization is not just the emergence of a structure enabling more effective valuation of financial assets; it is also the development of a technology of power that is superimposed on existing power relations for the purpose of organizing their functioning.

JEL Classifications: B14, B51, G32.

Keywords
Marx, derivatives, financialization, capitalization, risk

1. Introduction

The recent theoretical works of the authors mentioned in the title of the paper (henceforth BMR) provide thorough insights into the workings of contemporary capitalism. Derivatives are the key issue involved here.

In his writings Randy Martin endeavors to show how the ongoing process of financialization can be extended with the aid of derivatives to "players beyond the corporate world" (Martin 2002: 3). His explorations accordingly focus on "how credit and debt are lived," above all by households, and how risk management is generalized to all domains of daily life (ibid.: 115). In one of his more recent books Martin extends his argumentation – with a more Foucaultean flavor this time – to the issues of war and imperialism. His main intention is to "look at imperial ambitions in the context of the powers of finance, not simply as a form of capital but as a set of

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protocols for organizing daily life" (Martin 2007: 3). He is essentially interested in discovering "what the present incarnation of finance might mean for the contemporary imperial polity" (ibid.).

As for Dick Bryan and Michael Rafferty, in their influential book *Capitalism with Derivatives*, they argue that the "system of derivatives" performs "a role that is central to modern capitalism" (Bryan and Rafferty 2006: 17). This role is in their view "more important than that captured by the hedging-speculation discourse," because derivatives as a system allow for "a finer calibration of investment and financing decisions by individual capitals" and a "greater scrutiny" of the price of means of production and loan capital in different places and at different times (ibid.: 17, 172-3). Their assumption is that derivatives serve as a new form of global money, playing "a role that is parallel to that played by gold in the nineteenth century": the role of "anchor to the financial system" (ibid.: 133).

The two above-mentioned theoretical projects encountered each other in one single paper published by *RRPE* (Bryan et al. 2009) in an attempt to systematize their shared outlook. This paper deserves our attention, we believe, because it addresses crucial issues in the contemporary organization of capitalism. We propose to examine it in some detail, focusing on the fundamental points it raises.

The paper embodies an important analytical approach to the study of contemporary capitalism. Perceiving financialization as an "innately capitalist process," the authors explore the ways in which "financialization is not simply shifting the balance of power between classes and generating economic volatility, *but also re-constituting our understanding of class (...) and class relations*" (Bryan et al. 2009: 459, emphasis added). There are a number of immediate consequences to this outlook, which the authors do not neglect to stress. Not subscribing to the much-discussed scenario that portrays finance as unrealistic, hypertrophic, and dysfunctional, a "distortion of some true capitalism" (ibid.), they clearly differentiate themselves from those who believe that "the current global financial situation is about 'speculation'" and so express concern at "the growing separation of finance from the 'real' economy" (ibid.). On the contrary, they comprehend financialization "as a development within, rather than a distortion of, capitalist production" and seek to formulate a reappraisal of both labor and capital in the context of financialization (ibid.: 460).

While the authors draw upon Marx's theoretical approach, they evidently underestimate the ability of his analytical categories to capture the essence of the contemporary organization of capitalism. Their view is that some aspects of today's financialization "sit beyond Marx's own framing" of the questions concerning finance (ibid.: 459). Of course Marx could not foretell the future and could not have given any highly elaborated description of contemporary changes in the organization of class power. What he nevertheless did succeed in doing was to introduce us to a unique theoretical *problematic*, in the sense that he shaped a fundamental theoretical field within whose horizon are defined the appropriate forms in which all problems and questions regarding the organization of class power can be posed.[1] Without there being any necessity to claim that they can pinpoint every last detail, the categories he put forward for analysis of the workings of the financial sphere remain eminently suitable for helping us to understand the social nature of contemporary changes in that sphere.

A return to Marx is not only helpful but is also indispensable for clarification of some unformed aspects of the BMR analysis. The latter argue that "securitization and derivatives are about the valuation of capital throughout the circuit" (ibid.: 466). It is in this manner that we are provided with "a financial representation of underlying assets which embodies liquidity and a competitive determination of value" so that "assets that are deemed to be under-performing in reference to market norms immediately have their values written down through shifts in the

[1]On the concept of Marxian problematic see Althusser and Balibar (1997: 24-6).

Table 1.

	Agent A		Agent B		Agent C	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	Security S		*Treas. Bond*		*Treas. Bill*	
Step 1	*Treas. Bond*		*Security S*			
Step 2	*Treas. Bill*				*Treas. Bond*	

prices of securities and derivatives" (ibid.). But there is a missing link to this line of reasoning. How, it might be asked, are this measurement of capital's performance and this assessment of the flow of surplus value socially possible in the first place? What are the social preconditions for such commodification and quantification of social power relations? Second, how does this representation and assessment of the "competitive" valuation of capital assets help and reinforce the organization of capitalist power relations? If derivatives "scrutinize" corporate asset portfolios and contain important information about the price of securities, how does this "competitive" computation of values influence the process of capitalist exploitation?

We believe that the authors hint at a very important analytical direction for the study of contemporary capitalism, but still their insights demand further elaboration. What is involved here is not just the emergence of a structure enabling more effective valuation of financial assets; it is also development of a technology of power that is superimposed on existing power relations (i.e. the relations that characterize the different market participants) for the purpose of organizing their functioning. That is how we understand the on-going process of financialization. In what follows we shall endeavor further to explain our point, revisiting Marx's analysis and arguing that his system of categories can serve as a comprehensive framework for the interpretation of contemporary financial markets. We shall then outline the workings of financialization viewed as a power technology of a particular type. A detour through Foucault's work will hopefully be of assistance in this effort. Finally, we shall seek to explain why the process of financialization is incomplete without the development of derivative markets. Marx's value form analysis will serve as the basis for our explanation.

2. Brief Comments on Derivatives

The term "financialization" has been introduced and widely accepted by the relevant literature to denote "the increasing dominance of financial practices and the fusion of business enterprise with 'financial engineering'" (Ingham 2008: 169). Yet there is no general agreement on what the term really explains.

The most important institutional innovation in the above context has been the development of derivatives. Many mainstream economists see this as a "fundamental revolution whose significance is comparable to the Industrial Revolution" (Steinherr 2000: 25). We shall describe the essential parts of modern risk management with the help of the following simplifying example.[2]

Suppose that agent A buys a financial security *S*. This agent faces many different concrete economic risks which have an active role in the determination of the value of the security. For simplicity reasons, let us say that these different risks come down to two general categories: *interest rate risk* and *default risk*. To manage them, agent A engages in the following balance sheet actions (see Table 1). In a first step, A gets into a contract commitment with agent B who

[2]Of course, the picture of finance is much more complex. Nevertheless we think that this example captures the essential structure of it. Its details have been taken from the analysis of Mehrling (2010).

Table 2.

	Person A		Person B		Person C	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
	Security S					
Step 1	*CD Swap*			*CD Swap*		
Step 2	*IR Swap*					*IR Swap*

owns a U.S. Treasury bond. They agree to swap their assets. The former transfers to the latter the security *S* along with all the payments on it and receives a long-term bond of the same maturity along with the payments that the U.S. Treasury makes on it. Agent B is now bearing the default risk on the initial security *S*. Table 1 depicts the equivalent structure of portfolios after the above-mentioned agreement.

Step 2 depicts what will happen if agent A wants to get rid of interest rate risk. She finds a holder of a U.S. Treasury bill (agent C) with the reverse risk appetite and gets involved in a similar agreement. They accordingly swap their assets along with the corresponding payments (rolled over at maturity).

This is what the capitalist world looked like before the collapse of Bretton Woods. Derivative contracts were not absent, but for a number of reasons they were far from dominating financial activities. Hence, the main characteristic of risk management was that it was all done on balance sheet since all transactions were executed in the cash market. As a major consequence, "risk management was not, and could not be, clearly separated from other balance sheet objectives" (Steinherr 2000: 17). This left one major option for risk management: portfolio diversification. For instance, the unprecedented internationalization of capital flows before the turn of the 20th century made this practice of diversification dominate the organization of the movement of capital worldwide. As a matter of fact, "in the late nineteenth century, the major creditors … held internationally diversified asset portfolios in a way that no group of countries does today" (Obstefeld and Taylor 2004: 57).

In the "brand new world" of finance, risk management was brought apart from other balance sheet objectives to a significant extent; derivatives have been turned into the key instrument for risk management in general. Instead of exchanging their ownership titles, the three agents are now able to incur similar risk exposures by exchanging and netting out the flow of payments on these titles. In other words, they can enter into consecutive derivative contracts. Table 2 is somewhat similar to Table 1.

Agent A still holds title to security *S* but has swapped the cash flows on that security for the cash flows on a sequence of Treasury bills. She is the one funding the security issuer, but now agents B and C bear the isolated credit risk and interest rate risk respectively: "if the bond defaults, then person B is on the hook for the loss." If short-term interest rates rise above security yields, then person C is on the hook for the loss. "No matter what happens, Person A gets the return on a riskless Treasury bill. Market convention treats Person A as the 'buyer' of a credit default swap, and the 'buyer' of an interest rate swap" (Mehrling 2010: 192).

Derivatives are so called because they are based on (or "derived from") an underlying commodity or asset(s) (or abstract performance index). This is the trivial textbook definition. It is, however, more fruitful theoretically to continue to regard them as "derived" forms, for they actually pertain to a bundle – and usually a complex one – of straightforward basic operations in spot markets. This is obvious from the preceding comments. CDS and IRS are the outcome of such "condensation." Otherwise we could not pass from Table 1 to Table 2. This is the only way to "isolate" and "package" different specific risks. It is also in this sense that financial derivatives

are reducible to (replicate) an appropriate equivalent structure of assets and liabilities. The main theoretical contribution of Black, Scholes, and Merton, who laid the groundwork for the development of derivative markets, comes down to this finding: they realized for the first time that options can be priced by finding proper replicating portfolios of other securities that have the same future payoffs under perfect arbitrage conditions.[3]

3. Revisiting the Third Volume of *Capital*: Fictitious Capital, Capitalization, and Fetishism

For those who are familiar with Marx's reasoning it is quite obvious that a detailed description of capitalist economy cannot ignore the circuit of interest-bearing capital. The latter outlines the structure of the financial system, tracing its links to the organization of capitalist power relations. The circuit of interest-bearing capital cannot be thoroughly grasped without reference to the concept of fictitious capital.[4]

Interest-bearing capital is fictitious capital; that is to say, a financial security priced on the basis of the income it is expected to yield in the future for the person owning it (capitalization in accordance with an interest rate that embodies the risk), which of course is part of the surplus value that is going to be produced in the future. Generally speaking financial security as an ownership title is a "paper duplicate," either of the ceded money capital in the case of bonds, or of the "material" capital in the case of shares. Nevertheless the price of the security does not emerge either from the value of the money made available or from the value of the "real" material capital it represents but from capitalization of the expected future income streams. Securities should therefore be conceived of as *sui generis* commodities plotting a course that is their very own (Marx 1991: 607-9, 597-8).

The process of capitalization also maintains a central role in the works of other heterodox thinkers, such as Keynes and Veblen, who wrote many years after Marx. From our point of view, Marx's major theoretical contribution to the analysis of finance is the association of capitalization with *fetishism*. Surprisingly enough, a great many of the Marxist analyses of the third volume of *Capital* have failed to pay due attention to this fact:

> Capital appears as a mysterious and self-creating source of interest, of its own increase. The *thing* is now already capital simply as a thing; the result of the overall reproduction process appears as a property devolving on a thing in itself […]. 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 […] which is how the production of surplus-value by capital appears here. (Marx 1991: 516, 518)

Marx's formulations leave no room for ambiguities. They should be read in light of his elaborations on the issue of commodity fetishism in part 1 of the first volume of *Capital* (Marx 1990). 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 comprising images, ideas, and perceptions which do not originate in our minds (i.e. in the mind of every economic agent) but arise from and are held in place by social and economic relations themselves (Montag 2003: 62). In other words, fetishism is not a subjective phenomenon based on false illusions and superstitious beliefs. It refers to an economic reality made by objects (commodities) always already given in the form of a representation (Balibar 1995: 67; Zizek 2006).

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[3]Black and Scholes (1973: 649-650); see also Miller (2000: 13); Steinherr (2000).

[4]Hilferding (1981) was in fact the first to emphasize this aspect of Marx's analysis. See also Milios and Sotiropoulos (2009: ch. 9).

This line of reasoning has many important implications for the analysis of finance. If security *S* as a *sui generis* commodity is a reification of the capital relation, its valuation (that is, its very existence as an exchange value) necessarily relies on a representation and a quantification of the sociopolitical and economic conditions of capitalist production. The multiple economic-technical-political "events" (that is, every event of capital valorization and resistance against it), that might either emerge within the capitalist enterprise or concern it, are in this way spontaneously converted into objective perceptions and quantitative signs within capital markets. And since the latter tend to encompass different aspects of daily life, the above security *S* does not have to be property over capital. The financial system provides a representation and quantifications of different power and social relations in general.[5] All these objective perceptions shape the context of risk. In this sense, we can argue paraphrasing Luhmann (2003: 183) that "the economy is in a position to observe itself from the view-point of risk" with the aid of the financial sphere.

The above framework should not be confused with the debates regarding the so-called efficient market hypothesis (EMH). As is well-known, according to the latter markets must be efficient in the sense that prices reflect all relevant information and quickly adapt to the arrival of any new information through the device of arbitrage.[6] This hypothesis has been heavily rejected by those who follow the spirit of Keynes's and Veblen's approaches, countering that information gathering is a complex process which often leads to misleading forecasts and manipulative behavior. We do not intend here to embark upon a detailed investigation of these debates. We only want to underline that Marx's reasoning belongs to a different level of analysis, addressing different kinds of questions.

The point of tension in the abovementioned disputes over EMH is about the effectiveness of the information gathering: are market participants capable of grasping the essential part of observed reality, properly assessing "fundamentals," or does the latter remain buried in an impenetrable complex economic universe? Yet, both sides share the same perspective over the nature of the relationship between the observing subject (the market participant) and the observed object (capitalist reality): the former is presented as *external* to the latter. Hence, the disagreement concerns the ability of the market participant to gather useful information. Marx's argument of fetishism breaks with this empiricist problematic. In his train of thought, the observing subject is always already *captured within* and *dominated by* the "supra-sensible" but *objective* forms of appearance of the existing complex of capitalist power relations (Marx 1990: ch. 1, par. 4; Balibar 1993: 66). Regardless of the status of her observations, regardless of the status of the information gathered, regardless of the way she assesses it, this is how the observing agents *are constituted*, thus becoming parts of the capitalist objectivity alongside with the observed social relations and in a proper relation to them (Balibar ibid.: 66-7).

Those who fail to see this aspect of Marx's argumentation also miss the crucial issue: the "representations" associated with financial instruments are *active* components of the organization of capitalist power. In other words, the valuation process does not have to do only with some competitive determination of the security price[7]; it also plays an active part in the reproduction of capitalist power relations and in their mode of operation. This, precisely, is the message of Marx's argument on fetishism when applied to finance. Reification of social relations and their

[5]Marx extended his reasoning to other aspects of capitalization as well, e.g. the financing of both state expenditure and private consumer expenditure, reminding us that capitalization does indeed tend to encompass every aspect of daily life (Marx 1991: 597-9). In this regard, he pointed out that the potential for securitization is inherent in the circulation of capital as such and could be generalized as a process applying to every possible movement of revenue (financialization of daily life, as Martin [2002] has called it).

[6]See Davidson (2002); Bryan and Rafferty (2006).

[7]We have to stress here that prices can be mostly "wrong" but it is the pricing criteria that really matters, that is to say, the context (representation) upon which any "information" is judged.

transformation into financial products is an indication that their givenness as "objects" of experience that are always already quantifiable *is a misrepresentation combined at the same time with the norm of behavior they call forth* (see Balibar 1995: 66). Everyday financial calculations and estimations (an outcome of the complex practices of market agents and institutions immersed in the world of financial commodities) thus deform and misrepresent capitalist class reality, imposing upon market participants a particular kind of consciousness and a certain specific strategic behavior. It is this aspect of finance that needs to be stressed and this is exactly the point that the analysis of BMR fails to find in Marx.

4. The Missing Link in the Above Analysis: The Concept of Economic Risk

4.1 Capitalization and economic risk

We have already mentioned that the process of capitalization continuously commodifies claims on future expected incomes, whether they accrue from surplus value, taxation, or wages. Such commodification means that class struggle and its results become quantified. This quantification is based on a prior representation of capitalist reality: several singular social events are spontaneously interpreted and then converted into quantitative signs (the prices of commodities). As we mentioned above, these given events frame the terrain of risk. Hence, both the concept of fictitious capital and the practice of capitalization presuppose a certain determination of risk.

In what follows, we intend to reorganize Marx's framework presented above in a meaningful way in order to understand contemporary financial developments. By referring to "risk" we do not embrace mainstream argumentation. We place risk in a very different context. In neoclassical reasoning events capable of happening are taken for granted; they are considered as products immediately coming from the economic reality. Marx's framework breaks with this naturalized conception: the dimension of risk comprises particular fetishist representations of events/outcomes of class struggle.

Without this intermediation of risk, it is absolutely impossible for capitalization to take place. In fact, capitalization presupposes a mode of representing, identifying, arranging, and ordering certain social events of perceived reality which are first "distinguished" and then objectified as risks. In other words, capitalization is not possible unless there is some specification of risk, that is to say, unless specific events are objectified, accessed, and estimated as risks.

4.2 Financial markets and normalization on the basis of risk

Hence, the process of capitalization presupposes a designation of risk. In order to price securities of different types, financial markets indeed become terrains on which every market participant acquires a risk profile to serve as a basis for pricing any contingent claim on her or him. They are fields within which risk profiles are actually shaped. Financial markets thus normalize on the basis of risk: they identify, disperse, and distribute risks.

The specification of risk accordingly comprises two concurrent moments.[8] While all market participants are exposed to it, the same risk categories (concrete risks) do not apply to all of them. At the same time, even those who face the same concrete risks do not suffer the same possibilities for the realization of these risks. Each market participant, that is to say, is distinguished both by the concrete risks she runs and the probability of risk to which she is exposed. A concrete risk is accessible only in so far as it is differentially distributed in a market population, because its chance of realization is not the same for all individuals associated with it.

[8]Here we build upon the argumentation of Ewald (1991).

This process of risk-profile formation can at the same time be interpreted as a process that *individualizes* or *normalizes*. On the one hand it is predicated on the assumption "that all the individuals who compose a population are on the same footing: each person is a factor of risk, each person is exposed to risk" (Ewald 1991: 203). On the other this does not mean that everyone causes or suffers the same concrete risks and is exposed to the same probability of these concrete risks. By attributing risk profiles to market participants, financial markets distinguish one participant from another and so individualize them in terms of risk. But the individuality conferred "no longer correlates with an abstract, invariant norm such as that of the responsible juridical subject" (ibid.); quite the contrary, it is an individuality relative to that of other members of the market population.

These participants in the financial markets are associated with different social relations. It is evident that what we are encountering here is a complex market "population" constructed out of a variety of social power relationships which of course are not capable by themselves of guaranteeing order and organization. How, then, is this market population governed? A detour through Foucault's later writings may prove helpful in dealing with this particular problem because what we are faced with is the configuration of a specific *technology of power* which, unlike the multitude of different social power relations (disciplines in Foucault's theoretical discourse), applies to the agents comprising the market "population," superimposing upon them a different mode of normalization. We shall attempt to clarify our point by referring to Foucault's conceptual framework. We nevertheless stress that there are considerable differences between the point we are trying to make and Foucault's theoretical preoccupations and objectives.

4.3 Financialization as a technology of power

It was mostly after 1975 that Foucault began to pay serious attention to the question of the capitalist state. The key concepts that emerged in his relevant writings were "bio-politics" and "governmentality" (Foucault 2003, 2007). What interests us in Foucault's analysis is not a desire to reproduce his argument on how governmentality comes before the capitalist state in the organization of biopolitics. Foucault's theoretical aim was to analyze social order: if a population is comprised of a multiplicity of disciplines (power relations), how can we apprehend its order, cohesion, and organization? In order to answer this question Foucault introduces the workings of a new technology of power, namely *governmentality*. The latter has the population as its target and it does not exclude disciplines, but it dovetails into them, integrating them, modifying them to some extent, and above all, using them by infiltrating them and embedding itself in them (Foucault 2003: 242).

The concept of "governmentality" may prove useful for clarifying our point about financial markets, with the same question being posed: how can we apprehend their order and organization when we know that different power relations are dispersed and exercised within them? In order to answer this question we are obliged to focus on the particular type of normalization that financial markets perform: namely, normalization on the basis of risk. This type of normalization coexists at a different level with the type of normalization that pertains to power relations. In quite the same manner as Foucault's insight, it dovetails with the latter, integrates them, and uses them by infiltrating them. We are now able to form some conception of what we had in mind when we argued in the introduction of the paper that financialization is indeed a power technology, a type of "governmentality" over financial markets. It is superimposed on the existing power relations governing the different market participants with a view to organizing their functioning and their reproduction.

For instance, a capitalist firm that goes to the markets to raise funds acquires a risk profile which depends to a significant extent on its ability to pursue effective exploitation strategies in a

competitive economic environment. In quite the same manner, a capitalist state acquires a risk profile which captures its ability to organize neoliberal hegemony avoiding "undesirable" (from the perspective of the capitalist power) class events. The risk profile of a wage earner depends heavily on his or her docility to the rampant reality of labor relations. It seems reasonable then to argue that normalization on the basis of risk does not impose "disciplinary" roles but rather tests and reinforces compliance with them. It therefore does not exclude the multiple social power relations but rather endeavors to infiltrate them so as to embed itself in them. Normalization on the basis of risk therefore amounts to a specific technology of power imposed upon the market participants for the purposes of organizing the workings of the different social power relations to make their functioning more efficient and well-targeted.

If a market participant finds himself/herself captured in a world of risk, "trapped" within social practices that individualize him/her as bearer of a risk profile, then he/she is necessarily constrained to deal with it through resort to appropriate *risk management* attitudes and strategic action. The latter comprises two interconnected moments:

- On the one hand, given one's risk profile, proper insurance or hedging against risk must be implemented.
- On the other, one can improve one's position by exploiting risk, that is to say implementing actions that will foster efficiency in achieving particular targets as defined by coexisting social power relations.

Taken together, these two moments provide the outline for a complex technology of power. The latter embraces an ensemble of different social institutions, reflections, analytical discourses, and tactics. A general overview of the agents involved in contemporary financial markets might give an idea of what we mean by that: banks with sophisticated research departments, hedge funds, rating agencies, newspapers, think tanks, etc. In this sense, not only does risk calculation (along with the resultant pricing of the various types of securities) imply power over the future (the aspect of hedging) but also, and above all, it implies *control* over the present.[9] Attaching a risk profile to an agent (a capitalist firm, a state, or a wage earner) means accessing and measuring efficiency, conforming in a docile manner to his/her "roles" within a complex world underwritten by power relations. Risk calculation involves systemic evaluation on the part of every market participant of the efficiency with which particular targets have been achieved as defined by the social power relations. Every market participant becomes caught up in a perpetual effort to improve his/her risk profile as a competent risk-taker, in this sense closely conforming to what is required by the "laws" of capitalism. It must not be forgotten that the key issue in our reasoning is not the "correctness" of the market valuations but the existence of these valuations *per se* based upon particular criteria (fetishism).

But there is still a problem to be solved because the implementation of financialization as a form of governmentality over financial markets is incomplete in the absence of *commensurability* between the different concrete risks. In what follows we shall argue why this is true.

4.4 Posing the question of commensurability: Why financialization is incomplete in the absence of derivatives

Different risk profiles imply a range of different identified concrete risks. Very different probabilities of realization underlie every concrete risk to be dealt with. But if there is no guarantee that all these significantly different types of concrete risk can ever be compared with each other in

[9]See Martin (2002: 105); Ewald (2002).

terms of a common measure, how can the two abovementioned moments of financialization as a power technology be satisfied?

It is evident that in order to associate *the normalization on the basis of risk* with the *organization of social power relations*, different types of risk need to become singular and mono-dimensional. We can understand this as follows. While every (capitalist) power relation has a singular target, the "deviations" from it (risks) are multiple and heterogeneous. For instance, what is worse for an exporting capitalist enterprise (questioning its capacity to produce profits): a workers' strike or an exchange rate appreciation? What is worse for a capitalist state: public deficits and debt surging due to tax reductions for capital and the rich, or due to financing of social benefits? "Efficiency" is mono-dimensional. Hence, the process of normalization on the basis of risk will not come to a singular and coherent representation of a class reality in the absence of commensurability between different concrete risks. Without the latter, financialization will not be able to become a technology of power.[10]

This is where (financial) derivatives finally come into the picture. Derivative markets shape the dimension of abstract risk, imposing commensurability upon different concrete risks and establishing an objective measurement for them (LiPuma and Lee 2004). The multidimensionality of the latter is thus reduced to a single level. 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 a fundamental prerequisite for contemporary organization of social power relations.

One might suggest that in the framework of CAPM the term "beta" carries out a quantified estimation of every asset's riskiness.[11] In this sense, different groups of risks (that are linked to a particular asset) can be measured against each other. Another way to perform the same measurement is to take into consideration the spreads of the discounting interest rates. So, all securities with a given beta could be seen as perfect substitutes from the viewpoint of risk. Nevertheless, this does not hold for every concrete risk involved in them. Commensurating different assets does not amount to commensuration of different concrete risks, because every single asset incorporates different types of risks. This is only possible with derivatives. But even if someone suggested that "beta" is a good measure for every single risk embodied in a security, this would not be enough to commensurate them because "beta" is a calculation which is not necessarily accepted by everyone while the monetary value of derivatives is an "objective" measure faced by every market participant in daily market transactions.

5. The Dimension of Abstract Risk

Before derivatives there was no single socially validated measure of risk. With derivatives, risk is measured in money in an autonomous mode. We shall argue that this amounts to a major change in contemporary capitalist economies.[12]

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[10]In the relevant literature it is striking how rare are the analyses that attempt to touch upon the issue of commensurability of different concrete risks (Rescher 1983 and Lee and LiPuma 2004 are worth being mentioned as remarkable exceptions).

[11]We refer to the capital asset pricing model as a simplified example that helps clarify our point. We do not intend to embark upon a discussion of the rather naive theoretical premises of CAPM, although that would be relevant. We shall just mention that despite its appeal to investors, this model has been largely discarded in mainstream academic discussions.

[12]We agree with Bryan et al. (2009: 460) that the "ramifications of financialization are extensive and can only be addressed" in general terms in the analysis of a paper. At the same time, all these financial developments are "trends rather than universal re-definitions" (ibid.). First, "these trends are not all necessarily new, but they are accelerated and take on new meaning in the context of 'financialization'" (ibid.). Second, "they are not empirically uniform in their individual or spatial impacts" (ibid.).

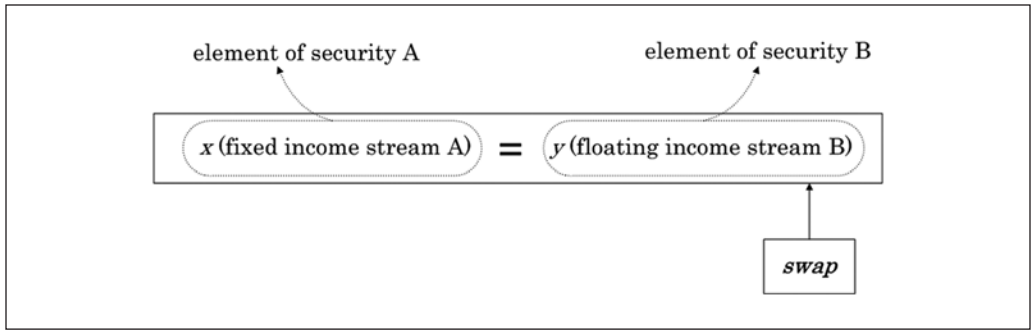

Figure 1.

As we described in section 2 above, with derivatives – especially with financial derivatives – concrete risks can be singled out and transferred to another party without giving up the ownership of the underlying commodity. Hence, the fundamental assertion of mainstream financial theory, namely that derivative markets consolidate the commodification of specific concrete risks, is therefore worth taking seriously. This rather "practical" indication brings to mind a whole series of theoretical speculations surrounding Marx's value-form analysis to be found in the first volume of *Capital*.[13] How can the "commodification of risk" be understood in Marxian categories?[14]

Given that standardized or tailor-made derivatives incorporate some of the concrete (known) risks involved in a specific risk profile, derivatives can be understood as commodifications of several concrete risks. As a consequence, every risk traded in derivative markets can be approached from either of two perspectives: it can be seen either as *concrete* or as *abstract*.

The following simplified example of a trivial fixed-for-floating rate swap illustrates the idea.[15] This is similar to the IRS of step 2 of Table 2 in section 2 above. Securities A and B are both debts of different capitalist firms (not necessarily in the same country). At an abstract level, the swap embodies within itself the well-known "equation" between two money income streams (because it is the two income streams that are swapped): in the above equation, it is not the exchange values of two commodities that are being equated but two different money income streams. It should moreover be mentioned that the exchange relation does not comprise a value expression (in the Marxian sense of the term), because neither of the two income streams expresses its value in the other (the value expression of the income stream has already been established, as it is already measured in money terms).

Which are the social preconditions that make this qualitative unity possible? Since the profit rate is the crucial factor in the valorization process, the money streams of A and B can be made comparable and exchangeable *only when the social terms of capitalist exploitation in both cases can be uniformly represented and thus compared*. 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 capitalist valorization, or alternatively, organizing the objective representation – and so the commensuration – of a universe of concrete risks (as already identified class events) which determine the dynamics of capital valorization. In this sense, the qualitative institutional difference signified by the emergence

[13]The argumentation that follows is based upon our reading of Marx's value form analysis in the first volume of *Capital* (see Milios et al. 2002). See also Althusser and Balibar (1997); Heinrich (1999).

[14]Lee and LiPuma (2004) draw attention to these speculations. Their analysis motivates ours. However, we attempt to closely follow the problematic of Marx's analysis.

[15]We believe that the swap is the core form that "typifies" all financial derivatives.

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 abovementioned reasoning enables us to submit the following two remarks. On the one hand, derivatives should not be understood as money.[16] Derivatives themselves are by virtue of their own constitution always already measured in money terms. They are implements useful for a particular form of organization and representation of the circuit of capital. They rather participate in and complement a "universe" of partial representations (such as those involved in different types of portfolios) as duplicates of capital relations. They monitor and control (in the familiar normless way that corresponds to capitalist production) the terms and the reproduction trajectories of the capitalist relation.

On the other hand, we already know – at least from Marx's value form analysis – that the commensurability of different, contingent, concrete risks presupposes an *abstraction* from their concrete character and their subsequent modification into singular, and therefore quantitatively comparable, risks. What is required is a formative perspective on the "actual" concrete risks that are involved in the constitution of risk profiles. The condition for existence and the possibility of the abstraction (along with its modalities) are provided through 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" (Lee and LiPuma 2004: 149).

Abstract risk is a mediating factor enabling different concrete risks to become social. Under these social conditions the plurality of heterogeneous types of risk is reduced to a single level because there are developed markets where different risk commodifications are exchanged with each other: x·IRS=y·CDS=… (see section 2). The derivatives markets are, to put it simply, organized in such a way that a net quantity of value emerges along with the isolation and packaging of a known concrete risk. This quantity is measured in money. As a result, because of the interposition of the notional exchange of the derivative with money, one particular and case-specific risk can be regarded as the same as any other. Abstract risk is the concrete and specific risk actually involved in a particular situation when seen in the light of the formation, organization, and measurement of risk as risk that is measured in monetary terms.[17] The form of abstract risk is risk measured in value, that is to say, money.[18]

6. Driving Our Point Home: How in the Light of the Above Reasoning is it Possible to Arrive at a New and Different Understanding of Bryan, Martin, and Rafferty's Thesis?

Let us summarize our basic point. BMR argued that financialization and derivatives markets make possible a thorough scrutiny of capital assets, in this way measuring their capacity for

[16]While the influential intervention of Bryan and Rafferty (2006) is important for the understanding of contemporary capitalism and the organization of financial markets, the argumentation of this paper differentiates itself in a crucial way: derivatives should not be conceived as the new global money.

[17]Indeed, this is quite similar to the following remark of Marx: the necessity "to express individual labour as general labour is equivalent to the necessity of expressing a commodity as money" (Marx 1974: 133).

[18]The more or less "accurate" pricing of a derivative comes always after its ability to bear a price. Every derivative issued has a price, even those which belong to the OTC market and conform to a particular portfolio's needs; this is enough to "place" them in the dimension of abstract risk. Their initial pricing has been based on a systemic assessment of the concrete risks involved. These titles are not always marked-to-market, that is, they are not always openly traded. But even in this case, the "internal" portfolio testing made by firms themselves always reckons the possible gain or losses. In any case these discussions belong to a different level of abstraction and are associated with issues different from those addressed in the paper.

profit making. But financialization is not only about intensive assessment and information gathering. The valuation process carried out by financial markets also has important consequences for the organization of capitalist power relations. From our viewpoint this is the basic message of Marx's intervention. We have attempted to provide an adequate account of this reasoning. The BMR analysis hints at such an analytical orientation.[19] Their work calls forth further discussion, elaboration, and systematization.

In order better to describe the workings of contemporary financialization from the Marxian point of view we have borrowed a concept from Foucault's writings: that of governmentality. Of course it is not merely a matter of borrowing a word. The idea is for the concept to be fully "expropriated" and properly utilized in elaboration of the Marxian analysis of political economy. The conceptual loan helps us understand how financialization has so far been developed as a technology of power, to be superimposed on other social power relations for the purpose of organizing them and reinforcing them in strength and effectiveness.

When Marx attempted to describe the social nature of financial markets he introduced the concept of fictitious capital and spoke of fetishism. He wanted to draw our attention to the fact that capital assets are reified forms of appearance of the social relation of capital. Hence, they are associated with objectified perceptions which obscure the class nature of capitalist societies while calling forth the proper mode of behavior required for the effective reproduction of capitalist power relations. The concept of governmentality simultaneously captures the two facets of the process of fetishism when the latter is applied to interpretation of financial markets. Despite the rapid detour though the writings of Foucault, the spirit of the above argumentation therefore remains Marxian.

We explained that derivatives as *sui generis* commodities become objectifications of abstract risk by blending different types of asset exposure into single securities. Their reality as values – the very fact that they are commodities with a price, that is to say economic objects always already quantifiable – makes possible the commensuration of heterogeneous concrete risks. In other words their reality as commodities carries out an abstraction from the real inequality of concrete risks, reducing them to expressions of a single social attribute: abstract risk.

Financial markets have the dual function of assessing and effectively organizing individual capitals (within enterprises facilitating exploitation strategies favorable for capital) *and* at the same time promoting a particular form of financing. Derivatives and all "exotic" modern financial devices and innovations are the necessary precondition for implementation of financialization. They introduce a formative perspective on actual concrete risks, making them commensurate with each other and reducing their heterogeneity to a singularity. The process of financialization is in fact incomplete without well-organized derivatives markets for reasons already explained.

This general outlook on financialization is at odds with the majority of heterodox analyses that seek to explain the recent financial crisis in terms of over-extension of a financial sphere that has become dysfunctional for capitalist accumulation.[20] BRM's intervention is an example, and a relatively convincing one, of critique to such analyses. Of course there are dysfunctionalities in the workings of financial markets but these are attributable to the development of class struggle within the financialization milieu. Financialization is not the result of some fatal and persistent inability of capitalism to restore profitability or to realize surplus value. The contemporary crisis is in fact the outcome of active elaboration of the class struggle within the confines of contemporary social forms.[21] The explosion of financial derivatives and the innovating forms of risk management have helped to fuel the crisis. If derivatives are to be regarded however as the cause of something, this should be the formation of new kinds of rationality for the promotion of exploitation strategies based on the circuit of capital. The new rationalities presume an attitude of

[19]Some of their subsequent works touch upon this issue: see Martin (2009).

[20]For a discussion on these issues see Milios and Sotiropoulos (2009: ch. 9).

[21]For a thorough description of the mechanism behind recent financial meltdown see Lapatsioras et al. (2009).

obedience to the "laws" of the capitalist system, which in its turn encompasses individual capitals, states, or wage earners, irrespective of the latter's peculiarities. These new rationalities, strangely, systematically push for underestimation of risks. Contemporary capitalism is caught in this exhausting tension between being efficient in the exploitation of labor and risky at the same time.

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