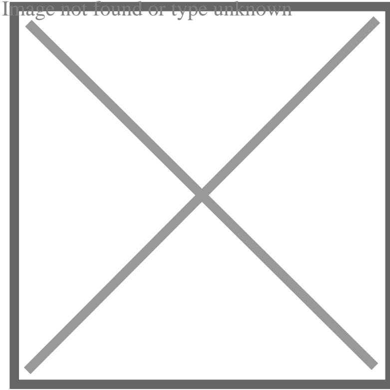

The financialisation hypothesis and Marxism

Description

Introduction

The financialisation hypothesis (FH) is a popular argument in contemporary heterodox economics, Marxist political economy but also in mainstream economics. Its basic thesis is that modern capitalism has undergone a radical transformation during the last three decades: the financial system, through a series of innovative mechanisms, has conquered capitalism's commanding heights, become independent from productive capital and transformed the whole system according to its own prerogatives. This new financialised (or financial or finance-dominated or fiduciary) capitalism operates completely different from traditional capitalism. FH proposes four stylised facts as its factual basis:

1. The increased weight of the financial sector in contemporary advanced capitalist economies (share in GDP, profits, new complex financial instruments).
2. Corporate sector's recent trend to finance itself through retained earnings, capital markets and shadow banking.
3. The adoption by firms of shareholders' value maximisation policies and the related prominence of institutional investors.
4. The increased indebtedness of working and middle-class households in several advanced capitalist economies.

The combined result of these processes is: that (a) productive capital depends totally upon money capital and transforms its modus operandi according to the latter's requirements and (b) working class depends directly upon money capital, which exploits it through usury.

This new finance dominated capitalism is crisis prone because of its inherent financial instability. Concomitantly, the 2008 global capitalist crisis is considered as a financialisation crisis caused by financial bubbles and without roots in real accumulation, which was only subsequently affected by finance's deleveraging. FH's shot to prominence made it a leitmotif at the cost of analytical coherence. This article discusses the

Marxist and *marxisant* versions of the FH and argues that they misconceive the actual workings of modern capitalism leading to an explanatory blind alley.

The spectacular ballooning of the financial system during the recent decades of weak profitability and accumulation does not constitute a new epoch let alone a new capitalism. Instead it constitutes a well-known capitalist reaction in periods of weak profitability. This does not preclude the proliferation of new financial instruments which give new special forms of appearance to a usual capitalist process. Contrary to FH, it will be argued that classical Marxist theory of crisis and fictitious capital offers an analytically and empirically superior understanding of this process.

FH autonomises completely money capital – that is, the fraction of capital that operates in the financial system – from productive capital and, furthermore, superimposes it on the latter. On top of that, FH maintains that money capital acquires also means of existence and operation totally independent from productive capital. This argument creates no problems for mainstream financialisation theory since neoclassical economics consider the financial system as an independent creator of wealth.

However, it is a big leap for those FH currents that ascribe to political economy. Political economy, both classical and Marxist, considers productive capital – that is, capital engaged in the sphere of production – as the locus of surplus value creation. The other two main capitalist fractions (money and commercial capital) operate in the sphere of circulation. They do not produce surplus value but reap parts of the surplus value created under productive capital as payment for their necessary functions. FH by rejecting this perspective actually signifies not a new epoch of capitalism but a new capitalism with different classes and different functions. This is a scenario far removed from reality.

FH and its Marxist and *marxisant* versions

The notion that there was some structural break in capitalism’s historical evolution after which the financial system conquers the system’s commanding heights is not new. Hilferding’s (1910 (1981)) seminal work contemplated the idea of a new strategic importance of the financial system for capitalist reproduction. He argued that because of the increased concentration and centralisation of capital and the augmented financial requirements a new hybrid form of capital (finance capital) has emerged. This is the fusion of productive capital with banking capital (a section of money capital) under the dominance of the latter.

Implicitly, Hilferding considered this as a new era of capitalism; although he never ventured to state it explicitly. With the emergence of finance capital, finance has dethroned productive capital from its dominant position in the total circuit of capital. There are well known deficiencies of Hilferding’s finance capital thesis. First, he implicitly side-steps the Marxian labour theory of value (LTV) and proceeds with a problematic theory of monopoly pricing. Second, the empirical validity of the finance capital concept has been disproved (Bond 2010; Harris 1988). This fusion of productive with banking capital materialised only in a minority segment of

the advanced capitalist world. Indicatively, it did not materialise in several crucial Anglo-Saxon economies where the stock exchange rather than the banking system constitutes the main source of finance for private enterprises.

Hilferding's thesis was relaunched later by Sweezy (1942). However, it should be noted that neither of them broke from the classical Marxist relationship between surplus value and interest. For Marxist analysis, surplus value is extracted by productive capital at the sphere of production and then it is redistributed between profits (accruing to productive capital), interest (accruing to money capital) and commercial profit (accruing to commercial capital). Hence, money capital may dominate strategically productive capital but it cannot live independently of the latter.

Hilferding's idea of this strategic dominance was taken up by both friends and foes within the Marxist tradition. It was Lenin (1917), in his *Imperialism* that took it up and recast it within a formal theory of capitalist stages. He argued that a new stage of capitalism, monopoly capitalism, has emerged: one of its main features is, as he adopted Hilferding's problematic concept, this strategic dominance. Nevertheless, Lenin followed the Marxian LTV and always considered money capital an appendage of productive capital, since interest is part of surplus value and money capital has no independent source of wealth. Nevertheless, Lenin's theory of stages, despite some shortcomings and ambiguities, offers a coherent and valuable toolbox through which Marxist analysis can conceive transformations in capitalism.

Summarising, Marxist political economy within its theory of stages argued that during monopoly capitalism the financial system acquired strategic dominance over the total circuit of capital but also never ceased to depend economically upon productive capital. In a nutshell it was a dominant and also necessary parasite. This conception, despite some problematic aspects like finance capital, has both realism and analytical coherence.

The theoretical landscape changed once again after the 1973 global crisis that signified the exhaustion of the monopoly capitalism stage. The 1973 global economic crisis and its falling profitability, which caused several waves of capitalist restructuring, succeeded only partially in restoring capital's pro?tability. In other words, the profit rate never managed to reach its prior 1973 levels.

This incomplete capitalist recovery led to a flight ahead: the system vigorously employed fictitious capital's operations in order to sustain and invigorate capital accumulation. The rapid deregulation and internationalisation of finance during the 1990s started the process of what has been termed financialisation. Capitals that were overaccumulated in the productive sectors of the economy shifted their activities towards fictitious capital operations in order to improve their profitability. These developments have led to interpretations according to which a new epoch for capitalism arose, where the financial capital is released from the governance of productive capital and, taking an autonomous course, now dominates the whole of the capitalist economy. These significant changes that took place during the last decades of the 20th century crucially influenced the views on the role of the financial system as well as the

ongoing debate regarding the relationship between productive capital and finance.

The very term financialisation was firstly coined by the Monthly Review (MR) school. Sweezy (1994, 1997) in his last papers referred to ‘the financialisation of the capital accumulation process’ as one of the three tendencies at the turn of the century (the other two being monopoly power and stagnation). Financialisation as such was inaugurated in a collective volume edited by Epstein (2005) that included a chapter by Krippner (2005). The latter introduced the term financialisation as the trademark of recent transformations in the capitalist system. In spite of this, Krippner (2005, p.199) had reservations on whether financialisation constitutes a new phase of capitalism, arguing that it neither necessarily ‘represents an entirely novel phase of capitalism…[nor] do these data allow us to draw any conclusions regarding the permanency of the trends documented here’.

However, it was not the MR school but the post-Keynesians who energetically adopted the term and rarely treated it as their exclusive property. The incorporation of the term in Marxist and *marxisant* analyses followed a bit later. There are four FH versions in Marxist literature. Two of them keep within the Marxist analytical framework (Fine, MR), whereas the other two have a rather *marxisant* flavour in the sense that they abandon the former and flirt with post-Keynesianism (Lapavitsas, Bryan).

Fine (2009, 2010) considers the growth of finance and the new financial forms of the last thirty years as a special phase of neoliberalism (which he defines more as a policy trend rather than as a stage per se). He theorises this new phase through the Marxian LTV and its theory of money. Financialisation occurs when the accumulation of interest bearing capital (IBC – to be defined below) in the economy becomes extensive and intensive. Intensive growth and proliferation of financial assets signifies their increasing distance from production while extensive means the extension of IBC to new areas of economic and social life in hybrid forms of capital (Fine 2013/2014, p.55).

Under such conditions finance can acquire a dominant position as regards capital accumulation only in the structured environment of shadow banking. In the context of the latter, exchange can be facilitated by the intermediation and dominant presence of fictitious capital. According to Fine, finance cannot acquire autonomous channels of exploitation of the working class. New forms of operation of money capital and novel institutional arrangements are the policies that are used by capital in order to surpass its problems and contradictions. In a nutshell, Fine follows the Marxian logic of relating finance to the sphere of production and considering financial profit as part of the surplus value. What is missing from his analysis is how the current emergence of financialisation relates to profitability.

MR, although financialisation was initiated under its auspices, was a latecomer in adopting it (e.g. Foster 2010). Engulfed in its Marxian-Keynesian underconsumptionism, it strived to prove the latter in the face of overtly negative empirical evidence (as the 2008 crisis was not accompanied with underconsumptionist signs). It adopted financialisation in conjunction with arguments that: (a) increasing income inequalities lead to the increasing indebtedness of private households, which is a form of

covert underconsumption and (b) increased financial leverage and speculation is part of the neoliberal era of deregulation. It identifies the latter as a new stage of capitalism, branded as neoliberalism or globalisation or as financial globalisation. However, neither MR argues that financial profit has become independent from surplus value.

The social structures of accumulation (SSA) approach follows a path similar to MR by identifying financialisation with the neoliberal SSA (Tabb (2010) and adding their own emphasis on institutions. Bryan et. al (2009) argue that since the early 1980s finance has become commodified through several financial innovations (securitisation, derivatives etc.). Although Bryan (2010) avoids to characterise this as a new capitalist stage, he essentially implies so. He claims that: (a) increased leverage and derivatives and (b) workers' financial exploitation through usurious loans change radically capitalism's functions and class structure.

They argue that the wage relationship (i.e. labour time) and its relationship to money has ceased to be related and are now separate and that the latter has subsumed the former. Concomitantly, labour becomes a form of capital as the reproduction of labour is now a source of surplus value transfer in the form of interest payments and the 'financialisation of daily life'. Under the Marxist terminology (surplus value etc.) exploitation is not confined to unpaid labour time but extends to usury, in their very peculiar formulation. Moreover, the argument that labour is now a form of capital implies directly a new class structure different from typical capitalism.

Lapavitsas (2008) adopted financialisation directly from post-Keynesianism. He argues, in the spirit of shadow banking, that traditional banking is almost redundant and that the financial system is becoming totally stock-exchange based. Fictitious capital is a redundant concept and new financial developments do not relate, even distantly, to the sphere of production and have to be analysed independently. Thus, LTV and its money theory are essentially discarded. He introduces the vague concept of finance as the new master of the system.

To avoid criticisms of proposing two separate capitalist classes he argues that finance subsumes and reshapes productive capital according to its prerogatives. Consequently, there is no meaningful distinction between them. Additionally, finance acquires a channel of direct exploitation of workers through the provision of usurious loans: 'These practices are reminiscent of the age-old tradition of usury but they are now performed by the formal financial system' (Lapavitsas 2009). He initially branded this new source of financial profit as 'financial exploitation'. After criticism (e.g. Fine 2009) for confusing capitalist exploitation with the pre-capitalist exploitation of usury, he made an inconsequential facelift and changed the term to 'financial expropriation'. He argues that this enables financial institutions to boost their profits independently of surplus-value and possibly to exploit 'us all' (Lapavitsas 2014) alluding to other social strata apart from labour. For him this new structure constitutes a new stage of capitalism (or a new 'social order' as he brands it in more graphic but less theoretically coherent terms). Furthermore, he argues that there is no general theory of crisis (as Marxism argues) but each crisis is historically specific. He maintains that the 2008 crisis was a financialisation crisis with no relations whatsoever to profitability (as

the latter remained constant, Lapavitsas and Kouvelakis 2012).

The *marxisant* and Marxian-Keynesian FH essentially adopt the post-Keynesian endogenous money theory which is highly problematic as it cannot define coherently what is capital and, consequently, misconceives the relation between interest and profit. Essentially, their approach is akin to that of the old Banking School and face similar problems. Thus, the *marxisant* and Marxian-Keynesian FH sacrifice – or deform beyond recognition – the crucial Marxian concept of fictitious capital and end up with the same argument as the mainstreamers and the post-Keynesians: the monetary sector dominates the real sector and has independent sources of profit from the latter. But what strikes us is the *marxisant* FH’s essential confluence with the post-Keynesian theory of classes.

As already analysed, Keynesian and post-Keynesian thought inherits the notion of the rentier from classical political economy but it actually deforms it. For the former, rentiers (in the version of landowners, that is, a transformed remnant of feudalism) were a separate class not doing business but appropriating rent that was subtracted from entrepreneurial profits and, thus, diminished investment. This conflict that characterised capitalism during Smith’s and Ricardo’s time has long ceased to exist. Landowning has been assimilated into the capitalist class and lost its independent existence and function. Keynesianism redefined this distinction between industrialists and financiers, essentially seen as separate classes. Keynesianism does not have analytical problems with this as it argues that other factors affect savings and other investment.

However, Marxism conceives money and productive capital as forms of total capital that both take part in the formation of the general rate of profit, which among others is a process unifying the bourgeoisie against the proletariat. Because interest is part of surplus value and financial profits depend upon the general rate of profit, Marxism does not elevate the distinctiveness of money and productive capital to the point of being separate classes.

Last but not least, the *marxisant* FH currents have a weak theory of crisis. They do not offer a general theory of capitalist crisis but instead opt for a conjunctural one. Each historical epoch and each particular crisis has its own specificities. But essentially, as Tome (2011) clearly shows, FH ultimately ascribes to a Keynesian possibility theory of crisis. This is a very tenuous theory of crisis, especially in these FH currents that refer even in passing to Marxism. Lapavitsas (2014, p. 37) is again a typical example. He states that the development of ?nancialisation has nothing to do with Marx’s tendency of the profit rate to fall. Moreover, he asserts that falling pro?tability in capitalist production was never a key factor behind the rise of finance.

Classical Marxism versus FH

FH purports that it offers a superior analytical framework in order to comprehend the economic transformations of the recent decades. The empirical side of FH is beyond the scope of this article. Although there is compelling evidence that real accumulation continues to be the centre of the capitalist system and that falling profitability à la Marx is at the

core of the 2008 crisis (e.g. Shaikh 2010; Mavroudeas and Paitaridis 2015), there are also forceful rejections of FH’s empirical applicability for specific economies (e.g. Mavroudeas 2015). This section offers an alternative to FH analysis of recent developments in capitalism, one that is based on the classical Marxist perspective.

Classical Marxism analyses the relationship between monetary and real accumulation through the lenses of the total capital circuit which reveals the modus operandi of the various forms of capital, in unity with the context of real accumulation. This unified exposition is absent both from the mainstream and post-Keynesian perspectives and gives Marxism a superior understanding of the relationship between finance and production, where the sphere of production has a structural (and historically permanent) primacy over finance.

This viewpoint enables Marxism not to fall prey to questionable stylised facts that create false impressions about new stages and, at the same time, to be able to analyse new phenomena within the contours of the fundamental mechanisms of operation of the capitalist system.

The Marxian total capital circuit presents how capital operates and assumes different forms in order to extract surplus-value:

M?C… P … C´?M´

?   ?

c+v c+v+s

where,

M: money

C: commodities (means of production c and labour power v)

P: production process

C´: commodities of greater value produced (via the inclusion of surplus value s)

M´: increased money return (in the form of profit) for the C´.

The circuit begins with circulation (the advancement of M for buying C) and ends with circulation (the payment of M´ for C´). The production process where circulation is interrupted and surplus value is extracted takes place between C and C´. The three fundamental forms of capital (money capital, productive capital and commercial capital) function differently but are also entwined in this circuit. Money and commercial capital, which operate in the sphere of circulation, operate in the beginning and at the end; productive capital operates in the middle.

The sphere of production, and thus productive capital, has primacy over the others as surplus value, the aim of the capitalist system, is extracted under its auspices (Fine and Harris 1979). This surplus value is subsequently redistributed between productive, money and commercial capital

because the former needs the support of the two others. Money plays a crucial role in this circuit. It is the most mobile element of the circuit. When it represents value (it has not become capital) it has its most fluidity. However, when it enters the production process and becomes capital (which is necessary for claiming surplus value) becomes less fluid. Capital regains its fluidity when the commodities produced are sold in exchange for M´. Part of that money is reinvested in the production process becoming less fluid capital whilst another part is consumed or hoarded by the money owner.

There is tension between money’s inherent mobility and its necessary attachment to the production process. The money owner views it as a process that takes time and is risky. This makes it undesirable and would only be undertaken if the expected returns are likely to be significantly greater than those of other capitalists involved in the process who retained flexibility, such as money capital who operates at the M stage or commercial capital who functions at the C stage. As each capitalist sees himself as a free rider of the system – that is, he tries to leave to its peers the costs for the functional operation of the capitalist system – he seldom tries to disentangle himself from the bounds of production. There are phases of the economic cycle where this tendency becomes stronger and phases that it becomes weaker.

For example, greater returns to productive capital were evident throughout much of the 19th century. But, particularly after the 1873 crisis, this has changed and the tendency to fluidity returned. Transferable shares and their commodification became the dominant means through which capitalists tried to reduce the risk of their involvement in the production process.

Marxism grasps the unity and the internal strife of capital and the complex functions of money capital through the distinction between the use of money as credit and the use of money as capital. Borrowing and use of money as capital is different because money is used not just to buy a good or to meet a payment but in order to make more money. From the perspective of capitalist production, this occurs when money is borrowed in order to expand accumulation with the expectation of a future profit. Marx distinguishes carefully between money capital’s functions. Money involved in the lending and borrowing activities of the capitalist financial system is defined as loanable money capital (LMC). LMC is subdivided in two generic forms: money dealing capital (MDC) and interest bearing capital (IBC). MDC advances credit in general for buying and selling in the sphere of circulation. IBC uses credit relations to advance money capital in order to appropriate surplus value.

Traditionally the capitalist financial system collects idle funds and channels them to investment through the credit and the capital markets (which operate differently). Credit markets involves both MDC and IBC. Capital markets involve solely IBC. The novelty of recent hybrid forms (such as shadow banking) is that they combine in complex ways the operation of both banking and capital markets. Hence, they combine MDC and IBC.

The credit system begins with trade credit, which arises through trade relations mostly tied to similar and/or related sectors and geographical proximity. Next comes banking credit (collection and advance of LMC by banks), which arises in the discounting of trade bills and is based on the

collection of idle money from several sources and thus overcomes some of the particularities of trade credit. By collecting idle money from several sources in the economy, banks partly homogenise credit and begin to give it a less individual character. The next instance is the money market (where LMC is traded among banks). The top of the credit system is the central bank (the leading bank of the money market).

The capital market accompanies the credit system. Contrary to the latter it mobilises idle money on the basis of property (equity) rather than credit (debt). Nevertheless, the credit market is connected with the stock market, as both draw funds from the same pool of LMC and as lending by the former sustains the operations in the latter. Because IBC is money capital traded as a commodity commanding interest, it has a dual character in the context of the total circuit. On the one hand it is immediately related to the sphere of real accumulation for interest payment and on the other hand it is immediately related to the form of credit money.

Hence, it has certain degrees of freedom towards the sphere of real accumulation, as the interest rate which determines IBC is formed outside the total circuit by the supply and demand for LMC. This gives to IBC a second duality. First, because it is a relationship between a capitalist possessing money (*moneyed* capitalist) and a capitalist possessing an investment project (*functioning* capitalist) it can give rise to speculation (i.e. rent seeking). Secondly, IBC comes out from the generation of sums of money in the turnover of total social capital, which are transformed subsequently into LMC by the credit system.

IBC differs from productive capital because its owner, through lending, claims part of the surplus value (in the form of interest) without any direct involvement in production. In cases of unwelcome developments (conflicts between labour and capital in production and distribution, falling profitability etc.) IBC’s lender withdraws it and invests in other sectors instead of having to intervene directly in the industry. This characteristic of IBC is crucial for money capital (banks) because it enhances the liquidity of their liabilities. Their deposits, which (for commercial banks at least) form the basis of their money dealing operations, are highly liquid since depositors are not tied to any particular bank. In well-developed banking systems personal knowledge and trust do not enter the relation so that deposits and other monetary instruments are non-specific and anonymous forms upon which capital can be held.

The money dealing that banks carry out and competition within banking facilitates this distancing of money and deposits from specific ties. However, IBC’s freedom has limits because by lending directly to industry it cannot be totally indifferent to the latter’s outcomes. Fictitious capital is a form of IBC. IBC is already defined as money capital that is loaned in order to be used in the sphere of production for extracting surplus value, in contrast to the simple loan of money (money as such) that simply facilitates transactions in general.

However, since there is an obligation to repay a loan, which takes the form of debt, it is possible for this debt to acquire a life of its own. Consequently, the obligation, which takes the form of securities (e.g. shares, bonds etc.), can autonomously be bought and sold at some money

value, which might or might not correspond to the ability of its sum of money (if used as capital in the production sphere) to realise enough surplus value. This autonomous circulation of IBC in the form of securities is called by Marx fictitious capital. Fictitious does not imply that it does not exist or it is artificially created. It denotes that its circulation is distinct from the circulation or the yield of capital which it represents (Fine 2013,2014, pp.49–50). Therefore, fictitious capital is related to the financial activities of capital in general and becomes more crucial when the financial system becomes more complex.

Practically, fictitious capital represents an uncertain bet on surplus value that might be extracted in the future but which it is being discounted in the present. Its operation is closely related to the expansion of joint-stock companies, the negotiation of their assets in the stock exchange and the expansion of credit money (that facilitates to a great extent their transactions and their valuations). Periods of economic euphoria usually foment high expectations about the future and thus can engineer waves of robust economic growth (as they influence positively investment). These expectation-led booms have usually the tendency to overshoot – that is, to create increasingly over-optimistic future expectations.

But as soon as the *real economy* cannot keep apace with those expectations (i.e. investment does not lead to the expected profits) then its growth starts faltering. In other words, the so-called *fundamentals* recall to reality the unsustainable growth engineered by fictitious capital. The busts that follow have also the tendency to overshoot but this time toward the downside. These usually lead to the eruption of an economic crisis because of the burst of the so-called bubble.

This role has been recognised long ago by many Marxist economists. Henryk Grossmann (1929), for example, has showed that Marx includes among the factors that counteract the breakdown the fact that the progressively larger part of social capital takes the form of share capital:

> [T]hese capitals, although invested in large productive enterprises yield only large or small amounts of interest, so-called dividends, once costs have been deducted… These do not therefore go into levelling the rate of profit, because they yield a lower than average rate of profit. If they did not enter into it the general rate of profit would fall much lower. (Grossmann 1959, p.240)

This pinpoints the credit system’s ability to continue making profits when real accumulation starts facing difficulties in a way which delays the fall of the general profit rate. However, despite the relative autonomy of the credit system, ultimately, its operations broadly comply with the essential motion of capitalist accumulation. Thus, the crisis phase of capitalist business cycle typically begins with the collapse of speculation in stockpiled commodities by wholesale merchants and the rise of the interest rate which affects the debt structure at some point causing its collapse, bringing the crisis phase to be followed by depression.

Itoh (1988, pp.303–342), following the Uno school of Japanese Marxism, embedded this function within the phases of economic cycles. He argued that

towards the upswing's end and in the beginning of over-accumulation the profit rate declines and commodity prices tend to rise. Then, speculative trading and stockpiling of commodities take place in expectation of further price rises. Speculative trading also appears in the stock exchange as the share prices of some industries begin to rise in response to the increase in their commodity prices.

Summarising, classical Marxism has a coherent and sophisticated framework to grasp the phenomenon of prolonged financial euphoria without separating it from real accumulation. This framework can also explain satisfactorily the recent financial innovations. The most dramatic contemporary change is that the bill of exchange, with its direct links to the financing of production and trade, is substituted as the dominant financial asset by the repo (sale and repurchase agreement). In a repo, a borrower of cash sells a bundle of securities for an amount of money to a lender with the agreement that the former will repurchase the securities for another amount of money after a fixed period. The securities thereby act as collateral for the cash loan. In the event that the cash borrower defaults on repayment, the cash lender owns the securities to keep, sell or use again as collateral. In this context institutional developments led to the notion of *bank* to become elastic and the phenomenon of shadow banking emerged. This trend tends to merge the two pillars of the financial system (credit and capital markets) mainly through securitisation. However, securitisation transforms property into tradable financial assets against a promise for repayment – that is, into fictitious capital. In this way the contemporary financial system became more unstable as traditional institutional mechanisms and trust were disturbed.

All this contemporary financial house of cards depends upon the extraction of surplus value in the sphere of production. In the aftermath of the 1973 profitability crisis, the subsequent waves of capitalist restructuring failed to resolve the over-accumulation crisis. Despite the dramatic increase of labour exploitation – that is, the increase of the rate of surplus value – they shied away from a decisive destruction of unviable capitals. Thus, profitability never recovered sufficiently. The last trick, together with globalisation (that never extinguished the national economy but increased pressure on both labour and unviable capitals), was the expansion of fictitious capital operations. Nevertheless, as argued above, this stratagem has definite limits. Expansion through financial doping soon met its limits set by the real accumulation. Thus, the 2008 crisis erupted. The financial collapse was strictly geared to the problems of the real accumulation.

With regards to the other pillar of *marxisant* FH currents, namely, that finance acquires an independence from the surplus value mechanism of *direct exploitation* through usury, there exists a robust refutation. Fine (2009) argued correctly that this current misinterprets the Marxist analytical framework. The financial revenues from loans given to workers can be: (a) an additional appropriation of a part of the value of their labour power or (b) a part of the value of their labour power that is being expended for the acquisition of socially necessary commodities.

In the first case, if this appropriation becomes permanent, then it will lead to a new lower value of labour power. In the second case, the current value of labour power is actually lower than what it appears. In both cases

there are no extra and moreover independent from surplus value financial profits. To argue otherwise means that these *marxisant* FH currents propose a different theory for the determination of labour power and for the operation of the labour market than that of Marxism. In such a theory, direct power relations instead of indirect economic mechanisms are the only mechanism that can enable the financial system to garner extra profits. Again, this view misinterprets capitalism as a pre-capitalist system.

Conclusion

The Marxist and *marxisant* FH currents with the notable exception of Fine’s rather peculiar interpretation, err on five counts. First, they interpret short-range and conjunctural phenomena as long-range structural changes. In methodological terms, FH is a middle-range theory (for a critique of this methodology see Mavroudeas 2012, ch.3). Second, they promote the false perception that the post 1990s financial expansion was a totally new phenomenon without any previous historical precedent. Third, their argument about the financial system’s novel direct exploitation mechanism equates unwarrantedly capitalism with the pre-capitalist era of transition from feudalism to capitalism. Fourth, they propose an unrealistic class analysis. Fifth, they lead to unjustified analytical fuzziness as they obscure the understanding of capitalism’s fundamental economic and social processes. In a nutshell, FH’s grandiose proposition regarding a new stage of capitalism or even a new brand of capitalism fails to account both analytically and empirically for the evolution of contemporary capitalism. On the contrary, classical Marxism offers a superior analytical and empirical perspective.

Date Created
July 8, 2019
Meta Fields
Text By : STAVROS MAVROUDEAS
Subtitle : A positive contribution or a Trojan horse?