Political Economy through the Looking Glass

Imagining Six Impossible Things about Finance before Breakfast

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Abstract

Two sets of co-authors, LiPuma and Lee, and Bryan and Rafferty, each argue that contemporary ‘speculative’ or ‘circulatory’ capitalism represents a deep rupture in the modality of capitalist accumulation from earlier forms of industrial capitalism such that the Marxian critique of value-form is now redundant. I argue that despite the altered surface-appearances of financialisation, the essential character of social domination carried out in the process of capitalist production-circulation in financialisation constitutes, rather, a continuation of the particular movement of capital from earlier historical conjunctures. As such, traditional formulations of Marxian categories such as class, exploitation and the value-form remain relevant and, indeed, necessary for the analysis of the mode of social domination in the era of financialisation.

Keywords

finance – derivatives – Marx – fictitious capital – surplus-value – LiPuma and Lee – Bryan and Rafferty

Over the past decade, work in critical political economy has, with good and obvious reason, paid increasing attention to the growing dominance of finance and the credit system in contemporary processes of capitalist accumulation and the distribution of wealth. While it is well known that the credit system is an integral component of capitalist accumulation at any stage of history and development, the socio-economic restructuring that began in the mid-1970s in response to economic recession and flagging capitalist profits set the stage for an insinuation of finance into modes of capitalist accumulation that was

theretofore unknown in scope and character. This situation – the increasing dominance of financial activity over processes of production and circulation, and the concomitant appearance of finance's detachment (i.e., autonomisation) from these processes – is now commonly referred to as financialisation. Given that one cannot avoid considering the impact of financialisation in the observation of virtually every aspect of contemporary capitalist dynamics, a substantial and growing body of work on the critical analysis of financialisation has been emerging since the early 2000s. Central to this body of work has been the question of what more precisely constitutes financialisation as a rupture from previous modalities of capital; in other words, what are the specific differences with respect to the scope and character of financial activity that distinguishes financialisation from previous stages of capitalist development? Moreover, and arguably even more importantly from the perspective of critical political economy, what does financialisation signal about capital as a mode of social domination?

Amongst recent critical analyses of financialisation, those that posit the latter as representing a deep and systematic rupture – as signalling an altogether novel mode of accumulation and exploitation – have been influential. Two of the most noted and sustained enunciations of this argument can be found in the work of two sets of co-authors: Edward LiPuma and Benjamin Lee in their *Financial Derivatives and the Globalization of Risk* (2004), and Dick Bryan and Michael Rafferty in various articles (investigated below) as well as their *Capitalism with Derivatives* (2006). LiPuma and Lee, and Bryan and Rafferty have each homed-in on the proliferating trade of financial derivatives as one, if not *the*, indexical aspect of contemporary global, financialised capitalism. Both LiPuma and Lee, and Bryan and Rafferty have articulated a critical theory of derivatives that identifies today's enormously expansive if relatively invisible derivatives market as the dominant organising modality of what they argue can now be appropriately called the era of circulatory, or speculative, capitalism.

LiPuma and Lee, and Bryan and Rafferty are representative of a currently circulating thesis that the transformation of capitalism transported by financialisation entails a new mode of capitalist accumulation altogether. According to this thesis, as profits from production-directed economies wither, capital is diverted away from these sectors and into the financial sector where it functions as 'speculative capital': a 'huge, not production-directed, and continually expanding pool of mobile, nomadic, and opportunistic capital that resides in the hands of private hedge funds, leading investment banks, and the financial divisions of major corporations'.¹ Furthermore, according to this thesis, the

¹ LiPuma and Lee 2004, p. 23.

ascendency of financialisation, which witnesses the displacing of the principal site of value-generation from production to circulation, has consequently altered the modality of capitalist accumulation such that the traditional categories of critical political economy are no longer adequate to the analytical task. In particular, these authors argue, a Marxian theory of value has become, in the context of circulatory capitalism, redundant and needs to be renovated to serve the analysis of the way in which value is no longer predominantly generated in production, but rather in circulation, in the activities of the financial sector. According to this thesis, economic exploitation and class are also categories that require renovation, to reflect the new reality that it is through mechanisms of circulation and finance that the majority of the population is subordinated to an economic and political elite minority with respect to the distribution of power, agency, autonomy and resources.

In the discussion that follows, I will argue that the analysis of circulatory or speculative capitalism, as representing a deep rupture in, and transformation of, the modality of capitalist accumulation, is inaccurate. I will show that despite the vastly altered appearance and surface modalities of financialisation, the essential character of social domination carried out in the specific articulation of capitalist production and circulation in financialisation constitutes, rather, a continuation of the particular movement of capital across historical conjunctures. As such, traditional formulations of Marxian categories such as class, exploitation and the value-form remain entirely relevant and, indeed, necessary for an accurate grasping of the mode of social domination in the era of financialisation. Finally, in the conclusion, I demonstrate the way in which LiPuma and Lee's, and Bryan and Rafferty's narrative of the ascendency and autonomisation of circulation (which for these authors is made evident by the ascendency and autonomy from production of financial-derivatives markets) is an illustration of precisely the kind of fetishisation of a certain surface-story of finance that Marx argues is the epitome of the capitalist imaginary.

Imagining Six Impossible Things about Finance

The following critique of the formulations of LiPuma and Lee, and Bryan and Rafferty unfurls by way of the interrogation of six theses on the contemporary dynamics of financialisation put forward by one or the other (or both) set of authors. The analyses of these authors are according to them critically oriented in the sense that they are concerned to reveal how financial industries, instruments and markets establish relations of domination between classes and, globally, between nation-states and between the metropole and

the periphery. Furthermore, these authors continue to deploy much of critical political economy's repertoire of analytical categories, such as capital, value (use-value, exchange-value, surplus-value), production/circulation, class, abstraction, objectification, and so on. Still, for LiPuma and Lee, and Bryan and Rafferty, the dynamics of financialisation are sufficiently novel that traditional political-economic categories require reformulating and resituating (and in some instances, jettisoning altogether) in order to adequately capture the transformed nature of the mode of domination in circulatory capitalism. This is the service – the sorting-out of how power is mediated by the virtual flows of speculative capital – which our authors claim to perform for critical theory otherwise disoriented and dumbfounded by the vaporising of once geographically and spatially-locatable processes of accumulation:

[T]ransnational nuclei of concentrated financial political power crystallize in spaces so virtual and electronic that their only addresses are encrypted web pages. This etherealness complicates the analysis for those who study domination: for with the rise of derivatives not only do the underlying social relations of domination appear to be abstract, but the surface relations now have their own form of abstraction.

The rise of circulatory capitalism appears to have thrown orthodox Marxists and critical theorists into a tailspin, because ... tools of their trade – concepts like class relations, private property, material production, and also surplus-value – may no longer be contemporaneous with themselves. The culture of financial circulation does not appear to concern or pivot on these concepts in any meaningful way, and recourse to them is distinctly unproductive.²

Through a critique of the following six theses, I will illustrate that, while financialisation is indeed a historically novel development of the capitalist mode of production, it is nonetheless continuous with earlier capital formations with respect to the location and mode of production of surplus-value and, therefore, also continuous with respect to the nature of class antagonism animated in that process. As such, I argue that the 'unreconstructed' categories of Marx's critique of political economy continue to be adequate, and productive, for capturing the fundamental movement of financialised capitalism.

² LiPuma and Lee 2004, p. 15.

Thesis one: We no longer need the category of fictitious capital (if we ever did) in the analysis of derivatives markets and financialisation more generally.

One item on our authors' agenda is to disabuse readers of the idea that there is anything 'fictitious' about financial capital and financial activity more generally, or about derivatives in particular. They are concerned to challenge what they perceive as the orthodox yet specious dichotomy between real capital and fictitious capital – between the real economy ('conceived as physical output produced in a factory')³ and the unreal or fictitious economy (of buying and selling financial instruments for the purposes of hedging or speculation). According to Bryan and Rafferty (here, with a third co-author, Randy Martin),

[If we] consider that money in capitalism may actually be an integral part of capital's economic and social relations, then we need to move beyond the notion of finance as a sort of fictitious realm of duplicate capital. Given the weight of moral baggage that such terms have come to carry, it may well be that one exciting prospect of current interest in finance is to contest the notion of finance as a form of fictitious capital.⁴

In a footnote to the above quotation, our authors further suggest: 'It is surely a paradox that we have learned to live with the notion of the limited liability corporation as a fictitious legal person with real economic effects, but still have such difficulty in accepting finance as anything more than fictitious'.⁵ Finally, in a section titled, 'Financialization: Framing a Marxian Agenda', Bryan and Rafferty argue, 'we hear extensively that the current global financial situation is about "speculation" or the growing separation of finance from the "real" economy. In both such framings, there seems to be an unreality attached to finance; sometimes even there is the notion of a financial distortion of some true capitalism'.⁶

We can glean a number of suppositions that underwrite Bryan and Rafferty's formulation from these quotations: finance is not a realm of fictitious capital, nor a duplicating of capital; finance is not fictitious because it has real, material 'economic effects'; finance is misrepresented in orthodox leftist analysis as

3 Bryan and Rafferty 2011, p. 202.

4 Martin, Rafferty and Bryan 2008, p. 125.

5 Martin, Rafferty and Bryan 2008, p. 130.

6 Bryan, Martin and Rafferty 2009, p. 459. These authors rightfully object to arguments such as the 'unreality of finance' or that 'finance distorts a true capitalism'. Unfortunately, these arguments are simply attributed to 'Marxist theorists' without providing names or illustrations.

an unreal distortion of the real, production-directed capitalist economy. For LiPuma and Lee what makes speculative capital and the trade in derivatives a very 'real' and even dominant (certainly non-fictitious) dimension of global capitalism is what they call the 'gargantuan' scale of these markets and financial flows;⁷ as they point out, there are 'trillions of dollars [there were more than \$600 trillion in notional amounts of outstanding contracts in 2012] of *empirical evidence* that do not fit any established analytical paradigm'.⁸ More to the point, the scale and reach of financial activity – the fact that, today, it puts its stamp on virtually every dimension of the economy at large – endows it with a material and organisational impact on social life that defies its conception as 'unreal' in any sense. For LiPuma and Lee, the 'growing autonomy and authority of financial circulation' over production-centred enterprise is evidence of the redundancy of positing a distinction between production and circulation altogether. Each of these propositions represents a challenge to what our authors understand to be the traditional Marxist analysis of finance, a narrative that is no longer adequate to the reality of financialisation:

... Marxists [are] intent on categorical distinctions between production and circulation, productive and fictitious capital, while capital itself is breaking down these distinctions both conceptually and in reality. In particular, the world of the derivative gives every instance in accumulation a financial dimension ... and derivative contracts themselves present as commodities (products to be bought and sold) while remaining entirely within the domain of 'circulation' (Bryan & Rafferty 2006). The challenge for Marxism is to address how its categories can explain these sorts of developments so as to bring out their significance; not simply squeeze them into old categories that will serve to make the ambiguities of capital's innovation analytically disappear. This requires an evolving Marxism.⁹

There is no doubt that Marxian analysis must itself evolve to capture the ever-evolving dimensions of capitalist accumulation. However, it is equally important, if we are going to evaluate the usefulness of a Marxian analysis of finance today, that we first grasp what that analysis entails correctly so that we know what dimensions of the analysis require adjustment. Our authors are correct

7 LiPuma and Lee 2004, p. 48.

8 LiPuma and Lee 2004, p. 17; my emphasis.

9 Bryan and Rafferty 2013, p. 135. Again, it would advance the conversation to know which theorists our authors are considering. My analysis, however, does insist on a categorical distinction between production and circulation, and productive and fictitious capital.

to criticise the idea of a 'real' economy versus a 'fictitious' economy, and they are also correct to criticise the qualifying of finance as fictitious *tout court*. The salient point, however, is that not all iterations of a Marxian analysis of finance advance these formulations, including the present one. As I will explain shortly, there is no such thing as a dichotomy in Marx's analysis between a real and an unreal, or fictitious, economy, nor can the qualifiers 'real' and 'unreal' be mapped onto the spheres of production and circulation; finance, or as Marx more often calls it, the credit system, is, in itself, neither unreal nor fictitious in Marx's exposition. Meanwhile, the perfunctory rejection of all things fictitious leads our authors to obfuscate an actual and operative category in Marx's analysis, fictitious capital, which does presuppose a crucial distinction between production and circulation in analysis, even if in reality these spheres are inseparable as well as equally 'real', and equally necessary, for accumulation to take place.

In Marx's analysis of the credit system, fictitious capital refers to claims on a portion of future surplus-value generated by an underlying capital-asset, a claim to a share of an ongoing or future income stream, 'accumulated claims, legal titles, to future production'.¹⁰ Stocks, shares, bonds, securities and financial derivatives are all examples of fictitious capital, the formation of which is referred to by Marx, as it is today, as capitalisation.¹¹ Fictitious capital can also be captured by what we today call securitisation. Marx characterises this form of capital as 'fictitious' because it is not actually capital, *per se*; that is, it is not a form of value invested in production that generates surplus-value. Fictitious capital is one (but not the only) form of interest-bearing capital – money that is lent to a borrower for a price (interest) that is paid to the lender from an existing pool of surplus-value. Fictitious capital represents a legal title to a portion of the income generated by the asset but without any ownership claim on the asset itself. The representative of fictitious capital – stock, share, derivative, etc. – can be bought and sold many times over with no direct impact on the asset or income stream itself.

It is the *notional sums* of derivatives contracts that are circulating at any given point in time which constitute fictitious capital and not the financial services represented by the buying and selling of the contracts themselves (more on this point below): 'In all countries of capitalist production, there is a tremendous amount of so-called interest-bearing capital ... in this form ... [which] means for the most part nothing more than an accumulation of the

10 Marx 1981, p. 599.

11 Marx 1981, p. 597.

market price of these claims, of their illusory value'.¹² While, today, this accumulation of claims may indeed be 'gargantuan', their quantity is not in itself evidence that the characteristic movement of fictitious capital has been altered (and the observation of their large quantity does not constitute an 'analysis' of their movement).

A very simplified example of the movement of fictitious capital (in the form of a derivative, for example) will nonetheless illustrate why the latter constitutes a 'faux' doubling of a certain quantity of real value, and why it represents, not the creation of fresh value in the system, but rather a mechanism for appropriating a portion of surplus-value created elsewhere in the system (ultimately, by the employment of waged labour in productive industries). The movement in question can be illustrated by the familiar concept of an IOU. If I were to make a bet with the reader (on what, it doesn't matter) for \$100 and lose, I might write an IOU for that amount of value, not having it in my pocket. I arrange to pay the reader \$10 per month, a portion of my monthly wages until the IOU is paid off. The paper IOU does not constitute newly-created value – a fresh \$100 equivalent of value injected into the system – but rather a claim on value that exists in some other pocket or that will be produced in the future (i.e., a faux 'double' of that actually-existing or soon-to-exist value). The reader may be concerned about my ability to meet my obligations and sells the IOU to someone else at a discount. With this transaction, the reader uses the IOU to appropriate value from the system; however, this appropriation represents a redistribution of existing value between different pockets, not a creation of new value. And on it goes: the IOU can be sold many times over before I have even made a single payment, each sale representing an appropriation of existing value from the system – the movement of value from one pocket to another – but at no point the creation of new value. My monthly payments are appropriated by whoever holds the IOU at the time; or, when I reveal that I am, in fact, bankrupt and won't be making a single payment, the IOU becomes worthless, unsalable, and its holder takes the loss.

Even this simple example captures the distinction between the creation of new value, and the *redistribution* of value that characterises the movement of fictitious capital even to this day. It is true that an IOU for \$100 can stand in for, function as, in certain contexts, \$100 in cash. Contra our authors, however, this fact does not eradicate the distinction between them, in theory or practically. The IOU (as fictitious capital) and the money form of value (or value in any

12 Marx 1981, p. 599.

form) are distinct categories as well as in substance, and shortly I will explain why it is crucial to maintain this distinction in analysis if we are to adequately grasp the endogenous crisis-tendency of capital and its identity in the historical intensification of exploitation and class struggle. Meanwhile, the financial crisis of 2007–8 illustrates the empirical distinction between paper claims to value and value itself quite dramatically: fictitious capital ceases to exist should the underlying asset be destroyed or devalued. In these circumstances, such claims – even trillions of them – become unsalable pieces of paper. When so many mortgages became worthless in 2008, the securities that were derived from them also became worthless. Trillions of dollars of derivatives contracts became ‘trillions of dollars of evidence’ for just how far from being ‘liquid assets’¹³ these derivatives could become; the distinction between liquid money-capital and derivatives contracts reasserted itself with a vengeance. It so happens that LiPuma and Lee, writing before the financial crisis, describe exactly this scenario with prescience; the scenario they depict as possible but improbable did, in fact, come to pass, and the outcome of that event – the vanishing of enormous sums of notional values held in the form of financial derivatives – confirms that these sums can be very high – even ‘gargantuan’ – and fictitious at the same time:

It is an astonishing irony that the culture of financial circulation has itself become the most significant global monetary risk. And it is equally ironic that the culture has fabricated a risk it can neither recognize nor price. Put simply, the risk is that systemic risk will produce system failure; that is, the interconnected network of global financial institutions will fall like dominos when an unexpected, because stochastically unpredictable, catastrophe topples a major institution such as J.P. Morgan Chase, which has trillions of dollars of derivative exposure. This possibility, like the explosion of a nuclear power plant, is simultaneously improbable yet too potentially devastating to ignore.... Systemic failure is the risk that because of the global interdependence of the financial system, a catastrophic collapse of one institution progressively engulfs and topples other institutions until the entire system becomes dysfunctional.¹⁴

13 All our authors describe derivatives as a form of liquidity that increasingly stands in for the ‘standard’ form of liquidity, money.

14 LiPuma and Lee 2004, pp. 157–8.

The character of fictitious capital is distinct from other forms of capital¹⁵ such that, after the 2007–8 financial crisis,¹⁶ ‘trillions of dollars of derivative exposure’ held by banks, hedge funds and other large investors was not ‘devalued’ in the same manner as was the labour that went unemployed, the commodities that went unsold, or the machines left idle. Rather, when the joint-stock company goes bankrupt, the income stream dries up, or the currency collapses – i.e., when the underlying asset of which the financial derivative represents an illusory doubling and sometimes tripling¹⁷ ceases to exist – then that fictitious capital melts into air in a way that is different from the devaluing of other forms of capital (but with potentially equally dire social consequences). Quantities of fictitious capital in circulation – derivatives contracts, for example – can be very high (and these quantities can be quickly restored to very high levels again after collapsing), but this does not alter their characteristic movement as fictitious.

However, for Marx – and here we come to the next formulation misconstrued by our authors – fictitious capital does not designate a process that is in any way ‘unreal’. Our authors can rest assured that in Marxian analysis fictitious capital is a very real process, the asserting of the prerogative of private property relations secured by the state¹⁸ that underwrites this and every aspect of capitalist accumulation. LiPuma and Lee are entirely correct to stress what they call the ‘efficacy’ of the exceedingly large, while simultaneously stealthy, derivatives market. The impact of these markets on the wider economy is

15 Marx 1981, p. 596.

16 I refer to the crisis of 2007–8 above as a ‘financial crisis’ in reference to Marx’s observation that systemic economic crises often *present* initially as more-limited credit and monetary crises (Marx 1981, p. 621).

17 Marx 1981, p. 601.

18 Both LiPuma and Lee, and Bryan and Rafferty argue that derivatives no longer operate within the purview of the state, that as a new form of global capitalist money, they represent transnational relations and phenomena, no longer subject to the regulation of any nation-state: ‘The trade [of derivatives] is mediated by money in a newly created self-mediating form, engendering, as it were, a currency not directly tethered to any national economy or regulatory structures’ (LiPuma and Lee 2004, p. 48). However, the claim that the circulation and efficacy of derivatives no longer has anything to do with the authority of nation-states is technically mistaken. A derivative is a legal contract – an ownership title – that, like all contracts, owes its authority to the state that backs the title. Should a firm or one contracting party fail to honour the terms of an issued contract, the contract-holder’s only recourse is to appeal to the law, i.e., to the state within which that firm is registered or of which the contracting party is a citizen.

profound and largely deleterious for the majority of the population in advanced industrial economies, as well as for entire states in the global South whose economies can be ruined and currencies undermined:

[T]he power [of speculative capital] is so abstracted and transverse that those in its path mostly intuit the existence of the derivatives market and speculative capital from the effects that it produces on their lives and livelihood. The violence that this power produces is not the result of an immediate, direct, or concretely social relationship, like that found on the Fordist factory floor. This violence acts covertly on the primary conditions of national economic existence, eroding citizens' faith in the worth of their currency, the continuity of the economy, and the ability of those elected to provide for their social welfare.¹⁹

The movement of fictitious capital does indeed have the very real and profoundly deleterious impact that LiPuma and Lee describe. But the power of speculative capital is not just exercised *on* what LiPuma and Lee call the 'primary conditions of national economic existence', but rather in combination with them. Speculative capital, even in the form of derivatives, is an interlocking dimension of the wider process of accumulation and it could not operate outside of that wider process, however autonomous it comes to appear in the era of financialisation, for reasons I will explore below.

However, there is another problem in the above passage that must be addressed: LiPuma and Lee posit the movement of speculative capital as an abstract violence distinct from the 'immediate, direct and concrete' economic violence carried out on the factory floor. This reveals a fundamental misunderstanding of the nature of economic exploitation carried out in production where the latter is *not* a direct and immediate mode of economic violence, but rather *mediated by the market*, operating with the full legitimacy and transparency of the law of private property. The function of abstraction (and it is the *same* function of abstraction that operates in both production and finance) is indeed the mechanism that facilitates exploitation in production as well as in the case of the further appropriation of social wealth that takes place in the course of financial circulation. LiPuma and Lee are correct, however, in their observation that the violence of speculation operates *more indirectly* than the social relations of production; it is true to say that speculative capital operates at a further step removed from the primary site of exploitation in production. It was precisely this more densely mediated character of financial capital – its

19 LiPuma and Lee 2004, p. 28.

formal distance from the site of exploitation – that inspired Marx to dub it ‘the mother of every insane form’, and the representation of capital *par excellence*:²⁰ it generates the inverted appearance that profit could be generated simply by owning capital and lending it out (or by hedging or speculating with it) while obfuscating the fact that the source of the interest-profit that returns to the owner of capital is, *in every instance*, a portion of surplus-value generated elsewhere, in productive enterprise, however circuitous its route back to the financier. In other words, the movement of speculative capital generates the illusory appearance that profits can be generated in circulation rather than in how they actually come about, that is, through appropriation, the fortunate end of a process of redistribution, or, what Costas Lapavistas calls ‘financial expropriation’.²¹

Let me emphasise the significance of the categorial distinction between fictitious and real capital to correct any impression that it is a matter of academic hair-splitting. Real capital has the capacity to expand (when mobilised in production); fictitious capital does not. Capital *must* expand to live another day and it does so through the production of surplus-value. However, as Marx demonstrates across thousands of pages of analysis, as capital expands it does so in ways that are highly volatile, in fact, in ways that simultaneously posit *barriers* to ongoing growth and surplus-value production. For example, as capital expands it does so in a way that reduces, in the long run, the rate of profit by increasing productivity (and thus its organic composition) at the expense of employed labour-power. Profit is the form that surplus-value takes in capitalism’s surface-appearances; the global market’s aggregate profit and aggregate surplus-value are identical quantities. What Marx demonstrates is that surplus-value becomes increasingly difficult to come by in quantities that make investment in productive industry worthwhile for the capitalist class. The intensification of exploitation is one response to capital’s diminishing profitability – a condition that has been empirically demonstrated to characterise the development of capital to this day²² – a historical process we could alternatively call *class struggle*. It is simply incorrect and a profound mystification to suggest that capital proceeds to invent new methods and mechanisms

20 Marx 1981, pp. 596 and 594.

21 Lapavistas 2013. Tony Norfield also emphasises the way in which derivatives trading is a mode of appropriating surplus-value from the rest of the world via the financial system (Norfield 2013, p. 165).

22 It has been the objective of Andrew Kliman, in particular, to demonstrate that Marx’s analysis of the tendency of capital’s falling rate of profit has been empirically and historically accurate (Kliman 2012).

for creating value – that it has invented new genres of social wealth that can be created autonomously from the production process – whether through financial manoeuvring, or immaterial forms of labour, or commodifying risk, and so on. Marx's most crucial point was that, at any stage of development, however transformed the capitalist mode of production may appear in its surface expressions, capital is tethered to one, *singular* mode of producing value, an extremely narrow and limited, historical form of social wealth, and it becomes increasingly difficult to achieve that necessary end as capital grows. This dynamic is at the core of Marx's analysis of the crisis tendencies of capital, the tendencies that manifest in the bubbles, crises and widespread economic stagnation so glaringly evident today. It is an analysis requiring that we be very precise about which dynamics generate value and which do not.

Thesis two: Finance, and circulation more generally, has become autonomous from the sphere of production.

So far, we have established that a Marxian analysis of finance requires the category of fictitious capital but that, contra LiPuma and Lee, and Bryan and Rafferty, it does not posit the latter as in any way unreal or as not having material efficacy. Nor is it correct to claim that Marx posits the idea that finance is fictitious or in some sense 'unreal' more generally. Marx reserves the qualifier 'fictitious' for the movement of capitalisation (or securitisation); he did not apply it to the credit system *tout court*, which Marx demonstrates to be a fundamental component of capitalist production (and therefore accumulation) at every stage of its development including its earliest formations.

Marx's analysis also gives us the tools to understand two other important dimensions of the movement of derivatives and other forms of fictitious capital that our authors do not approach. The first is the *formal transition* between fictitious capital and money capital: if the underlying asset remains viable, the payment stream intact, etc., when stocks, shares, securities, or derivatives are sold or cashed-in on the contracted expiry date, this potentially entails the use of fictitious capital (the nominal value of the stock or derivative) as a means of appropriating money capital, a non-fictitious, liquid (i.e., reversible) form of capital, or, as Marx describes it, capital's transitional form. In other words, as described in the previous section, paper claims to existing or future surplus-value are, eventually, cashed in and a certain amount of real value appropriated. In this way, highly leveraged and propitious speculations can have the effect of securing large amounts of money capital for the investor upon the completion or selling of the contract (while the opposite is also the case for unsuccessful 'bets'). Once again, the origin of this 'prize' is the pool of social wealth created in productive enterprise and held back from reinvestment in

production usually due to the prospect of low profitability that meets such investment, as has been increasingly the case since the 1970s. Bryan and Rafferty are therefore capturing merely the surface-appearance of derivatives when they argue, 'Derivatives ... do not relate to the ownership of any particular, unique "bit" of capital, for derivative transactions remain entirely within the monetary sphere without any necessary "conversion" into concrete assets'.²³ Derivatives holders may not have any ownership claim to the underlying asset; however, derivatives are regularly converted into money-capital, a 'concrete asset' indeed.

Here we arrive at the explanation for why finance and speculative capital only *appear* to be autonomous (and increasingly so after the 1970s) from the productive economy while in fact operating in irreducible combination with it. The social wealth that has increasingly been directed towards financial activity is the same wealth that has been created in production and subsequently directed away from its redeployment in that sphere due to the lack of opportunities for 'growth' and surplus-value creation. In other words, capital's internal limits to profitability manifest in the build-up of surplus wealth that finds no outlet for profitable reinvestment. Increasing in scale dramatically since the 1980s, this surplus wealth has been either hoarded (as it currently is in historically large amounts among the Canadian capitalist class, for example), or redirected into the financial markets:

[By the 1980s] surplus dollars provided an enormous boost to global financial markets, where they became the key factor in the suddenly highly volatile currency markets – as both the reason for this volatility and the only available resource for hedging against it. Yet surplus dollars also transformed the landscape and shaped the growth of the global economy for the next 30 years. Because it was far in excess of global investment demand, this 'giant pool of money' became the source of expanded state and consumer debt, as well as speculative financial bubbles. In the latter sense surplus dollars have become something of a spectre stalking the planet, running up unprecedented asset bubbles in whichever national economy has the misfortune to absorb their attention.²⁴

This situation is what Marx refers to as capital's tendency for overaccumulation, and, in its sustained and aggravated form, it is at the root of every economic crisis in whatever particular historical iteration, including the crisis

²³ Bryan and Rafferty 2006, p. 91.

²⁴ Benanav and *Endnotes* 2010.

of 2007–8.²⁵ Accompanying the redistribution of social wealth towards the sphere of finance is the concentration of wealth in the possession of fewer private interests who occupy – in part, as a consequence – ever higher positions in the income stratosphere. The concentration of wealth, concomitant with financialisation, has been clearly documented to be underway since the end of the 1970s. More value can be made available to grease the wheels of finance when the capitalist class invests less value in production – colloquially referred to as a capital strike – creating the coincidence of relatively high financial profits and the stagnation of profitability more generally.

The transit between fictitious and money capital marks both the distinction as well as the irreducible interconnection between the spheres of finance (and circulation, more generally) and production.²⁶ Yet, there is another way in which the movement of derivatives marks the simultaneous (in fact, dialectical) distinction and articulation of circulation and production.²⁷ We have established that the notional values of derivatives contracts constitute fictitious capital. However, financial products and services are themselves commodities that are produced and sold (or issued for a fee). Financial commodities that are produced by waged/salaried labour in order to be sold on an open market will have the same structure as all commodities produced under these conditions: they will be structured by a ratio of socially-necessary labour to surplus labour. Therefore, unlike the notional sums of derivatives contracts, the contracts themselves, as financial commodities, constitute commodity-capital, and again, exhibit the same characteristics of all commodities produced under these circumstances: 1) They are produced for the purpose of being sold (i.e., their use-value for the producer is their exchange-value); 2) The labourers that produce these financial commodities (i.e., the economists and mathematicians who conceive and design these instruments) produce surplus-value for the owners or shareholders of the financial firms that employ them; 3) They have a use-value for those who buy them; 4) They have an exchange-value that takes the form of their price (or service fee); 5) The surplus-value generated

25 Tony Norfield elaborates in more detail why the rise of derivatives trading from the 1980s to the present must be understood in the context of weak industrial profitability (Norfield 2012). In this article, Norfield also offers a critique of several formulations of Bryan and Rafferty's analysis of derivatives, although he focuses on different aspects of Bryan and Rafferty's analysis from those I consider here.

26 Both LiPuma and Lee, and Bryan and Rafferty disavow fictitious capital and then erroneously collapse derivatives and money capital into a uniform entity.

27 That production and circulation are distinct but inseparable in Marxian analysis is an illustration of the dialectical movement of that analysis; for Marx, the latter was required to grasp the full historicity of that relationship.

in their production is realised in the sphere of circulation when they are purchased/issued.²⁸ This process of the production (conceiving and designing) of financial commodities is the *only* way in which the latter are involved in the actual creation of surplus-value. Nonetheless, the fees collected in this way do constitute a substantial portion of the profits of many financial firms. Those firms which are not involved in producing financial products, but only in issuing or retailing them do not create surplus-value. However, like all merchants, they are involved in realising the surplus-value created elsewhere and, consequently, appropriate a portion of it.

Thesis three: In contrast to manufactured commodities, human labour and materials are inconsequential in the creation of derivatives.

Because our authors insist that derivatives produce surplus-value while operating strictly within the sphere of circulation, neither LiPuma and Lee, nor Bryan and Rafferty, recognise this function of derivatives as commodities in the production of surplus-value. In their view, derivatives and other financial products appear and circulate without ever being produced; in fact, according to LiPuma and Lee, what is distinct about derivatives as commodities is that, since no labour goes into their production, they are valueless. The White Queen herself could not have imagined such a proposition: 'In contrast to manufactured commodities, human labor and materials are inconsequential in the creation and valuation of derivatives'²⁹; 'financial derivatives do not embody labor or value in any conventional sense of those terms'³⁰; 'In the cycle of augmentation, M-C-M', speculative capital passes through the stage of commodification only in the notational form of the derivative'³¹; and finally:

Derivatives do not appear to involve productive labor, the organization of activities seemingly devoid of any real acquaintance with material resources, the output neither a good nor a service aimed at satisfying a demand or promoting further productive output. Derivatives seem valueless according to a labor theory of value: though they are surely commodified ... derivatives do not appear to incorporate concrete labor or mediate social relationships in any meaningful way.³²

²⁸ Norfield also argues that derivatives have a commercial use-value (Norfield 2012, p. 110).

²⁹ LiPuma and Lee 2004, p. 48.

³⁰ LiPuma and Lee 2004, p. 83.

³¹ LiPuma and Lee 2004, p. 124.

³² LiPuma and Lee 2004, p. 86.

We can put this analysis back on its feet by starting over from its one sound premise: financial products, including derivatives, are commodities. All commodities that circulate as forms of value are produced by productive labour. In the case of financial instruments, these commodities are produced by the highly-skilled (intellectual, if you like, although the distinction is irrelevant to value formation) labour of economists and mathematicians, the administrative labour of the firm's support staff, and so on, all coming into 'very real acquaintance with the material resources' of the firm in order to carry out the work. The outcome is a commodity that satisfies a demand (a use-value), only realised as such through its purchase. That the commodity finds a ready market promotes further output. Further unproductive labour goes into the marketing and retailing of financial commodities, the outcome of which is the realisation of the surplus-value generated in production and the redistribution of a portion of that surplus-value to the firms that carry out the marketing and retailing (some financial institutions may undertake both functions). Here is a good description of the combination of productive and unproductive labour that produces derivatives, from LiPuma and Lee themselves:

Those who participate in the division of economic labor that presupposes and distributes risk assume that this social ontology is an unquestionable and unmediated reflection of financial realities. Moreover, the development of globalized trading firms, derivative exchanges, hedge funds, banking divisions that specialize in creating and marketing derivatives, and journals devoted to risk management continue to institutionalize this social ontology.³³

Thesis four: Financialisation represents a new mode of surplus-value creation in the sphere of circulation.

The more serious problem with the outright rejection of the category 'fictitious' is that our authors use it as grounds for the dismissal of a distinction between productive and unproductive labour. Through a specious bundling-up of categories, they dismiss a distinction between a 'real, material, *productive* economy', on the one hand, and a 'fictitious, immaterial, *unproductive* economy on the other': 'Marxists [are] intent on categorical distinctions between production and circulation, productive and fictitious capital, while capital itself is breaking down these distinctions both conceptually and in reality'.³⁴ In

33 LiPuma and Lee 2004, p. 135.

34 Bryan and Rafferty 2013, p. 135.

the course of discarding all things fictitious, our authors also sweep away the distinction between productive and unproductive labour. In Marxian political economy, however, the qualifiers 'fictitious' and 'unproductive' are not continuous or transposable; rather, 'productive labour' refers to labour that creates surplus-value, the singular means by which capital expands. The mechanism of capital's expansion in Marx's analysis is well-known: workers produce more value (for the capitalist class) than the value of their own labour-power, or, the amount returned to them in the form of wages. In the analyses of LiPuma and Lee, and Bryan and Rafferty, the mechanism of capital's expansion, which is now located, ostensibly, in the sphere of circulation, is left a mystery; it is never explained exactly *how* capital expands through the activities now associated with the financial sector. Rather, it is simply asserted that since the notional amounts of derivatives in circulation have grown as large as they have – nearly ten times global GDP – then some of this amount must consist in newly-created value. This current surface-appearance of finance, however, is the starting-point of analysis and not a substitute for it.³⁵

More importantly, the concept of productive labour identifies the coordinates of capital's extortion of the surplus-value generated by productive labour, an extortion which is then concealed by the formal equality instituted in the wage contract. Unproductive labour, on the other hand, refers to labour that does not create surplus-value, but which is nonetheless labour in the service of *realising* surplus-value, such as retailing or marketing. Rather than generate fresh surplus-value, unproductive labour absorbs a portion of a society's aggregate surplus-value as if it were one of the 'costs' of the immediate productive enterprise and, therefore, represents a redistribution of the aggregate surplus-value.

35 I recognise that LiPuma and Lee's, and Bryan and Rafferty's *intention* is to challenge contemporary surface-appearances of finance. For instance, Bryan and Rafferty argue that trade in securities and derivatives has introduced new forms of class domination that are not recognised by working and low-asset (chronic debtor) classes that supply the income streams securitised and leveraged by large financial players and funds. LiPuma and Lee argue that the popular and professional-institutional perception of the sphere of finance is as an ahistorical and, consequently, essentialised sphere of practices and institutions that are, in reality, performative and discursive constructs. In their analysis, derivatives are 'socially imaginary objects' whose convention-based, performative reality is naturalised and depoliticised in the collective, unquestioning faith in its material efficacy. I do not disavow the performative aspects of finance, nor the role that 'faith' plays in those performances. However, the 'spontaneous and haphazard', collective doing that produces the capitalist formation – including finance as one of its core aspects – produces it as an *objective* sociality that limits and circumscribes the 'performances' it will bear.

The importance of preserving the distinction between the categories of productive and unproductive labour – as opposed to dismissing the distinction as academic or no longer relevant – is that it facilitates the analysis of capitalist accumulation as a system of domination in one crucial respect: as the process of accumulation proceeds, the system's overall capacity for value creation diminishes because the ratio between productive labour and unproductive labour (paid or unpaid) diminishes, intensifying the capital–labour antagonism and deepening the system's vulnerability to crisis. For Marx, the category of value is, not least, an *accounting category*: the quantity of surplus-value the system is able to generate is a definite magnitude; the latter reflects the degree to which a society's creative activity, including the creative activity of survival and reproduction, is configured – 'counts' – as value-generating.

Collapsing the distinction between productive and unproductive labour in analysis obscures the crucial point that value (capitalist wealth) *becomes more and more difficult to produce* as an unintended consequence of increasing generalised productivity through the introduction of 'labour-saving technology' in production. Collapsing the distinction between productive and unproductive labour makes it possible to imagine, incorrectly, that surplus-value can be generated in circulation – through buying low and selling high, through speculation and wager, through the trade of securities and derivatives, through playing the stock-market, through arbitrage, and so on. This kind of mystification makes it possible to imagine that exploitation is *not* a necessary structural, if deeply mediated, component of the credit system in past and present iterations; it allows some to imagine that, at least in theory, apart from specific occasions of predatory speculation or lending, capital is able to generate profit (interest, dividends, and so on) without casualties, that capital can be valorised while circumventing exploitation, and that more rigorous financial policy and regulation could pre-empt its predatory and exploitative manifestations. Dismissing the distinction between productive and unproductive labour steers analysis towards the erroneous conclusion that capital is, here and there, all the time, inventing new ways of generating value, so that the necessary reform is a more equitable mode of distribution.

Thesis five: The Marxian analysis of class (and class struggle) is anachronistic because production is no longer the predominant location for the creation of surplus-value.

It is fair to ask, what does it really matter if we define fictitious capital one way or another, or if we locate the generation of surplus-value in production or circulation? The only reason it matters is because it allows us to accurately locate the where and how of capitalist exploitation, the structural dimensions of

which Marx calls ‘class’. The analysis of class and class-struggle proceeds from the recognition of the ‘original’ extortion – the free appropriation of surplus-value from labour by capital – that can only take place in production. That so many other portions of surplus-value end up in various pockets in the form of profits acquired in circulation (representing innovative ways devised by the financial sector to appropriate more and more portions of the aggregate surplus-value) is an index of the degree of surplus-value extraction, or exploitation, that carries on elsewhere, i.e., in productive industries.

While, the location of surplus-value creation has not changed in financialisation, the ways in which surplus-value is distributed in circulation have changed dramatically. A significant portion of financial profits now consists of value that has been siphoned off from workers’ household wages as the reproductive labour (production, consumption and management) of the household is increasingly financialised. Domestic reproduction now routinely involves the management of several forms of debt and financial investment: mortgage, car, education debts, pension-fund contributions and other retirement investments, health-, home- and life-insurance, and so on. For Bryan and Rafferty, the securitising of household debt and payment streams is one way in which the operation of derivatives reaches beyond the sphere of finance: ‘The process of securitization draws households into the mix, albeit as providers of income streams for securities rather than as market traders.’³⁶ These payment streams associated with the household represent one source of financial profits in the form of interest. As such, they do not represent new surplus-value generated by way of the social relations between banks and households, as Bryan and Rafferty argue;³⁷ they are better described (as by Costas Lapavistas) as a form of ‘financial expropriation’.³⁸ Furthermore, for banks, insurance companies, hedge funds, and so on, these income streams become assets which function as the basis for the production of derivatives, securities and financial instrument-commodities that are then sold for the purposes of hedging and speculation and therefore as the basis for the generation of fictitious forms of capital as well.

The invention of working-class households as an asset class for use by the capitalist class is the basis upon which, for Bryan and Rafferty, finance represents the ‘reinvention’ of labour as a class.³⁹ For Bryan and Rafferty, even though ‘financial accumulation’ is not mediated by production in any way, and

36 Bryan and Rafferty 2011, p. 201.

37 Bryan, Martin and Rafferty 2009, p. 464.

38 Lapavistas 2013.

39 Bryan and Rafferty 2011, p. 218.

therefore not an occasion for exploitation in the traditional sense, they do not abandon class analysis as redundant in the era of financialisation. Rather, we are obliged, they argue, to ‘reconstitute [the] understanding of class and class relations’.⁴⁰ Here, Bryan and Rafferty ‘reconstruct’ a class analysis for financialisation based solely on the dynamic more adequately identified as financial expropriation: as provider of income streams for securities, labour functions as an asset class for use by the capitalist class, a relation of domination that requires the invention of a new category, ‘labour-as-capital’.⁴¹ Compounding the imbalance of power between the financial capitalist class and the labour-as-capital class in Bryan and Rafferty’s analysis is the fact that corporations can hedge the risk incurred in doing business and around the value of their assets, whereas workers and households do not have access to risk markets that would allow them to hedge the potential devaluation of their asset (in other words, workers have no means of hedging unemployment).⁴² This last asymmetry is the basis upon which Bryan and Rafferty reconstruct an analysis of ‘class struggle’ (of sorts):

While the wage relation involves a retrospective payment to labor for past surplus-value, consumer credit, as labor’s relation with capital about the future, implies the rending [*sic*] of surplus-value before participation in ‘production,’ and so intensifies labor’s commitment to the production system itself. It is, therefore, an irony of some significance that it would seem that the greatest cost that labor has imposed on capital on a global scale has been the recent U.S. sub-prime mortgage crisis. It was not conceived as an organized class strategy, nor implemented by workers in the name of class politics. But it has been an assault on the surplus-value generating system on a scale like never before, and one that could only be rescued by concerted state action on behalf of capital.⁴³

In this formulation, the political economy of Bryan and Rafferty truly settles in through the looking glass. In this scenario, workers (labour-as-capital) ‘struggle’ – or, unintentionally strike a blow to the surplus-value generating system – by being unable to make their various debt payments – mortgage, car, water, electricity, rent, credit card, and so on – and thereby bring the system to crisis. In other words, labour-as-capital wages an assault on the system

40 Bryan, Martin and Rafferty 2009, p. 459.

41 Bryan, Martin and Rafferty 2009, p. 462.

42 Bryan, Martin and Rafferty 2009, p. 469.

43 Bryan, Martin and Rafferty 2009, p. 470.

precisely by *losing* the class struggle over the capacity to claim and appropriate a greater portion of society's aggregate surplus-value. In fact, in financialisation, labour-as-capital no longer has a claim on society's social wealth since it is no longer involved, predominantly, in its production.

Where do we begin to turn this formulation right-side up? First of all, in Marx's still-adequate analysis of class relations, labour already functions as capital for the capitalist and as such labour already participates directly in capitalist accumulation; as I explained above, this situation holds in financialisation. Furthermore, it is only in the scenario designated by Marx as exploitation that labour technically functions as capital in the sense of creating fresh value for the capitalist. In Bryan and Rafferty's reconstructed class relation, labour-as-capital hands over a portion of its wages to the vendors of financial services and products – vendors of mortgage, car, student, credit card, or payday loans, for example. This activity, otherwise called *consumption* (i.e., the consumption of the products of industry, financial or otherwise), may indeed redistribute value back to the capitalist but it does not create fresh value in the process, even when the serial, projected into the future, nature of this consumption (in the form of ongoing payments) also serves as the basis for the fictitious doubling of assets involved in securities and derivatives trading. The situation, therefore, with respect to the analysis of the class dynamic in financialisation is more adequately described in this way: the proliferation of new forms of capitalist expropriation of society's aggregate surplus-value in the sphere of circulation takes place in addition to, and continues to be made possible by, an 'original' process of exploitation in the sphere of production that is sustained across the transformation of capital into its current financialised modality.

Conclusion, or thesis six: Maintaining Marxism as a living theory involves jettisoning the value-form as a central analytical category of capitalist accumulation

Bryan and Rafferty inform us that a Marxian theory of value is no longer adequate for capturing the modalities of contemporary capitalist society. In a 2013 article, Bryan and Rafferty address the question of value directly, arguing that a Marxian value analysis must evolve as capital evolves, must become adequate to the 'rise of "flow" conceptions of value', and must respond to the ways in which, in 'financial modes of calculation', capital becomes 'self-evaluating' and 'self-commensurating':

This analysis explores the way in which the concept of 'fundamental value' has been transformed associated with the rise of financial modes of calculation and especially with derivatives and options theory. It identifies

how finance elicits an emphasis on flow rather than stock approaches to fundamental value. In the spirit of Moishe Postone's (1993) proposition that the objective of Marxism is to move beyond and abolish value as an organizing principle, this analysis contends that the way Marxism needs to understand 'fundamental value' is not so much by proffering a superior version of a neo-classical canonical category as by confronting fundamental value as the evolving discourse of capital's self-evaluation, an evaluation conceived in the search for risk-adjusted yield. An understanding of capital's fundamental value must sit under that agenda.⁴⁴

This formulation requires three responses, the first two minor and the third more definitive. First, 'fundamental value' is not a category in Marx's analysis; while it is not clear exactly what Bryan and Rafferty mean by this term, it suggests a misunderstanding of the way in which value *is already* in Marx's analysis a 'flow' concept (not a 'stock approach'), referring to a radically-historical and social modality of domination that is able to function as such precisely because of its constant movement and constant change of form. Second, Bryan and Rafferty's formulation could not be further from the spirit of Postone's analysis: when Postone calls for 'abolishing value', he is referring to the abolition of those social relations that take the form of value in capitalism; he is not referring to the jettisoning of value as a category.⁴⁵ Third, and more significantly, in this analysis as elsewhere, Bryan and Rafferty, like LiPuma and Lee, imagine financial or 'speculative' capital as operating as an 'automatic form' of self-valorising (and self-valorising *because* self-commensurating) capital. According to this formulation, because capital is no longer constituted as the form of cooperative labour in its guise as private property, capital now functions performatively, as the system of conventionalised prices assigned to various abstracted risk scenarios. As it turns out, this perceptual flattening of the 'objectivity' of capital to a performative modality of price is precisely what Marx describes as the modality of the capital fetish, the ultimate expression of which is the narrative of self-valorising 'speculative capital'.

Marx's analysis of the way in which the movement of capital constitutes a process of mystification is a central conceptual corridor linking the three volumes of *Capital* and *Theories of Surplus-value*. It is a process that I have elsewhere referred to as capital's perceptual economy.⁴⁶ The process of capital's perceptual economy refers to the way in which capital's objective movement

44 Bryan and Rafferty 2013, p. 131.

45 Postone 1993.

46 Best 2015.

generates an economy of surface-appearances – appearances of its own modality – that are contrary to (inversions of, in fact) its essential dynamic. More specifically, the movement of capital generates appearances that conceal the singular modality of value-creation in capitalism, as well as the location of the creation of value (and hence surplus-value), namely in production, through the employment of living, cooperative labour. As surplus-value undergoes a series of transformations of its phenomenal form in the course of accumulation, it generates degrees of conceptual separation from its source in living labour. Marx's treatment of the credit system and interest-bearing capital in Volume III of *Capital* represents the crescendo of his analysis of this economy of appearances. LiPuma and Lee's, and Bryan and Rafferty's narrativisations of speculative capital are, according to Marx, the quintessential capital fetish, the portrayal of capital as an entity possessing the magical property of self-valorisation. It is precisely in this fantastical guise that the narrative of the automatic form of speculative capital becomes the 'the automatic fetish'.⁴⁷

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