Marxist theory, financial system and crisis of 2008

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Abstract: Returning to Marx's analysis in the third volume of *Capital* we shall endeavour to outline a Marxist interpretation of contemporary capitalism, contemporary financialization and the crisis of 2008. Crucial in this connection are the concept of fictitious capital and the associated with it process of capitalization. Financialization should be conceived as a type of organization and a mode of exercising capitalist power, which consists of a whole set of instruments, techniques, levels of application and targets. In this way, financialization as a generalization of these processes into a complex system comprises a decisive link for the enforcement of the capital domination. This means that our study does not concentrate merely on the 'productive' or 'unproductive' effects that financialization might have on 'development' or 'consumption', but on a whole series of other possible and crucial effects which seem marginal at first sight. As a consequence, we regard finance as *a complex social function* that cannot be isolated from 'real' economy.

Accordingly, such argumentation, based, of course, on Marxian concepts, provides the terms to rethink contemporary neoliberal form of capitalism and modern crisis as expressions of the contradictions inherent in this organization of capital hegemony, and contemporary form of imperialism, as well. Our analysis also comes up with some conclusions concerning the discussions within Marxism on whether derivatives are commodities or money (or even some other representation of capitalist wealth) and how should we comprehend the global crisis of 2008 in the light Marxian argumentation.

1. Heterodox approaches to neoliberalism and the recent financial crisis

A crucial aspect of many heterodox approaches to crisis is the idea that the domination of neoliberalism and of the globalized financial sector of the economy produces a predatory version of capitalism, a capitalism that inherently tends towards crisis.

The current financial crisis is without precedent in the post-war period. However, financial *instability* and *income redistribution* are crucial aspects of modern capitalism but they do not capture its *essence*.

Recent heterodox literature is dominated by a single and persistent argument. The argument[1] is that contemporary financial liberalization should be approached as a process in which the financial elites and financial intermediaries, i.e. contemporary *rentiers* in the Keynesian terminology, have a leading role in working out the details of the neoliberal form of capitalism. Writing in the mid 1930s, Keynes (1973: 377) predicted the eventual extinction ("euthanasia") of the rentiers "within one or two

[1] For example see Palley (2007), Crotty (2005), Smithin (1996), Pollin (1996), Wray (2007), Dumenil and Levy (2004), Eptein and Jayadev (2005), Helleiner (1994), O'Hara (2006).

generations”. Many present-day Keynesians portray the developments of the last decades as the return of the rentiers three generations later to take over the economy. Neoliberalism thus amounts to the “revenge of the rentiers” (Smithin 1996: 84, coins this phrase), who are said to have shaped the contemporary political and economical agenda in accordance with their own vested interests.

The relevant economic literature coined the term *financialization* to denote this phenomenon In this quasi-Keynesian discourse the economic and political strengthening of rentiers entails: (i) an increase in the economic importance of the financial sector as opposed to the “real” industrial sector of the economy, (ii) the transfer of income from the latter to the former, thereby increasing economic inequalities and depressing effective demand, (iii) the exacerbation of financial instability, transforming it into a central aspect of modern capitalism.

According to recent post-Keynesian and institutional analyses, industrial corporations have ceased to be the “steam-engine of the economy” that Keynes and Schumpeter portrayed them as in the past. Their priority is to serve the interests of rentiers (i.e. of major shareholders and the financial institutions representing them): to increase remuneration for major shareholders, enhancing their influence over company decision-making at the expense of the interests of other stakeholders’ (viz. workers, consumers and managers).

It appears that two relevant changes have taken place in enterprises. *Firstly*, joint-stock companies are now conceived of as portfolios of liquid subunits that home-office management must continually restructure to maximize their stock price at every point in time. *Secondly*, and as a consequence of the first change, there is a fundamental (forced) change in the incentives of top managers who now think rather in terms of maximization of short-term stock prices. The end-product of the whole process is anti-labour business policies on the one hand and on the other a focus on short-term (speculative) gains rather than on long-term economic development, stability, and employment.

Hence, for Keynesian-like argumentation, neoliberalism is an “unjust” (in terms of income distribution), unstable, anti-developmental variant of capitalism whose direct consequence is contraction of workers’ incomes and the proliferation of speculation. To put matters schematically, the rentier owners of financial securities induce a fall in the “price” of labour so as to increase the value of their stocks (bonds and shares) at the same time engaging in speculation so as to obtain short-term advantages vis-à-vis rival *rentiers*.

This general conception seems to be prevalent in the realm of Marxist discussion also. For a number of theoreticians influenced by it, neoliberal capitalism has not succeeded (at least to date) in restoring the profitability of capital (the rate of profit) to high levels, that is to say to levels satisfactory for dynamic capitalist accumulation (what could such levels be? one wonders).[2] It appears to be entrapped (since the mid-1970s) in a perennial crisis, the end of which is not readily visible. The result of this is that large sums of capital are unable to find outlets for investment. This has two probable consequences. *Firstly*, this "surplus" capital stagnates in the money markets, creating "bubbles", or is used to underpin ineffective policies of forced accumulation that depend on lending and debt (Brenner 2001, 2008, Wolff 2008). *Secondly*, this capital circulates internationally in pursuit of *accumulation by dispossession*, even profiting, that is to say, not from exploitation of labour but from direct appropriation of income chiefly from those who are not financially privileged or do not occupy an appropriate *position* in the market for credit (Lapavitsas 2008).

Their basic weakness – and it is at the same time the link that holds them together – is that *they represent the neoliberal formula for securing profitability of capital not as a question of producing surplus value but as a question of income redistribution pertaining essentially to the sphere of circulation*. It thus appears that the developmental "ineptitude"[3] and the instability of present-day capitalism are the result of a certain "insatiability", or at any rate of bad regulation, in the relations governing income. *Are we in the final analysis all Keynesians*?

Before formulating our negative answer to the above question let us make a passing reference to the role of the financial sphere and the present crisis.

2. Financialization as a particular power technology for the organization of capitalism ...

The development of the financial system under neoliberal hegemony is linked to four basic elements comprising the core of the neoliberal model.

(i) One declared objective has been to deregulate the labour market as a means of reducing the power of wage-earners to demand wage increases and better terms of

[2] See also Campbell (2003).

[3] It should be noted that despite a fall in growth rates, particularly in developed capitalist economies, throughout the neoliberalist period, growth remained at more or less "satisfactory" levels (Panitch and Gindin 2003).

employment. This has been pursued both by repressive methods and through monetaristic policies for fighting inflation, and has led to a significant increase in unemployment. *It has also been pursued through the weapon of disciplining and sanctioning the behaviour of business and states that is made available through neoliberal money markets*. Here it should be noted that monetaristic policies of increasing interest rates at the beginning of the 80s, apart from significantly boosting unemployment, also had the result of generating a significant sphere for investment of international capital: higher levels of state indebtedness.

(ii) Second, and in one aspect a continuation of (i): international trade and outsourcing, that is to say the exposure to international competition for the purpose of devaluing and excluding insufficiently valorized (i.e., "non-competitive") capital. These elements have been mechanisms for "schooling" labour in the requirements of capitalist restructuring and continuing accumulation. The trade unions, indeed working people in general, experienced these results as loss of bargaining positions. The argument was and is simple: accept what we propose, otherwise the company will lose its potential for financing. Doubts will be generated as to its profitability and there will be danger of it being bought out, with resultant loss of workplaces, or of the production chain being restructured and a part of the chain transferred to other countries.

(iii) *Privatization of sectors of state activity and change in the composition of state activities*. Expansion of the space for investment of individual capital is another central element in the neoliberal model. Privatizations are an important factor in bringing about a broadening of the financial sphere. This too has consequences for wage-earners. At a minimum there is a requirement for increased financing, as distribution free of charge is replaced by commodities which have a price or insofar as the method of costing changes when they pass from the public sector into the control of private capital. As a result, a basis is created for *an increase in the debt of households* that have access to the banking system; but the potential is also generated for penetration, when required, by banks into new sectors of the market, such as, for example, student loans. Within the same logic as privatization and greater sanctification of profit is reduction of tax for businesses that contribute to maintenance of high levels of state debt. Reforms to the insurance system have introduced noteworthy pursuers of risk-free profits into the company of the banks, insurance companies, mutual capital, hedge funds, etc. and so have evidently brought new pressures to bear on wage earners.

(iv) *The securing of consent to the neoliberal model was underwritten by the possibility of access to cheap loans* to finance consumer spending or housing or other expenditure and by participation in this global hunt for profits (among the most conspicuous examples of such participation being the private insurance funds or mutual funds), so that there would be increased income to substitute in the best way possible for withdrawal of the state from funding universal insurance systems for health, studies, social services, etc. *Accordingly, the seeking out of potential borrowers, that is to say the incorporation into the credit system of certain groups in the population is not merely the result of the greed of the banks and all types of investor but an injunction that is part of the scheme of neoliberal regulation.* The privately-owned home as a dream that could be made to come true by virtue of neoliberal financial regulation became a declared goal of all representatives of the model. The privately-owned home as an item of property became a means for access to other facilities of the credit system.

... and its crisis

The squeeze on wages and flexibilization of labour relations, that is to say reduction in the bargaining power of workers against capital, are a success story of neoliberalism but *at the same time* represent one of the conditions for the nurturing and triggering of the crisis.

It represents success for the model that it enriches the markets with numerous players and mobilizes every sum of capital that cannot be directly invested in the production process so that it participates in the club of demands on future profit. At the same time, however, this “depth” means ever great pressures for risk-free profit, for issuing of securities, in other words for intense competition, so that unexplored markets can be subordinated to the world of credit, with consequent downplaying of risk and massive withdrawal from participation and funding when secure profit is jeopardized.

It is finally worth noting that the “wisdom of the markets”, an important element in constructing the core of the neoliberal model, prescribes market evaluation of property (mark-to-market value). It is this that has caused the lack of trust between the players because the fall in value of the securities has spoilt the balance-sheets of the institutions maintaining them and protracted the uncertainty. The solution adopted is a familiar one. But the result is that it has become possible for a number of elements not to be factored into the overall assessment.

In other words *the conditions for increase in class domination of capital appear simultaneously as conditions undermining that domination*. The crisis designates the moment of convergence of all the abovementioned contradictions.

In the third volume of *Capital* Marx observed: “as long as the *social* character of labour appears as the *monetary existence* of the commodity and hence as a *thing* outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable” (Marx 1991: 649).

As we know, financial crises are sometimes the prelude to, and sometimes the result of, a crisis of over-accumulation of capital. Sometimes, again, the financial crisis manifests itself “independently” of the broader economic conjuncture, that is to say does not have any significant effect on the level of profitability and the level of employment of the “factors of production” in the other sectors of the economy above and beyond the financial sphere or some specific parts of it. This, for example, is what happened in the case of the international financial crisis of 1987, when there was a collapse of share prices in the international stock exchanges.

The current crisis is the outcome of permanent characteristics of capitalist relations of production and reproduction, but also of characteristics that are peculiar to the core of the neoliberal organization of this relation, that is to say to the core of the present form of appearance of capitalist relations of production.

It is a crisis that has appeared in the financial sphere and is *systemic*. Systemic in the sense that it has been engendered by the elements and the relations that are at the core of the neoliberal model. It is systemic also because it has struck at important nodal points of the system and through them at the terms of operation of the internationalization of capital. It is systemic also because it has hit the most powerful organizational centre of the model: the markets and the financial institutions of the United States, which were the key control points for the overall system of organizing markets, intervening in them and promoting financial innovations and financial tools.

As the financial crisis was still unfolding, it took on the characteristics of *a crisis of overaccumulation, which, starting from a ruthless squeeze on the financial sector also drags in other sectors and introduces the economic system as a whole to the operations of liquidation of inadequately valorized capital* (obviously at an unequal rate in the different countries and with an intermeshing of the developments in each country both with the developments in other countries and with the financial system).

The interconnectedness of events is thus the reverse of what is often maintained (e.g. Brenner 2008). What is involved is not a continuing crisis of overaccumulation dating from the 70s, which has fed superfluous capital into the sphere of finance, in this way leading to speculation, the "bubble" and the crisis. The preceding crisis of overaccumulation of capital had already been blunted through the contribution of the neoliberal settlement (in which a decisive nodal point was the functioning of the financial sphere). There had been a return of profits to levels approaching those of the early seventies, production had been restructured, labour made more flexible, wage levels frozen (Ioakimoglou and Milios 2005). The share accruing to wages was continually contracting. But the blocking of the sphere of finance and credit funding on which expanded reproduction of capital was based was inevitably interpreted as "involvement" of this expanded reproduction. It was initially expressed in overproduction of (unsold) goods, given that a credit squeeze implies restrictions on productive and individual consumption (perpetuated by credit). This in turn meant an abrupt fall in profitability and the necessity for cutbacks in production, in other words overcapacity of the means of production, overaccumulation of productive capital, and the need for a new cycle of restructuring.

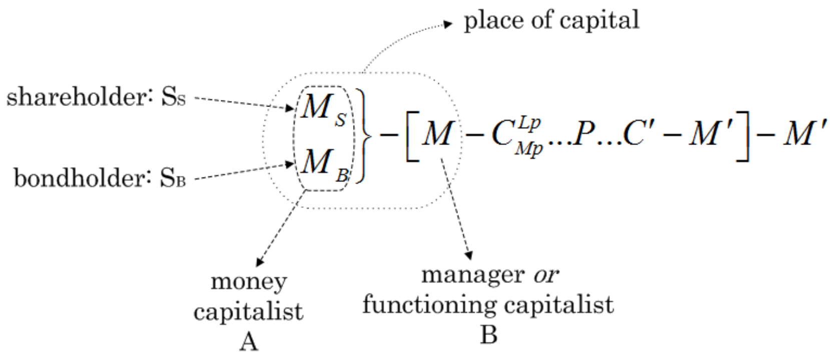
3. Deciphering neoliberalism through Marx's problematic

Some time ago, Paul Krugman (1997: 155) asked the following relevant question: *why has the world of finance become so frenetic*? We shall attempt to answer the question in what follows, rejecting Keynesian arguments that the hegemony of the *rentier* lies behind neoliberalism. Returning to Marx's analysis in *Capital* we will put forward the view that present-day capitalism is a form of capitalism *particularly favourable for valorization of capital*, that is to say particularly well-suited, for the bourgeoisie as a whole, for enforcing capital's aggressive exploitation strategies of labour.

3.1 The structure of financial sector in Marx's analysis

One comprehensive introductory definition of capital could be the following: a historically specific social relation that expresses itself in the form of "money as an end in itself" or "money that creates more money". At this level of generality, the capitalist occupies a specific *position* and plays a specific *role*. He is, and behaves as, the embodiment of autonomous movement of value, *embodying the "self-movement" of capital M-C-M´*. The theory of capital is not an analysis of the actions of the capitalist. It is not a response to the actions of a *subject*. On the contrary, *it is the movement of capital that imparts "consciousness" to the capitalist.* The power of capital is impersonal. In reality it is the power of money as such (Marx 1990: 165-6, Balibar 1984).

Proceeding to a more concrete level of analysis, Marx acknowledges that *the place of capital* may be occupied by more than one subject. There may be both a *money capitalist* and a *functioning capitalist*. This means that a detailed description of capitalism cannot ignore the *circulation of interest-bearing capital*, which depicts the structure of the financial system. Marx's argumentation might be represented in the following schema.



In the course of the lending process, the money capitalist A becomes the recipient and proprietor of a *security S*, that is to say a written *promise* of payment (contingent in character) from the functioning capitalist B. This promise certifies that A remains *owner* of the money capital *M*. He does not transfer his capital to B, but cedes to him the right to make use of it for a specified period. We will recognize two general types of securities: *bonds* S_B and *shares* S_S. In the case of the former the enterprise undertakes to return fixed and prearranged sums of money irrespective of the profitability of its own operations. In the latter case it secures loan capital by selling a part of its property, thereby committing itself to paying dividends proportional to its profits. If the company has entered the stock exchange and what is involved is share issue, then capitalist B corresponds to the managers and capitalist A to the legal owner.

In any case, in the hands of B the sum *M* functions as capital. Money taken as the independent expression of the value of commodities enables the active capitalist B to purchase the necessary *means of production Mp* and *labour power Lp* for organizing the productive process. The latter takes place under a regime of specific *relations of production* (comprising a specific historical form of relations of exploitation) and in this way is transformed into a process for producing surplus value. The money reserve that B now has at his disposal is the *material expression of his social power to set in motion* the productive process *and to control it*.

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

Firstly, the place of capital (the incarnation of the powers stemming from the structure of the relations of production) *is occupied both by the money capitalist and by the functioning capitalist.* In other words, the place of capital is occupied by agents that are both "internal" to the enterprise (managers) and "external" to it (security holders). Marx's general conception abolishes the basic distinction drawn by Keynes between the productive classes "within" the enterprise and the parasitical class of "external" rentiers. In his own words: "in the production process, the functioning capitalist represents capital against the wage-labourers as the property of others, and the money capitalist participates in the exploitation of labour as represented by the functioning capitalist" (Marx 1991: 504). The *secondary* contradictions developed between the managers and the big investors certainly do exist but they evidently pertain to a more concrete level of analysis.

Secondly, the pure form of ownership over capital (whether it is a question of money or productive capital) is the *financial security*, corresponding, that is, to "imaginary money wealth" (ibid.: 609). The ownership title is a "paper duplicate", either of the money capital ceded in the case of the bond S_B, or of the "material" capital in the case of the share S_S. Nevertheless the *price* of security does not emerge either from the value of the money made available or from the value of the "real" capital. The ownership titles are priced on the basis of the (future) income they will yield for the person owning them (capitalization in accordance with the current interest rate that embodies the risk), which of course is part of the surplus value produced. In this sense they are *sui generis commodities* plotting a course that is their very own (ibid.: 607-9, 597-8).

Thirdly, the financial "mode of existence" of capitalist property – as a *promise* and at the same time a *claim* for appropriation of the surplus value that will be produced in future – brings into existence a broader terrain within which each flow of income can be seen as revenue corresponding to a "fictitious capital" with the potential to find an outlet on secondary markets (ibid.: 597-9). Hence, we observe that in accordance with Marx's argumentation, *the potential for securitization is inherent in the movement of capital.*

Fourthly, one of the basic characteristics of the neoliberal model is the increase in non-bank funding of credit, both by states and by enterprises. Above and beyond the other consequences, this places at the centre of the financial markets *risk management*, that is to say the factoring in of the contingency of non-achievement of the expected yield (particularly in an international market where a number of diverging forces are affecting profitability). Because the very character of production of surplus value as well as the overall claims being placed on the latter is *contingent*, risk management is organically linked to capital movement as such. Because the inner workings of an enterprise constitute a political terrain, the production of surplus value, as a battlefield situation where resistance is being encountered, *is never something that can be taken for granted*. Techniques of risk management, organized within the very mode of functioning of the "deregulated" money market, *are a critical point in the management of resistance from labour*.

Let us for the moment concentrate on the "technical" details of the pricing process. Given our estimations about a discounting interest rate (r), a future flow of earnings (E_{t+1}, E_{t+2},…, E_{t+n}) can be *capitalized* into present value (K_t) as follows:

$$K_t = \frac{E_{t+1}}{1+r} + \frac{E_{t+2}}{(1+r)^2} + \ldots + \frac{E_{t+n}}{(1+r)^n} = \frac{E}{r}, \text{ if } n \to \infty \text{ and } E_{t+1} = \ldots = E_{t+n} = E$$

Since any future outcome is contingent, there is absolutely no way that forecasts of future earnings (E_{t+i}) and the degree of confidence in them (r) can be constituted as quantitative magnitudes, *unless there is a specific mode of treatment of certain events capable of occurring due to class struggle*. Without an idea of what does risk "look like", it is absolutely impossible for capitalization to take place. In other words, *prior to the calculations denoted above, capitalization presupposes a mode of identifying, arranging and ordering certain elements of reality (social events, that is outcomes of class struggle), which are first distinguished and then objectified as risks*. It is then clear that the process of financialization is *entirely unthinkable* in the absence of (financial) derivatives. Derivatives are not the "wild beast" of speculation but a fundamental prerequisite for shaping the dimension of *abstract risk* (see below and also Bryan and Rafferty 2006), and thus for the organization of social power relations.

3.2 Market discipline or capital discipline? The essence of neoliberal exploitation strategy

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

(1) The capitalist firm is totally immersed in class struggle. The functioning capitalist (whether she is a small capitalist or one of the top managers of a large enterprise) is the *point of articulation* between the two distinct fields of capital movement.[4] *On the one hand,* she is called upon to achieve efficient organization of surplus value production inside the factory. This process generally entails a persistent endeavour to modernize the means of production, economize on constant capital and reduce labour's share of the net product.[5] But none of these procedures are mere technical decisions to be taken. They are the mutable outcome of class struggle. Therefore, *on the other hand,* the capitalist enterprise is the location for the organized confrontation of social forces and in this sense comprises, on a continuing basis, a political field *par excellence*. It bears the inherent imprint of class struggle, a reality sharply in conflict with the orientation of neoclassical or most heterodox approaches.

(2) Organized financial markets facilitate movement of capital, intensifying capitalist competition. In this way they contribute to the trend towards establishment of a uniform rate of profit in the developed capitalist world and those countries that are tending to enter it, at the same time securing more favourable conditions for valorization (exploitation) of individual capitals.[6] Keynes believed that completely illiquid markets would be efficient in the mainstream sense, because "once investment was committed, the owners would have an incentive to use the existing facilities in the best possible way no matter what unforeseen circumstances might arise over the life of

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

[5] Marx (1991: 170-240), Milios et al. (2002).

[6] See Marx (1990), Marx (1991, 295-300), Busch (1978), Hilferding (1981: 130-150).

plant and equipment” (Davidson 2002: 188). But such a view is very far from the truth. Illiquid financial markets (or highly regulated markets) mean that capital, not being able easily to move to different employment, remains tied up in specific “plant and equipment” for reasons that are not necessarily connected with its effectiveness in producing surplus value (profitability). Or, to put it differently, capital’s inability to move generates more favourable terms for conducting the struggle for the forces of labour, given that less productive investments are enabled to survive longer.

Capital does not *necessarily* have to be committed to a particular employment for a long period of time. Given the liquidity of financial markets, it is always in a position to reacquire its money form without difficulty and seek new more effective areas for its valorization. Capital is always on the lookout for opportunities to make a profit, which cannot come from maintaining effective demand but must come from intensifying class exploitation. *What capital is “afraid of” is not dearth of demand but dearth of surplus value* (Mattick 1980: 78-79). Capital is not obliged to provide for labour employment. On the contrary, a reserve army of unemployed labour is always welcomed by employers. It keeps real wages down and paves the way for compliance with the capitalist’s strategies of exploitation (Marx 1990: 781-802). Moreover, flexibility of labour is not only a prerequisite for mobility of capital. It is also the method capital finds most suitable for adjusting to fluctuations in the capitalist economic cycle.

(3) Financial markets generate a structure for overseeing the effectiveness of individual capitals, that is to say a type of supervision of capital movement. Businesses that fail to create a set of conditions favourable for exploitation of labour will soon find “market confidence”, i.e. *the confidence of capital*, evaporating. These businesses will either conform to the demands of capital or before long find themselves on a downhill path. *In this manner capital markets “endeavour” (not always reliably) to convert into quantitative signs “political” events within the enterprise*.

In order to understand the remark above we have to recall that the place of capital is not occupied by one and only one subject. On the one hand, the manager assumes a critical *intermediary function*, becoming the point of articulation between the “*despotism of the factory*”, which he himself must ceaselessly impose, and the *market discipline*, to which he himself is permanently subject (Balibar 1984). On the other hand, outside of the precincts of the firm, money capitalists come up against a “performance chart” that is shaped by the financial markets and to a significant extent “monitors” the conditions of accumulation and valorization that prevail at every moment in production (in relation to different parts of the world). In this way the *organized* financial markets exercise a critical function: *they reward profitable and competitive companies and at the same moment punish those that are insufficiently profitable*.

The decisive criterion is that the *value* of the company’s securities (shares and bonds) as they are assessed by the international markets, should be *maximized*.[7] Thus, equity holders’ and bondholders’ interests are basically aligned with respect to enterprise profitability.[8] The demand for high financial value *puts pressure on individual capitals (enterprises) for more intensive and more effective exploitation of labour, for greater profitability*. This pressure is transmitted through a variety of different channels. To give one example, when a big company is dependent on financial markets for its funding, every suspicion of inadequate valorization increases the cost of funding, reduces the capability that funding will be available and depresses share and bond prices. Confronted with such a climate, the forces of labour within the politicized environment of the enterprise face the dilemma of deciding whether to accept the employers’ unfavourable terms, implying loss of their own bargaining position, or whether to contribute through their “inflexible” stance to the likelihood of the enterprise being required to close (transfer of capital to other spheres of production and/or other countries). Evidently the dilemma is not only hypothetical but is formulated pre-emptively: *accept the “laws of capital” or live with insecurity and unemployment*.

This pressure affects the whole organization of the production process, the specific form of the *collective worker*, and the income correlation between capital and labour. It ultimately necessitates total reconstruction of capitalist production, more layoffs and weaker wage demands on part of the workers. Restructuring of enterprise, above all, means restructuring of a set of *social relations* with a view to increasing the rate of exploitation. It is thus a process that presupposes on the one hand an increasing power of the capitalist class over the production process itself, and on the other a devalorization of all inadequately valorized capital (downsizing and liquidating enterprises) and thus economizing on the utilization of constant capital (which is

[7] For the shareholder value maximization strategy see Jensen (2001).

[8] It should be noted that the high profitability of a capitalist firm usually translates into high share prices, but at the same time the low risk that goes with being a healthy firm reduces the rate of discount and thus increases the value of the bonds being issued.

assured by takeovers). *It therefore presupposes not only increasing "despotism" of manager over workers but also flexibility in the labour market and high unemployment.*[9]

Economic restructuring of the firm is synonymous with the capitalist offensive against labour. Hence, to us, *"market discipline" must be conceived as synonymous with "capital discipline"*. In developed capitalism the key role of financial markets *does not have only to do with supplying credit to companies*. For example, most trades of shares in listed companies consist of movements from one shareholder to another, with no new capital being supplied.[10] *The complementary function of financial markets is to "monitor" the effectiveness of individual capitals, facilitating within enterprises exploitation strategies favourable for capital. Financial markets commodify the claims on future surplus value. The striking growth of financial derivatives since the early 1980s assists in the consummation of this monitoring process of scrutinizing corporate asset portfolios (i.e. scrutinizing firms' capacity for profit making) by commodifying the risk exposure.*[11]

In conclusion, and in contrast to what the Keynesians assume, *neoliberalism is an exceptionally effective strategy for capitalist (and not rentier) hegemony*. Moreover, the class content of the effectiveness criterion is incontestable. Effectiveness connotes capital's ability to impose the "laws" of capitalist accumulation, overriding labour resistance without significant difficulty. Apart from theoretical consequences, this finding has important political implications: *the community of interest of those "inside" the enterprise (labourers and managers) as against the "outsiders" of the financial markets is a construction of fantasy*. The fantasy is erected upon the no less fantastic distinction between the "productive" and "non-productive" classes, a notion

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[9] See Milios (1999b: 196).

[10] The stock market is not the main means for obtaining investment capital. Even in the extreme case of market-based systems (such as those of the U.S.A., UK and Australia), the main loan sources are retained earnings, bank loans, and bond issues (Bryan and Rafferty 2006; Dumenil and Levy 2004; Deakin 2005). At the same time, it is useful to note that in contrast to what is often asserted by heterodox authors, since the beginning of the 1980s joint-stock companies have become steadily less willing to distribute dividends (Fame and French 2001).

[11] "With derivatives, the ability to commensurate the value of capital assets within and between companies at any point in time has been added as a measure of capital's performance alongside and perhaps above the capacity to produce surplus over time. […] Derivatives separate the capital of firms into financial assets that can be priced and traded or 'repackaged', without having either to move them physically, or even change their ownership" (Bryan and Rafferty 2006: 97).

derived from the problematic of Keynes. Such an outlook narrows the strategic horizon of the workers' movement to defence of a "better" capitalism, that is to say a "better" system of class domination and exploitation. The Keynesian critique of neoliberalism places the boundaries of the practice of the social movements inside the framework of the society of bourgeois exploitation.

Concluding the above analysis we may say that financialization should be conceived of as a form of *gonernmentality* over financial markets. In this fashion, it functions as a *power technology* which is superimposed upon the existing social power relations *aiming at organizing their functioning and reinforcing this organization*. Thus, the so-called over-expansion of the financial sphere has not primarily to do with speculation, irrational behavior or irrational exuberance.

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