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Fetishism and Financialization

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Abstract

The capitalist system is based on property rules, which are the same for all forms of property. Yet these rules operate differently for capital and labor as distinct forms of property. This paradox obscures the role of living labor as the source of surplus value, and hence mystifies money as self-expanding value. This "fetishism of money" facilitates "financialization," prevents accurate analysis of the capitalist system, and the formulation of alternatives.

Keywords

critiques of and alternatives to capitalism, economic methodology, endogenous money and finance, evolution of capitalist institutions, finance

1. Introduction

Marx wrote *Capital* to elucidate the "laws of motion" of capital, which could also provide the basis for a critique. He presents the regular rules by which the system operates, which become "automatic" (Vol. 1, chapter 4: 153–54). These rules are consistent with "the innate rights of man . . . Freedom, Equality, Property and Bentham" (Vol. 1, chapter 6: 176), at least in the sphere of circulation. But even in the sphere of production, there are consistent rules, such that the labor process is under the control of the capitalist, and that the product is owned by the capitalist:

> The labour-process is a process between things that the capitalist has purchased, things that have become his property. (Vol. 1, chapter 7: 184–85)

The worker must also "own" his own labor power, and be "free in the double sense" (Vol. 1, chapter 6: 169); that is, the worker must provide for his own reproduction, with limited assistance from the employer or the state. This rule-based system of capitalism is recognized by law and the supremacy of contracts, enforced by the courts and the state (Kreitner 2007).

The hypothesis supported here is that Marx's analysis of capitalism can be understood as a linguistic, symbolic institutional system that evolves historically (Davis 2015a; Searle 2010; Taylor 2016). The paper proceeds by first reviewing key aspects of Marxian political economy, highlighting sites for the role and mystification of money, and then suggests the relevance to the operation of the economy and society as a whole.

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2. Marx's View of Money: Representation of Value and Instrument of Accumulation

One of Marx's most important analytical concepts is money. In the famous chapter 1 of Volume 1 of *Capital*, Marx introduces money as the abstract *representation* of social labor time in commodity production. Workers are not aware of their role as part of the whole of social labor in any given time period or location (Marx 1967, Vol. 1, chapter 1, section 4: 73). The whole of social labor is only represented by the total value produced by employment in a given period, measured by the market value of total production, or GDP in modern terminology. Workers are not aware of a common relationship with other individual workers based on their collective role in social production, what Marx calls the "fetishism of commodities" (Marx 1967, Vol. 1, chapter 1, section 4: 71–83). We typically view commodities as valuable in themselves, such as the shiny image of the pricey Apple iPhone.

In volume 1, chapter 3, Marx discusses money as an abstract expression of the value of commodities, or unit of account, in section 1, and as a means of payment in section 3. It is as a means of payment that money acquires the form of "hard cash" (Marx 1967, Vol. 1, chapter 3, section 1: 103, section 3.b.: 138; Vol. 3, chapter 32: 515–17). Because credit is elastic in the banking system, cash is often short, especially in a crisis (Vol. 3, chapter 30: 490–93). The circulation of commodities is not based on the quantity of money, but on the expression of value in an independent form (a critique of the quantity theory of money is developed in Vol. 1, chapter 3, section 2: 120–24; see also Vol. 3, chapters 28, 33, and 34). Whether gold or paper, this symbolic role of money, or unit of account, is sufficient as a measure of value until payment must actually be made (apart from the clearinghouse function of canceling offsetting debts). Money as the "universal commodity" becomes the subject of all contracts, and the specific form of money as cash is required for settlement:

> In so far as actual payments have to be made, money does not serve as a circulating medium, as a mere transient agent in the interchange of products, but as the individual incarnation of social labour, as the independent form of existence of exchange-value, as the universal commodity (Marx 1967, Vol. 1, chapter 3, section 3b: 138). . . and the "universal subject-matter of all contracts." (Vol. 1, chapter 3, section 3b: 140)

In the form of a means of payment, money becomes a *tool* of abstraction and accumulation, a "universal money" necessary for settling international accounts (Marx, Vol. 1, chapter 3, section 3c); that is, money is an abstract symbol of value (Marx 1967, Vol. 1, chapter 3, section 2c: 124–29), whose origin is not widely understood, but it is also a *means* of accumulation, or a "technology of power" (Arrighi 1994: 15). In the transition from feudalism to capitalism, changing property relations enabled "primitive accumulation" (Vol. 1, part VIII, chapter 26) and provided certain privileged groups with the social power of further accumulation, as well as concentration and centralization through the financial system. Capital accumulation is backed by the force of the state (Davis 2015a; Marx 1967, Vol. 1, chapter 31: 751).

> The credit system, which has its focus in the so-called national banks and the big money-lenders and usurers surrounding them, constitutes enormous centralization, and gives to this class of parasites the fabulous power, not only to periodically despoil industrial capitalists but also to interfere in actual production in a most dangerous manner. (Marx 1967, Vol. 3, chapter 33: 544–45)

Once production is separate from consumption, or labor from ownership of the means of production and the product, there is a time lapse between production and realization, which is bridged by money as a unit of account and as a means of payment: "The appearance of the two equivalents, commodities and money, at the two poles of the process of sale, has ceased to be

simultaneous" (Marx 1967, Vol. 1, chapter 3, section 3b: 136). The use value of the commodity to the consumer becomes separate from the exchange value of the commodity to the producer, and appears only as a "double" (Marx 1967, Vol. 1, chapter 3, section 2a, 108; section 3b, 134) that becomes a potential contradiction in an economic crisis. The apparent self-expansion of value is due to activities of humans, contrary to appearances, manifested in "flows of money" (Davis 2015b; Marx 1967, Vol. 1, chapter 3, sections 2a, 2b: 103–24).

This aspect of money as an *instrument* or a "technology" (Goetzmann 2016) is important for firms, who can acquire means of production and purchase the commodity labor power. It is important for holders of money who can claim a rate of return. Furthermore, money is a *method* of homogenization and abstraction of commodities and labor (Davis 2017), by means of workplace discipline and competition in product and labor markets. It is also an important means of payment for workers who can purchase the means of subsistence. The financial system is organized by the state to restrict access to credit to those who are capable of repayment with interest (Rousseau and Sylla 2016). Circulation of the financial token of a particular state is a technique to extend the scale of circulation, increase the speed of turnover, and to increase its power among competing capitalist states. In this context, the state control of public credit becomes a means of extension of the power of the state (Davis 2015a).

The historical origin of credit is from long-distance trade and from the self-defense of Italian city-states, an experience that led to the reorganization of the modern liberal nation state, to internalize the credit mobilization and allocation function, in partnership with financiers and merchants (Arrighi 1994; Davis 2015a), that is, the modern liberal state issued debt repayable with future tax revenues, in the form of public bonds. These bonds became the center of public credit, as "safe assets" of commercial banks, and later as collateral for "shadow banking" (Gabor and Vertergaard 2016). The regulation of access to credit is a state function, to assure credit worthiness, and to provide a back-stop. Public bonds are the most liquid asset, and are guaranteed by the state as a whole. As Marx points out, the credit of the Bank of England was backed by the "total wealth" of the nation (Marx 1967, Vol. 3, chapter 33: 540).

Money becomes a tool of abstraction of social life, as well. The level of income and wages provides a metric for social status, by which individuals evaluate each other (Meister 1990), and provides the foundation of individual competition (de Vries 2008). The level of compensation provides a platform of individual competition in the labor market, where one tends to see one's own value in terms of the comparative wage payment (Davis 2015b). Housing is segregated by income level (and other forms of social status), which then influences life chances by access to schooling and social networks.

3. Financialization

Recently interest has focused on the concept of "financialization" to explain declining rates of investment and financial crises. There is a large literature, noting the increasing importance of financial circuits, $M - M'$, compared with commodity production, $M - C - M'$ (see among others, Epstein 2005; Foroohar 2016; Krippner 2005, 2011: 27–57; Lapavitsas 2013; Palley 2013: 17–40; Vasudevan 2013: 92). This work focuses on the history, political power, size, and profit share of the financial sector, but does not discuss the relevance of money as a symbol. The analysis here suggests, instead, that the role of the financial sector would not be possible without money as a symbol, characterized by historically evolving rules of operation.

4. Capital as Totality

When the purpose of commodity production becomes the expansion of value, per se, "the possessor of money becomes a capitalist" (Marx 1967, Vol. 1, chapter 4: 152) and the expansion of

value appears automatic, as if "money begets money" (Vol. 1, chapter 4: 155; Vol. 3, chapter 21: 345, chapter 24: 391–99). The holder of money seems to have social power himself:

> Just as every qualitative difference between commodities is extinguished in money, so money, on its side, like the radical leveler that it is, does away with all distinctions. But money itself is a commodity, an external object, capable of becoming the private property of any individual. Thus social power becomes the private power of private persons. (Marx 1967, Vol. 1, chapter 3, section 3a: 132)

While consisting of the production of specific commodities by specially trained workers employed by competing firms, the capitalist system operates as a whole. The value produced by the aggregate employment is measured at the macro level, coordinated in some mysterious fashion by Smith's "invisible hand." That mystery for Marx consists of the value produced by direct and indirect labor and represented in external form by money (Vol. 1, chapter 3, section 2b: 116):

> But how are gold and silver distinguished from other forms of wealth? Not by the magnitude of their value... but by the fact that they represent independent incarnations, expressions of the *social* character of wealth... It is faith in the social character of production which allows the money-form of products to assume the aspect of something that is only evanescent and ideal. (Marx 1967, Vol. 3, chapter 35: 573–74; emphasis in original)

The concrete institutional coordination of the system is then conducted by corporations, financial institutions, and central banks by means of money. There is a division of labor between production and finance capital (Marx 1967, Vol. 3, chapter 21), and bankers become the "representatives of social capital" (Marx 1967, Vol. 3, chapter 32: 368). The whole of the system remains elusive, nonetheless, and vaguely manifested by the abstract notion of "capital" (Postone 1993: 152–57, 183–85, 271, 319–21, 349–52):

> Marx's category of capital refers to an alienated, dualistic structure of labor-mediated relations in terms of which the peculiar fabric of modern society, its abstract form of domination, its historical dynamic, and its characteristic forms of production and of work can be understood systematically. For Marx, capital, as the unfolded commodity form, is the central totalizing category of modern life. (Postone 1993: 352)

The financial circuit, $M - C - M'$, is the abstract expression of the operation of capital as a self-expanding value. As the system becomes well-established, money appears to expand of itself, in the form $M - M'$, a "pure fetish form" (Marx 1967, Vol. 3, chapter 24: 391–93):

> Interest as such expresses precisely the existence of the conditions of labour as capital, in their social antithesis to labour, and in their transformation into personal power vis-à-vis and over labour. It represents the ownership of capital as a means of appropriating the products of the labour of others. But it represents this characteristic of capital as something which belongs to it outside the production process and by no means is the result of the specifically capitalist attribute of this production process itself. Interest represents this characteristic not as directly counterposed to labour, but rather as unrelated to labour, and simply as a relationship of one capitalist to another. (Marx 1967, Vol. 3, chapter 23: 382)

5. Equality of Property Owners versus Two Distinct Types of Property

A key element of Marx's analysis is the difference in outcomes of the exchange capital and labor, even though all property owners are treated equally (Vol. 1, chapter 6: 176), according to certain rules (Abdelal 2007; Rodrik 2015; Stiglitz 2015). That is, all property consists in access

to concrete use value, and all owners receive its exchange value in circulation, based on the embodiment of socially necessary living labor time (from current or past periods). For the commodity labor power, the employment in actual production is its use value, and the exchange value is the labor time necessary for its own reproduction. These abstract rules can be translated into widely available quantitative measures.[1] For capital, the concrete use value is the legal capacity to organize and/or employ labor in the production of commodities, and the exchange value is a legal claim to the share in surplus produced (Vol. 3, chapters 21, 23); that is, both capital and labor appear as commodities, subject to the same rules that determine use value and exchange value. Yet the employment of labor power, which is compensated per hour, nonetheless accomplishes the extraction of surplus, which appears to be a return to money loaned. The appearance of money as a claim to an increment, $M - M'$, and the appearance of the capacity of money to expand itself make money appear as the source of value. Marx contrasts these appearances compared with the underlying social relations:

> These reasons for compensation which enter the distribution of surplus-value as determinants are distorted in a capitalist's mind to appear as bases of origin and the (subjective) justification of profit itself. (Vol. 3, chapter 23: 383)

That is, there is an ideological role for the claim to a share of the surplus by money capital. There is a danger in this view, nonetheless, which may tend toward a declining rate of investment, when an apparent option for financial returns exists, with less "risk" than production of commodities:

> The individual capitalist has a choice of making use of his capital by lending it out as interest-bearing capital, or of expanding its value on his own by using it as productive capital... [but] if an untowardly large section of capitalists were to convert their capital into money-capital, the result would be a frightful depreciation of money-capital and a frightful fall in the rate of interest. (Vol. 3, chapter 23: 377–78)

There is also ongoing concentration and centralization of competing firms (Marx 1967, Vol. 1, chapter 25, section 2: 621–28). In terms of credit, Marx considers this a form of "fictitious" capital, which relies on the calculation of present discounted value of anticipated future returns (Marx 1967, Vol. 3, chapter 29: 463–75).

6. International Finance

Although surplus is produced by living labor, the circulation of currency can affect the profit rate in various ways. Money can affect the rate of profit by its velocity, or by increasing the rate of turnover for a given outlay of capital (Marx 1967, Vol. 3, chapters 18, 19). The liquidity of a sovereign currency is also affected by the requirement of the payment of taxes in money form, with economies of scale and network externalities, and so influences access to public and private credit (Davis 2010, 2013). The circulation of hegemonic currencies globally can influence the social organization of production in emerging market countries, which are restricted in access to credit in their own currencies, called "original sin" (Eichengreen and Hausmann 2005). Holders of the hegemonic global currency benefit from its higher purchasing power on outward foreign direct investment, as well as the "race to the bottom" with respect to wages and taxes, facilitating

[1]The quantitative measures of surplus value include (1) units of hours, socially necessary hours employed minus hours embodied in wage goods per time unit of employment, or (2) revenue streams, the value of the average hourly output of the workers minus their average hourly wage payment, or average profit per unit of output. On an aggregate basis, surplus is GDP minus labor share of GDP, another approximate measure. Labor productivity is a ubiquitous economic indicator of the use value of the commodity labor power.

higher profit rates (Ali 2016). The fetishism of commodities enhances the "image" of such products as Apple iPhones, while the hegemonic US dollar facilitates the firm in its organization of global supply chains and the extraction of surplus (Coe and Yeung 2015: 105–107, 146–49; Milberg and Winkler 2013). Furthermore, hard currency reserve accumulation by emerging market countries is a type of forced saving, which lowers interest rates and improves access to credit for the hegemonic country, such as the so-called savings glut that led to the financial crisis of 2008 (Bernanke 2005).

Money is the instrument for managing time, mediated by the perpetual institutions of the private business corporation and the liberal state (Davis 2017). Although debt expands access to resources in the present to enable increased production in the future, the requirement of repayment is a common form of discipline for the individual, firm, and country. The so-called balance of payments then becomes an integrated system of global governance, with a priority on cash flow as a survival constraint. Liquidity becomes a fetish (Keynes 1964: 155), driving the valuation of assets in the present moment and an increasingly pervasive tendency toward short-term investments (Tirole 2011).

Although in mainstream economics, money is a convenience, for Marx money is a fetish. The attribution of power to the currency itself mistakes the contributions of social coordination and innovation to the symbol. This fetish quality is utilized as an instrument of political, economic, and social power in the financial sector, leading to "financialization" (Krippner 2011). In turn, this concentration of power affects the allocation of credit, from cloud computing and robots to artificial intelligence and stock buybacks. Bailout of the banks instead of the homeowner in the financial crisis of 2008 was justified based on the idea that finance is the "heart" of the economy. Ironically the "repurchase agreements" of US Treasury bonds provide the "safe assets" for the shadow banking system (Gorton and Metrick 2010; Pozsar 2014), in spite of neoliberal resistance to public debt. The discipline of money and finance is increasingly challenged politically, nonetheless, by global expressions of "populism."

7. Conclusion

According to Marx, capitalism is a rule-governed system. The capitalist system can be usefully understood by means of such linguistic statements, used to coordinate social institutions, with meaning attributed to commonly understood symbols. With these insights, the notion of the economy as a machine, as an "automaton," can be interpreted as a useful conventional metaphor that conveys the impression of an economy beyond human control. This reification is useful for reinforcing the presumed inevitability and optimality of the system, and deflecting critique.

Marx's notion of the fetishism of money is a tool for understanding the financialized economy and society of the twenty-first century. Money appears to be valuable in itself, but is better understood as a representation and an instrument of the historically specific institutions of capitalism. Money is a symbol of the whole, whose powers and returns are claimed by individual owners and investors. Money seems like a form of independent private property, until financial crises require the intervention of the public sector. This common understanding of money is part of the legitimation of claims to the surplus, and the "automatic" return to money loaned, M – M′. Treating money as valuable in itself obfuscates the economic rules of its operation, and prevents awareness of options for an alternative system.

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