Financialisation, the Value of Labour Power, the Degree of Separation, and Exploitation by Banking

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Introduction

The emergence to some prominence of radical political economy from the mid-1960s for a decade or more witnessed significant debate over Marx's value theory across committed Marxist economists, more sceptical but sympathetic heterodox economists, and also orthodox economists who tended to be dismissive if occasionally offering some admiration from the perspective of their own concerns (Marx as general equilibrium, growth or duality theorist). As a result, debate involved the nature and validity of value theory and its position within Marx's and Marxist political economy as a whole. Over the past two decades, contributions from non-Marxists to value theory have fallen away considerably. This reflects both bad news and good news. The bad news is, of course, that the influence and presence of Marxist political economy has been in decline. The good news is that current debate itself is richer for having moved beyond, if not universally, whether Marx's value theory is valid and to address how it is to be interpreted by those who have both knowledge of its finer points and wish to apply them to theoretical and empirical questions.

I have been extensively engaged in these debates. For the earlier period, this involvement reached its peak over the period between the publishing of Fine and Harris (1979) and Fine (ed) (1986). After this, I was more inclined not to engage any further in debate as my position on the issues concerned had been aired more than enough times, and I felt that I had nothing new to say. And a new generation of scholars sympathetic to my approach had the opportunity to take it forward.[1] This is not to deny the need to renew exposition for those encountering value theory for the first time, but this was accounted for by my introductory text, Marx's *Capital*, first published in 1975, with a third edition in 1989, before being revised twice more with Alfredo Saad-Filho as co-author, with latest edition forthcoming.[2] However, the latest round of debate within Marxist value theory has induced me to become involved again, not least initially with critique of new interpretations of the so-called transformation problem, Fine et al (2004).

More recently, I have been engaged in at least three different debates with each, as already explained, based upon much common ground, including commitment to value theory as opposed to disputing its validity and/or relevance. The debate with Jim Kincaid has run, possibly more than run, its course, Kincaid (2007, 2008 and 2009), Fine and Saad-Filho (2003, 2008 and 2009) and Saad-Filho (2002). The debate with Mike Lebowitz has been abbreviated, even brought to an abrupt halt, with his response to me,[3] Lebowitz (2003, 2006 and 2009) and Fine (2008). By contrast, the debate with dos Santos and Lapavitsas, around how to locate finance in light of the current crisis, has scarcely begun. Indeed, their most recent publications apart, dos Santos (2009) and Lapavitsas (2009a and b), the discussion has been confined to an extensive personal exchange over a two week period or so in March 2009.[4]

It was, however, towards the end of this exchange that I perceived an important connection between the debate previously engaged with Lebowitz and the one that was underway on finance. The connection sheds light on both debates and not just over method. For the latter, though, to reiterate and refine, what is at issue is not whether value theory is valid or not but how to locate more complex phenomenon in relation to value theory. With Lebowitz, in this respect, the differences have been more or less completely clarified. But, as will be seen, their nature and origins might best be understood by reference to different motivations and objectives in our respective works that have, nonetheless, brought us into conflict.

This paper begins, then, in the next section with the lessons I would draw from the debate with Lebowitz. These are that, at a more complex level of analysis, for both labour markets and the value of labour power, each is fragmented and determined in distinct ways, across segments of wage labour and items of consumption, respectively. Such a stance is not at the expense of emphasis upon class relations and struggle, nor the determining role of production (properly understood) as Lebowitz would interpret my position. Rather it concerns how to locate class struggle and production when addressing different segments of the labour market and how the so-called moral and historical elements in the value of labour power are to be understood and explained in moving from the abstract to the concrete. At the core of the dispute with dos Santos and Lapavitsas would appear to be a different set of issues. This is whether "financial expropriation", as they term it, is a legitimate way of addressing the rise of (abnormal) profitability through provision of financial services (to the working class). In contrast to them, I suggest not, and that, as an aspect of financialisation, the contemporary provision of financial services is better understood as the integration of such services with interest bearing capital (for which the rate of profit is not equalised). Significantly, this opposing view draws in part upon the insights gained from the debate with Lebowitz.

There is some satisfaction, from the point of view of undertaking research, in seeing these two debates come and fit together like pieces of a political economy jigsaw. And this is a product of being in dispute with those with whom more is shared than contested. In this light, the paper concludes with an appeal for open debate over these issues. We need to draw critically upon past contributions, neither unduly politicising intellectual endeavours nor neglecting their relevance for addressing the nature of contemporary capitalism. At a time when neo-liberalism is demonstrably in crisis materially and ideologically, and working people come under assault as recession takes hold, sympathy for them and contempt for the exploitation attached to finance can, to a great extent, be taken for granted from a variety of perspectives. It is inevitable, and desirable, that these perspectives should be contested amongst one another, if not at the expense of common goals.

Determining the Value of Labour Power

For Lebowitz, possibly the key issue is to emphasise how insufficient attention has been given to class struggle, especially at the point of production, both by Marx himself and Marxism, and that this is crucial in understanding the dynamics of capitalism in general and of the evolution of the rate of exploitation. For him, Capital is an account of what capital does, and not how labour resists and, thereby, influences outcomes. This leads him to put forward the concept of the "degree of separation", to incorporate the notion that capitalists must divide and rule workers in order to prevent them from appropriating the surplus produced. The degree of separation is also decisive in determining the extent to which the productivity increase associated with capital accumulation is appropriated by capitalists (as relative surplus value) or by workers in defence of the value of labour power (which would imply higher levels of real consumption).

There is an issue, here, of whether this fairly represents Marx and Marxism in terms of the neglect of class struggle, especially in light of the labour process literature that has, admittedly gone into decline over the period of neo-liberalism, most notably through the twin assault on industrial relations and sociology (by human relations and resource management) in particular and political economy in general. But my starting point has been different. It has been to address more closely the determination of the value of labour-power, something that has been sorely neglected in the Marxist tradition despite its importance, with almost absolute reliance upon Marx's own reference to moral and historical elements without going into further elaboration. Even on this narrow basis, however, there have been two different approaches (although they are perceived to be equivalent within a static equilibrium framework). One is to refer to the value of labour power as a value as with variable capital, most immediately as a quantity of money, with the value of wages oscillating around the value of labour power in practice. The other is to refer to a bundle of goods as standard, and their corresponding socially necessary labour-time of production.

These are, of course, very different conceptualisations of the value of labour power as is sharply revealed by any increase in productivity. The first would lead to a reduction in the rate of profit since the wage as a bundle of use values would increase in proportion as values of commodities decrease other than labour power itself. The second would be at the opposite extreme, with the value of labour power reducing in proportion to productivity increase as the wage bundle remains unchanged. For Lebowitz, the degree of separation is decisive in determining where the outcome lies between these two extremes.

My position is different and differently motivated and tends to view Lebowitz's stance as bordering upon a tautology – the more the working class is united in struggle as represented in the degree of separation, the more it has to gain from productivity increase. There is also a dual aspect involved in my approach, corresponding to the two different ways of interpreting the value of labour power – as values or as use values. The first aspect concerns differentiation across labour markets. Without going into detail, there are a number different economic and social processes that differentiate the creation and occupation of positions within the production process (and the labour market more generally), and these flow in part from the imperatives of capitalist accumulation itself in terms of skills, hierarchies, and oppositional and organisational conflict in response to reorganisation of the work process. Such differentiation, or segmentation as it is usually termed, is variously situated within and across firms, sectors, and occupations. At the very least, this means that the form taken by the value of labour power is not simply a standard enjoyed by all, but one that is determined according to the processes of, and responses to, the restructuring of employment. The value of labour power is not even an average from which there are divergences either side, in anything other than a numerical sense. Rather, the value of labour power is the result of a deeply structured and differentiated (re)positioning of the workforce in its economic and social relations as well as in its more narrowly defined rewards in terms of wage differentiation. Indeed, as argued in Fine (1998), labour market segmentation is not merely a matter of different segments of the workforce but differentially organised functioning within those segments

Before proceeding to the second aspect of how the value of labour power is to be interpreted, it is worth emphasising on the first aspect alone how difference with Lebowitz is generated. We do agree that I place class struggle at a lower level of abstraction than he does. For he sees it as located at the level of capital and labour as a whole, with the degree of separation reflecting, in aggregate or balance, the struggle at this level albeit made up of the varieties of more complex struggles across the economy. As a result, I am interpreted as denying the primacy of class struggle, and of deeming it to be contingent rather than necessary.

This is not so for the following reasons. First, it is necessary to unpick the notion of abstraction into at least two different aspects[5] which often, but do not always, coincide.[6] One is the logical movement from more abstract or simple concepts to the more complex and concrete. We cannot have profit or price before we have surplus value and value, for example. The other is the causal relations between categories or factors. Here, irrespective of the causal status of class struggle, we can identify it as being differentially determined within production processes, across the economy, and in social and ideological contestation as well. Again, this is not at issue as could not be put clearer by Lebowitz (2009, p. ??):

> I have no difficulty thinking about individual capitalists trying to divide and thereby weaken the workers they employ by, for example, using racism and sexism or by moving to greenfields or regions where trade unionism is constrained if not illegal; nor, are we lacking for examples of particular workers who struggle to reduce the degree of separation among themselves in complex and differentiated ways. Accordingly, there would seem to be a *prima facie* case for accepting that the degree of separation among workers (this inner abstraction meant to capture the balance of class forces) is realized through the daily struggles of capitalists and workers.

But it is the last sentence where we depart analytical company. For this inner abstraction is not one that is reproduced through material processes, and so is ideal. It is, to coin a phrase, a sack of potatoes of struggles that may or may not have any reinforcing solidarity so that there is no reason why the degree of separation should be reproduced as an abstract (that is simple, underlying) category. This is quite distinct from the determining role played by class struggle. Indeed, it is precisely because of the separation of the working class (and divide and rule across the organisation of production) emphasised by Lebowitz that means the degree of separation is both in form <u>and</u> essence, a complex category. There is a difference here with the rate of surplus value, which can legitimately be taken to be an aggregate (and simple) social category. For it does offer a “centre of gravity” around which there tends to be equalisation. This derives precisely from the unity displayed, inadvertently, by capital in its total circulation, in which capital would move to wherever individual rates of exploitation were higher than normal, even whilst reproducing a differentiated workforce. But there is no such equalising tendency amongst labour market conditions themselves (just as what makes for differences in labour markets in one place does not tend to have them replicated elsewhere – as if militancy were evened out across the economy by labour as opposed to capital, and otherwise there would be no discrimination in the labour market, for example, by gender and race and so on).

The second aspect in the determination of the value of labour power concerns the wage as a bundle of use values, commonly perceived as a material standard of living. Here, I have emphasised three points. First, the way in which that standard is established is different from one commodity to another (and in relation to elements of economic and social reproduction that are not produced by capital directly whether provided by the state or in commodity form outside of capitalist production). More specifically, I have argued that the wage bundle is comprised of a number of separate systems of provision, such as the food, health, housing and transport systems, with these complemented by what I have termed public sector systems of provision, Fine and Leopold (1992), Fine (2002, 2005a and b, 2007c and 2009a), and Bayliss and Fine (eds) (2007).

Second, within each system of provision, norms are established which are neither the same for all nor even an average, but a distinctive mode of provision with corresponding incidence of levels and quality of consumption across different social groups. So, the nature of the moral and historical element is different both within and between different items within the consumption bundle.

Third, then, the way in which the different systems of provision establish the moral and historical element is certainly contingent upon class struggle, and upon the overall value of labour power as it evolves over time. But it is not reducible to, even if stretched beyond class conflict at the point of production, as a causal role is played by elements along each of the systems of provision as a whole, along which (in the links between production and consumption) influence is exerted upon the levels and incidence of norms for consumption.[7] Thus, whilst the value of labour power is given at any moment as an abstract and simple determinant, as accumulation proceeds, so the reproduction and transformation of that value of labour power is determined at the more complex level of differentially segmented and functioning labour markets and the differentiated systems of provision attached to differentiated standards of consumption.

In short, the moral and historical element in the value of labour power as a material standard of living – as opposed to a level of social necessary labour-time – is not determined by class struggle alone, not by production alone, not by conflict between capital and labour alone, and is differentially determined across different elements of consumption (and labour markets). Consequently, it follows that, if the degree of separation is taken as the measure of the extent to which productivity increase is appropriated by the working class, it is an extremely complex and concrete determinant and not one that is logically located at a high level of abstraction such as the value of labour itself around which, to reiterate, the circulation of (surplus) value revolves and, from which, the complex determinants of the moral and historical elements can be abstracted.

<u>Financial Expropriation</u>

These issues seem far removed from those posed by dos Santos and Lapavitsas for whom the goal is to specify the nature of recent developments in finance in light of the current crisis. Moreover, in contrast to Lebowitz who is more theoretical in substance, their work has been predominantly concerned with the empirical changes in finance in general and in banking in particular. The purpose here is less to question or add to their empirical account and more to examine the way in which it is and is to be located theoretically.

Nonetheless, they do offer a particular analytical angle on the changes in banking practices. This is that, especially with an expanded role of credit in relation to workers through provision of personal financial services, there has been the emergence of "financial expropriation". Indeed, "The financial sector has become capable of extracting profit directly out of wages and salaries, a process called financial expropriation", from abstract for Lapavitsas (2009b).[8] I am not convinced that what is meant by this is clear from the papers that are publicly available, and this has not necessarily been helped by an initial use of the term exploitation in earlier drafts with a subsequent shift towards expropriation. This was intended to mark for them a clarified distinction from the exploitation associated with the production of surplus value or in its distribution as normal profit-making.

Some degree of precision does appear to have been realised, however, in my understanding of what they mean. For them, banking capital has been able systematically to appropriate, as part of the process of reproduction of the working class under neoliberalism, a portion of wage revenue at higher than normal profit, and this takes place more or less independently of the processes of production and circulation that generate and distribute surplus value in the normal course of events. A number of arguments are offered in support of this position, but they also present difficulties even on their own terms.

First, for example, the parallel, precedent even, is drawn with usury and trucking. Thus, for Lapavitsas (2009b), emphasis added:[9]

> These practices are reminiscent of the age-old tradition of usury, but they are now performed by the formal financial system. Financial expropriation represents the generalisation on a social scale of financial practices that resemble trucking and usury. It has allowed financial institutions to boost their profits independently of surplus value generated by the indifferently performing sphere of production. This is a constituent element of financialisation.

The problem, as in a sense partially noted, is that usury and trucking are proto-, even pre-capitalist, highly individualised, not open to generalisation and the exception rather than the rule. Is it possible that usury and trucking can be general across workers in the context of developed capitalism?

Second, appeal is made to the idea that, for the rise of financialisation in the form of direct financial expropriation, "the deeper causes must be sought in developments in the forces and relations of production", Lapavitsas (2009b). For the forces, the suggestion is made that "the roots of financialisation during the last three decades are to be found … in the technological revolution in information and telecommunications”. This is subsequently finessed in terms of slow productivity growth across both industrial and financial sectors over the period of financialisation. But, apart from an undue flavour of technological determinism at most tempered by appeals to deregulation (that applies equally to industry over the period concerned), there is no reason why such a shift in technology in and of itself should either lead to a change in the proportion of financial activity (the more productive sector could simply decline in weight) nor in its extension. In addition, in this respect at least, the evolution of industrial and financial sectors is unduly, if not inevitably, treated as independent of one another rather than as symbiotic in mutual reliance upon the production of surplus value (although, of course, that independence is mooted in terms of financial expropriation). In other words, the technology as productive forces argument is unconvincing (although this is not the same thing as saying that such material developments have no influence or relative impact). To put it metaphorically, it is as if electronic banking has turned us all into proto-serfs in which we deduct a part of our wages and hand them over, directly or indirectly, to the banking system to source their super-normal profits.

Third, there must be similar reservations over reliance upon transformed relations of production in explaining financial expropriation. For Lapavitsas (2009b), this seems to refer to “the deregulation of labour and financial markets, with the attendant intensification of labour” or, at greater length, “an associated shift in the balance of power against organised labour. Deregulation of labour includes reduced protection of employment with parallel use of unemployment as disciplining device. The composition of the labour force has also changed through entry of part-time workers and women, the two often being the same. Flexible employment, invasion of private time by work, unpaid labour, and intensified labour have characterised the period”. Once again, the problem here is that there is no reason why any of this should be particularly associated either with the expansion of finance or with its particular forms, especially expropriation.

Nonetheless, even if to be fair as offering only a partial explanation with continuing gaps, Lapavitsas (2009b) has relied upon the idea (and undisputed empirical outcome) of the asymmetrical development between industry and finance as the basis on which financialisation in general, and financial expropriation in particular, have emerged. Fourth, this appeal to asymmetry, however, is very different from the one highlighted in earlier papers in reference to a distinct aspect of the relations of production. Here, the argument around asymmetry is much more one of the individualised working class consumer forced into relations of usury with the banking sector in order to access the credit necessary to fund consumption. Such arguments do not differ much from those that would be offered by the information-theoretic (market imperfection) approach to credit markets. The problem here, though, is that, as an individualised account of asymmetry, the advantage to either side is contingent. And there are plenty of consumers (workers even) who take advantage of the credit relations on offer. I count myself as one of them, and suspect Paulo and Costas do as well. This raises doubts again over the extent to which financial expropriation can be generalised as they have understood it in terms of deductions from the value of labour power, see below.

Fifth, though, there is a potential appeal to a deeper understanding of asymmetry in drawing the contrast between the credit relations by banking with corporations as opposed to workers. As dos Santos (2009) puts it:

> In contrast to the relationship between corporations and banks, these activities bear the mark of the profound social inequality between wage earners seeking to secure future consumption and banks seeking to maximise profits, as glaring and arguably systematic disadvantages to the former. It may be usefully understood as possessing an exploitative content.

No one doubts that corporations have different relationships with banks than workers for all sorts of reasons of material practices and customary position and networks, and so on. But why should these leave corporations free of the mercy of exploitative credit relations? Here, an answer is provided in terms of heavy emphasis upon the growing financial independence of the non-financial from financial corporations, not least through self-funding and own engagement in financial operations. This is stressed throughout their work in order both to place financial expropriation in a more prominent position and to liberate the Marxist (and other) traditions, in the spirit of Hilferding, from the false notion of increasing integration of industry and finance under the dominance of finance.

But their own argument fails to move to a more systemic level of understanding (being based on asymmetry between agents in circulation) and is beset by one major problem irrespective of the other issues raised above or below and, to a large extent, independent of how they are resolved. This is how to explain the persistence, over such a long period as the era of financialisation, of both financial expropriation and, whether accepting this specification or not, the abnormally high profits as a consequence within the personal banking sector. To put it bluntly, why has capital not flowed into the sector of personal finance and reduced profitability to normal levels. This is particularly salient in view of the stance taken by dos Santos and Lapavitsas on the relative independence of, and capacity for, not only self-finance but deployment of financial instruments within the corporate sector more generally. Given this, and abnormal profits in personal finance, the way would appear to be open for abnormal profits to be eroded to normal levels by competitive entry of other sources of credit thereby, presumably, eliminating financial expropriation across the working class, not least as normal profits would be expected across all capitals whether working within production or exchange.

I will offer an alternative explanation for these abnormal profits later. But, before doing so, I want to return to the issue of the value of labour power. I was concerned over whether financial expropriation was perceived by dos Santos and Lapavitsas to be due to a lower value of labour power (and hence an extra appropriation of surplus value) or a deduction from it (an appropriation of a share of wages). The latter is their intent. But, from the perspective of my own understanding of the value of labour power, not least in light of debate with Lebowitz, if there is a structured and persistent, if not permanent, deduction from wages, this does imply that its moral and historical element has been redefined. To emphasise what has previously been laid out, this is not simply a matter of the level of money wages and the value and use values that it represents, and the differential distribution of these across the working class, but also the mode of delivery of the value of labour power both in terms of money forms and use values (recalling that the value of labour power is attached to the economic and social reproduction of the working class and is not purely a matter of wages received and spent).

Now, if we take the evidence from the United State of relatively stagnant real wages over an extended period of decades but a continuation in the rise of living standards (through credit at the individual level and balance of trade deficits funded by other countries' dollar reserves at the macro-level), then it follows that there has been a shift in the form taken by the moral and historical elements that make up the value of labour power, quite distinct from its level. Initially, irrespective of dispute with dos Santos and Lapavitsas, this seemed to be decisive empirical evidence in the debate with Lebowitz over the level of abstraction at which to locate the degree of separation. For the determinants of the value of labour power appeared to derive less from (declining) working class solidarity and more from the rise of personal finance in the sphere of exchange although, of course, that working class consumption has been sustained in this form is extraordinarily important for forms of struggle during a (credit) crisis.

But matters became more complex in light of the position adopted by dos Santos and Lapavitsas in which, logically correctly from their perspective, my exchanges with Lebowitz should be dismissed as being completely irrelevant since, for them, financial expropriation has nothing to do with the determination of value of labour power, which is taken as given by other factors, with banking's provision of personal services simply appropriating a part of that value through abnormal profits. In this respect, I referred to the later versions of their papers to appear in Historical Materialism, and one by Dymski (2009) that was to accompany them, in order that I might be able to gain a better understanding of financial expropriation.

Significantly, to put it in other terms, dos Santos and Lapavitsas would appear to deny, or to put aside as irrelevant for their purposes, that there are established moral and historical elements in the way in which credit realises the value of labour power. But, paradoxically, they and Dymski refer to one another for further elaboration of financial expropriation, and it is with Dymski's account that we encounter further difficulties. For he is concerned with the way in which sub-prime emerged as a result of enforced inclusion of redlined racially segregated housing into private ownership with corresponding over-selling of unsustainable and dishonest mortgages, their incorporation into sold-on derivatives, and the resultant collapse of the financial system once a combination of falling housing prices and defaulted payments arose, as they inevitably did.

But, for the dos Santos and Lapavitsas story, this raises serious obstacles as a general account of financial expropriation. This is so for two very transparent reasons, both to do with generality. The first is that it is specific to a particular section of the housing market that was previously excluded from mortgaging by action of lenders themselves. The second is that it is a reflection of systemic racism in this respect. The point is that neither of these is characteristic of the housing market as a whole or the extension of credit as a whole. Irrespective of whether the attempt to break down the barriers to private (mortgaged) ownership of housing in previously ghettoised neighbourhoods involves what might be termed financial expropriation or not, it does not serve as an exemplary illustration of the more general argument concerning the extension of credit to the working class as a whole across all items of consumption. Similarly, sub-prime as a whole, whatever its role in causing and triggering the current financial crisis is unlikely to serve as an ideal example of financial expropriation.

By adopting this stance, I was now driven to extend such insights further into the earlier, and previously separate, debate around the value of labour power with Lebowitz. For, whether accepting or not that the role and forms of credit around wage revenue form a part of its moral and historical elements, it is striking how differentially credit plays a role both within particular sectors of consumption <u>and</u> between them. Dos Santos and Lapavitsas are absolutely correct to point to the extent to which items of working class consumption have been commercialised through privatisation and the like. As Lapavitsas (2009b) puts it:

> These developments owe much to the withdrawal of public provision across goods and services comprising the real wage: housing, health, education, pensions, and so on. Financial institutions, consequently, have been able to extract profits directly and systematically out of wages and salaries.

But, according to the system of provision approach, the (shifting) role of credit relations in serving working class consumption will be differentiated from one item to the next both in terms of its level and nature of presence and by its impact within each system itself. You do not, for example, buy a house on a credit card whilst, on the other hand, it is very hard to hire a car without one.

This has particular implications for understanding the role of credit in the housing market, and for the "financial expropriation" which Dymski examines and on which dos Santos and Lapavitsas approvingly draw. For, significantly, my own, more general, system of provision approach, was inspired to some degree by work on the UK housing system.[10] In this, and it is known by all, the role of credit (and mortgages) is heavily linked to the appreciation in house prices, which is itself then underpinned by inflated land prices as well as the insertion of intermediaries in the buying and selling of housing, with a corresponding impact on the provisioning of housing whether in new build or repair.

The details of this need not detain us, and they will be different in one location (within and across countries) as opposed to another. But what this does mean is that the provision of housing is necessarily intimately related, unlike most other commodities, to the role of landed property by which is meant the terms and conditions of access to land (and the housing located upon it). The economic form taken by such a relationship is usually rent.[11] It is also highly contingent upon how the construction industry and other agents in the process are integrally related and structured in the social reproduction of housing and the social construction of the built environment (what is redlined and what is not, and why, for example). In case of the pressure upon financial institutions to grant mortgage finance to previously redlined areas, as reported in Dymski (2009), this implies a shift in the nature of landed property attached to the corresponding housing, with enhanced access to owner-occupation within redlined areas as opposed to dependence on slum landlords. Insofar as "interest" accrues to finance companies out of arranging those mortgages, it is at least in part and potentially a form of rent that derives from the capital gains attached to the housing (and can only continue as long as such capital gains accrue as well as mortgage repayments).

Two important implications follow from this. First is the potential conflation of economic categories in which it is necessary to probe a little deeper into the source of forms of revenue than in the way they present themselves. As dos Santos and Lapavitsas have correctly emphasised, the proximate source of banking profits out of provision of personal finance are the deductions from wages. But, as suggested, these may merely be the way in which capital gains in housing are passed on through the wage-earner. Some understanding of this may be offered by way of analogy. The state, for example, differentially taxes each wage earner according to a number of criteria through deduction from gross wages. Does this mean that the state exploits or appropriates from the wage-earner? The answer is no for, as argued in Fine and Harris (1979), all taxes are paid out of surplus value as the value of labour power is determined by what the wage earner receives, not by what is not received, although this does make for a change in forms of conflict over real wages as labour seeks to defend or promote them (against taxes and inflation).[12]

The point here is not to make an exaggerated virtue out of false appearances and to look for a deeper reality behind every empirical outcome. But it is important to acknowledge that there is something different about housing markets and, correspondingly, the credit markets to which they are attached. This is strikingly revealed by dos Santos' (2009) most apt characterisation of the current crisis, with which he opens (the later version of) his piece:

> By many historical measures the current financial crisis is without precedent. It originated from neither an industrial crisis nor an equity market crash. It was precipitated by the simple fact that increasing numbers of largely black, Latino and working-class white families in the US have been defaulting on their mortgages.

What is implicit here is that it is housing, and not other commodities that form part of working class consumption, which precipitated the crisis. This is to return to the theme of the nature and determinants of the value of labour power, the differentiation between the systems of provision that underpin working class consumption to which credit relations are differentially attached. It is - at least currently, although the same may have been said about such housing in the past right up to the crisis itself - inconceivable that speculation in financialised working class consumption of education or health could have been at the epicentre of the crisis (or even oil and food, both items of working class consumption and subject over the most recent period to extremes of speculative volatility).

Yet these are all rounded up into the same undifferentiated category of financial expropriation. Consider credit card (ab)use. Here, once again, there is an enormous difference, within the working class and consumers more generally, as has long been recognised by those who have campaigned against usurious interest rate exploitation of a minority (and there is a simple failure of many of those at the extremes of exploitation to manage their financial affairs efficiently in some sense).[13] An interesting dynamic has been involved in this around the formal/informal structural division between those who are creditworthy and those who are not, in which informal lines of credit which are far more expensive (usurious) occupy the space left by the formal. But such informal lines of credit are increasingly integrated with, and even absorbed within the formal, and are contingent upon (and calculated as) a balance between higher charges and higher defaults. We, who use credit responsibly, pay in overheads for the defaults of others who are, nonetheless, even more penalised than we are. So, if there are abnormal profits in the (consumer) credit sector, it is because of this systemic structure and dynamic in which there is some averaging of gains and losses taken as a whole, albeit with differential performance across individual agencies on both sides of the market.

Yet, as already emphasised, this offers no explanation for why such credit should command abnormal as opposed to normal profits. And, it is not simply a matter of the status of the notion of financial expropriation but how this relates more fundamentally to the Marxist theory of finance. Dos Santos and Lapavitsas do take some trouble to locate themselves in this respect, not least with regard to the favourable view of Hilferding even if his characterisation and influence are perceived to be outdated in view of the current relative independence and lack of subordination of industry to finance, whatever their past significance. But what is strikingly absent is the relative lack of grounding of their analysis in the theory of finance, and corresponding concepts, put forward by Marx himself. In this respect, I was unsure to what extent they saw themselves as breaking with Marx (and/or my own interpretation of him in this respect).

In particular, I would put forward the following propositions concerning Marx's theory of finance, each to be found elaborated and justified in more detail in my earlier work. First, Marx divides the capital functioning within exchange into two sorts, merchant capital and interest bearing capital. It is easiest to begin with merchant capital as it typically involves trading, such as retailing and wholesaling (or commercial capital), and, apart from its location within the sphere of exchange, is logically defined by its not producing (surplus) value whilst being subject to competitive entry and exit just like industrial capital. As a consequence, it is subject to tendency to equalised profitability. Further, such merchant capital is not confined simply to buying and selling but also involves a variety of credit and other monetary relations and functions which, nonetheless, tend to attract equal profitability. For convenience, I refer, to some extent in parallel with Marx, to such non-trading merchant capital, as money dealing capital, MDC. Once again, it is a logical category defined by the necessity of circulation for economic reproduction but in which the corresponding activities are undertaken by what is possibly a specialised capital.

Second, by contrast, interest bearing capital, IBC, involves the borrowing and lending of money capital for the purposes of making an advance in pursuit of the production of surplus value. It potentially earns interest as a result, with a simple division of surplus value between such interest and "profit of enterprise" that is distributed across capital subject to rate of profit equalisation. Once again, IBC is a logical category, signifying that the competitive accumulation of capital is mediated by access to money capital for the purposes of producing surplus value. The division between profit and interest is not predetermined by the value system as such but by the outcome of the accumulation process, both in terms of how much surplus value is realised in practice (as the advance of money capital is a pre-condition not a guarantee of successful accumulation) and how it is divided with industrial (and merchant) capital. This division bears no relation as such to the determination of the rate of interest. Nonetheless, differences between rates of interest in borrowing and lending and fees, etc, incurred in circulation are mechanisms through which IBC appropriates interest. So the surplus value appropriated as interest by IBC, as mentioned, is variable and not pre-determined by the value system just as the surplus value produced by labour power is variable.

Third, by the same token, this does not mean that the division is not subject to systematic forces and factors such as the nature and rhythm of the accumulation process. Logically, the capacity to appropriate surplus value as interest derives not simply from IBC as a logical category but in its role as the lever of competition in capital accumulation in which IBC is differentially situated in relation to itself as opposed to industrial and merchant capital. A financial institution may be willing to lend to an industrialist to compete with another in the same sector but is less likely to set up another financial institution to do so and compete with itself. This does not mean there is no competition within or with the financial sector, only that it is of a different order than for the rest of the economy. And this is precisely why the interest attached to IBC is <u>not</u> competed away to the normal rate of profit.

Fourth, because each of the categories discussed is logically derived, their real existence must be addressed through closer theoretical and empirical analysis, discovering the reproduction of the real but abstract in thought at more complex levels. For, in practice, the functioning of IBC and MDC (and commercial capital for that matter) are inextricably integrated with one another (like constant and variable capital, or absolute and relative surplus value, or the three types of rent) in the sphere of circulation, most notably in the market for loanable money capital (LMC, a category deployed by Marx to signify the co-existence of the two in money markets) where, in principle, all idle money is placed for the purposes of borrowing and lending irrespective of its origins and destinations.

Fifth, it follows that the real existence of, and distinction between, IBC and MDC are not entirely the consequence of the intentions of those engaging in corresponding activities as outcomes are contingent upon the movement of capital as a whole. Historically, financial institutions have emerged to cover the specialised functions associated with the separate categories of capital within exchange. But, and this is crucial, even in a world in which there is absolute regulatory or de facto division between investment and retail banking (for want of better terms), concrete outcomes do not correspond to their distinct spheres of operation either individually or in toto. An advance of IBC that fails will, nonetheless, expand commercial credit and realise surplus value for others out of the expenditure of the constant and variable capital advanced. On the other hand, state expenditure, on pensions for example, or credit extended for personal consumption will potentially realise surplus value in commodities purchased, underpinning the capacity to sustain surplus value appropriated by corresponding IBC.

Sixth, it follows that what is or is not IBC or MDC is only loosely constrained by the particular functions involved, and depends upon how corresponding capitals are situated within the accumulation and circulation of capital as a whole. Marx himself worried over this in terms of interrogating the relationship between the real and fictitious accumulation of capital, something which cannot be (pre-)determined by the capitals themselves. He also addressed the issue in the slightly different context, of merchant capital, of whether transport of commodities is a productive or unproductive activity, something which can only be determined by the way in which such capitals are differentially attached to industrial as opposed to merchant capital.

Seventh, then, this implies that the issue is not whether IBC and MDC are empirically separate or not to a greater or lesser degree but how they are articulated concretely. In addition, this very much involves the extent to which the different fraction of capitals appropriate, or are attached to, activities that might otherwise fall under the command of others. Do industrialists access their own finance, transport, marketing, etc? Or, at the opposite extreme, are more general activities associated with capital in exchange falling under the command of, or being integrated with, IBC?

Eighth, the current era of financialisation is precisely one in which there has been not only a disproportionate expansion of capital in exchange, through extensive and intensive proliferation of financial derivatives but also the extension of finance into ever more areas of economic and social reproduction, of which personal finance is a leading example. But at this point, I would appear to begin to depart company with dos Santos and Lapavitsas. For, in my view, such financialisation is consistent with the application of Marx's method and categories as outlined above, with an understanding based upon acknowledging the increasing shift of capitalist activity along the productive, commercial, money dealing, interest-bearing continuum, as well as a heavy degree of hybridity across these. In other words, an increasing range of activities have come under the auspices of IBC, not least sub-prime. As a result, it does become possible, at least in principle, to explain why abnormal profits should be able to persist in personal finance since this has become increasingly attached to IBC as opposed to merchant capital.

In contrast, dos Santos and Lapavitsas perceive financial expropriation as an empirically/historically/structurally/systematically <u>new</u> process (usury and trucking apart) <u>and</u> as a deduction from wages but without explaining why financialisation does not reduce such expropriation to normal levels of profitability. Instead, they would appear to argue that the banking capital involved is distinctive in and of itself and, therefore, not reducible to the articulation of IBC and MDC, etc. This seems to depend for them upon further theoretical and empirical work, although I would suggest that all of the empirical evidence that they bring to bear is consistent with, indeed, supports the alternative interpretation that I have put forward.

<u>Concluding Remarks</u>

As mentioned at the outset, the debates covered here are ones between those who share in common a commitment to Marxist value theory. In the past, such debate has occasionally been marred by two flaws. On the one hand, there can be a failure to engage with and absorb adequately the literature of the past, both from Marx himself and his interpreters. Whilst it is always necessary for successive generations of political economists to re-learn and re-interpret what has gone before, it is as well to learn from the mistakes as well as the achievements of the past. In case of finance, it is understandable, in light of the current crisis and the relative demise of Marxist political economy over the last few decades, that the need to respond to the crisis should outweigh the capacity to do so. In this respect, open and honest debate situating itself in relation to Marx's categories is imperative, reflecting the spirit within which this contribution is offered (and similarly in the past on the same topic as in debate between Panico (1980 and 1988) and Fine (1985/86 and 1988) albeit in very different circumstances).

The second flaw in value theory debate has been an undue presumption that appropriate position in this holds the key to political stance, and corresponding reformism or ultra-leftism necessarily flows from incorrect alternatives. This is unconvincing for a number of reasons, not least the divorce between theory and practice and how the two are, or are not brought together. In terms of this pair of debates, Lebowitz might appear to hold the more radical position than me in view of his emphasis on class, production and conflict as the key determinants, whereas dos Santos and Lapavitsas seem to be less radical in emphasising expropriation in exchange and the prospects of reducing this without touching production (hardly controversial these days given the general condemnation of finance as parasitical and dysfunctional). Nonetheless, presumably, they would see exploitation and expropriation as complementary and to be engaged as mobilisation permits with the former the more fundamental. My own stance is attuned to each of these positions and more, by insisting upon the specificity of labour market and consumer good attachments to broader factors (for the latter where finance has increasingly intervened), and these may be decisive in organising for progressive change.

Finally, my position also has relevance for understanding the nature of contemporary capitalism, and it differs from that of dos Santos and Lapavitsas (although I suspect these differences do not derive as such from those on financial expropriation). As argued elsewhere in some detail, the relationship between financialisation and neo-liberalism is direct, with the former underpinning the persistence of the latter through different phases and in contradictory tension between rhetoric, scholarship, policy in practice and representation of reality, Fine (2009a and b). In other words, financialisation is (the short definition of) neo-liberalism, not as Lapavitsas (2009b) would merely have it that, "neo-liberalism has acted as midwife of financialised capitalism". This does, however, require that financialisation be understood as also incorporating the shifting appropriation of activity across the different fractions of capital, again in contrast to the view that is "to associate financialisation with a change in the <u>balance</u> between production and circulation". Further, nor is it simply that financialisation "reflects the continuing difficulties that production has faced during this period". On the contrary, as argued in Fine (2007a), financialisation is itself a major causal factor in low levels of real accumulation and in undermining conditions of economic and social reproduction conducive to such accumulation.

<u>Footnotes</u>

[1] Won-Hee Cho, Soo Kim, Costas Lapavitsas, Chai-on Lee, Stavros Mavroudeas, Dimitris Milonakis, and Alfredo Saad-Filho all undertook PhDs under my supervision on topics on or closely related to value theory, and each has made significant contributions to the literature on this topic and more. Significantly, the last of these theses was completed in 1994 and, only recently, have I taken on any new value theorists as research students, reflecting a previous lack of supply rather than demand!
[2] But see also Fine (1997, 2001, 2003, and 2004) and Fine et al (2009).

[3] Despite the title of his closing rejoinder!
[4] It should be observed that I find the empirical importance of the intervention of capital into the circulation of wage revenue that they highlight to be compelling and of enormous importance to the evolution of my own thinking whilst we may differ over how this should be analytically located.
[5] In addition, there are differences in the order of exposition and of investigation.
[6] This is more fully explored in the debate with Kincaid with, for example, the law of the tendency of the rate of profit more abstract but of equal causal status to the counteracting tendencies (since both are systematic consequences of accumulation and production of relative surplus value).
[7] A fourth point concerns the attachment of a cultural system to each system of provision through which the meaning of consumption is determined but this is not of direct relevance to what follows.
[8] In what follows, I mainly cite Lapavitsas (2009b) as a synthesis of his and dos Santos' contributions.
[9] Note the explicit appeal to independence from production of surplus value. I return to financialisation and "the indifferently performing sphere of production", below.
[10] See Ball (1983 and 1988) and Fine (2004) for an account of its influence.
[11] Indeed, this would appear to represent a classic application of Marx's theory of landed property with slow increases in productivity complemented by higher prices to allow for (absolute) rent, Fine (1979).
[12] Similarly, to illustrate the conflation of categories, not to impose this instance as identical, see Bhaduri (1977) for his classic study of peasant's usurious interest payments as representing rent in another form (and not expanded possibilities as idealised by orthodox economics).
[13] See, for example, Manning (2000). Note that my own exposure to contemporary exploitative credit relations derives from consumer studies where the emphasis is upon a minority of those who suffer credit abuse whether by necessity, disposition or "irrationality".

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