A Marxian Perspective on Financialization and Inequality: The Role of Money

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Marx‘s Economics – Still Relevant?

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Presentation

1. **Financialisation Channels** and **Inequality** – Focusing on the Role of Money
2. **Marx** (Vol. 3): Importance of Money:
   1. Money as Credit and
   2. Money as Interest –Bearing Capital
3. **Financialization Channels in Restructuring Capitalism – Institutional and Technological structures**
4. **Politics of Private Debt and Inclusion of the Poor –** how this becomes intertwined with the global financial system –continuous income stream throuch **access to loans** is indispensible for securing new loans (Lena Lavinas)
5. **The Role of the State** – Debt Facilitator – Debt Collector
6. **Inequality Wealth Gap**

2. Marx on Money and Finance

- Marx: Labor **creates** *value, the circulation of capital* ***realises*** *value.*

1. **Money as Credit and Money as Interest Bearing Capital (Fictitious Capital)**
   - ***Money as Credit*** – **Real accumulation of capital achieving an increase in productive assets in terms of commodities**
   - For example: **Borrowing and lending money to buy a house or retail credit is** not contingent on generating maximum surplus value
   - ***Boring banking: D***eposits are used by the bank to make loans, difference between interests paid on deposits by the bank and interest earned via making loans is the profit the banks makes.
   - **Money as Credit is used in old-fashioned mortgage lending by banks**

Money as Interest Bearing Capital (IBC)

2. ***Money*** – Interest Bearing Capital – IBC, Fictitious Capital) – Marx Volume 3. **Interest = Greek ‚What has been born' (p. 517)**
3. Marx: ‚IBC in which capital appears as **money breeding money**' (p. 466)
4. Instead of **selling and buying** in commodity relations**,** the contract is between **lender and borrower**
5. ***‚The fetish character of capital and the representation of this capital fetish is now complete. In M – M' we have the irrational form of capital, the misrepresentation and objectification of the relations of production, in its highest power: the interest bearing form, the simple form of capital, in which it is taken as logically anterior to its own reproduction process; the ability of money or a commodity to valorize its own value independent of reproduction - the capital mystification in the most flagrant form' (p. 516)***
6. **Marx: ‚Interest as the price of capital is a completely irrational expression right from the start' (p. 475), since the claims involved can take on a value distinct from a value generating process.**

3. Financialization Channels in Restructuring Capitalism -

1. Most important channel is the change **from money as credit (commodity relations) to money as intererst bearing capita**, finance dominated relations
2. Additional Channels: Technical and institutitonal changes:
   - Financial Liberalization and deregulation (liberalization of cross-country flows of capital; getting rid of national and global constraints on financial transactions
   - Financial Innovations – Securitization (loans are bundled and sold again and again globally); capital markets; shadow banking; algorythm; block chains;
   - Governance structure: From public control and regulation to private club financial governance based on models of ‚efficient market hypothesis‘

   These Changes – Restructuring of Capitalism from

   Selling and Buying of commodities to

   lending and borrowing to create profits independent of commodity value

   New economic demand Engine

4. Politics of Private Debt and Inclusion of the Poor

1900: Money of the Wealthy (railroads, oil, whisky) as in the first financialisation (1850-1929) (Hilferding – Finance Capital; **Marx** Ch. 25 1846, 1851 Credit and Fictitious Capital in Indian Company trade; China – loans against securities)

1980s: Financialization: Money of the poor is used (Aglietta) in the 2nd period of financialisation (1971-today)

Poor and minorities integrated into the circulation of money as interest bearing capital

Financial inclusion – selling the illusion of ***economic democracy – IMF, World Bank, Goldman Sachs*** (Lavinas, p. 508)

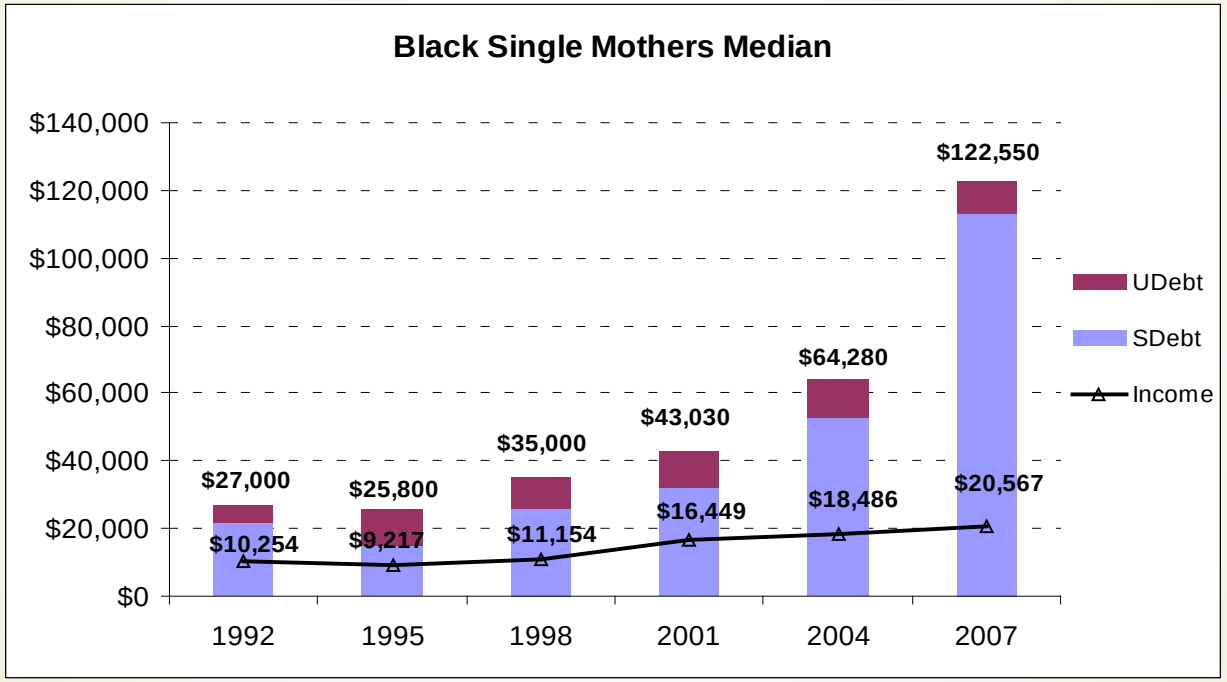
Private Debt and the ‚Debt Peonage System‘

- Reduction of public services; **Privatization**
- Care Economy became intertwined with the global financial system
- ***Financialization of Everyday Life*** (Paul Langley) – take out loans instead of public services; individual credit – debtor relations
- Banks expanding access to credit for low-income families
  - **US** subprime housing market, credit cards, auto loans, student loans
  - **Brazil** – Continuous Cash Benefits (Lena Lavinas, 2018) through the state

Novelty: Connection between private credit and automatic collateral for banks – continuous income stream is indispensible for securing new loans

***US subprime: ‚House became casino for* the poor‘**

Graph Three: Debt-Peonage System (Montgomerie/Young 2010)



5. State as Debt Faciliator - Demand Engine

- US- Conservative strategy of home ownership (George W. Bush)
- ***Advocacy: ‚home prices will only go up‘***
- Documentation for loan eligibility for client for home ownership reduced – **NINJA (No income, no job, no assets**)
- ***Novelty in Selling Morgages: I***t becomes IBC when a portfolio of mortgages is bundled up into assets and sold, often combined with other sets of assets, and sold again – trading and selling of securities
  - Fictitious capital is sold again and again in expectation of a surplus even **though the origins of this surplus do not lie in the exchange.**
- ***Collateral of equity in the home of the poor is indispensible for securing new loans.***
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5. State Power: Disciplinary Coercive Power

- Rise of very profitable debt collection industry as a result of financial crisis. The Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005 ---- what a misnomer
  - Bankcruptcy laws are **more pro-creditor and pro-capital**
  - Burden of debt and bankruptcy shifted from capital to individuals
    - Claimants have to go through a ‚means test' to file
    - Greatly increased the cost of filing for bankruptcy
    - Debtors have to take credit counseling course prior to filing
- **Criminalization and incarceration** of debtors – in order to enforce private credit obligations.
- **According to Dept of Labor Statistics: employment in the debt-collection industry is expected to grow more rapidly than any other occupation (Roberts 2014)**

6. Inequality Wealth Gap

Financialisation has led to Stratification and Functional Income Inequality in the US labor Market (Arestis et al., 2013)

1. Huge wage premiums for those working in this system –mostly white men; salaries paid as share option

   White and Hispanic men have enjoyed a disproportionate share of this wage premium at the expense of black men, black women, white women and Hispanic women (Arestis et al., 2013).

2. At the same time, increasing debt will deepen economic vulnerability of the poor and lead to constant renegotiation of debt.
3. Financial Inclusion has meant more financial insecurity, permanently linking poor to the global financial markets
4. Expansion of fictitious capital at the expense of the real economy (Ben Fine 2018)
5. Thomas Piketty: The rate of return on capital exceeds the rate of growth and income

Is this System sustainable?

Thank you!