

VALUE, MONEY, PROFIT, AND CAPITAL TODAY

Edited by Rémy Herrera

RESEARCH IN
POLITICAL ECONOMY

VOLUME 39

VALUE, MONEY, PROFIT, AND
CAPITAL TODAY

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EDITED BY

RÉMY HERRERA

National Center of the Scientific Research (CNRS), France



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ABOUT THE EDITOR

Rémy Herrera (France) is an economist, researcher at the National Center of Scientific Research (CNRS). Graduated from a Business School (*École supérieure de Commerce*, 1988), the Institute of Political Studies (*Institut d'Études politiques*, 1990), and the University of Paris 1 *Panthéon-Sorbonne* (Master of Philosophy, 1994; PhD in Economics, 1996), he supervises students in PhD at the *Centre d'Économie de la Sorbonne*. He started working in the financial audit (1988), at the OECD (1992–1997) and for the World Bank (1999–2000). He was member of the CNRS National Committee (2000–2005) and of the Scientific Council of Paris 1 (2001–2006). He taught at various universities in France (especially at Paris 1 [1993–2013]) and abroad, including at the Universities of Aleppo (1998), Cairo (1999–2000), Vitoria in Brazil (2006), Complutense in Madrid (2009–2013), and Lingnan in Hong Kong (2018). He was adviser to research programs at the Chubu University (Nagoya). He is or has been associated with: the Third World Forum (Dakar), the Union of Radical Political Economics (New York), the International Initiative for Promoting Political Economics (London), the *Sociedad de Economía Política Latinoamericana* (São Paulo), and the *Asociación Nacional de Economistas de Cuba* (Havana). He was the World Forum of Alternatives (WFA)'s Executive Secretary. He is also member of the Global University for Sustainability and of the International Crisis Observatory. He organizes the “Marx in the Twenty-First Century” seminar at La Sorbonne. He regularly works with the Centre Europe-Tiers Monde (Geneva), supporting it in its advisory role to the Human Rights Council of the United Nations.

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ABOUT THE CONTRIBUTORS

Joaquín Arriola (Spain) is a full Professor in the Department of Applied Economics at the University of the Basque Country (Spain). He has published various books, among them: *Los Nuevos Países Industrializados* (IEPALA, Madrid, 1988), *Internacionalismo y Movimiento Obrero – El eje Norte-Sur* (HOAC, Madrid, 1992; with P. Waterman), or *La Globalización o la razón del más fuerte* (*Asociación Paz y Solidaridad de Asturias, Oviedo, 2011*).

Juan Barredo-Zuriarrain (Spain) is an Assistant Professor in the Department of Applied Economics at the University of the Basque Country (Spain). He is also associate researcher at the Grenoble Research Center in Economics (University of Grenoble Alpes, France). He has published many articles in scientific reviews, including *Structural Change and Economic Dynamics* or *New Political Economy*.

William Paul Cockshott (United Kingdom) is a Scottish computer scientist and Marxist political economist. As a reader at the University of Glasgow, he has a BA in economics from Manchester University (1974), an MSc from Heriot Watt University (1976), and a PhD from University of Edinburgh (1982). He made significant contributions in computer science, as well as in economics, especially in the multidisciplinary area of economic computability. As the co-author of the book *Towards a New Socialism* (written with A. Cottrell), he advocates the use of cybernetics to build an efficient and democratic planning for a moneyless socialist economy.

Guido De Marco (Italy) is an independent researcher for the Association for the Redistribution of Labor in Rome. He holds a Master in Economics and was a Research Fellow of the Center for Economic Policy Analysis, New School for Social Research, as well as a PhD candidate at the New School for Social Research in 2001. He published “Fred Moseley, Money and Totality: A Macro-Monetary Interpretation of Marx’s Logic in Capital and the End of the ‘Transformation Problem’” (*Science & Society*), “A Critique of Moseley’s *Money and Totality*” (*World Review of Political Economy*), and “Marx’s General Rate of Profit: How Turnover time, Accumulation and Rate of Surplus Value Affect the Formation of Prices of Production” (*Capital & Class*, forthcoming). His book, *Marx and the Business*, is currently under review.

Weinan Ding (China). She is a PhD student in economics at the School of Marxism of the Tsinghua University in Beijing, People’s Republic of China. Her PhD dissertation deals with the evolution of the rate of profit in France in the

long period. Her main research direction is Marxist economics. The profit rate and long wave theory are subjects of her ongoing research.

Demba Moussa Dembele (Senegal), economist-researcher, is member of the Council for the Development of Social Science Research in Africa (CODESRIA) and the Third World Forum (FTM). He holds a PhD in Financial Economics from the Pierre et Marie Curie University, Paris; MBA in international trade and finance from the American University (Washington D.C.). He was a former research associate at the Institute of International Finance (Washington D.C.). Currently, he is the Chair of the African Association for Research and Cooperation in Support of Endogenous Development (ARCADE).

Zhixuan Feng (China) is a Professor at the School of Economics and Management of the Wuhan University. He received his PhD in Economics from the School of Economics at the Renmin University of China in 2016. His current research interests are underdevelopment theory, mathematical political economy, and macroeconomics. He is also a specialist in input–output analysis.

Bangxi Li (China) is an Associate Professor (tenure) of political economy at the Institute of Economics, School of Social Sciences, of the Tsinghua University, Beijing, P.R. of China. His research interests include mathematical political economy, post-Keynesian economics, input–output analysis, and the Chinese economy. His representative publication is entitled *Linear Theory of Fixed Capital and China's Economy: Marx, Sraffa and Okishio* (Springer, 2017).

Zhiming Long (China), economist, is an Associate Professor at the School of Marxism at the Tsinghua University in Beijing. He supervises PhD since 2017 in this same institution. He is chair professor of Tang Scholar since 2018. He has a PhD in Economics from the University of Paris 1, as well as two Master's degrees in economics from the University of Paris 1 and University of Paris 10. He is a specialist in growth theory, statistics, and (time-series analysis) econometrics.

Rosa Maria Marques (Brazil). Graduated from the University of Rio Grande do Sul (1974), the PUC-SP or *Pontificia Universidade Católica de São Paulo* (1985), and the *Getúlio Vargas* Foundation (1996, PhD), with post-doctorates at the Universities of Grenoble (France) and of Buenos Aires (Argentina), she is a titular Professor in Economics at the PUC-SP. She is the former president of the Brazilian Society of Political Economy, member of the Brazilian Budget and Finance Commission of the National Council of Health, and President of the Brazilian Association of Health Economics.

Juan Pablo Mateo (Spain) is currently Associate Professor in the Department of Applied Economics, Structure & History, of the Complutense University of Madrid, and visiting scholar at the Institute for Research on World-Systems, in the University of California, Riverside (US). His research is focused on the theory of crisis, the tendency of the profit rate, and the core/periphery relation within the unequal development of world capitalism. His last book is *The theory of crisis and the Great Recession in Spain* (Palgrave, 2019), with articles in the Review of

Radical Political Economics, Capital & Class, Science & Society, and International Review of Applied Economics, among others.

Ernesto Molina Molina (Cuba), doctor in Economic Sciences, is a member of Merit of the Academy of Sciences of Cuba. He is titular Professor of political economy, history of economic thought and economic theory at the Higher Institute of International Relations (*Instituto Superior de Relaciones Internacionales Raúl Roa García*). He is also the President of the Scientific Society of Economic Thought at the National Association of Economists and Accountants of Cuba (*Asociación Nacional de Economistas y Contadores de Cuba*).

Gustavo Moura de Cavalcanti Mello (Brazil), doctor in Sociology from the *Universidade de São Paulo*, post-doctorate in Sociology from the UNICAMP and in Economics from the *Universidade de São Paulo*, is a Professor of the Department of Economics and the Postgraduate Programme of Social Policy at the *Universidade Federal do Espírito Santo* (UFES) and a researcher at the National Council for Scientific and Technological Development (CNPq).

Paulo Nakatani (Brazil). As a graduate in economics from the *Universities of Paraná* (1971), *Paris 10 Nanterre* (1981), *Picardie* (1982, doctorate), and *Paris 13* (2002, post-doctorate), he is a titular Professor in the Economics department and the Graduate Studies in Social Policy from the *Universidade Federal do Espírito Santo*, and collaborates with MST's Florestan Fernandes national school. He is the member of the editorial board of the review of the Brazilian Society of Political Economy, of which he was President, and member of the International Observatory of Crises.

Christian Palloix (France) is a Professor emeritus at the University of Picardie Jules Verne, Amiens (France). As a teacher in Economics, he was successively appointed at the Universities of Grenoble (1963–1977), Alger (1977–1978), Oran (1978–1981), and Amiens (1981–2005). As a researcher, he participated in the research centers of IREP-Grenoble (1967–1981), CRMSI-Paris (1981–1986), CRIISEA-Amiens (1987–2021, including as Director), LEFMI-Amiens (since 2021). His research focuses on globalization and multinational corporations, industrial economics and productive systems, labor economics, and development (notably Algeria).

Alfredo Saad-Filho (Brazil) is a Professor of Political Economy and International Development at King's College, London. Previously, he was a Professor at SOAS University of London, and senior economic affairs officer at the United Nations Conference on Trade and Development (UNCTAD). He has published extensively on neoliberalism, the political economy of development, industrial policy, climate adaptation, democracy, alternative economic policies, Latin America, inflation and stabilization, and the labor theory of value and its applications.

Maurício de Souza Sabadini (Brazil), doctor in economics from the University of Paris 1 *Panthéon-Sorbonne*, is a Professor at the Department of Economics and the Postgraduate Programme of Social Policy at the Federal University of

Espírito Santo (UFES). He is a researcher at the National Council for Scientific and Technological Development (CNPq) and Director (2016–2018), then president (2018–2020) of the *Sociedade Brasileira de Economia Política*.

Fabien Trémeau (France) is currently a PhD student at the University of Paris 1 *Panthéon-Sorbonne*. He Graduated in philosophy and sociology from the University of Paris 4 Sorbonne and from the Institute of European Studies in Paris. His research focuses on the value and the commodity fetishism in Marx's work. As a publisher, he is also the Founder and Director of the *Éditions Critiques*.

PRESENTATION

The new volume of *Research in Political Economy* that we deliver to the reader is devoted to the themes of value, money, profit, and capital within the theoretical and empirical framework of contemporary Marxism. To think about and discuss them, we brought together 18 economists – in addition to the author of these lines – from eight countries and four continents; economists who are, for some, experienced and internationally renowned personalities, and for others, young researchers starting their careers, but all working in their own way to broaden and deepen Marxism in order to apply its powerful methods to the interpretation and, above all, the transformation of the present world.

Even if we had to distinguish these four concepts of value, money, profit, and capital to better structure the exposition of the 13 contributions of the present volume, they are in fact narrowly related to each other in the analyzes provided by Marxism and its various currents. Let us briefly and basically recall here, in this presentation, how these distinct but linked notions are logically articulated by Marx and how they are dialectically chained in order to constitute the Marxian general theory of capitalist accumulation.

First, value: The law of value not only has the function of regulating exchanges but also commodity production and the reproduction of the capitalist system itself, based on private property. According to Marx, labor, as an expense of human power, is the source of value, determined by the labor time socially necessary for production. The commodity's dual character defines it, as we know, by both its use value, insofar as it has a social utility and satisfies human needs, and its exchange value, quantitative relation in which use values are exchanged for each other. Value in itself is the principle of this relation, lying on the labor crystallized in commodities, i.e., on what is common to all of them and allows them to be compared. Thus, the very substance of value resides in abstract labor, which is undifferentiated and noncomplex.

Secondly, money: The exchange relation involves money. If the commodity asserts itself as use value and in relation to another commodity as exchange value, the latter remains expressed with respect to the use value proper to this other good. Money brings commodities into relation under a common expression representing them as values, independently of the use values. The labor contained in them manifests itself as abstract labor. Extending the concept of value to the labor-power commodity leads to that of surplus value, key to the theory of exploitation. Observed in the fact of the capitalist's enrichment, surplus value is, as is known, an excess value produced by the wage earner, once reproduced the value of labor power, equivalent to salary. Unable to spring from an identity of value with itself, it arises from the process of production. Invisibilized under the

appearance of free and equal exchanges of labor, it can only be identified at the level of global social labor because of the impossible distinction between the labor times devoted to the reproduction of value or to the production of value beyond the equivalent. The relation of exploitation, through the purchase of the use of labor power by the capitalist, is a monetary one. As value, the commodity is money, and its price is value in money form, fixed in its relation to a special "object," both commodity and non-commodity, which embodies labor in general and serves as general equivalent.

Thirdly, profit: One of the "phenomenal" forms of the surplus value is – with money's interest, in particular – profit. As capitalism developed, a mode of production completely enclosed in the logic of money for money was propelled. The desire grew among capitalists to substitute commodities with money which, from a medium in exchanges, became a purpose in itself. Money acquired the property of functioning as capital, whose movement is only intended for profit. For Marx, profit is not a simple difference between income and expenditure, but results from the social organization of capitalism which polarizes the distribution of property rights. It is the form taken by the value form of the surplus labor, that is, the surplus value produced by the workers and extorted from them, according to the degree of exploitation of the labor power. Profit is a transformed form of surplus value, from which come all the income of the owners of capital. As an excess in money of commodity value over the production costs, it has a monetary form, implying the realization of commodities. Always for Marx, the rate of profit, or quotient of the surplus value to total advanced capital, is subject to laws, for some, spatial (intersectorial equalization under the effect of competition), for others, temporal (downward trend, stemming from a rising value composition of capital). Profit is born in the process of production, where surplus value is created, but is realized only in the process of circulation, from which seem to be drawn its commercial and banking parts, even more mystified forms of the "new value" than industrial profit. Fetishism in capitalist relations is such that profit seems to be generated from trade or even money itself. In the movement of capital, the extortion of social labor is concealed – just like the increasingly parasitic distribution of the conflictual fractions of profit.

And fourth, capital: Marx's determination of the concept of surplus value, which passes through the technical distinction between constant capital and variable capital, as sums of money, opens the way to the analysis of capital. The latter is the specific social relation of capitalist economy according to which value as valorization process is enhanced through the exploitation of labor. The exchange $M - C$, where the goals of use value and exchange value intertwine, can become a capitalist relationship $M - C - M'$, where the accumulation of abstract wealth predominates. This social relation of capital is characterized by an inequality, because money is transformed into a commodity only with a view to the production of a higher quantity of value. As we have said, for Marx, a single commodity is indeed capable of producing a greater quantity of value; it is the labor power, which can produce more than its own value, since it daily works longer than the time required for its own production and thus contributes to capital's valorization. So we understand that capital does not exist without

money. The term capital therefore also designates value itself in its process of self-valorization.

The four concepts of value, money, profit, and capital under consideration, being at the heart of all economic thought and its various problematics, constitute by this very fact major intellectual battlefields where the Marxist theoreticians confront the many representatives of the mainstream in economics. As we unfortunately know too well, the striking dominance of the neoclassical mainstream is overwhelming today in academic institutions and their ideological apparatuses. Nevertheless, this hegemony, which is exercised to the detriment of all economic heterodoxies – and in the forefront of them Marxism – has in reality nothing of a scientific superiority, since the problems that neoclassicals encounter are numerous, serious, and so to speak insoluble when considering each of the four concepts we have chosen to examine. Let's take a closer look.

Contrary to the proponents of labor value who establish a distinction between value and price, these two notions are confused (“value-price”) for the neoclassicals. The theory of labor value certainly poses serious difficulties, in particular those of the heterogeneity of forms of labor not always being determined solely by time, of the existence of capital which represents past labor, of the taking into account of productive labor alone in the value's measure, or of the regulation of profits according to principles different from those of wages. To try to solve this last problem, linked to the transformation of values into prices, the neoclassicals decide to let the market take its course and do its thing, which led them not only to reject the labor value, but also to ignore the issue of value. The latter, for the mainstream, depends on the utility of the good and on the satisfaction provided to the one who holds this good. It then results from the confrontation of supply and demand, but, no longer distinguishing itself from the price, the neoclassicals cannot say anything about it. In this respect, it is symptomatic that Gérard Debreu, who founded with Kenneth Arrow and others the modern version of the general equilibrium theory, so to speak no longer used the term “value” beyond the introduction of his *Theory of Value* (1959).

Simultaneously a unit of account, an intermediary in exchanges and a means of reserve, money is accepted by all. Its property is to serve as a link between individuals, which supposes trust between them and with regard to the institution issuing it. However, a phenomenon such as trust is a matter of inter-individual relations, not of the behavior of agents taken in isolation; and the legal guarantee required of the State for its issuance and circulation in society requires the action of a network of institutions that cannot be reduced to individual choices. Money is a social and political link that connects individuals to each other and to a community in which they can identify. It comes that taking trust into account is a huge problem for the neoclassicals' methodological individualism giving primacy to the individual over society. It should be noted, by the way, that there is no money in their theoretical reference, the Arrow-Debreu model. Money is not a “neuter” tool, as the mainstream claims or as the expression “to make money work” suggests, forgetting that only human beings work. Money is not natural. It is a complex, contradictory social reality – just as inflation in an economy reflects the intensity of the class struggle inside that country. Money is power, an

attribute of national sovereignty. Its common appropriation by the peoples conditions the control of their collective future.

Whereas, for Marx, as we have seen, all the value created finds its origin in labor and nowhere else, the neoclassicals, on the contrary, support the ideas that it also comes from capital, defined with them as an aggregate representing the whole inputs (with the notable exception of the labor “factor”) integrated in a “production function,” and that this capital “factor” is remunerated up to its contribution to production through profit, the “normal” counterpart of this created value. The neoclassicals nevertheless come up against a logical problem related to the definition of profit. Since the latter is conceived, for them, as the difference between income and expenses, and that these same expenditures are supposed to include the remuneration of all the factors that contribute to production, then such a difference can no longer remunerate anything more, thus certainly not capital. Hence a mainstream theory that leads to consider that profit is zero and this permanently or, in the best case, momentarily. Yet, zero profit is obviously not going to be very pleasant to hear or easy to accept by the capitalist entrepreneur. Anyway, the fact is that the neoclassicals do not provide a theoretical analysis of the capitalist entrepreneur either.

If, following Marx, the term “capital” refers to the specific type of exploitation of the capitalist system and designates a social relationship between the owners of the means of production and the wage earners, it is conceived very differently among the neoclassicals, as we have just seen. However, a big problem is attached to this aggregation method, because capital as a factor of production is not a single good, but a heterogeneous set. Here, the solution they propose is not one, since it consists in evaluating, thanks to a system of prices, each of the goods that make up this capital, then in adding the different numbers obtained so as to obtain a sum representative of the “capital.” And this is where the problem lies, because this unique number corresponds to a monetary “value,” and not to a physical entity, whereas the production function is supposed to represent only technical relations between the arguments that it integrates. The neoclassicals are consequently faced with the impossibility of calculating the prices of the production factors, including that of capital, by deriving them from the factorial marginal productivities, while determining the latter presupposes that their prices are known, including for capital.

In view of such difficulties encountered by the neoclassical mainstream, insurmountable by the methodologies it deploys, we understand that their current has no lesson in scientificity to give to Marxism. It is even the latter which, in our opinion, constitutes the most powerful scientific instrument of analysis today at our disposal to account for the complex evolutions of the world and above all to envisage and organize the social transformations aimed at emancipating the workers. This is what we will collectively strive to show in the contributions that follow. These cover a vast spectrum of current topics relating to capitalist globalization, going from changes in the monetary policy’s instruments and objectives, the rise of the credit system and the mutations of money, transnational corporations and their strategic behavior in the competition specific to oligopolies, relocations and the decomposition of value chains to produce ever more

segments in low-wage countries, trends in profit rates or the recent forms taken by unequal exchange, up to the current crisis of capital, financialization, fictitious capital and the accelerating fictitious movements of capital (including the credit system and money capital), the role of crypto-currencies, the possibilities of monetary regionalization, and, beyond all that, the opportunities for post-capitalist alternatives that are opening up before us.

Rémy Herrera, January 23, 2023

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PART I

VALUE TODAY

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MONEY, CREDIT, AND FICTITIOUS CAPITAL IN MARX'S THEORY OF VALUE

Alfredo Saad-Filho

ABSTRACT

This chapter offers a Marxist analysis of forms of value in capitalist economies, and their implications for accumulation, (in)stability, and economic policy. The study focuses on seven key categories: money, capital, credit, interest-bearing capital, fictitious capital, the domestic public debt, and macroeconomic management through monetary and fiscal policy. It argues, first, that there is an intrinsic tendency toward the growing complexity of value forms in capitalism. Its examination helps to locate the contradictions of accumulation at increasingly complex levels, and the emergence of specifically financial forms of instability. Second, state management of accumulation through fiscal and monetary policy and the domestic public debt are essential for the stabilization of the economy, but their effectiveness remains limited. Third, monetary and financial structures, their relationship with production, and capacity to stretch, transform, and (de)stabilize accumulation are historically and institutionally specific. Fourth, public policy can influence the level and composition of output and employment, and the distributional and other outcomes of accumulation. Examination of the capital relation from this angle can shed light upon the drivers and modalities of accumulation of real and financial assets, and the imperatives, forms, and limitations of state regulation of accumulation.

Keywords: Value; money; credit; fictitious capital; monetary policy; domestic public debt

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INTRODUCTION

This chapter offers a systematic analysis of the emergence of complex forms of value in capitalist economies from the point of view of Marx's theory of value. The work focuses on the following concepts: money, capital, credit, interest-bearing capital (IBC), fictitious capital, the domestic public debt (DPD), and macroeconomic management through monetary and fiscal policy. These concepts have been insufficiently examined in the Marxian literature.¹ Their analysis can offer insights supporting heterodox critiques of contemporary (financialized) capitalism, its fragilities and crises, and the role and limitations of economic policy.

The argument is developed in seven sections. This introduction is the first. The second offers a brief account of Marx's theory of money, and reviews the distinction between the circulation of money as money (Type 1) and the circulation of money as capital (Type 2).² The third explains IBC, the credit system, and the determination of the interest rate. This account of credit relations shows that dualist analyses separating "real production" from an ontologically distinct "financial sphere" are misguided. Production and finance are integrated across institutions, markets, assets, regulations, and policies; however, their interaction can lead to destabilizing outcomes. The fourth explains the emergence of fictitious capital, the capital markets, and the financial system. This section also suggests that there is an intrinsic (structural) tendency toward financialization in capitalism.³ The fifth examines three modalities of state finance and their implications for accumulation, financial development, and the circulation and appropriation of value: taxation, monetization of deficits, and the DPD. The sixth reviews the necessity of state management of the accumulation of capital, the scope for fiscal and monetary policy, and their macroeconomic consequences, focusing on the DPD. This section argues that fiscal and monetary policy and the operation of the financial institutions can create liquid resources and shift them across distinct modalities of circulation, potentially changing the structure and outcomes of accumulation. The DPD is one of the most influential tools in this context. The final section summarizes the chapter and offers the relevant conclusions.

Identification of the key categories, tendencies, countertendencies, and policies concerning financial accumulation does not imply that the circuits of production, money, and finance can be examined purely logically. However, historical processes cannot be foregrounded at this stage both because of space limitations and because this chapter does not investigate specific monetary instruments, financial institutions, crises, or state policies. It merely seeks to outline a consistent framework for their examination drawing upon Marx's value categories. The framework developed below remains to be integrated into a broader understanding of the dynamics of accumulation in particular places and times. Despite these limitations, this chapter shows that Marx's value theory can be usefully deployed to locate the source of profit, interest, rent, and other sources of income. It can also suggest why and how capital accumulation takes increasingly financialized forms, how these must be accompanied by specific modalities of

regulation, the limits of such regulation, and the changes in the forms of crisis under financialized capitalism.

THE CIRCULATION OF MONEY

In the Marxian literature, money is the measure of value and means of circulation (or means of exchange), and it performs the functions of means of payment, store of value, and international money. Several instruments can perform one or more of these functions, among them cash, debit and credit cards, certificates of deposit, treasury bills, and foreign currency. In practice, these instruments are arranged in a hierarchy with “money proper” at its pinnacle, as the only instrument that can serve across all functions, be exchanged for any asset, and settle all transactions.⁴

Drawing upon his reading of Tooke, Marx distinguishes between the circulation of *money as money* (Circulation Type 1) and *money as capital* (Circulation Type 2).⁵ Money circulates as money when it is spent with no expectation of profit or even return. This includes unrequited transfers (e.g., gifts, tax payments, or the repayment of consumer loans) as well as the expenditure of revenue to buy goods and services for unproductive consumption, which will erase their use value and, with it, their value. This type of expenditure can be represented by simple commodity exchange, $C - M - C$, where C stands for commodities with equal value and different use values, and M is money.

Money circulates as capital when it is advanced with the expectation of profit, that is, it aims either to produce surplus value, or to capture it in exchange (Marx, 1981, p. 575). The creation of value can be represented by the circuit of industrial capital,

$$M - C < \overset{MP}{\underset{LP}{P}} \dots P \dots C' - M'$$

where MP is means of production (land, buildings, machines, unprocessed goods, and so on), LP is labor power, $\dots P \dots$ is production, and $M' > M$. The capture of value in exchange can be represented by the circuit of IBC: $M - M'$ (see section “The Credit System”).

When a capitalist purchases LP and MP, this is Circulation Type 2. However, while the purchase of MP preserves money-capital, as it realizes the advances of the (presumably capitalist) suppliers, the payment of wages destroys money-capital, as those resources become money as money in the hands of the workers (i.e., these funds shift into Circulation Type 1). When the workers spend their wages, they may realize advances of money-capital (e.g., if they buy products of capital at the supermarket, or repay their loans with commercial banks), or they might keep those resources in Circulation Type 1 (if they purchase commodities at the local farmers’ market or pay their income taxes). Similarly, if it is assumed that the state neither extracts surplus value directly nor seeks to valorize its advances, public spending is unproductive and involves only money as money. This includes, in the first instance, purchases of consumables or

consultancy services, infrastructure building and maintenance, welfare transfers, salaries, pensions, and the service of the DPD (see section “Public Finance and the DPD”).

THE CREDIT SYSTEM

For Marx, IBC is credit extended to industrial, merchant, or money-dealing capitalist borrowers by specialized capitalist lenders, especially commercial, investment, and savings banks (the credit system). They provide money-capital for Circulation Type 2 (represented by the circuit $M - M'$), in order to create surplus value or to accelerate its realization (Marx, 1981, pp. 461, 477, 515–516). The loans must be repaid, plus interest, out of surplus value extracted in production or captured in exchange.⁶ When the credit system supplies IBC, it deals in money as a “commodity *sui generis*,”⁷ with the use value of self-expansion, i.e., its employment can facilitate the production of value. It follows that, in order to use IBC, one must be a capitalist rather than merely a borrower (Marx, 1981, p. 743). In contrast, households, rentiers, and the state can fund their unproductive expenditures (Circulation Type 1) with simple credit. Simple credit can be advanced by a wide variety of financial institutions, and the loans must be repaid out of revenue (wages, rent, or taxes; see Hudson, 2010).

The interest rate is the unit price of borrowed money-capital (Marx, 1981, pp. 687, 714). The market price of produced commodities is regulated by the law of value: it is rooted in the labor time socially necessary in production, and constrained by real wages, technologies, input costs, turnover times, supply and demand, and the pressure toward the intersectoral equalization of profit rates. In contrast, the price of IBC, a commodity that exists only in the sphere of exchange, is “irrational” or “accidental”: interest is a share of the surplus value produced with the support of borrowed capital, and the interest rate is determined contingently by the regulatory, institutional and market relationships between lenders and borrowers. There is neither a “natural” rate of interest nor an economic law governing its movements.⁸ Finally, the payment of interest leaves behind a residual that Marx calls profit of enterprise, which remunerates industrial and commercial capital.

IBC emerges from several sources. They include the pooling of hoards into the credit system, especially money as money held by workers and the state, and money-capital owned by industrial or commercial capitalists. These hoards accrue for several reasons, for example, lags between receipts and payments, for precaution, and to fund investment.⁹ It follows that IBC is properly located at the level of the economy as a whole, rather than emerging from individual transactions between savers and investors or between lenders and borrowers, mediated by the banks. First, IBC draws upon the structural function of the loans in social reproduction, rather than the (infinitely diverse, possibly shifting, sometimes unrealized, and even fraudulent) motives of individual lenders and borrowers. Second, the outcome of each circuit (whether $M - C - M'$ or $M - M'$) depends upon the rhythm of accumulation at the social level (Marx, 1981, pp. 566–567).

Third, IBC can speed up commodity circulation and reduce turnover times; support more ambitious investments, technological advancements, and mergers and acquisitions than would be possible otherwise; and integrate all circuits of capital, as the credit system draws resources from everywhere and allocates IBC by socially determined criteria including profitability, risk, interest rates, policy guidance, and economic fashions or speculative frenzies.¹⁰

The expansion of IBC turns the credit system into the common source of money-capital for the bourgeoisie. The pool of IBC is managed by a cohort of professionals working on behalf of capital in general.¹¹ In IBC:

... [a]ll particular forms of capital, arising from its investment in particular spheres of production or circulation, are obliterated (...). [Capital] exists in the undifferentiated, self-identical form of independent value, of money (...). Here capital really does emerge, in the pressure of its demand and supply, as *the common capital of the class* (...). [It appears] as a concentrated and organized mass, placed under the control of the bankers as representatives of the social capital (...). The result is that, as far as the form of demand goes, capital for loan is faced with the entire weight of a class, as far as supply goes, it itself appears *en masse* as loan capital.¹²

Through its control of IBC, the credit system regulates the flows of resources in the economy, determines the level and composition of investment, output, employment, and trade, and helps to equalize as well as raise the general rate of profit. Even though the resources newly created by IBC are the property of specific capitalists, they come into being only because the social conditions of production have been transformed by IBC. Now, capital functions as social property and investment becomes independent of individual prior savings.¹³ By the same token, interest is no longer an individual overhead: it becomes part of the general costs of production, an opportunity cost for every capital, and the regulator of prices of production (Saad-Filho, 2002, chapter 8). In doing this, the credit system “abolishes the private character of capital (...) within the confines of the capitalist mode of production itself” (Marx, 1981, pp. 567, 742).

FICTITIOUS CAPITAL AND THE FINANCIAL SYSTEM

Every investment brings an expected flow of returns that can take the form of profit, rent, dividends, interest, or other payments. In turn, any regular value flow can be capitalized, potentially giving rise to a (possibly immaterial) income-generating asset that can be represented by a tradable title of ownership. Marx calls these paper claims to (surplus) value yet to be produced *fictitious capital*.¹⁴

The capital that they represent is “fictitious” not because it is imagined, but because these claims replicate capital already deployed elsewhere, embody values already destroyed, or symbolize nontransferable or even nonexistent assets. These paper titles are only indirectly associated with real accumulation: they can be created regardless of the underlying assets or the constraints of value-production, and their returns depend on claims on (surplus) value to be produced elsewhere. Finally, they emerge through a reversal of the law of value, by which the returns

“create” the income-generating assets, rather than vice-versa (De Brunhoff, 1998, p. 183).

Fictitious capital can take several forms, for example, shares, debt certificates, bonds, and public securities and, at a further remove (often as claims on claims), future contracts, collateralized debt obligations (CDOs), and a myriad of derivatives.¹⁵ Two examples offer a template for the examination of most varieties of fictitious capital: shares and public securities.

Suppose, first, that a firm issues shares through an Initial Public Offering (IPO). The investors advance their money-capital to acquire tradable titles of ownership over the firm’s capital (Circulation Type 2). At this point, the firm’s capital seems to exist twice. It exists, first, as land, buildings, machines, technologies, inventories, brands, and so on, that, in combination with labor, can generate a flow of output and a stream of profits. Second, it *also* seems to exist as shares, with the peculiarity that, unless they have enough voting rights, the shareholders do not control the firm’s real assets and cannot dispose of them: the shares are merely tradable claims on the firm’s future profits, part of which will be distributed as dividends (Circulation Type 1). Correspondingly, the market value of the firm, represented by its share price, expresses the value of its real assets as well as its expected profits, which may fluctuate independently from each other and from the firm’s output (Marx, 1981, pp. 597, 608–609; see also Hilferding, 1910, chapter 7).

The second case involves public securities (see section “Public Finance and the DPD”). In the simplest case, the state can fund its outlays, in part, by selling interest-bearing titles to banks and other capitalists.¹⁶ The money-capital exchanged for public securities (Circulation Type 2) is destroyed, as it becomes money as money to be spent by the state (Circulation Type 1). Marx stresses that, in contrast with shares, that generally represent productive assets, government securities do not represent any assets in particular: they are merely the ghostly imprint of public expenditures past, of whatever nature, and they confirm the holder’s claim on future social output through the taxes to be collected by the state. In the meantime, the buyers’ money-capital is transformed into paper assets that can be traded in secondary markets. The market price of these securities is determined by the capitalized value of the expected payments to their holders:

[Public securities] are capital only for the person who has bought them (...). They are not capital in themselves (...), [but] simply property titles which give the holder a claim to future surplus-value (...). The state has to pay its creditors a certain sum of interest each year for the capital it borrows. In this case the creditor cannot recall his capital (...), but can only sell the (...) title of ownership. The capital itself has been consumed, spent by the state. It no longer exists (...). [T]he capital from which the state’s payment is taken as deriving, as interest, is illusory and fictitious. It is not only that the sum that was lent to the state no longer has any kind of existence. It was never designed to be spent as capital, to be invested, and yet only by being invested as capital could it have been made into a self-maintaining value. As far as the original creditor (...) is concerned, the share of the annual taxation he receives represents interest on his capital.¹⁷