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Comment on Miguel Ramirez's paper, 'Credit, Indebtedness and Speculation in Marx's Political Economy'

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I. Introduction

The 2008 global capitalist crisis and its financial intricacies has shattered the Mainstream dictums of efficient market hypothesis and the benevolent role of finance and has regenerated interest in the 'underworld' theories of Marx and Marxist Political Economy. This return to Marx has taken place within a broader resurgence of interest in Heterodox economic approaches. However, this much needed resurgence is not without problems.

A first one is that despite their obvious failure Mainstream Economics, instead of losing, they increased their grip on the economics profession and academia. The reasons for this abnormal dominance are manifold. A fundamental one is that the dominant classes have not yet found a suitable alternative and that the depth of economic turbulence does not leave them much room for economic concessions to the subaltern classes. A second reason might be that the Heterodox assault against Mainstream economics has, too a great extent, mis-specified its target. The brunt of the attack is on a largely fictitious Neoliberalism and has missed that the actual current Mainstream is a fusion of mild Neoliberalism with conservative New Keynesianism – as exemplified in the New Macroeconomic Consensus. Hence, many of the attacks on the Mainstream miss their target. Moreover, they make false alliances with well-publicised Keynesian and New Keynesian approaches (P. Krugman and J. Stiglitz being the more prominent of them) that blunt both the Heterodox critique of the Mainstream and its ability to offer an alternative.

It is within this framework that Ramirez's article can be understood and situated. In this article ('Credit, Indebtedness and Speculation in Marx's Political Economy'), as in other similar papers (e.g. Ramirez, 2014), he advances a very meticulous reading of Marx's analysis of capitalism's financial system. He argues that, despite the fragmented nature of Marx's writings on this issue, they offer a coherent and insightful framework for grasping the modus operandi of capitalism's financial system. Ramirez accurately points out that for Marx the financial system and its main attributes (credit, debt, speculation) play a double and contradictory role. On the one hand, it facilitates the expanded reproduction of capital. But, on the other hand, it increases the fragility of the capitalist system. Especially during the phase of the economic cycle that precedes a depression, the financial system may succeed in postponing it but at the cost of aggravating it when the day of reckoning can no longer be delayed.

II. The Significance of Credit and the Turnover of Capital

Ramirez follows meticulously Marx's analysis of the development of credit in capitalism, beginning from commercial credit and evolving towards bank credit and more complex forms of debt and speculation.

He identifies three major channels through which credit enhances capitalist reproduction:

(1) It is pivotal in equalising the profit rate by helping speed up the flow of capital from one industry to another;

(2) It reduces the costs of circulation by speeding up the circulation of commodities and shortening the turnover time of capital

(3) It facilitates the concentration and centralisation of capitals via the formation of stock companies which, in turn, further stimulates the scale of production and the creation of surplus-value and the development of capitalism on both a national and international scale.

But at the same time, credit, debt and speculation increase the instability of the system due to the anarchic character of capitalism's modus operandi.

Moreover, Ramirez analyses how Marx very appositely related this contradictory role to different phases of the economic cycle. In my opinion, the most important point of this issue is its emphasis on the turnover of capital, how this is related to credit and how it affects the capitalist reproduction. This is a very interesting issue given the limited attention that it has received till now. This paper is part of a small but growing research on this crucial matter (e.g. Fichtenbaum, 1988; Jones, 2016). Ramirez shows that in Volumes II and III of *Capital*, Marx considers that the expansion of credit during capitalism's development reduces the turnover time of capital. The latter increases the rate of surplus-value and thus the rate of profit. This means that the shortening of the turnover time operates as a counteracting factor to the tendency of the rate of profit to fall. He commendably pays attention to Engels' contribution on this and the latter's copious reworking and expansion of Marx's fragmented notes.

In a nutshell we can formulate the issue of turnover time as follows. First, consider the following well known Marxian equations referring to the whole (annual) turnover of capital:

rate of profit $r = s/(c + v)$ (1)
rate of surplus-value $s' = s/v$ (2)
organic composition of capital $g = c/v$ (3)
then by combining (1), (2): $r = s'/(g+1)$ (4)

Then if we assume a higher turnover time within a year, the rate of surplus-value is transformed as follows:

$$s' = (s_i/v)*n \qquad (5)$$

where s_i: surplus value produced in one turnover time

n: number of turnover times per year

Then the annual rate of profit is:

$$r = ((s_i*n)/(c + v) \qquad (6)$$
$$\text{or alternatively } r = ((s_i/v)*n)/(g + 1) \qquad (7)$$

It is evident from this that, *ceteris paribus*, if the turnover time decreases (hence n, the number of turnover times during the year increases) the profit rate increases.

As Shukian (1991) among others observes, turnover time consists of two parts: (a) production time and (b) circulation time. The relationship between them is particularly important in empirical calculations.

III. Some Critical Issues

However, there are some lacunae and possible problems in Ramirez's analysis.

Is Fictitious Capital a Mere Hoax?

First, Ramirez's analysis would benefit immensely if it clarified more the significance and the role of Marx's categories of loanable money capital, money dealing capital and interest-bearing capital. The way Marx distinguishes and relates them is one of the more incisive parts of his analysis.

Marx is correctly keen in demonstrating that (a) capitalism is an exploitative system, (b) its exploitation is through the extraction of surplus-value by productive capitalists at the point of production and (c) this surplus-value is subsequently redistributed between the different generic fractions of the capitalist class (productive, money and merchant capital). The money capitalist has no independent channels of exploitation but depends upon the abovementioned redistribution. It is within this framework that Marx analyses the function of the financial system and the determination of interest. He distinguishes between money as capital (related to the production of surplus-value) and money as such. It is the first that is relevant to the analysis of the credit system and the rate of interest (Harris, 1976). Money involved in the lending and borrowing activities of the capitalist financial system, is defined as loanable money capital (LMC). LMC is sub-divided in money-dealing capital (MDC) and interest-bearing capital (IBC). MDC advances credit in general for buying and selling in the sphere of circulation. IBC uses credit relations to advance money capital in order to appropriate surplus-value. The capitalist financial system collects idle funds and channels them to investment through the credit and the capital markets (which operate differently). Credit markets involve both MDC and IBC. Capital markets involve solely IBC. These formulations differentiate Marx from Keynes as their understanding of the determination of interest is completely different (see Harris, 1976; Fine, 1985/6) particularly in his debate in *Science & Society* with Panico). Keynes and his followers understand interest in its juristic form and do not differentiate between the different lending activities. Moreover, they neglect the profit rate and make it dependent upon the interest rate, whereas Marx correctly follows the opposite path. Finally, and related to the previous points, they do not ascribe to the Labour Theory of Value.

The crucial Marxian concept of fictitious capital derives exactly from these definitions. Fictitious capital is a form of IBC. IBC is money-capital which is loaned in order to be used in the sphere of production for extracting surplus-value, in contrast to the simple loan of money (money as such) which simply facilitates transactions in general. However, since there is an obligation to repay a loan (which takes the form of debt), it is possible for this debt to acquire a life of its own. Consequently, the obligation (which takes the form of securities, e.g. shares, bonds), can autonomously be bought and sold at some money value, which might or might not correspond to the ability of its sum of money (if used as capital in the production sphere) to realise enough surplus-value. This autonomous circulation of IBC in the form of securities is called by Marx fictitious capital. 'Fictitious' does not imply that it does not exist or that it is artificially created. It denotes that its circulation is distinct from the circulation or the yield of capital which it represents.

This is a crucial point as several contemporary radical analyses (and especially several Marxo-Keynesians) consider fictitious capital as a mere hoax. This is not so. Fictitious capital is a wager on surplus-value that might be extracted in the future and which it is being discounted in the present. This does make it a 'bubble', but it does not make it purely illusory as Ramirez tends to argue.

Marx and Keynes or Marx Versus Keynes?

Second, Ramirez equates Marx's understanding of the evolution of the financial system with that of Keynes. He begins with Marx's analysis of the emerging separation of ownership from management in the advanced capitalism of his day and its tendency towards excessive risk-taking and debt-fuelled speculation. Then he considers it akin to Keynes' structural separation of industrialists from modern financial rentiers.

The Marxian approach has common points with that of Keynes; but they are essentially different. They differ in scope, in methodology and in analysis. Marx's aim is the overthrow of the capitalist system whereas Keynes' aim is its rescue from itself. Marx considers the operation of the financial system as subservient to the capitalist (productive) accumulation. Thus, interest is a subtraction from the surplus-value extracted by the industrial capitalist. This creates tensions and conflict between these two fractions of the bourgeoisie. Nevertheless, in the end both the industrialist and the financier are part of the capitalist class and despite their partial differences they together operate the total circuit of capital. On the contrary, Keynes juxtaposes the one to the other, as separate classes with entirely different interests. He borrows the notion of the rentier from the Classical Political Economy (which was attributed to the separate class of the landowners) and applies it to the financiers. Thus, Keynesianism implies a different class analysis which leads to different economic and political conclusions.

What Crisis Theory?

Third, Ramirez's analysis of the operation of the financial system within the economic cycle would benefit if it was situated within a coherent crisis theory. Instead, Ramirez seems to oscillate between different versions of Marxist theories of crisis (distinguished as supply and demand side ones). He assumes that Marx had a tendency of the rate of profit to fall (TRPF) theory of crisis; which is indeed correct. And then he analyses how the functioning of the financial system relates to the economic fluctuations caused by the TRPF.

This is legitimate but not necessarily satisfactory. The analysis of the operation of the financial system is enlightening when it addresses real and not hypothetical scenarios. The way the financial system operates differs radically in an economy whose cycles are dependent upon demand, from how it operates in an economy whose cycles depend upon profitability. The Keynesian analysis follows the former path whereas the Marxist the latter.

Financialisation With or Without Inverted Commas?

Last, Ramirez has an ambiguous position towards a very popular contemporary leitmotiv: 'financialisation'. The central thesis of the Financialisation Hypothesis (FH) is that during the last decades the financial system, through a series of innovative mechanisms, has conquered capitalism's commanding heights and has changed the whole system according to its own prerogatives. This new financialised capitalism operates completely different from traditional capitalism.

In Mavroudeas and Papadatos (2018) we have criticised the FH on five counts.

- First, it interprets short-run and conjectural phenomena as long-run structural changes. The FH is a middle-range theory and suffers from the weaknesses of this methodology.
- Second, it considers the post-1990s financial expansion as totally unprecedented whereas such phenomena are usual during a pre-crisis period. Although there are some new forms of this financial expansion, they do not constitute a new qualitative different system.
- Third, it erroneously maintains that money capital has become independent from productive capital and acquired an autonomous mechanism of exploitation through usurious lending not only of the workers but of other classes (or even other capitalists) as well. This argument unwarrantedly equates capitalism with the pre-capitalist era of transition from feudalism to capitalism.
- Fourth, it proposes an unrealistic class analysis – very similar to the Keynesian one – where you have two capitalist classes (the financiers and the rest).
- Fifth, the FH leads to unjustified analytical fuzziness as it blurs the understanding of capitalism's fundamental economic and social processes.
- Another crucial conclusion of the FH is that in 'financialisation' crises are caused by financial instabilities and not by problems in real accumulation.

In the under-discussion article Ramirez takes a dubious stand *vis-à-vis* the FH. In the greater part of it he refers to the FH as 'financialisation' and emphasises that 'the crash is mistakenly attributed to financial causes such as a banking crisis or speculative bubbles when, in reality, it is primarily the result of the reproduction process being strained beyond its capitalistic limits in terms of both demand and supply-side factors'. However, towards the end of the article Ramirez reverts to financialisation (without inverted commas) and refers to post-Keynesian and Marxo-Keynesian theorists that support the FH.

IV. In Place of Conclusions

Ramirez's article offers a useful analysis of Marx's understanding of the operation of the capitalist financial system. It accurately emphasises its relevance for the analysis of contemporary phenomena. Moreover, it makes a significant contribution in expounding the role of the turnover time of capital. His analysis would be even more productive if it addresses some ambiguous points. To return to the observation at the beginning of this comment, our challenge of the Mainstream analysis is more successful when it has clarity and coherence.

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