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Financialization: A Critique of the "Autonomization of Capital" Thesis

Rajesh Bhattacharya

Ian Seda-Irizarry

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JOHN JAY COLLEGE OF CRIMINAL JUSTICE

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Rajesh Bhattacharya[1] and Ian J. Seda Irizarry[2]

Abstract

In this paper we address the "separation" problem implicit in the literature on "financialization" by examining one of the most recent theoretical attempts to bridge the disconnect between production and finance. Specifically we engage with the "autonomization thesis" of Teixeira and Rotta (2012) and note how they a) connect knowledge-commodities and knowledge-rent to financialization and b) paradoxically reproduces the "separation thesis". We problematize the categories of capital and capitalism to make our point

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autonomization, financialization, primitive accumulation, capitalism

1. Introduction

Financialization is perhaps the most controversial aspect of the series of transformations that have radically altered the face of capitalism in the advanced countries with global consequences in the last thirty years. The most significant aspect of financialization, around which the literature revolves, is the purported "separation" of finance from production. In empirical accounts, "separation" of finance from production refers to the subjugation of manufacturing to financial interests (Orhangazi 2011), the rise to power of financial over productive capitalists (Dumenil and Levy 2011) or the trade-off between short-term profit maximization to long-term growth (Stockhammer 2004). Here, separation means the divergence of interests between productive and

[1] Indian Institute of Management, Calcutta
[2] John Jay College of Criminal Justice, CUNY

financial capitalists.

At a more theoretical level, separation refers to the independence of financial profits from real production of value or, according to a particular formulation, "autonomization" of capital material bases. In this paper we will engage with the latter formulation of financialization to bring out its contributions and shortcomings. We will specifically examine the recent thought-provoking contribution of Rodrigo Teixeira and Tomas Rotta (2012), in which they counter the "separation" thesis by connecting transformations in finance (financialization) and production ("value-less" knowledge-commodities) as manifestations of the same process, autonomization of capital.

In this paper, we argue that Teixeira and Rotta's autonomization thesis suffers from teleological arguments that treat logical categories of capital as historical categories. Second, we also argue that the "separation" problem is a non-Marxian proposition. Theoretically, valorization of capital is ultimately based on value created in production. Empirically, financialization has been accompanied by rapid expansion of capitalist production in developing countries. Finally, we argue that the autonomization thesis is blind to the presence of non-capitalist production spaces subjected to control by mercantile and financial capital and primitive accumulation by rent-earning capital.

The rest of the paper is organized as follows. Section II briefly presents the "separation" thesis as a theoretical problem with particular focus on Teixeira and Rotta's contribution. Section III develops a critique of the teleology of capital inherent in the autonomization thesis and argues that the "separation" problem is a non-Marxian proposition. Section IV argues that any account of capitalism is incomplete without a recognition of a non-capitalist "outside" in the sphere of production and centrality of primitive accumulation to valorization of capital. Section VI concludes.

2. The "Separation" Problem and the Teixeira-Rotta thesis

The point of departure of the 'separation' problem is the observed slowdown in physical capital accumulation in the advanced countries, relative to the post-WWII Golden Age, combined with the rising share of financial profits. This empirical observation has given birth to a literature on the purported "trade-off" between financial and productive investment. This "trade-off " has been linked to changes in corporate strategies (Lazonick and O'Sullivan 2000), class-offensive against the workers in advanced countries (Harvey 2010), the deregulation of the financial sector since 1970s (Crotty 2009, 2011) and the global dispersion of production of goods and services (Milberg 2008). This "trade-off" approach to the 'separation' problem has been criticized on two grounds; a) it takes advanced countries-individually or as a group-as the unit of analysis and b) it takes the post-WWII Golden Age rate of physical accumulation as the comparator. However, as McNally (2011) pointed out, if capital is not territorially fixed, then the world-economy is the appropriate unit of analysis of accumulation of capital. In particular, the focus on advanced countries hides the dramatic increase in the rates of physical capital accumulation in developing countries, most notably East Asian countries and two of the largest economies of the world, India and China. A growing literature (Milberg 2008; Palpaceur 2008; Newman 2009) has made a connection between financialization and global value-chains. Outsourcing and offshoring of production to developing countries can explain both the dramatic rise in physical capital accumulation in developing economies and a slowdown in the developed countries, thus ruling out a "trade-off" at the global level. Second, McNally (2011) also points out that the post-WWII Golden Age capitalism should not be taken as the period of comparison, since it was an exceptional period, driven by the post-war reconstruction of Western Europe and Japan—the advanced countries of the world—and exceptionally low competition in world markets. Since the growth was driven by larger economies in the post-WWII Golden Age, it's impact on the global growth rate was higher than that of smaller, developing economies in the subsequent period.

A second approach to the "separation" problem emphasizes the connection between financialization and substantive transformations in capitalism. Arrighi (1994) argued that financialization occurs when a certain mode of accumulation of productive capital exhausts itself, so that capital seeks to transform itself from productive to its unproductive forms and seek financial or mercantile profits instead of producing and accumulating surplus value. Financialization, according to Arrighi, represents the end to (autumn of) long cycles of capitalist expansion. Thus, current financialization is a symptom of the exhaustion of the "American" century of productive accumulation, beginning around 1870s and showing signs of exhaustion since the 1970s. In similar structuralist tradition, Kotz (2011) analyses financialization as a mode of accumulation within the Social Structure of Accumulation (SSA) framework and Boyer (2000) analyses it as a regime of accumulation within the Regulation framework, succeeding the post-WWII Golden Age phase.

In all of these formulations, financialization represents a phase (cycle, regime etc.) when production is subjugated to finance, the productive to the unproductive, and the "real" to the "fictitious". Implicit in these formulations is a suggestion that finance becomes independent of real material production, i.e. it separates itself from the processes of value-creation (and even expands at the cost of the latter) that, in the final analysis, sustains it. Hence, all accounts of financialization, historical or contemporary, link this "separation" to capitalist crises. The theoretical puzzle, implicit in the "separation" problem, was pointedly presented in Pollin's (1996) review of Arrighi's (1994) book: "[In the M-M' circuit] where do the profits come from if not from the production and exchange of commodities?" (Pollin 1996: 115). According to Pollin, financial profits can expand with a static base of production, only if there is redistribution of income in favor of the capitalist class as a whole and away from other non-capitalist classes in the society or if there is a movement of capital from less profitable to more profitable modes and areas of material production and exchange.

In this context, Teixeira and Rotta (2012) make a thought-provoking contribution by problematizing the "separation" problem. They negate the "separation" problem as posed in the contemporary literature on financialization at one level to assert it another level. They understand financialization as one aspect of the transformation of capitalism—in the sphere of finance. Its counterpart in the sphere of production is "value-less commodities". Both these transformations—financialization and value-less commodities—are manifestations of a single process, the "autonomization" of "social forms" in capitalism from its "material bases". Within the Marxian tradition, the accepted definition of capital as self-expanding value "misses the basic idea of capital as an abstract form: a social form that has the tendency to expel its own content" (Teixeira and Rotta 2012: 451). Specifically, the contradiction of capital is that, even though living labor is the source of new value, and hence surplus value, capital "both depends on and expels productive labor" (ibid). This contradiction is inherent in commodity and money themselves—in the opposition of use-value to exchange-value—and develops further with the formation and evolution of capital. Thus, financialization (interest-bearing and rent-bearing capital as privileged forms of capital) is a higher stage of autonomization—a higher degree of separation—of social forms from their material bases.

As far as social forms in capitalism are concerned, autonomization consists in the retreat from the M-C-C'-M' (productive capitalist) circuit and its associated M-C-M' (mercantile capitalist) circuit to the pure M-M' (financial capitalist) circuit. Thus the privileged social forms of capital in contemporary capitalism are financial or 'fictitious' capital and rent-bearing capital which are farthest removed from real value-producing activities.

However, autonomization also manifests itself in the field of production in transforming the production process through application of knowledge and information, and by commoditizing them. Finance and knowledge are then seen as the twin pillars of contemporary capitalism. Teixeira and Rotta argue that the revenues derived from patents and intellectual property rights are not, in general, based on new value produced, given that those goods that have this knowledge embodied in them can be easily reproduced and copied, which means that their value is basically nil, i.e. the socially necessary labor time required for their *re*production is basically zero. Thus knowledge-commodities are "valueless" commodities, and the return to capital in production of knowledge-commodities is not from surplus value from production, but "rent" earned from monopolizing the knowledge-product. Strictly speaking, laborers employed in knowledge production are not exploited in the Marxian sense. Thus, autonomization of capital manifests in the ascendance of pure circuit of money-capital (M-M') as the privileged social form of capital and the production of "value-less" commodities as the privileged commodity in which capital is invested. In both instances, the social forms of capital—interest-bearing capital and rent-bearing capital—are distanced from the real *value*-creating activities.

In the end, Teixeira and Rotta reject separation *between* finance and production, but affirm separation between social forms of capital and real value-creating activities in both finance *and* production. But, in so doing, they open themselves up to the Pollin question—where do interest and rent come from, if not from production itself, or if capital is not exploiting labor, who is?

3. Capital and Capitalism: Contesting the "separation" problem

We argue that any account of financialization in contemporary capitalism a) must theoretically recognize the relation between different forms of capital, ii) the relation between different forms of capital and non-capitalist production and hence iii) must explain what capitalism means in the face of such heterogeneity. Teixeira and Rotta's account of capitalism is circumscribed by two theoretical moves: a) a teleological account of capital which presents different forms of capital as privileged categories at different moments in a single process of growth and b) the non-recognition of a non-capitalist "outside" of capital. We will consider the former in this section, and take up the latter in the following section.

According to the "autonomization'' thesis, the logical and historical unfolding of the process of autonomization of capital requires more and more layers being inserted between its social form and the material bases of value-creation. This teleological "stretching" effectively transforms the *structure* (the co-existence of different forms of capital—mercantile, financial, productive etc.) into a *sequence* (the less autonomized form giving way to the more autonomized form), thus blocking the emergence of the problematic of capitalism which can account for different forms of capital in relation to one another.

We begin by distinguishing between capital, capitalist class structure and capitalism. Traditionally Marxists understood capital as "self-expansion of value", i.e. something which exists only in order to grow. The simplest form which captures this self-expansion is the circuit of money-capital, $M - M'$. In this circuit, value can expand in different ways. It can expand because the money-capitalist has advanced unproductive loans to anybody in society and get a cut (as interest) of the diverse incomes generated in production (e.g. consumption loans, housing loans etc.). It can expand because the money-capitalist has lent money as capital to the undertaker of production and get a cut from the surplus value (as interest) generated in production (it can be both capitalist and non-capitalist surplus value depending on to whom the money-capitalist lends). Money-capital can expand when it is invested in monopoly rights over conditions of production (land, knowledge etc.) and earn ground-rent. Teixeira and Rotta distinguish between interest-bearing and rent-bearing capital. But they are just different instances of the same circuit of capital at work..

The connection with real value-producing activities becomes more direct with the circuit of mercantile capital, $\mathrm{M} - \mathrm{C} - \mathrm{M}'$. Here, capital valorizes itself by enabling circulation of produced commodities. The mercantile profit is a cut of the surplus value generated in the respective production processes. Note that the source of mercantile profit can be both capitalist and non-capitalist surplus value depending on whether mercantile capital is invested in the circulation of capitalist and non-capitalist commodities. The connection between capital and production is most intimate in the case of the circuit of productive capital, i.e. $\mathrm{M} - \mathrm{C} - \mathrm{P} - \mathrm{C}' - \mathrm{M}'$. Here, capital can only valorize itself by involving itself in the actual process of production, through direct appropriation of produced surplus value.

A class structure is defined in terms of the processes of production, appropriation and distribution of surplus labor performed by direct producers and the social relations they entail (Resnick and Wolff 1987). By a capitalist class structure we mean the specific configuration of class relations that sustain the circuit of productive capital. In the Marxian tradition, the concept "social formation" refers to a social totality exhibiting multiple class structures. Social formations are often named after the class structure "prevalent" in the social formation at that particular time (ibid), where "prevalence" is to be understood in terms of the class structure's share of the total surplus labor time at the social level. Capitalism refers to a social formation in which the capitalist fundamental class process is “prevalent”. Unlike capital and capitalist class structure, which are theoretical categories, capitalism is a historical category which emerged in the context of a particular social formation (Western Europe) at a particular time period (18th century).

To go back to the Pollin question, sustained valorization of capital in any social conjuncture is, in the final analysis, based on the value created in production. To pose a fundamental disconnect between valorization of capital and value-creating activities, i.e. to pose something like “valorization without value”, is therefore to subscribe to a non-Marxian position. There is nothing in the conceptualization of a capitalist class structure that rules out the possibility that the landlord or the money-capitalist may be more powerful than the productive capitalist. The logic of self-expansion of value requires that capital is fluid between its forms so as to bypass any obstacles to its expansion. From looking at privileged social forms of capital, one cannot infer the prevalence of a class-structure.

It is possible that rent-bearing and interest-bearing capitals are more prominent than productive capital. However, it does not mean that capital has distanced itself from value-creating activities. The capitalist class-structure, i.e. the productive circuit of capital, can be prevalent and yet the productive capitalist’s share of total surplus value can be less than those of financial, mercantile and rent-bearing capital. In fact, faster accumulation of financial or rent-bearing capital can enable faster rates of accumulation of productive capital through supply of loans, investment in equities, while the relative shares of surplus value remain skewed against productive capitalists. The fact that the productive capital is less privileged in comparison with interest-bearing or rent-bearing forms of capital does not mean that it is less prevalent in the sphere of production, as the following example illustrates.

The largest share of the value created by the iPhone accrues to providers of distribution and retail services

> in the United States and to Apple, mainly to its innovations in design, marketing and supply-chain management. For each iPhone4 sold, at a retail price of USD 600, Apple earns around USD 270, while Korean firms supplying core components earn USD 80, and Chinese enterprises that undertake the assembly earn USD 6.5, a mere 1% of the total value (OECD 2013: 23).

The fact that Apple invests in "value-less" knowledge-commodities and earns rent (no matter how large the share of rent is) does not subtract from the significance of "value-creating activities" in Korean and Chinese capitalist factories. In this case, one class-position—the 'landlord class-position' of Apple by virtue of its monopoly rights over iPhone's design—has more power over other class positions like the productive capitalist class positions in China and Korea. However, this doesn't prevent high rate of accumulation of productive capital in China or Korea, nor does Apple valorize its capital without value.

In advancing the autonomization thesis, Teixeira and Rotta have inadvertently fallen into the trap of Eurocentric thought which theoretically privileges the social forms of capital (symbolized by Apple, Nike, Reebok, Monsanto etc.) prominent in Western economies. Capitalism is about the prevalence of the capitalist class structure, it is not about the privileging of this or that form of capital understood as self-expansion of value. Teixeira and Rotta's teleological reading of capital misidentifies logical categories (different forms of capital) for historical categories and thus gets hooked to the non-Marxian "separation" problematic.

4. Non-Capital and Primitive Accumulation: A Critique of Capitalocentrism

The account of capitalism in Teixeira and Rotta gets further problematized if we bring in the non-capitalist class-structures linked to productive, mercantile, interest-bearing or rent-bearing forms of capital. Unfortunately, even those who make a connection between financialization and global value-chains fail to recognize the articulation of non-capitalist class structures in developing countries in circuits of capital originating in the developed countries. Yet, non-recognition of non-capitalist production sites not only effaces the flows of value between non-capitalist and capitalist class structures within and across nations, but also takes the teeth out of primitive accumulation as a powerful concept that can contribute to an understanding of financialization. Insofar as Teixeira and Rotta draw the analogy between knowledge-commodities and land, primitive accumulation ("new enclosures") is central to the production of value-less commodities and the appropriation of knowledge-rent.

In the literature on global value chains with well-known studies of global value-chains in coffee and other agro-producers, athletic footwear, sports goods etc. we often find that a (sometimes major) part of the production is done by peasants, family enterprises and petty producers at the lowest level of the global value chain. These direct producers are often located in developing countries and get an insignificant share of the value. Much of this production goes on within non-capitalist class structures, often using just family labor in home-based production. The bulk of the value is retained by retailers, and parent firms who provide the design specification and the brand name. So, in Marxian terms, non-capitalist surplus value is extracted by mercantile capitalist firms and firms that extract a large part of the value as rents by providing a crucial element that cannot be imitated whether knowledge-commodities like patented designs (Nike, Reebok etc.), brand image and consumption ambience (Starbucks). But the source of these mercantile profits and capitalist rents are the non-capitalist surplus value in the developing countries (and consumers' incomes in the developed countries). The subsumption of all economic spaces to capital hides an important source of value for interest-bearing and rent-bearing capital non-capitalist value. Thus by looking only at capitalist production sites and their rate of accumulation of physical capital, one does not exhaust the potential sources of value for financial profits. To go back to the Pollin question, financial profits can expand on the basis of *non*-capitalist surplus value.

Moreover, the capitalocentrism of Teixeira and Rotta's framework makes them blind to the processes of primitive accumulation dislocating non-capitalist production sites all over the world. The introduction of genetically modified seeds, the extension of intellectual property rights to living organisms like plants etc. and 'theft' of traditional knowledge/technology all contribute to the production of what Teixeira and Rotta call 'value-less' knowledge-commodities that yield ground-rent to the firms producing these commodities. The introduction of knowledge-commodities through primitive accumulation can lead to the dissolution of non-capitalist class structures in some cases while in other cases, non-capitalist class-structures can survive subject to extraction of heavy ground-rent in lieu of access to knowledge-commodities that provide crucial conditions of production. This is not a minor matter since a large part of the global labor force (peasants, petty manufacturers and so on) still ekes out their living in non-capitalist production spaces.

The question is if financialization and production of value-less knowledge-commodities are processes of autonomization of capital from material processes of production, what fills up the vacuum left behind by capital? A Eurocentric view fails to see the vacuum being filled up by the expansion of capitalist production in developing countries, often inserted in global value-chains at the lowest level. A capitalocentric view fails to see the presence of non-capitalist sites of material production which is subjected to control by mercantile and financial firms and primitive accumulation by rent-earning capital. Thus, the thesis of autonomization of capital stands in contradiction to the very intimate connection of all social forms of capital with material production within and outside the space of capitalist production.

5. Conclusion

In this paper we have argued that the "separation" problem is at the heart of the contemporary discourse on financialization. We singled out the "autonomization" thesis on financialization because in our understanding this is the most theoretically promising and thought-provoking approach in the existing literature. The main contribution of Teixeira and Rotta is the theoretical connection between finance and production that was missed in the "trade-off" approach to financialization especially, their analysis of knowledge-commodities and the centrality they attach to knowledge-rent. However, paradoxically, the very basis of Teixeira and Rotta's framework rests on the progressive "separation" of capital from value-creating activities. In our view, Teixeira and Rotta in their attempts to offer a Marxian understanding of financialization, end up supporting a non-Marxian proposition. We attribute this to their essentialist mode of reasoning, which is manifested in teleological, Eurocentric and capitalocentric arguments. Ultimately, essentialist mode of reasoning leads to insufficient problematization of capital, capitalist class structure and capitalism and as a consequence, inadequate understanding of the material transformations that constitute financialization.

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