Studying Modern Capitalism – The Relevance of Marx Today

A Marxian Perspective on gendered creditor and debtor Relations in the age of financialization

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1st Part: Presentation

1. **Financialisation** seen as a recurring (historical) phenomenon (Giovanni Arrighi 1994)

   Recurrent destruction of ‚old‘ regimes and the simultaneous creation of ‚new‘ ones **through financial expansion** (p. 1994: x).

2. Marx (Volume 3): Importance of Money: Labor **creates** *value, the circulation of capital* ***realises*** *value.*

3. *Money as credit and money as capital -- both uses of money are for profit maximization (expressed in monetary interest)*

   1. Use of money as credit to allow purchases, which is subsumed under real accumulation in the sense of corresponding to an increase in productive assets.
   2. Use of money as capital (fictious capital) -(to use money to make more money).

2nd Part: Presentation

- Financialisation created in the **US debt-led private demand regime**
  - two opposite, but linked gender-racial dynamics, with asymmetric ***distributional effects***

1. **A debt peonage system with a foreclousure crisis -** private debt through subprime lending to mostly poor single mothers and minorities. Economics of dispossession through *foreclosures*.
   - *Debt peonage system becoming a despotic master (Marx)*
2. **A Finance Wage-Premium System in Money as Capital Finance (**lenders, brokers, bankers, accountants), reserved mostly for the upper quintile of white men, targeting those with poor credit rating which were mostly poor single mothers and minorities.

1. Financialization as a secular tendency in capitalist relations

- Marxists Giovanni Arrighi (1994), earlier also Braudel (1982) used financialisation as a concept to delineate international hegemonic transitions.
- Decline of the existing, systemic cycle of accumulation' when its role in driving the expansion of the capitalist world-system reaches its limits' (Vercelli, 2013/14).
- 1st financialization – **decline of the hegemony of the British empire** (1850-1929) – decline of competitive capitalism
- 2nd financialization – **Decline of American hegemony** (1971-today), result of stagflation and recession in the 1980s
- Marx – first world crisis in 1857/58: presumed crisis is a transition to a renewal to productive capitalist accumulation

1. Financialization Continued ……

- Financialization refers to the growing influence of the

1. ‚**Circulation process of capital** starting with money and at the end to realize the maximum possible surplus value in money form.
2. **institutional and technological structure** shaping the forms of exchange, circulation, distribution, and exchange value (Vercelli, p. 21)
   - **Getting rid of constraints in** exchange; flexibility so that choices become increasingly independent of time, space, and utility content
     - Financialization overlaps with **globalization,** but is not the same.
     - **Financial Innovations:** securitization, algorythm, block-chain, electronic money

2. Marx on Money and Finance

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

1. **Money as Credit and** Money as Fictious Capital)
   - Money as Credit Expectancy of a profit maximization through the competitive process
   - For example: **Borrowing and lending money to buy a house** is not contingent on the house purchase generating maximum on surplus value
   - Or **retail credit**: where car companies might take their normal profit in part of the lease-purchase deals
   - ***Boring banking:*** deposits 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 – **real accumulation of capital achieving an increase in productive assets**
   - **Money as Credit is used in mortgage lending**

Money as Capital continued .....

2. Money as Capital (Fictitious Capital) **David Harvey:** Interest Bearing Capital - IBC)
   - Money as Capital: involved in **selling mortgages**
   - Taking out a mortgage: it becomes IBC when a portfolio of mortgages is bundled up into assets and sold, often combined with other sets of assets, and sold again and again – trading and selling of securities
   - Marx termed this independet circulation of money as capital in paper form as **fictitious capital**.
   - 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 – money as real value does not exist, exists only as a value on a claim of a future valorization of real capital.**
   - **David Harvey**: This will lead to no real accumulation at all, but merely the expansion of credit as fictitious capital --- representing anti-value

Definition: Financialization tied to Financial Expansion

- **Ben Fine:** Financialisation is a peculiarly modern form of incorporating a variety of credit relations into the orbit of fictitious capital

„In other words, the ‚hybrids' that attach money as credit, money as capital (IBC), fictitious capital, and productive capital to one another, have expanded prodigiously to the benefit of fictitious capital".

- ***David Harvey***: To see the extraordinary efflorescence and transformation in financial markets as the expression of the ***search for financial solutions to the crisis tendencies of capitalism*** (Harvey 1989: 191-4).

PART II

- Linkage in Finanzialization between

1. A ‚debt-peonage system of poor (mostly women) subprime borrowers

2. Finance Wage-Premium System in Fictitious Capital Finance System – mostly white men

3. A ‚Debt-peonage' system: Subprime lending

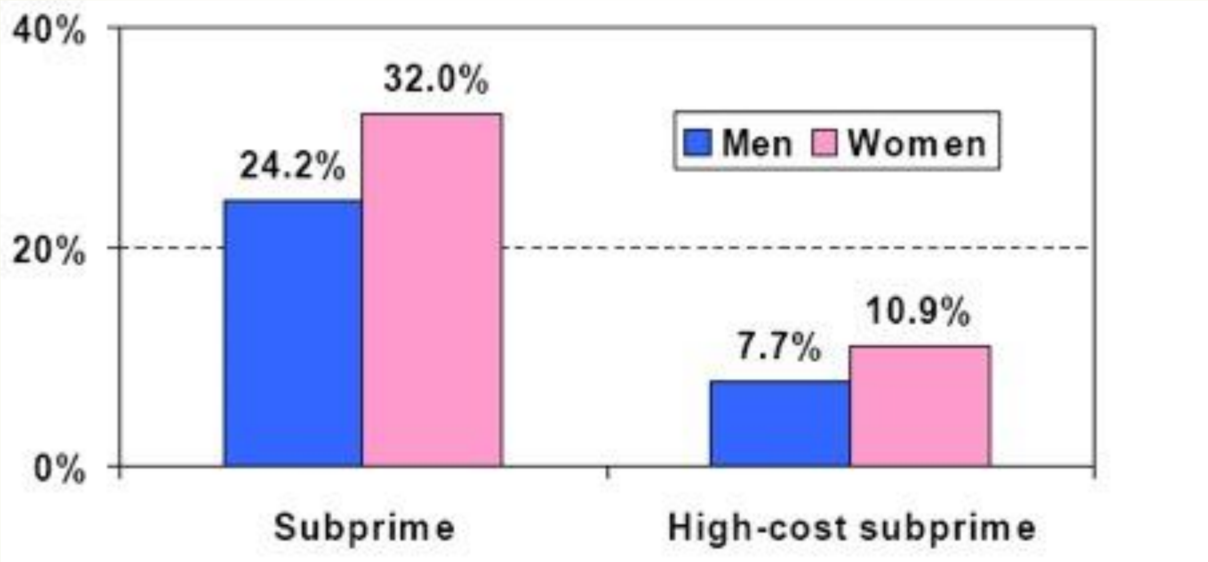
1. Not money of the wealthy (railroads, oil, whisky) as in the first financialisation (1850-1929) (Hilferding – Finance Capital), **but money of the poor** was used (Aglietta) in the 2nd period of financialisation (1971-today)
2. Poor women and minorities are not outside the financial system, but integrated into the circulation of money as capital.
3. Fictitious Capital (Interest-bearing capital) plays a crucial role in the creation of debt

The monetary system is essentially Catholic, the credit system essentially Protestant

1. According to Harvey (Marx):
   - ***Poor homeowners were integrated into finance by taking out a mortgage (catholic), but piling up debt is to discipline the borrower to pay back (Protestant).***
2. Money gives its possessor power over debtors in terms of debt redemption
3. **David Harvey:** *The economics of expropriation and accumulation by dispossession enter the picture through the debt and credit system.*

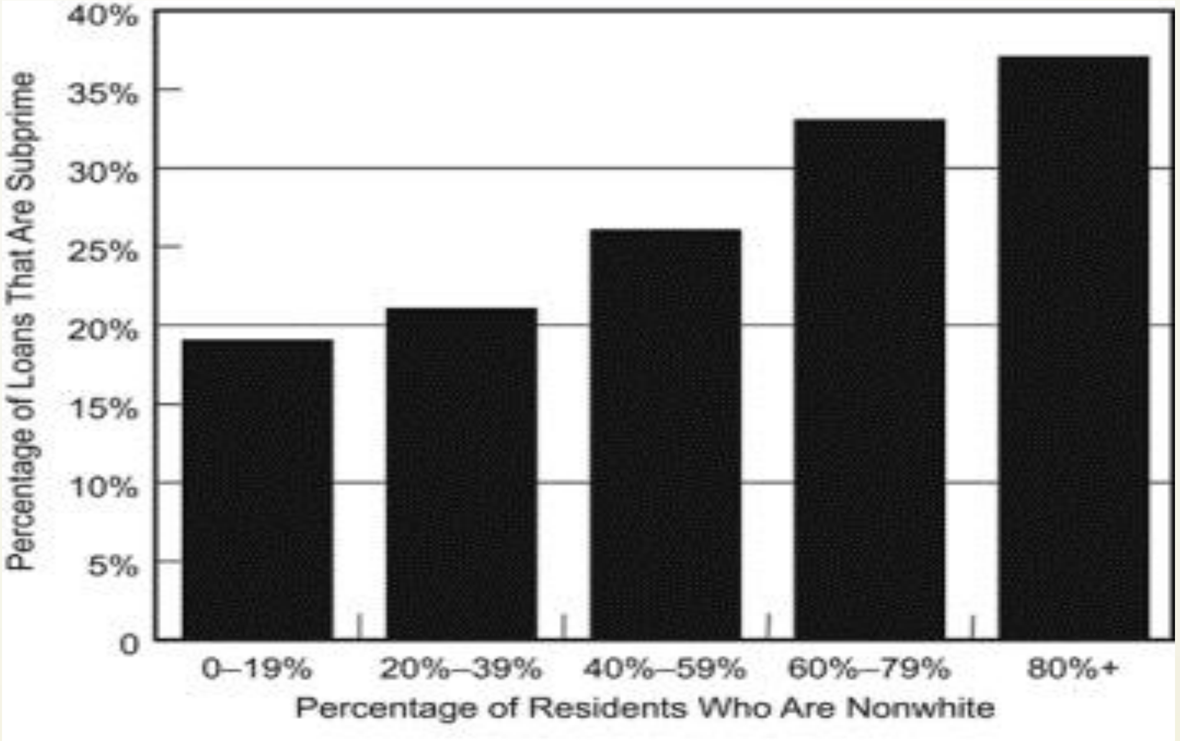
Women Disproportionately Receive Subprime Mortgages (US-Senate Hearing 2008)

Source: Senate Hearing 2008.

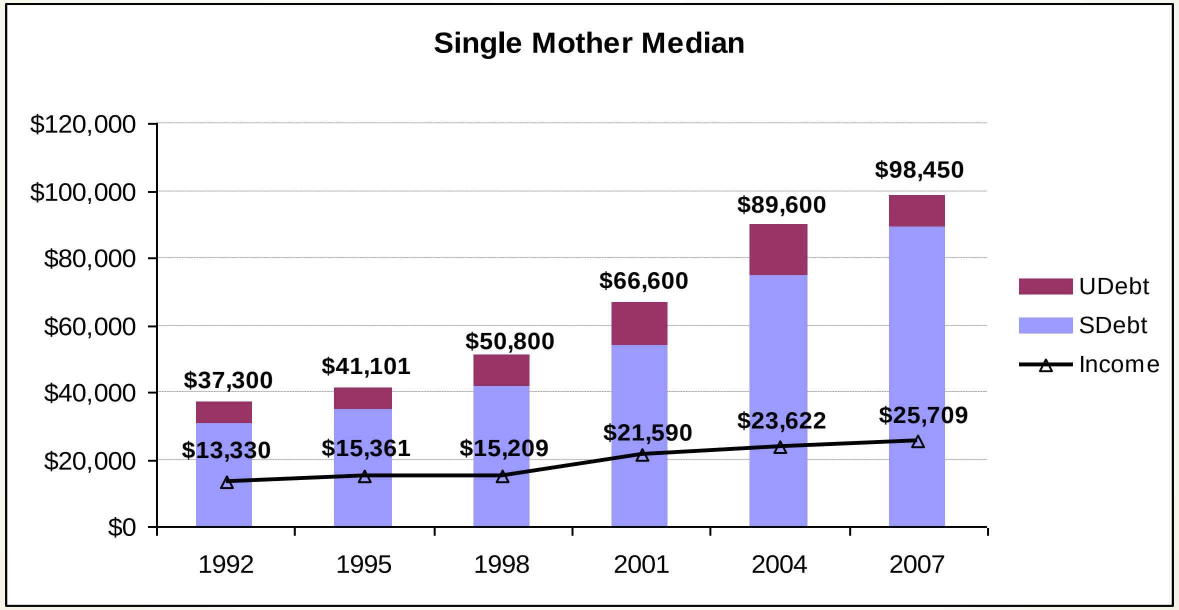


Percentage of All Mortgages that are Subprime By Gender, 2005

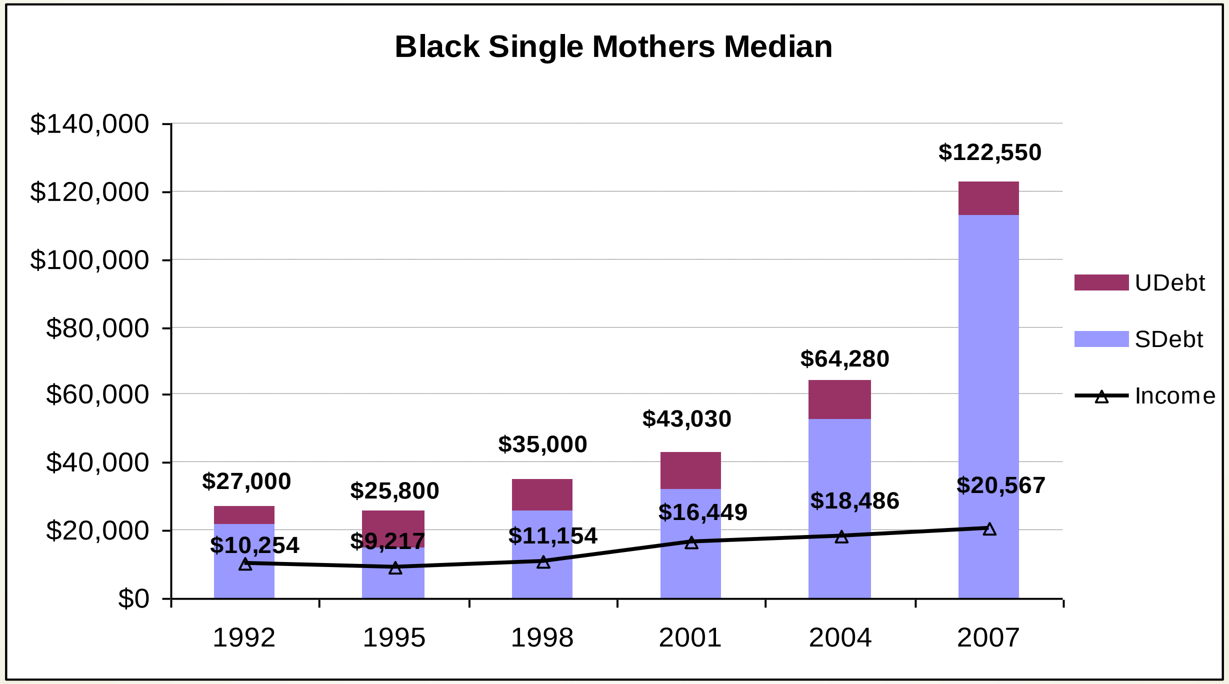
Sacramento, Housing Market 2005



Graph Two: Median Secured and Unsecured Debt Outstanding and Income (Montgomerie/Young 2010)



Graph Three: Median Secured and Unsecured Debt Outstanding and Income (Montgomerie/Young 2010)



Money as Social Relations

- Piling up debts is to discipline the borrowers into being productive laborers.
- Marx: Money possesses social power
- **Discursive shift from 2007 to 2009**:
  - Initially sympathy and compassion with poor indebted howeowners by the media and members of Congress
  - Subsequently, Protestant attack against the ‚stupidity' of subprime borrowers; are guilty of taking out loans, when they could not repay (Paul Langley).
  - Disciplining effect by creditors on debtors during the subprime crisis

Coercive Power and Discipline underwritten by State Power

- 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.
- Rise of very profitable debt collection industry as a result of financial crisis.
  - **According to Dept of Labor Statistics: employment in the debt-collection industry is expected to grow more rapidly than any other occupation (Roberts 2014)**

Debt Peonage and Foreclosures

- Very few reliable studies on foreclosures.
- 2005 2/3 of women were drawing down equity in their homes to make up for shrinking purchasing power
- Studies show: **subprime lending** has a positive and significant effect on foreclosures. As for demographic characterstics, the **black share** is the most important determinant of foreclosures.
- The benefits of granting subprime loans appear to be wiped out by the devastating impact of the unaccepable amount of foreclosures (Chicago Case Study 2008; Sacramento 2010).
- **Steven Mnuchin – present US Secretary of Treasury, former Investment Banker – made millions through foreclosures**

Occupy Wall Street Against Foreclosures

Occupy Wall Street activists protesting against Bank of America in March 2012. | Michael Flesh-man/Flickr/Creative Commons

Asset Depletion (Institute for Women's Policy Research 2017)

Table 1. Median total Wealth by year among single Early Baby Boomer Homeowners

All who were homeowners in 2006: Median Total Wealth including house: * Weight on 2006	2006	2008	2010	2012
Single White Men	$209,000.00	$280,000.00	$205,000.00	$195,000.00
Single White Women	$180,900.00	$176,000.00	$144,450.00	$161,500.00
Single Men of Color	$113,000.00	$76,000.00	$77,000.00	$50,000.00
Single Women of Color	$104,000.00	$55,000.00	$69,000.00	$64,025.00

Note: Data weighted at the household level for each observation year. Data from designated household level financial respondent for the Early Baby Boomer Cohort. Wealth variable includes total all assets including real property less debts.
Source: 2006-2012 waves of the University of Michigan Health and Retirement Study.

Minority household experienced greater losses because they are more dependent on **home equity as a source of wealth**. Also, **housing values started to fall**, and many more Black (women and men) reported being **behind in their payments**. Hispanics and blacks have also been more **susceptible to foreclosures** and their homeownership rates have dropped more than for any other group (Pew Research Center 2011).

Two Interdependent Systems in Financialization

Depletion of wealth on the one side

- Debt-Peonage System of the Poor

Increase of Wealth – Huge Wage Premiums

- Finance Wage Premium System – mostly white males
  - (bonuses, stock options, stock buy-backs, salary, other frills)

Finance Wage Premium System is neither Class, Gender nor Race Neutral

- **Financialisation has led to Stratification and Functional Income Inequality in the US labor Market** (Arestis et al., 2013)
  - **Centralization of finance** as capital system over banking system
  - Growing wealthy becomes an end itself, creates social power
  - Huge wage premiums for those working in this system –mostly white men

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).

Finance Wage Premiums

1. Jamie Dimon	J.P. Morgan Chase	$ 28.2 Mill
2. James Gorman	Morgan Stanley	$ 22.5 Mill
3. Lloyd Blankfein	Goldman Sachs	$ 22.3 Mill
6. Sergio Ermotti	UBS	$ 13.9 Mill
11. Tidjane Thiam	Credit Suisse	$ 9.9 Mill

Increasing Class, Gendered and Racial Inequality

- **Marx** has already pointed out The rich grow richer through financial manipulation while the poor become poorer through the necessity to redeem their debts

- **Thomas Piketty:**
  - Increasing Inequality: when the rate of return on capital exceeds the rate of growth of output and income
  - **2018 US: Household net wealth is most unequal, where the richest**
    - **5 % of households own 68 % of total wealth**
    - **while the bottow 60 % own just 2% of total wealth (FT, 3.7.2018, p.1).**

4. Is this System of Financialization Sustainable?

- **Giovanni Arrighi** – transition from ‚old' regimes and the simultaneous creation of ‚new' ones' **through financial expansion**
  - **Schumpeterian ‚constructive destruction'**
- Doubt that present Capitalist system leads to a creation of a new constructive productive regime
  - **Financialization and Debt-Financing is anti-value to force value production**
- **Eckhard Hein** (2018) US moved from ‚debt-led private demand boom' regime to a ‚domestic-led regime' mainly stabilised by public sector deficits.
  - High Public Sector deficits in the US will lead to less infra-structure investment, less training and eduction, reduction in social care investment
  - **More likely outcome: further tax cuts for the rich, further deregulation of finance; further decline in manufacturing (de-industrialization), further wage stagnation, increase of law and order (incarceration), further polarized political system,**
  - **US Supreme Court shift to the Right: upholding the rights of the plutocracy,**

Thank you!