IPE Berlin
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Marx's approach to finance & crisis

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A nineteenth century writer?

- Capital (vol. 1) published 1867 (three founding texts of neo-classical economics published early 1870s)
- Exile in London 1849: 1850 – 1873 British economy at peak of international dominance
- Analysis illustrated by detailed account of British economic development
- In later years Marx reportedly considered need to revise *oevre*
- Method of presentation: start from most basic cell of capitalism, the commodity, a good or service produced for exchange
- ‘Ascend from abstract to concrete’

Money

- Widespread production of goods (or services) for exchange presupposes money
  - Measure of value: crucial for decisions about production / investment
  - Means of circulation
  - Money as money
    - Store of value: criticism of Say's Law; 'possibility of crisis'
    - Means of payment (debts, taxes, interest, rent …)
    - (World money)

- Marx states he will assume money is gold
  - Paper money issued by the state can function within a country
  - Bank deposits require prior analysis of capital, credit & interest
  - Gold necessary as measure of value & as world money: but, even indirect role ended 1971

- Ability to sell a product for money effects a social validation of private expenditures of labour (Hilferding: 'collective intelligence'; Harvey: 'central nervous system')

Capital

- Capital is money that is advanced with the aim of making more money
- Source of the additional value is employment of waged workers, who create new value that is greater than their wages
- Value added = wages + ‘surplus value’ (source of profit)
- Pressure of competition obliges firms to invest part of profits in more productive technology and to benefit from economies of scale (‘concentration’)
- Takeovers and mergers create yet bigger firms (‘centralisation’)
- Concentration & centralisation continued: ‘monopolies’ late C19, multinationals after WW II, 500 companies → 37% global GDP (2018)

Top companies by market capitalisation, 2018 ($ billions)

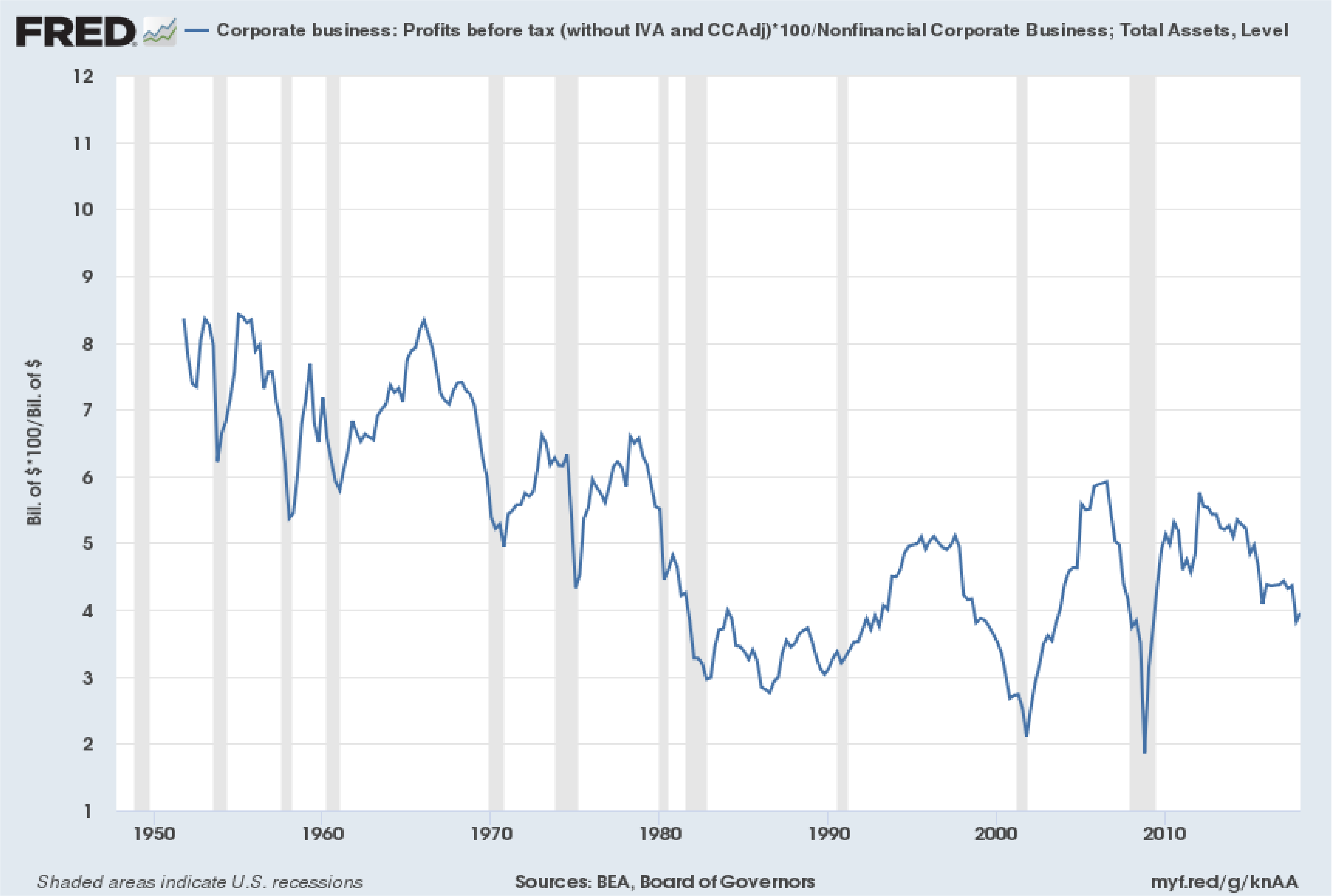
Apple	927	Visa	295	Verizon Communications	201
Amazon.com	778	Wells Fargo	265	Toyota Motor	201
Alphabet	766	China Construction Bank	261	HSBC Holdings	200
Microsoft	751	Intel	255	Boeing	200
Facebook	542	Chevron	248	AT&T	198
Alibaba	499	Walmart	246	China Mobile	193
Berkshire Hathaway	492	Nestle	237	Oracle	191
Tencent Holdings	491	UnitedHealth Group	229	Roche Holding	190
JPMorgan Chase	388	Cisco Systems	221	Citigroup	186
ExxonMobil	344	PetroChina	220	Procter & Gamble	185
Johnson & Johnson	341	Home Depot	219	Anheuser-Busch InBev	184
Samsung Electronics	326	Pfizer	208	Agricultural Bank of China	184
Bank of America	314	Taiwan Semiconductor	203	Ping An Insurance Group	181
ICBC	311	Novartis	203	Coca-Cola	179
Royal Dutch Shell	307	Mastercard	202	Total	168

Source: Forbes top 100

Economic cycles

- Capitalist growth occurs in cycles
- Profitable periods of growth tend to undermine themselves
- Three explanations in Marx
  - Rising wages during economic expansion reduce profits
  - Over-production of commodities (under-consumption)
  - Over accumulation of capital in relation to surplus generated
- Not brought together in systematic form by Marx
- Speculative bubbles in later stages of expansion accentuate over-extension
- Downturn in profitability generates crises due to credit system; crisis creates conditions for new upturn

US rate of profit, % (Federal Reserve figures)



Credit system

- Loan capital
  - Industrial capitalist operates with borrowed money
  - Surplus value generated is divided between profit & interest according to balance of supply and demand; varies over business cycle (2-year Treasury bill?)

- Credit system
  - Bill of exchange: circulate as means of payment until redemption
  - Bank deposits: created when bank advances loan (Tooke, Fullerton)

- Displacement of social validation (de Brunhoff, Lipietz)
  - Over-expansion of credit during economic expansion
  - 'Destruction' of bank money in crisis

- Convertibility of bank deposits for state money (lender of last resort)

- Post-WWII creeping inflation
  - Volcker 'dis-inflation' (1979-82): threat of financial collapse
  - Injection of capital into banks by state, October 2008 ($250 bn in US)

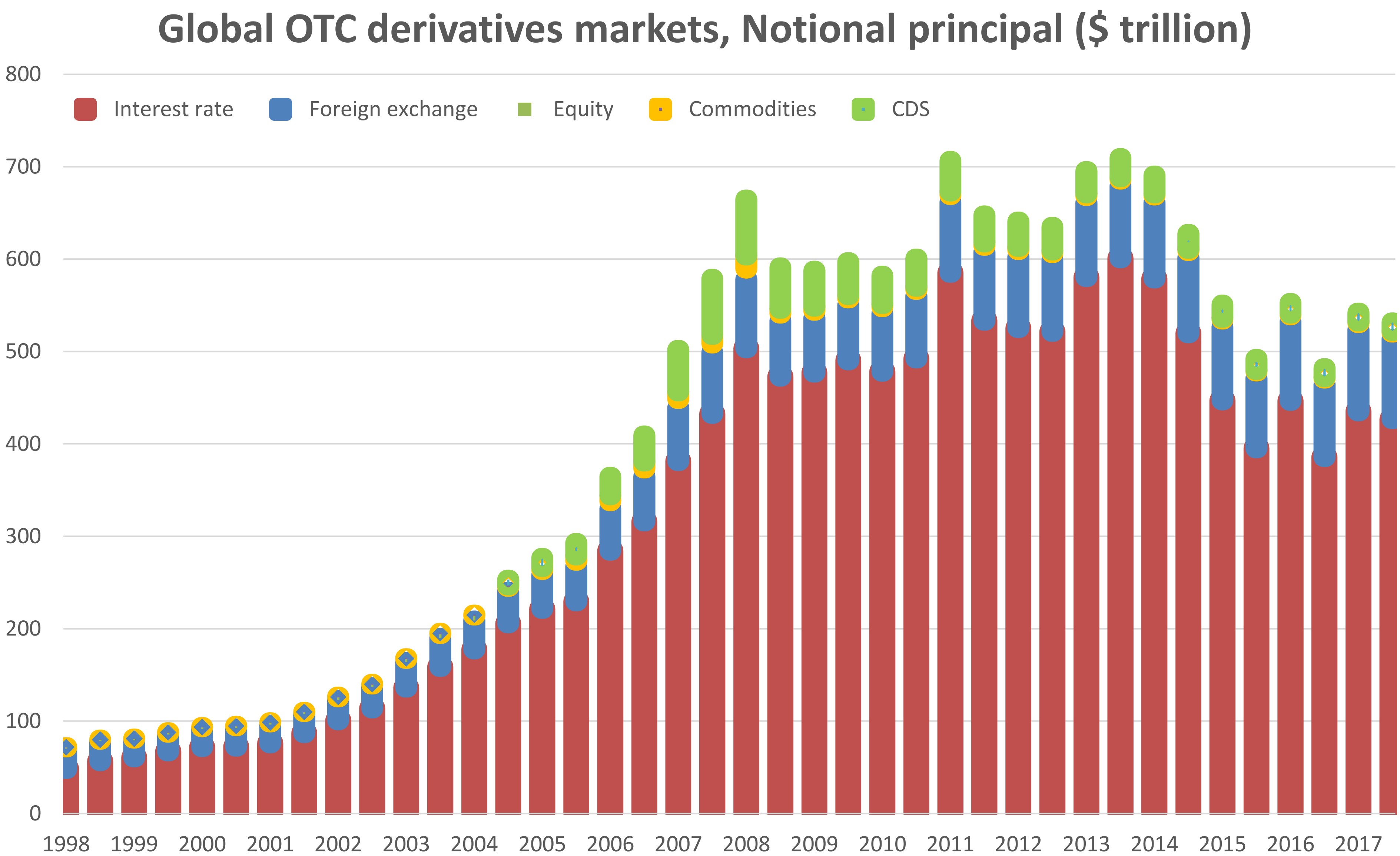
Financial (fictitious) capital

- Bonds
  - Money raised by issuer used to finance investment; bond holder receives interest and can redeem full face value on maturity
  - Holder can sell before maturity for fixed interest rate (‘coupon’) capitalised at current rate of interest
  - Capital does not exist twice, once in fixed investment and again in bond
  - Bond is claim on future profits (or taxes)
  - Major source of external finance in US
  - ‘Financial engineering’ (Collateralised Debt Obligations)

- Shares
  - Share issue finances fixed investment
  - Money spent on fixed capital; shareholder has right share of future profits
  - Future profits uncertain; share price depends on expected future profits capitalised at current rate of interest
  - Capital not duplicated in factory and share
  - No longer an important means of mobilising additional capital in US: role in restructuring (takeovers) and in tax efficient means of distributing profit

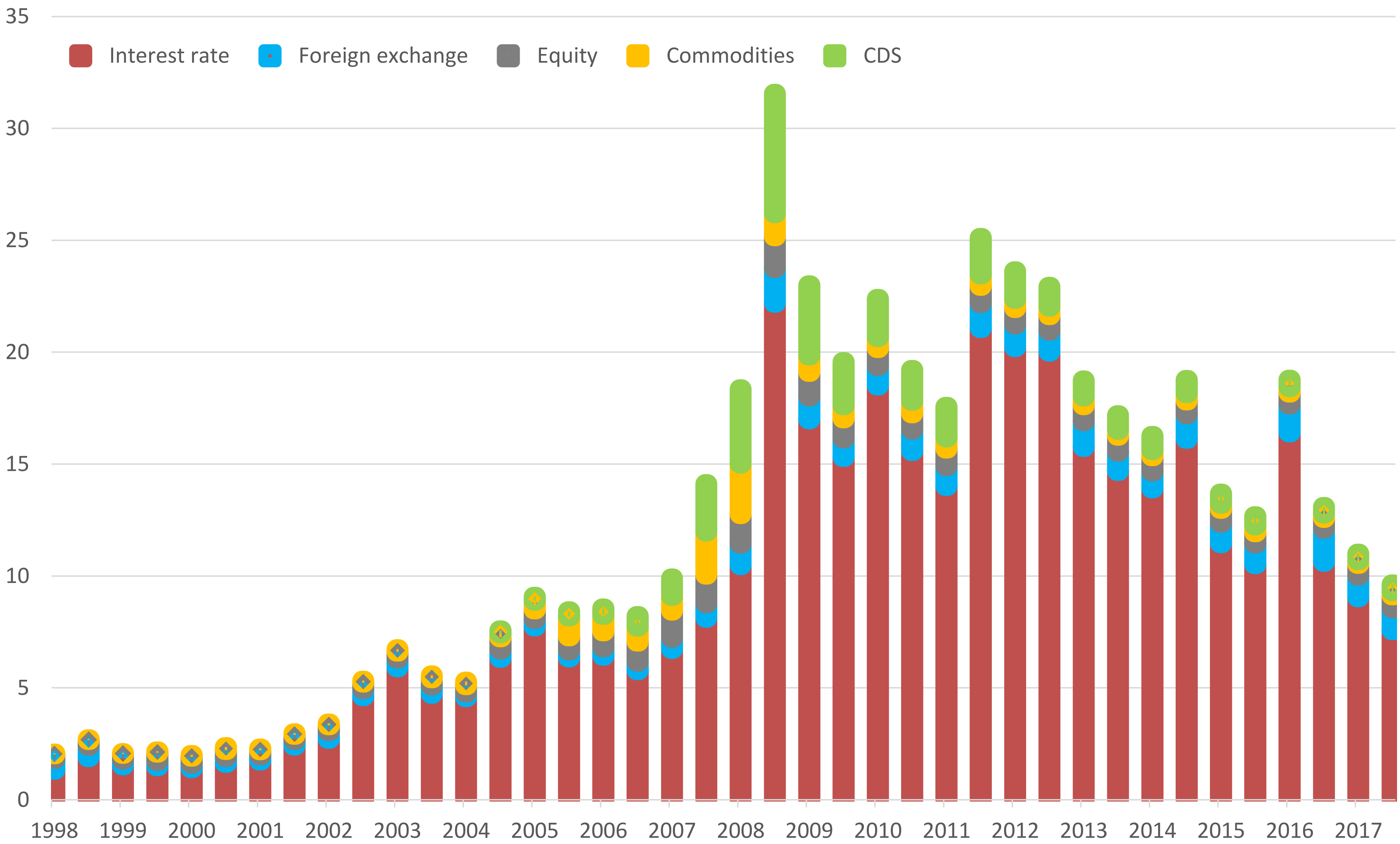
Financial derivatives

- Financial instrument not envisaged by Marx
- Not involved in mobilising capital (‘third level’?)
- Taking a position on changes in price of a financial asset
  - Forwards, futures, options …
- Massive expansion 1980s – 2008
  - response to rising financial volatility
  - by reducing uncertainty, can facilitate generation of profit
  - opportunities for (speculative) gain
- Credit default swaps: key role in 2007-08 crisis (AIG)
- Growth since levelled off, but amounts still huge



Source: BIS Data Base, Table D 5.2

Global OTC derivatives markets, Gross market value ($ trillions)



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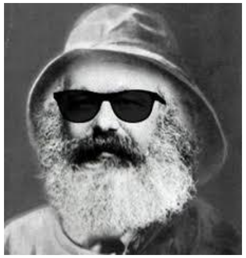
Finance and crisis



- Cyclical crises at roughly ten year intervals from 1825; increasingly severe
- Following 1929 crisis tight controls imposed on banks and international capital flows
- Post-war expansion: economic cycles muted & desynchronised; falling profitability from mid-60s
- Financial innovation: US banks circumvent controls from late 1960s
- End of fixed exchange rates 1971/73; end of US controls of capital flows 1974 & limit on interest rates 1980; deregulation of US banking 1982-99
- Since 1980s credit driven expansions in US interrupted by increasingly severe crisis in 1990-91, 2001, 2007-8
- Government intervention necessary on increasingly massive scale