VALORIZATION, FINANCIALIZATION & CRISIS:

A TEMPORAL VALUE-THEORETIC APPROACH[1]

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ABSTRACT

According to the 'financialization hypothesis', a major increase in the weight of financial capital in the operations of the global economy in recent decades signals that capitalism has entered a fundamentally new stage of its development, a stage that renders Marx's theories of labour-value and profitability crisis irrelevant to economic analysis. Drawing on theses proposed by Smith and Butovsky (S-B 2012 and 2018) and by Smith (2019), and subsequently explored empirically by Smith, Butovsky and Watterton (S-B-W 2021), this paper is a contribution to clarifying some important theoretical requirements for a Marxist value-theoretic critique of the financialization hypothesis and the elaboration of a more satisfactory, alternative account of 21st century capitalism, one that highlights a long-term 'crisis of valorization' and Marx's law of the tendency of the rate of profit to fall. Some implications for empirical Marxian analysis are also explored.

INTRODUCTION

According to the 'financialization hypothesis', a major increase in the weight of financial capital and profit in the operations of the global economy in recent decades signifies that capitalism has entered a fundamentally new stage of its development, one that effectively vitiates the relevance of Karl Marx's theories of labour-value and profitability crisis to the analysis of 21st century capitalism. Proponents of this hypothesis include a heterogeneous collection of mainstream, radical-heterodox, and neo-Marxist economists (and political economists). Notwithstanding significant differences, these commentators are united in their mutual resistance to the thesis that the long-term profitability (valorization) problem faced by productive capital over the past half century is at the root of a deepening structural crisis of global capitalism and key to explaining the significance and real contours of the financialization phenomenon itself.

This paper argues that Marx's theory of value, his notion of fictitious capital, and the concept of 'valorization crisis' are essential both to explaining the malaise of twenty-first century capitalism and to making the strongest possible case for its historical obsolescence. Nevertheless, this theoretical framework requires certain refinements. In particular, the Marxian categories of constant capital, variable capital, surplus-value, and fictitious capital/profit must be understood, above all, as *temporal modes* of abstract labour, the 'social substance' of value. This means that constant capital refers not only to physical means of production but also to the temporal mode of 'previously existing value', encompassing a wide range of 'systemic overhead costs'; that variable capital and surplus-value refer to the temporal mode of current 'new value'; and that fictitious capital and profit refer to the temporal mode of 'anticipated future value', that is, to value that finds current monetary expression but has yet to be created. In our view, these theoretical postulates are important to empirically confirming the theory of valorization crisis and its centerpiece: Marx's law of the tendency of the rate of profit to fall (LTRPF).

THE CAPITALIST LAW OF VALUE: SOME FUNDAMENTAL POSTULATES

Our argument proceeds from the following propositions, which are central to Marx's theory of labour-value and his analysis of the capitalist mode of production:

1) Living labour directly involved in producing commodities is the sole source of all 'new value', a category that encompasses both the wages of productive workers (variable capital) and the surplus-value appropriated by the capitalist class. Economic value is a *social relation of people to people.* Under capitalism, it underpins the social division of living labour, the allocation of resources, and the (class-antagonistic if also unconscious) measurement of wealth in terms of labour time (via money).
2) The social substance of value is abstract labour, its measure is socially necessary labour time, and its form of appearance is money. Value exists as a *definite quantitative magnitude* that sets parametric limits on such phenomenal monetary categories as prices, profits, wages, interest, etc.
3) Capital accumulation depends on the creation of *surplus-value*, which is appropriated by the capitalist class and distributed primarily as profit of enterprise, interest, and rent.

Limited space precludes further elaboration here, but a full account and defense of these postulates may be found in Smith (2019).

ECONOMIC CRISIS & CAPITALISM

The historically specific *form* of capitalist economic crisis is the overproduction of commodities. Periodically, too many commodities are produced relative to the money-backed ('effective') demand that exists for them. But overproduction is *not the root cause* of crises. Rather that cause is declining profitability – a fall in both the rate and mass of profit. Effective demand is regulated by the level of capitalist *profitability and investment* (with credit and taxation playing supplementary roles within definite limits). Conjunctural crises are always triggered by specific circumstances and factors, but common to them all is the problem of *insufficient surplus-value creation relative to capital investment and rising systemic costs*.

SURPLUS-VALUE & VALORIZATION CRISIS

Surplus value – the lifeblood of the capitalist profit system – is solely created by productive wage labour directly involved in capitalist commodity production. The creation of surplus-value is a *valorization process*: the process whereby capital increases its own *real* value through the exploitation of productive labour (Marx 1977).

Within capitalist production, valorization processes and labour processes are dialectically related and form a contradictory unity. Changes in one affect the other. Thus, labour-saving technical changes in the production process signify an increased reliance on relative surplus-value, while the resulting fall in average profitability compels greater reliance on the production of absolute surplus-value (imposition of longer hours, speed-up, intensification of the labour process, etc.). Valorization occurs through the generation of both absolute and relative surplus-value.

A general crisis of valorization, for our purposes, refers to problematic conditions in which an insufficient mass of surplus value is produced relative to the changing requirements of the social capital. These requirements involve several factors – above all, adequate rates of return on productive capital investment, 'acceptable' systemic overhead costs, and manageable levels of debt (S-B-W 2021: 129). Accordingly, a general crisis of valorization can find expression in 1) the tendency of the average rate of profit to fall due to labour-displacing technological change (a rising organic composition of capital), 2) a hypertrophic expansion of the state and the sphere of circulation (in particular, the growth of the wage bill of unproductive labour), and 3) excessive proliferation of fictitious capital (claims on value yet to be created).

We argue that since the 1970s, capitalism has been in the grip of an evolving valorization crisis, the most observable expression of which has been a marked slowdown in the rate of growth of the global economy (see Tables 1 and 2).

TABLE 1

Average Annual Growth Rates of Global GDP by Decade and from 2011-17

1960s	1970s	1980s	1990s	2000s	2011-17	2019
4.9%	3.93%	2.95%	2.70%	2.58%	2.75%	2.5%

Source: World Bank

Note: Unlike previous periods listed above, no significant *global recession* occurred in the 2011-17 period. We were 'overdue' for such a recession when the CovId-19 pandemic struck in early 2020

TABLE 2

Average Annual Growth Rates of Combined GDPs of the Top 35 'Advanced Capitalist Economies' by decade, and during 2010-14

1980s	1990s	2000s	2010-14
3.09%	2.64%	1.65%	1.70%

Source: IMF, World Economic Outlook Database

Note: China is not included

The onset of the long-term crisis of valorization can be dated to around 1973. If we divide the post-war era of 1950 to 1993 into two discrete periods, the declining dynamism of the capitalist mode of production is thrown into sharp relief. Table 3 compares the performance of the dominant (G7) countries of the capitalist West during the 1950-73 and 1973-93 periods (the latter constituting the first phase of the 'neoliberal' era).

TABLE 3

INDICATORS OF ECONOMIC MALAISE: THE G7 NATIONS, 1950-93

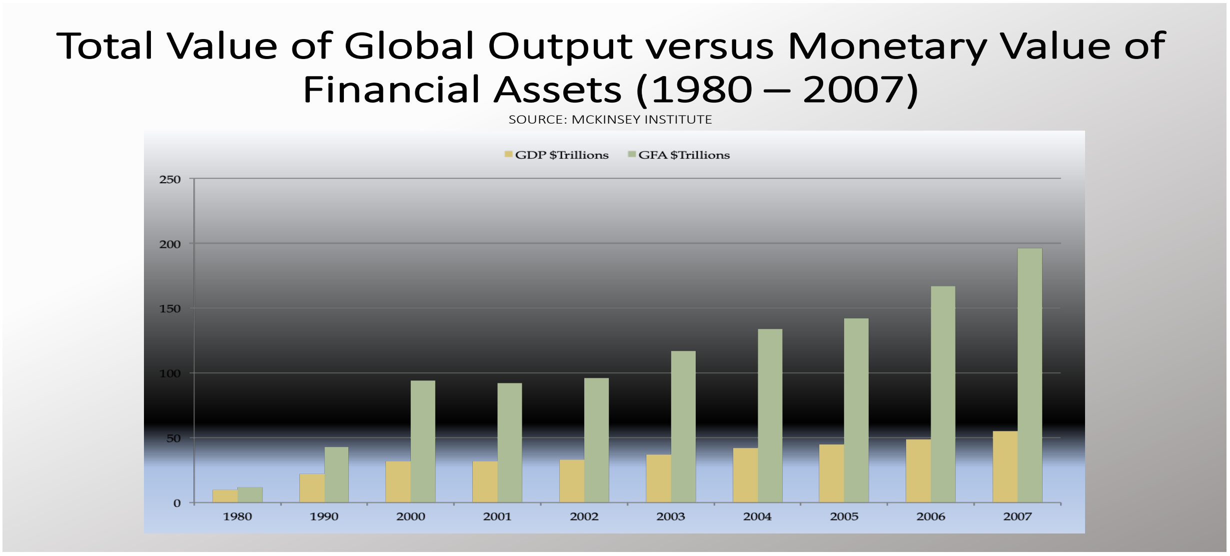
INDICATOR	1950-1973	1973-93
AVERAGE ANNUAL GROWTH RATE, PRIVATE BUSINESSES	4.5%	2.2 %
AVERAGE ANNUAL GROWTH OF LABOUR PRODUCTIVITY	3.6%	1.3%
AVERAGE UNEMPLOYMENT RATE	3.1%	6.2%

The period from 1993 to 2007 can be viewed as something of a respite from what Brenner (1998) has called the ‘turbulence’ of the ‘long downturn’. But it was also marked by the ‘rise of finance’, the ‘dot-com bubble’, persistent lack-luster profitability for productive capital, and the explosive growth of fictitious capital. These developments paved the way for the financial crisis of 2007-08 and the Great Recession of 2008-09 – the latter constituting the inaugural event of what Roberts (2016) has aptly called the Long Depression of the 21st century.

THE RISE OF FINANCE: PRELUDE TO THE GREAT RECESSION

A few figures will serve to illustrate that a growing reliance on innovative financial mechanisms and an extraordinary expansion of fictitious capital were key to the social capital’s effort to restore a semblance of prosperity and robust profitability during the transition period of 1993-2007. In 1980, the U.S. financial sector accounted for just 10 percent of total profits; by 2007, that figure had risen to 40 percent. Between 1981 and 2008, credit-market debt in the U.S. grew from 164 percent to 370 percent of GDP. Most strikingly of all, world financial assets (bank deposits, securities, and shareholdings) mushroomed from just 119 percent of the value of global output in 1980 to 356 percent in 2007 (see Chart 1).

CHART 1



FINANCIALIZATION OR VALORIZATION CRISIS?

Proponents of the financialization hypothesis hold that financial capital has effectively displaced productive capital from its previously dominant role in the developed capitalist economies and the global economy. Moreover, they often assert that the contemporary malaise of global capitalism stems precisely from this phenomenon and not from a structural crisis of capitalist production and profitability. Mavroudeas (2018) and Subasat and Mavroudeas (2021) have argued correctly that this view vastly overstates the extent to which twenty-first century capitalism has been transformed and rendered vulnerable mainly to financial disturbances (à la Minsky). Nevertheless, the financialization phenomenon is a real one and amenable to Marxist analysis. In our view, the phenomenon should be regarded as a perverse expression of the *profitability and valorization problems of productive capital* – and therefore of capital in general. Counterposed to the 'financialization hypothesis' is the theory of valorization crisis, the centerpiece of which is Marx's law of the tendency of the rate of profit to fall (LTRPF).

POSTULATES OF MARX'S LTRPF & VALORIZATION-CENTERED THEORY OF CRISIS

For Marx (1973 and 1981), the LTRPF is the expression of a recurrent and growing contradiction between the development of the forces of production (the 'social productivity of labour') and definite limits to their expansion imposed by capital's exploitative and competitive relations of production. The following postulates are foundational to Marx's law of profitability and conception of capitalist economic crisis:

1) *Technological innovation that displaces living labour from production depresses the average rate of profit,* since only living, productive wage-labour creates *surplus-value* (the social substance of profit, rent and interest).

2) The tendency for the rate of profit to fall is offset by *counteracting factors*, including measures taken by the state in support of capital accumulation, although these factors cannot entirely negate what Marx called 'the law as such'.

3) Economic crises create conditions for restoring profitability (up to a point), but also tend to become more acute over time. The *secular trend* of the rate of profit is downward, barring a massive 'slaughtering' of capital values.

4) The fundamental issue in capitalist economic crises is not a problematic 'distribution of income,' but *insufficient production of surplus value*.

MARX'S VALUE CATEGORIES

To grasp the LTRPF adequately and explore it empirically requires a clear specification of Marx's 'value categories.' Gross product (P) comprises three value components: $P = c + v + s$, where, c = constant capital (*previously existing value* invested in machines, raw materials, built environments, and other costs of doing business)

v = variable capital (*new value* realized as wages of *productive* workers)

s = surplus value (*new value* realized as profit, interest, rent, executive salaries, etc.)

The most difficult problem presenting itself is the value-theoretic specification of *unproductive wage-labour (UL)* – that is to say, labour performed in the sphere of ‘reproduction’ (commerce, finance, certain service industries, and the state). Among those upholding Marx’s productive-unproductive distinction, there are two camps: those who subsume UL under surplus-value (the conventional approach), and those who subsume UL under an expanded concept of constant capital (the approach defended here). In our view, *all* costs of capitalist production and reproduction, with the singular exception of the productive-labour wage bill, should be treated as elements of the *constant capital flow*. At the same time, this flow should *not* be confused with the *constant capital stock,* which is the denominator of the Marxian rate of profit (s/C) and the numerator of the composition of capital (C/s+v).

TABLE 4

Conceptualising Socially Necessary Unproductive Labour (SNUL) in Relation to Marx's Value Categories of Variable Capital, Surplus-Value and Constant Capital

SNUL wage costs considered as a mode of value: three views	Does SNUL produce surplus-value?	Does SNUL produce new value?	Does SNUL preserve previously existing value?	Does SNUL function as variable capital?	Are SNUL wages a component of social surplus-value?	Are SNUL wages a component of the constant capital flow?
1. As variable capital (denies u-p distinction)	Yes	Yes	Yes	Yes	No	No
2. As surplus-value (upholds u-p distinction)	No	No	Probably No, but unclear	No	Yes	No
3. As constant capital (upholds u-p distinction)	No	No	Yes	No	No	Yes

Once again, space doesn't permit a full discussion of the issue of unproductive labour (for this see, Smith 2019, Chapter 8). However, it should be highlighted that the specification of UL wage costs as part of the constant capital flow, rather than as a component of currently produced surplus value, avoids the fetishistic error of reducing constant capital simply to 'physical means of production' while also affirming that SNUL is indeed a *systemic cost*. The value embodied in SNUL wages, no less than the value of other constant-capital costs, is 'accounted for' and 'preserved' through a *labour process*. In the case of fixed and circulating constant capital in the sphere of production, the *previously existing value* is preserved by living, productive labour, while in the case of the SNUL wage bill, it is preserved by the activity of unproductive labour (in the spheres of both production and reproduction). Accordingly, SNUL costs belong to *the temporal mode* of previously existing value, just as other 'capital consumption' costs do.

THE TEMPORAL MODES OF VALUE AND FICTITIOUS CAPITAL/PROFIT

Traditionally, Marxists have considered just *two* temporal modes of value: New Value (s and v) and Previously Existing Value (c). But in this era of rampant 'fictitious capital' (FC) we need to examine a third mode (one only hinted at by Marx), namely Anticipated Future Value (AFV).

Money profit flowing from FC should not be regarded as surplus-value but as fictitious profit and therefore as AFV – profit arising from 'relations of credit/debt rather than production' (G. Carchedi 2011). Fictitious capital and profit are claims on future value – value not yet produced. The poor performance of 'advanced' capitalism has been partially concealed by the widespread proliferation of fictitious profits that are included in official statistics alongside actual profits based on surplus-value and the exploitation of productive labour. The upshot is that money profits, particularly in the FIRE (finance, insurance, real-estate) sector, are less and less likely to represent (redistributed) shares of surplus-value originating in the sphere of production, and "more and more likely to represent shares of AFV circulating as paper assets in an increasingly debt-burdened economy" (S-B-W 2021, p 186).

The enormous hypertrophy in the 'value' of financial assets and debt obligations in recent decades means that the specific weight of AFV as a component of corporate profits recorded in national income accounts has increased rapidly. To the extent it's measurable, AFV should therefore be deducted from the conventional measures of profit (just as capital gains are) to arrive at more reliable estimates of the mass of surplus value.

FALLING PROFITABILITY & VALORIZATION CRISIS: SOME EMPIRICAL EVIDENCE FROM THE U.S. ECONOMY, 1950-2019

In this section, we summarize the results of our 'empirical test' of Marx's LTRPF and other manifestations of the crisis of valorization afflicting 21st century capitalism.

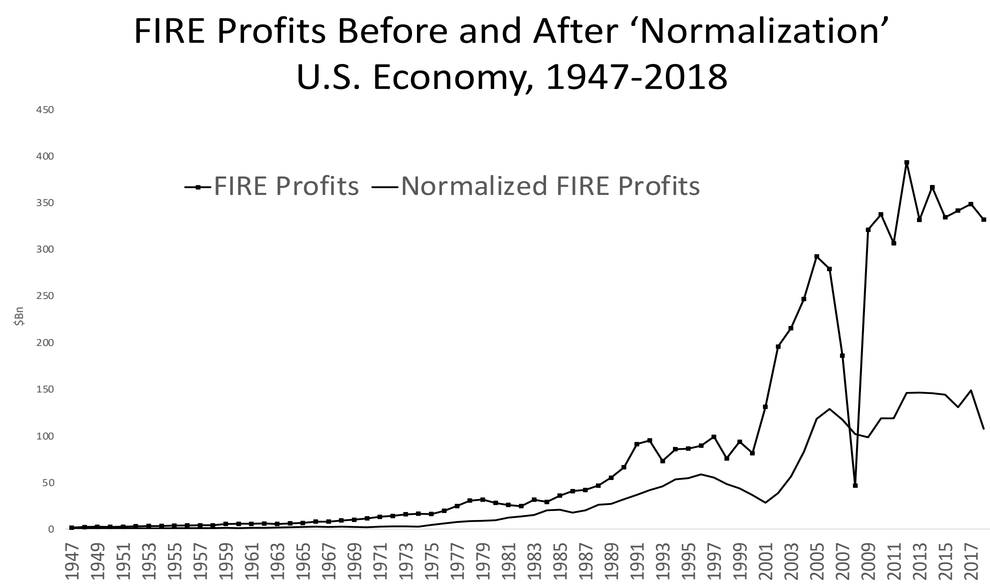
<u>Main Results</u>

1) The Rate of Profit (s/C) reached its lowest point in 2001 and its long-term trend line has been downward, although with many fluctuations.
2) The Organic Composition of Capital (C/s+v) rose into the 1970s, fell for a few years, and then rose more-or-less continuously thereafter. Its trend line has been strongly upward.
3) The Rate of Exploitation (s/[v+u]) declined gradually up to the 1980s but rose sharply from 1986 to 2019.

These findings reveal that the actual performance of the U.S. economy – the dominant capitalist economy in the world – conformed closely to Marx's theoretical expectations. Indeed, the real history of U.S. capitalism can be coherently and powerfully explained on the basis of the LTRPF. It should be noted, however, that our results are partly predicated on an attempt to remove fictitious profits from our estimates of surplus-value. This was accomplished above all by comparing the figures for booked FIRE profits in the national income accounts to the 'normalized' profits that would have accrued to FIRE if this sector had experienced the same average rate of profit as productive and commercial sectors. In other words, our estimates of surplus-value ('real profit') include only 'normalized' FIRE profits.

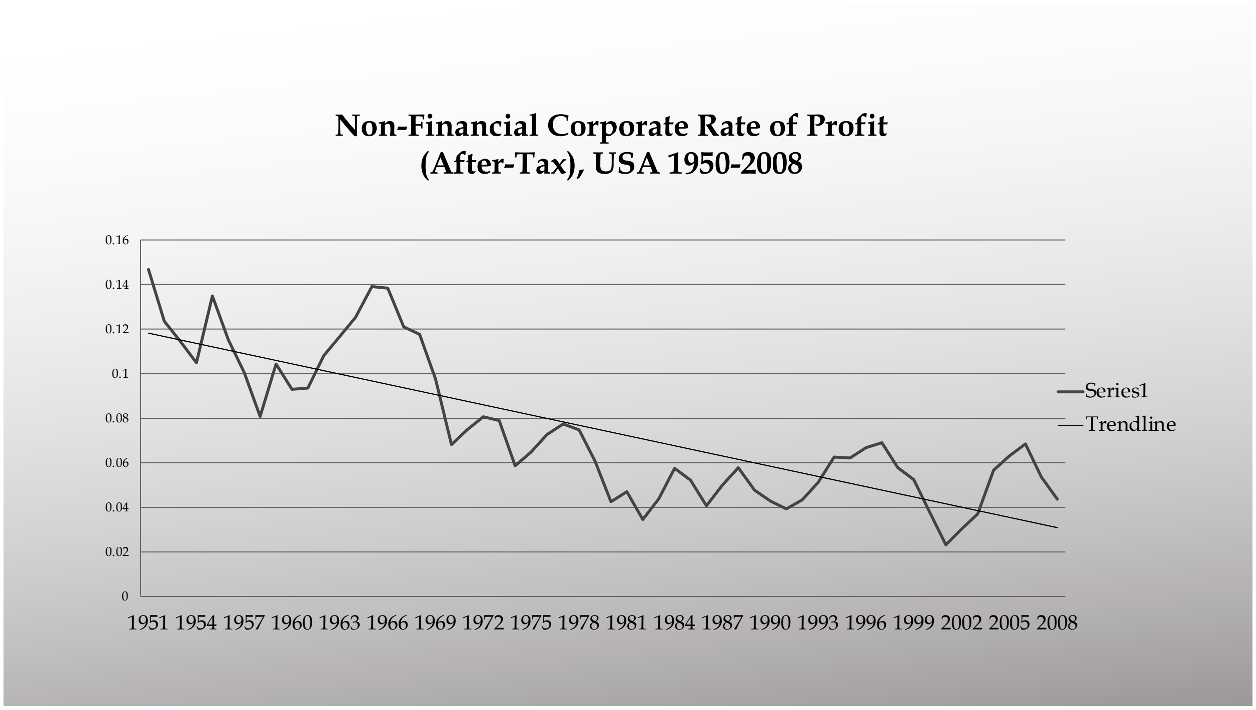
We acknowledge that the normalization procedure employed to remove 'fictitious profit' from our estimates is not fully adequate to the task (since, *inter alia*, fictitious profit may appear in the booked profits of non-FIRE sectors as well). Nor does our procedure take into account that financial capital, owing to its specific functions within the division of labour of the social capital, requires a sectoral rate of profit somewhat higher than the ‘general’ rate of profit. Nevertheless, Chart 2 illustrates vividly how the FIRE sector’s traditional profit ‘premium’ has grown to truly extraordinary proportions since the end of the Second World War. It should be apparent that this growth is intimately connected to the proliferation of fictitious capital and debt obligations.

CHART 2



An alternative strategy for ‘abstracting’ from the problem of fictitious profit is to simply remove all FIRE profits from the calculation of the average rate of profit. This strategy was pursued in our earlier work (S-B 2012 and S-B 2018) and the result is depicted in Chart 3.

CHART 3



Carchedi and Roberts (2018) have pursued still other strategies for minimizing the anomalous effect of growing fictitious profits on the measurement of surplus value and the analysis of the fundamental Marxian ratios. These too exhibit certain strengths as well as problems. Taken together, however, all such approaches and analyses converge toward a common conclusion: profitability crises result from a rise in the 'composition' of capital (see Charts 4, 5, 6 and 7).

CHART 4

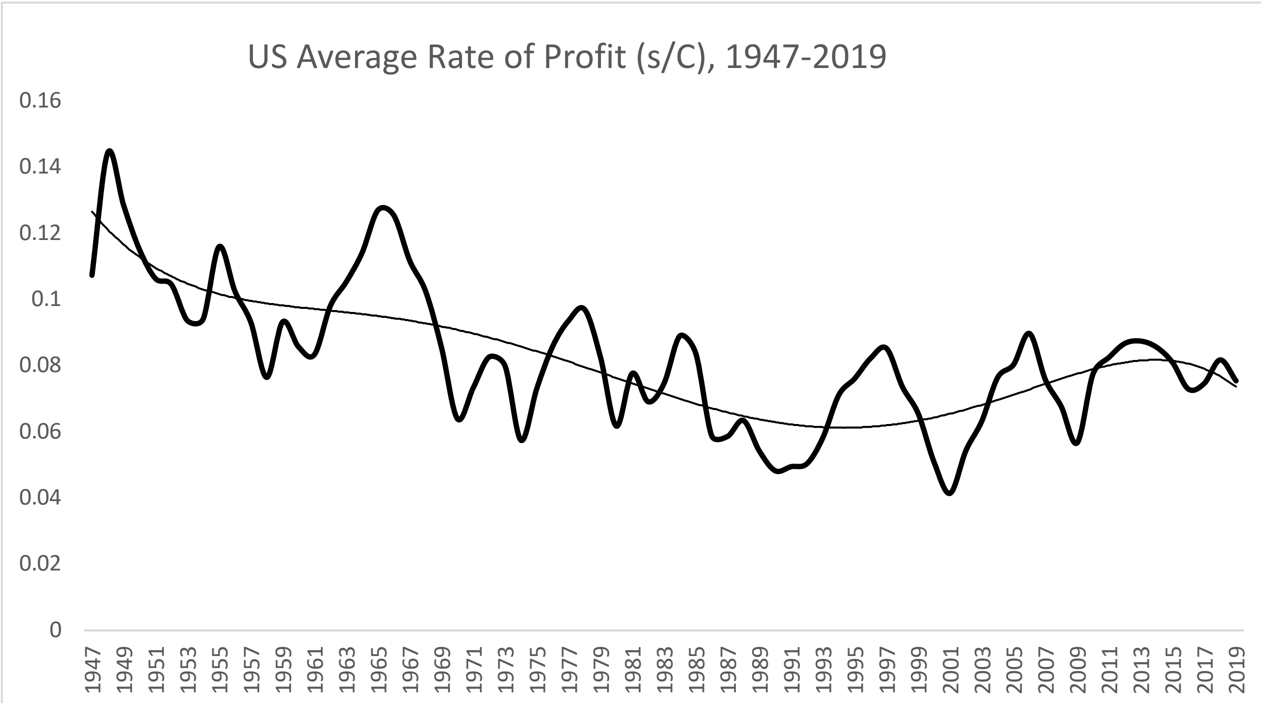


CHART 5

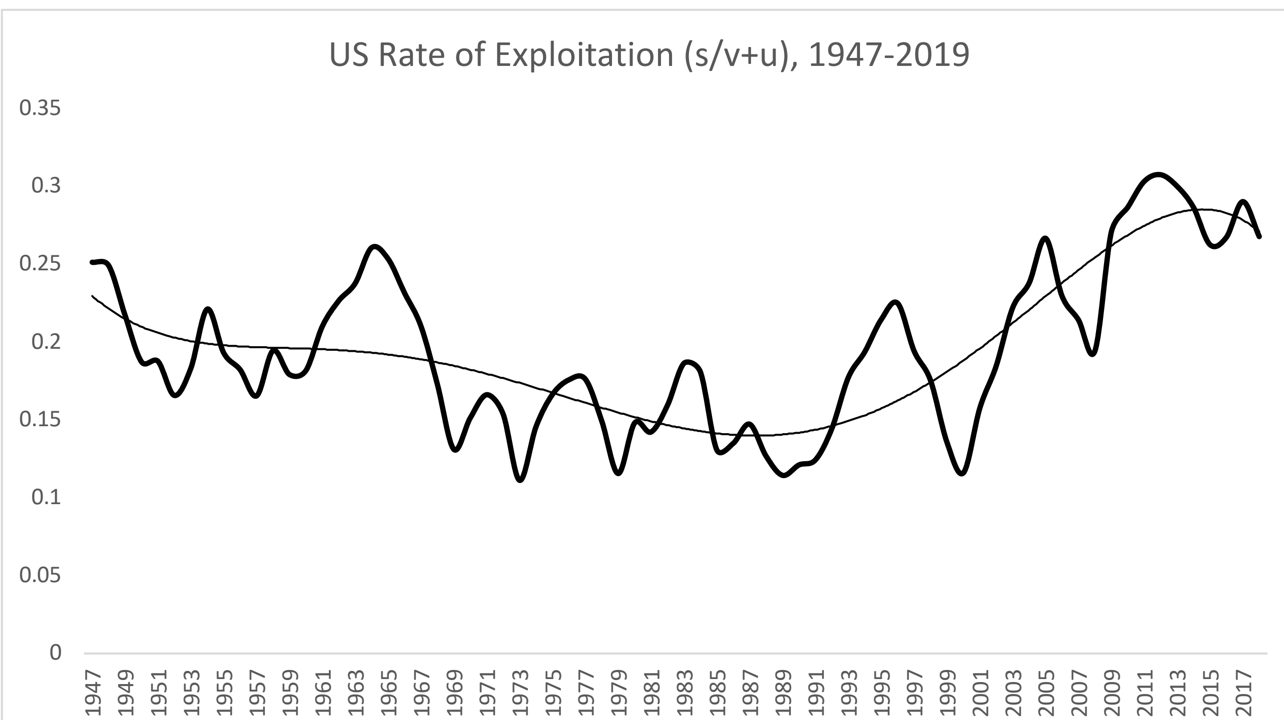


CHART 6

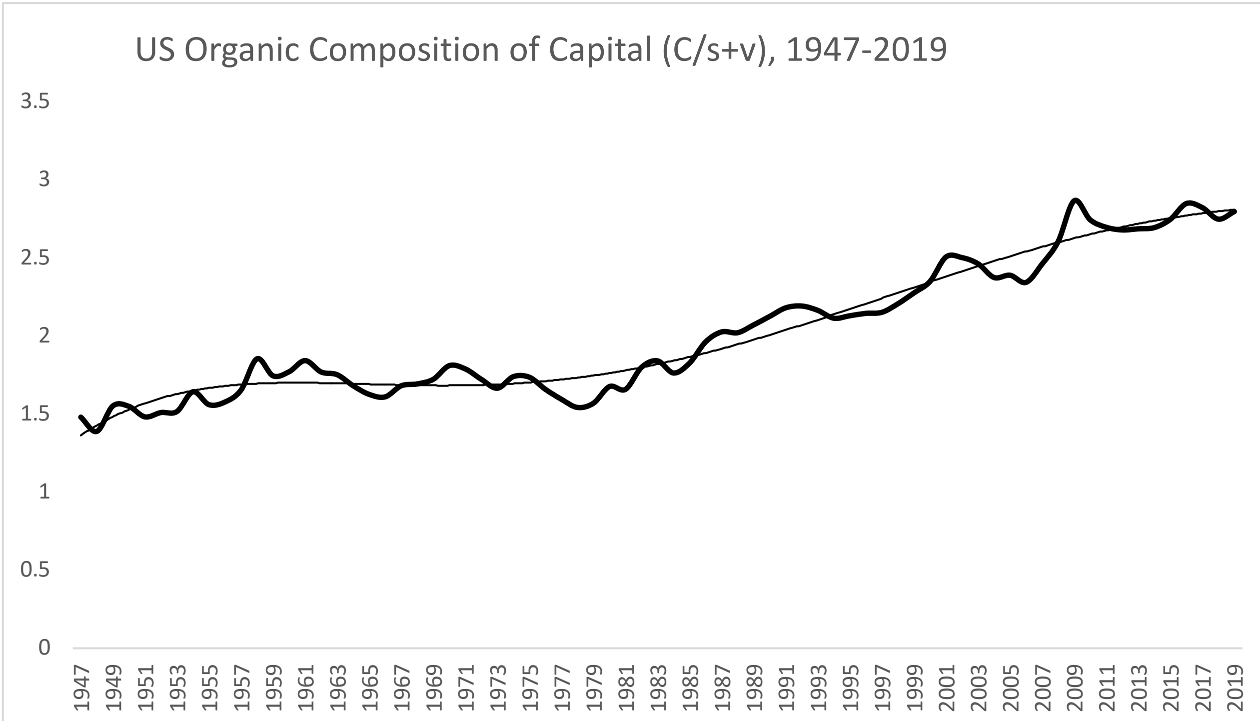
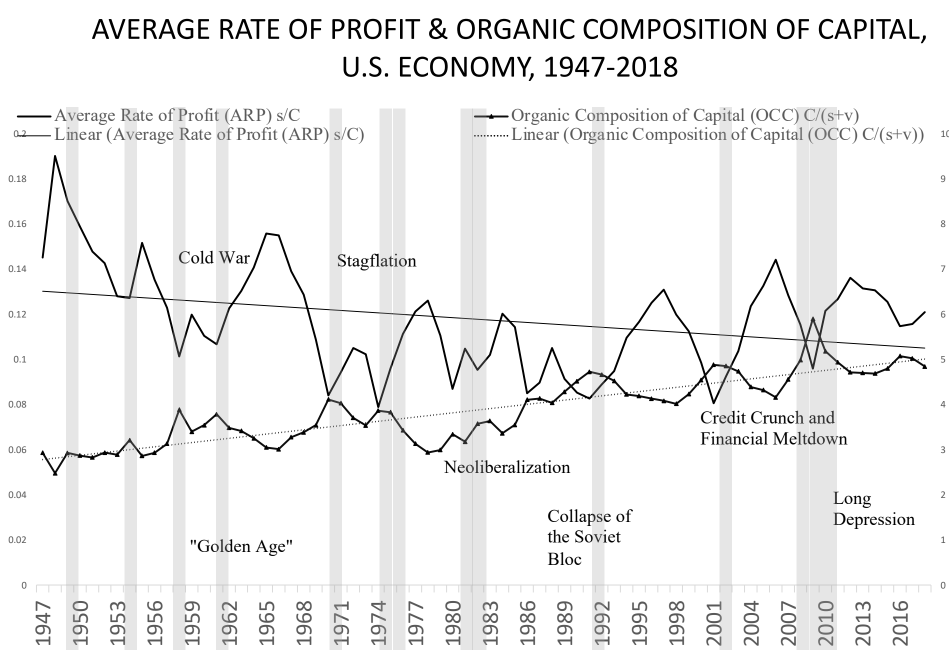
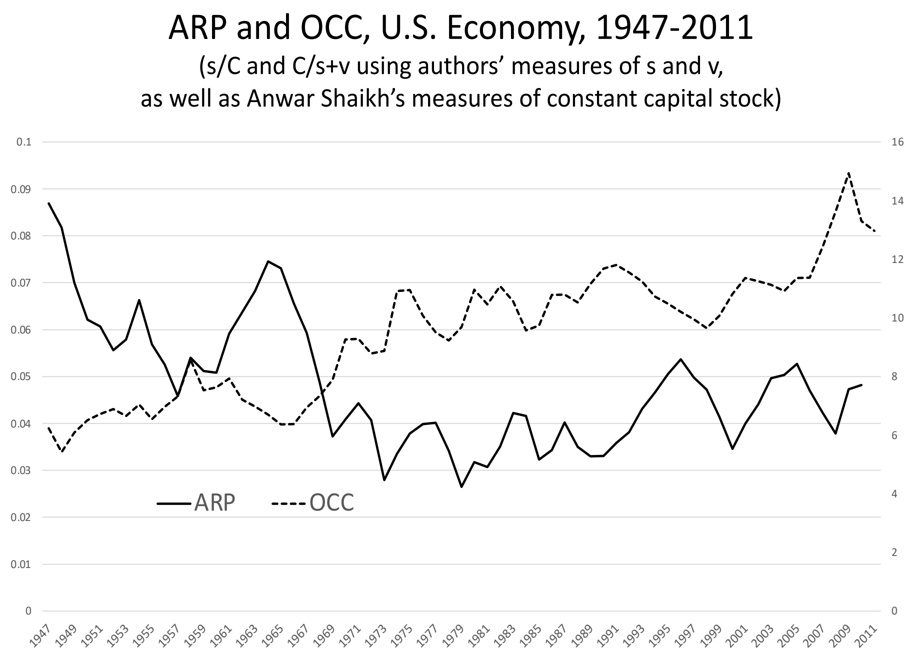


CHART 7



We note that Chart 7 compares linear trends for the ARP and OCC using slightly different measures than those employed in Charts 4 and 6, while Chart 8 below employs the capital stock measures calculated by Shaikh (2016).

CHART 8



ADDITIONAL INDICATORS OF VALORIZATION CRISIS

Our theorization of the potential role of growing systemic costs (above all SNUL wages) in the unfolding valorization crisis of the past fifty years prompted us to empirically investigate two other trends in the U.S. economy: the ratio of new value to previously exiting value (NV/PEV, calculated as the sum of surplus-value and variable capital to an estimate of the total constant capital flow); and the evolving percentage of SNUL wages in the value of total output. Chart 9 discloses a long-term but very gradual decline in the NV/PEV ratio, a trend that points to insufficient production of surplus-value in the long term.

CHART 9

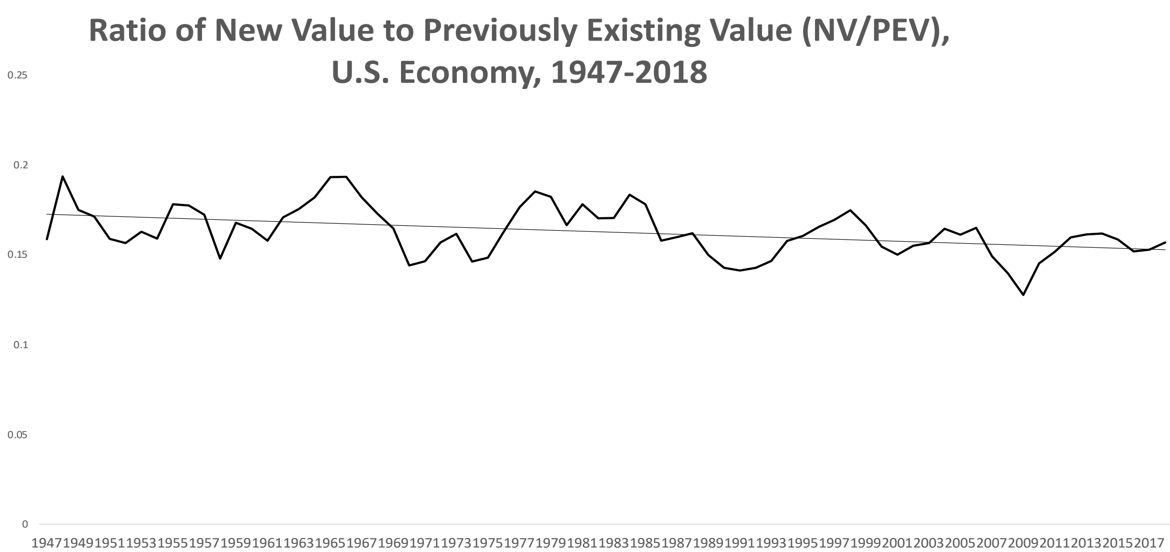


Chart 10 reveals a definite upward trend for SNUL wages from 1950 to the early 1970s, followed by extreme fluctuations up to about 1992 and a pronounced downward trend thereafter. All this suggests that stabilizing and then reducing SNUL wage costs was a key 'neoliberal' counteracting factor to falling profitability from the mid-1970s onward.

CHART 10

By the 1990s, the strategy of reducing (unproductive) 'systemic overhead costs' was augmented by increasing reliance on the proliferation of fictitious capital and the accumulation of debt. Indeed, the latter became something of a perverse substitute for the accumulation of productive capital. Capitalism's fragile 'stability' continues to rely on mechanisms (such as quantitative easing, extremely low central-bank interest rates, and corporate buy-backs of stock equities) predicated on precisely this 'strategy'.

THE BOTTOM LINE

The organic composition of capital, however, continues to rise. Since the 2008 crisis, the ARP has yet to return to its 2006 level, not to mention its peak of the mid-1960s. The U.S. economy is mired in a long depression (global in scope) the fundamental cause of which appears to be a persistently high organic composition of capital.

CONCLUSION

Marx's theories of value and crisis, including his law of the tendency of the rate of profit to fall, provide a theoretically robust and empirically verifiable explanation of the real history of capitalism since the Second World War. All genuinely 'new' phenomena highlighted by proponents of the 'financialization hypothesis' can be accounted for within the Marxian framework. The programmatic conclusion flowing from our analysis of capitalism's general crisis of valorization remains the imperative need to replace capitalism with socialism.

The financialization hypothesis, on the other hand, is both empirically and theoretically weak in its explanatory power. Its main purpose is to leave open the possibility of overcoming the malaise of world capitalism through some combination of 're-regulation' of finance, monetary reform, and/or redistribution of a mass of 'new value' that, from our perspective, appears to be diminishing relative to the total value of (real) capital investment and overall systemic costs.

NOTE ON SOURCES AND METHODS

Details concerning our methods and the sources of data used in our analysis of the U.S. economy can be found in the appendix to Chapter 5 of *Twilight Capitalism.* This is available at: https://fernwoodpublishing.ca/files/twilight_capitalism_appendices.pdf .

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ENDNOTE

[1] Paper presented to World Association for Political Economy (2021) Forum, GAPE Panel (Webinar) on "Capitalist Accumulation and the Financialisation Hypothesis: A Critical Review," December 18, 2021.