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**'The Financialisation Hypothesis and Marxism:
a positive contribution or a Trojan Horse?'**

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ABSTRACT

The Financialisation Hypothesis is a popular trend in contemporary Radical Political Economy. It maintains that capitalism has nowadays entered a new stage where money capital dominates the whole circuit of capital dethroning productive capital. More ambitious versions of the Financialisation Hypothesis uphold that money capital becomes totally independent from productive capital (as it can directly exploit labour through usury) and it remoulds the other fractions of capital according to its prerogatives. This paper argues that the Financialisation Hypothesis is a false turn for Marxist analysis. It misrepresents contemporary developments in capitalism and in particular it fails to understand the function of fictitious capital in times of prolonged crisis and stagnation. Moreover, it deforms Marxist economic analysis by adopting post-Keynesian arguments that lead to the abandonment of the Labour Theory of Value and the associated with-it theory of money. This paper argues that the classical Marxist economic and monetary analysis has better explanatory power than the Financialisation Hypothesis and thus can grasp more realistically developments in contemporary capitalism.

I. Introduction

The Financialisation Hypothesis (FH) is a popular argument in contemporary Heterodox Economics, Marxist Political Economy but also in Mainstream Economics. Its basic thesis is that modern capitalism has undergone a radical transformation during the last three decades. The financial system, through a series of innovative mechanisms, has conquered capitalism's commanding heights, became independent from productive capital and has transformed the whole system according to its own prerogatives. This

new financialized (or financial or finance-dominated or fiduciary) capitalism operates completely different from traditional capitalism.

The FH proposes four stylised facts as its factual basis:

- 1) The increased weight of the financial sector in contemporary advanced capitalist economies (share in GDP, profits, new complex financial instruments).
- 2) Corporate sector's recent trend to finance itself through retained earnings, capital markets and 'shadow banking'.
- 3) The adoption by firms of shareholders' value maximization policies and the related prominence of institutional investors.
- 4) The increased indebtedness of working and middle-class households in several advanced capitalist economies.

The combined result of these processes is that (a) productive capital depends totally upon money capital and transforms its modus operandi according to the latter's requirements and (b) working -class depends directly upon money capital, which exploits it through usury.

This new finance-dominated capitalism is crisis-prone because of its inherent financial instability. Concomitantly, the 2008 global capitalist crisis is considered as a financialisation crisis, caused by financial bubbles and without roots in real accumulation (which was only subsequently affected by finance's deleveraging).

FH's shot to prominence made it a leitmotif at the cost of analytical coherence.

This paper discusses the Marxist and Marxisant versions of the FH and argues that they misconceive the actual workings of modern capitalism leading to an explanatory blind alley. The spectacular ballooning of the financial system during the recent decades of weak profitability and accumulation does not constitute a new epoch, let alone a new capitalism. Instead it constitutes a well-known capitalist reaction in periods of weak profitability. This does not preclude the proliferation of new financial instruments which give new special forms of appearance to a usual capitalist process. Contrary to the FH, it will be argued that the Classical Marxist theory of crisis and fictitious capital offers an analytically and empirically superior understanding of this process.

The FH autonomises completely money-capital (that is the fraction of capital that operates in the financial system) from productive-capital and, furthermore, superimposes it on the latter. On top of that the FH maintains that money-capital acquires also means of existence and operation totally independent from productive-capital. This FH argument creates no problems for Mainstream financialisation theory as Neoclassical economics consider the financial system as an independent creator of wealth. However, it is a big leap for those FH currents that ascribe to Political Economy. Political Economy – both Classical and Marxist – considers productive-capital (that is capital engaged in the sphere of production) as the locus of surplus-value creation. The other two main capitalist fractions (money and commercial-capital) operate in the sphere of circulation. They do not produce surplus-value but reap parts of the surplus-value created under productive-capital as payment for their necessary functions. The FH, by rejecting this perspective, actually signifies not a new epoch of capitalism but a new capitalism with different classes and different functions. This is a scenario far removed from reality.

II. The FH and its Marxist and Marxisant versions

The notion that there was some structural break in capitalism's historical evolution after which the financial system conquers the system's commanding heights is not new. Hilferding's (1910 (1981)) seminal work contemplated the idea about a new strategic importance of the financial system for capitalist reproduction. He argued that because of the increased concentration and centralization of capital and the augmented financial requirements a new hybrid form of capital (*finance capital*) has emerged. This is the fusion of productive-capital with banking-capital (a section of money-capital) under the dominance of the latter. Implicitly, Hilferding considered this as a new era of capitalism; although he never ventured to state it explicitly. With the emergence of finance capital, finance has dethroned productive-capital from its dominant position in the total circuit of capital. There are well known deficiencies of Hilferding's finance capital thesis. First, he implicitly side-steps the Marxian Labour Theory of Value (LTV) and proceeds with a problematic theory of monopoly pricing. Second, the empirical validity of the finance capital concept has been disproved (Bond (2010), Harris (1988)). This fusion of productive with banking capital materialized only in a minority segment of the advanced capitalist world. Indicatively, it did not materialise in several crucial Anglo-Saxon economies where the stock exchange rather than the banking system constitutes the main source of finance for private enterprises.

Hilferding's thesis was re-launched later by Sweezy (1942). However, it should be noted that neither of them broke from the classical Marxist relationship between surplus-value and interest. For Marxist analysis, surplus-value is extracted by productive-capital at the sphere of production and then it is redistributed between profits (accruing to productive-capital), interest (accruing to money-capital) and commercial profit (accruing to commercial-capital). Hence, money-capital may dominate strategically productive-capital but it cannot live independently of the latter.

Hilferding's idea of this strategic dominance was taken up by both friends and foes within the Marxist tradition. It was Lenin (1917), in his *Imperialism*, that took up this and recast it within a formal theory of capitalist stages. He argued that a new stage of capitalism, monopoly capitalism, has emerged. One of its main features is this strategic dominance as he adopted Hilferding's problematic concept. Nevertheless, Lenin followed the Marxian LTV and always considered money-capital an appendage of productive-capital; as interest is part of the surplus-value and money-capital has no independent source of wealth. On the other hand, Lenin's theory of stages – despite some shortcomings and ambiguities – offers a coherent and valuable toolbox through which Marxist analysis can conceive transformations in capitalism.

Summarising, Marxist Political Economy within its theory of stages argued that during monopoly capitalism the financial system acquired strategic dominance over the total circuit of capital but also never ceased to depend economically upon productive-capital. In a nutshell it was a dominant and also necessary parasite. This, conception – despite problematic aspects like finance capital – has both realism and analytical coherence.

The theoretical landscape changed once again after the 1973 global crisis that signified the exhaustion of the monopoly capitalism stage. The 1973 global economic crisis and its falling profitability which caused several waves of capitalist restructuring succeeded only partially in restoring capital's profitability. In other words, the profit rate never managed to reach its prior 1973 levels. This incomplete capitalist recovery led to a flight ahead: the system vigorously employed fictitious capital's operations in order to sustain and invigorate capital accumulation. The rapid deregulation and

internationalization of finance during the 1990s started the process of what has been termed financialisation. Capitals that were over-accumulated in the productive sectors of the economy shifted their activities towards fictitious capital operations in order to improve their profitability. These developments have led to interpretations according to which a new epoch for capitalism arise, where the financial capital is released from the governance of productive-capital and, taking an autonomous course, now dominates the whole of the capitalist economy. These significant changes that took place during the last decades of the 20th century influenced crucially the views on the role of the financial system as well as the ongoing debate regarding the relationship between productive-capital and finance.

The very term 'financialisation' was firstly coined by the Monthly Review (MR) school. Sweezy (1994, 1997), in his last papers referred to 'the financialisation of the capital accumulation process' as one of the three tendencies at the turn of the century (the other two being, monopoly power and stagnation). Financialisation as such was inaugurated in a collective volume edited by Epstein (2005) that included a paper by Krippner (2005). The latter introduced the term 'financialisation' as the trade-mark of recent transformations in the capitalist system. Notwithstanding, Krippner (2005, p.199) had reservations whether financialisation constitutes a new phase of capitalism; arguing that it neither necessarily 'represents an entirely novel phase of capitalism ... [nor] do these data allow us to draw any conclusions regarding the *permanency* of the trends documented here'.

However, it was not the MR school but the Post-Keynesians those who energetically adopted the term and seldom treated it as their exclusive property.

The incorporation of the term in Marxist and Marxist analyses followed a bit later. There are four FH versions in Marxist literature. The two of them keep within the Marxist analytical framework (B.Fine, MR) whereas the other two have a rather Marxist flavour in the sense that they abandon the former and flirt with post-Keynesianism (Lapavitsas, Bryan).

Fine (2009, 2010) considers the growth of finance and the new financial forms of the last thirty years as a special phase of neoliberalism (which he defines more as a policy trend rather than as a stage per se). He theorises this new phase through the Marxian LTV and its theory of money. Financialisation occurs when the accumulation of interest-bearing capital (IBC - to be defined below) in the economy becomes extensive and intensive. 'Intensive' growth and proliferation of financial assets signifies their increasing distance from production, while 'extensive' means the extension of IBC to new areas of economic and social life in hybrid forms of capital (Fine (2013-2014), p.55). Under such conditions finance can acquire a dominant position as regards capital accumulation only in the structured environment of 'shadow banking'. In the context of the latter, exchange can be facilitated by the intermediation and dominant presence of fictitious capital. For Fine finance cannot acquire autonomous channels of exploitation of the working class. New forms of operation of money capital and novel institutional arrangements are policies that are used by capital in order to surpass its problems and contradictions. In a nutshell, Fine follows the Marxian logic of relating finance to the sphere of production and considering financial profit as part of the surplus-value. What is missing from his analysis is how the current emergence of financialisation relates to profitability.

The MR, although financialisation was initiated under its auspices, was a latecomer in adopting it (e.g. Foster (2010)). Engulfed in its Marxo-Keynesian underconsumptionism, it strived to prove the latter in the face of overtly negative empirical evidence (as the 2008 crisis was not accompanied with underconsumptionist

signs). It adopted financialisation in conjunction with the arguments that (a) increasing income inequalities lead to the increasing indebtedness of private households (which is a form of covert underconsumption) and (b) that increased financial leverage and speculation is part of the neoliberal era of deregulation. It identifies the latter as a new stage of capitalism, branded as Neoliberalism, or Globalisation or later as Financial Globalisation. However, neither the MR argues that financial profit has become independent from surplus-value. The Social Structures of Accumulation (SSA) approach follows a similar to the MR path identifying financialisation with the Neoliberal SSA (Tabb (2010)) and adding their own emphasis on institutions.

Bryan et.al (2009) argue since the early 1980s finance has become commodified through several financial innovations (securitization, derivatives etc.). Although Bryan (2010) avoids to characterise this as a new capitalist stage, he essentially implies so. He claims that (a) increased leverage and derivatives and (b) workers' financial exploitation through usurious loans change radically capitalism's functions and class structure. They argue that the wage relationship (i.e. labour-time) and its relationship to money have ceased to be related but separate and that the latter has subsumed the former. Concomitantly, labour became a form of capital as the reproduction of labour is now a source of surplus-value transfer in the form of interest-payments and the 'financialisation of daily life'. In their very peculiar formulation, behind the Marxist terminology (surplus-value etc.) exploitation is not confined to unpaid labour-time but extends to usury. Moreover, the argument that labour is now a form of capital implies directly a new class structure different from typical capitalism.

Lapavitsas (2008), adopted financialisation directly from post-Keynesianism. He argues, in the spirit of 'shadow banking', that typical banking is almost redundant and that the financial system is becoming totally stock-exchange based. Fictitious capital is a redundant concept and new financial developments do not relate, even distantly, to the sphere of production and have to be analysed independently. Thus, the LTV and its money theory are essentially discarded. He introduces the vague concept of 'finance' as the new master of the system. To avoid criticisms of proposing two separate capitalist classes he argues that 'finance' subsumes and reshapes productive-capital according to its prerogatives. Consequently, there is no meaningful distinction between them. Additionally, 'finance' acquires a channel of direct exploitation of workers through the provision of usurious loans: 'These practices are reminiscent of the age-old tradition of usury, but they are now performed by the formal financial system' (Lapavitsas (2009)). He initially branded this new source of financial profit as 'financial exploitation'. After criticism (e.g. Fine (2009)) for confusing capitalist exploitation with the pre-capitalist exploitation of usury, he made an inconsequential facelift and changed the term to 'financial expropriation'. He argues that this enables financial institutions to boost their profits independently of surplus-value and possibly to exploit 'us all' (Lapavitsas (2014), alluding to other social strata apart from labour. For him this new structure constitutes a new stage of capitalism (or a new 'social order' as he brands in more graphical but less theoretically coherent terms). Furthermore, he argues that there is no general theory of crisis (as Marxism argues) but each crisis is historically specific. He maintains that the 2008 crisis was a financialisation crisis with no relations whatsoever to profitability (as the latter remained constant (Lapavitsas & Kouvelakis (2012))).

The Marxisant and Marxo-Keynesian FH, essentially adopt the post-Keynesian endogenous money theory which is highly problematic as its cannot define coherently what is 'capital' and, consequently, misconceive the relation between interest and profit. Essentially, their approach is akin to that of the old Banking School and faces similar problems. Thus, the Marxisant and Marxo-Keynesian FH sacrifice – or deform

beyond recognition – the crucial Marxian concept of fictitious capital and end up with the same with the Mainstreamers and the post-Keynesian argument: the monetary sector dominates the real sector and has independent from the latter sources of profit. But what strikes exceptionally is the Marxisant FH's essential confluence with the Post-Keynesian theory of classes. As already analysed, Keynesian and Post-Keynesian thought inherits the notion of the rentier from Classical Political Economy but it actually deforms it. For the former rentiers (in the version of landowners, that is a transformed remnant of feudalism) were a separate class, not doing business but appropriating rent that was subtracted from entrepreneurial profits and, thus, diminished investment. This conflict that characterised capitalism during A.Smith's and D.Ricardo's years has long ceased to exist. Landowning has been assimilated into the capitalist class and lost its independent existence and function. Keynesianism redefined this distinction between industrialists and financiers, essentially seen as separate classes. Keynesianism does not have analytical problems with this as it argues that other factors affect savings and other investment. However, Marxism conceives money and productive capital as forms of total capital that both take part in the formation of the general rate of profit (which among others is a process unifying the bourgeoisie against the proletariat). Because interest is part of surplus-value and financial profits depend upon the general rate of profit, Marxism does not elevate the distinctiveness of money and productive-capital to the point of being separate classes.

Last but not the least, the Marxisant FH currents have a weak theory of crisis. They do not offer a general theory of capitalist crisis but instead opt for a conjunctural one. Each historical epoch and each particular crisis has its own specificities. But essentially, as Tome (2011) clearly shows, FH ultimately ascribes to a Keynesian possibility theory of crisis. This a very insubstantial theory of crisis especially from those FH currents that refer even in passim to Marxism. Lapavistas (2014: 37) is again a typical example. He states that the development of financialisation has nothing to do with Marx's tendency of the profit rate to fall. Moreover, he asserts that falling profitability in capitalist production was never a key factor behind the rise of finance.

III. Classical Marxism versus the FH

The FH purports that it offers a superior analytical framework in order to comprehend the economic transformations of the recent decades. The empirical side of the FH is beyond the scope of this paper; although there is compelling evidence that real accumulation continues to be the centre of the capitalist system and that falling profitability a-la-Marx is at the core of the 2008 crisis (e.g. Shaikh (2010), Mavroudeas & Paitaridis (2015)). There are also forceful rejections of FH's empirical applicability for specific economies (e.g. Mavroudeas (2015)). This section offers an alternative to FH analysis of the recent developments in capitalism that is based on the Classical Marxist perspective.

Classical Marxism analyses the relationship between monetary and real accumulation through the lenses of the total capital circuit which reveals the modus operandi of the various forms of capital, in unity in the context of real accumulation. This unified exposition is absent both from the Mainstream and post-Keynesian perspectives and gives Marxism a superior understanding of the relationship between finance and production, where the sphere of production has a structural (and historically permanent) primacy over finance. This viewpoint enables Marxism not to fall prey to questionable stylized facts that create false impressions about new stages and, at the

same time, to be able to analyze new phenomena within the contours of the fundamental mechanisms of operation of the capitalist system.

The Marxian total capital circuit presents how capital operates and assumes different forms in order to extract surplus-value:

$$\begin{array}{ccccccc}
 M & \longrightarrow & C & \dots & P & \dots & C' & \longrightarrow & M' \\
 & & \downarrow & & & & \downarrow & & \\
 & & c+v & & & & c+v+s & &
 \end{array}$$

where M: money

C: commodities (means of production (c) and labour-power (v))

P: production process

C': commodities of greater value produced (via the inclusion of surplus-value (s))

M': increased money return (in the form of profit) for the C'

The circuit begins with circulation (the advancement of M for buying C) and ends with circulation (the payment of M' for C'). Between C and C' takes place the production process where circulation is interrupted and surplus-value is extracted. The three fundamental forms of capital (money-capital, productive-capital and commercial-capital) function differently but are also entwined in this circuit. Money and commercial-capital, that operate in the sphere of circulation, operate in the beginning and the end. Productive-capital operates at the centre. The sphere of production (and thus productive-capital) has primacy over the others as surplus-value (the aim of the capitalist system) is extracted under its auspices (Fine & Harris (1979)). This surplus-value is subsequently redistributed between productive, money and commercial capital because the former needs the support of the two others.

Money plays a crucial role in this circuit. It is the most mobile element of the circuit. When it represents value (it has not become capital), it has its most fluidity. However, when it enters the production process and becomes capital (which is necessary for claiming surplus-value) becomes less fluid. Capital regains its fluidity when the commodities produced are sold in exchange for M'. Part of that money is reinvested in the production process, becoming less fluid capital whilst another part is consumed or hoarded by the money owner.

There is tension between money's inherent mobility and its necessary bound in the production process. The money owner views it as a process that takes time and is risky. This makes it undesirable and would only be undertaken if the expected returns are likely to be significantly greater than those of other capitalists involved in the process who retained flexibility, such as money-capital who operates at the M stage or commercial-capital who functions at the C stage. As each capitalist sees himself as a free-rider of the system (that is he tries to leave to its peers the costs for the functional operation of the capitalist system), he seldom tries to disentangle himself from the bounds of production. There are phases of the economic cycles that this tendency becomes stronger and phases that it becomes weaker. For example, greater returns to productive-capital were evident throughout much of the 19th century. But, particularly after the 1873 crisis, this changed and the tendency to fluidity returned. Transferable shares and their commodification became the dominant means through which capitalists tried to reduce the risk of their involvement in the production process.

Marxism grasps the unity and the internal strife of capital and the complex functions of money-capital through the distinction between the use of money as credit

and the use of money as capital. Borrowing and use of money as capital is different because money is then used not just to buy a good or to meet a payment but in order to make more money. From the perspective of capitalist production, this occurs when money is borrowed in order to expand accumulation with the expectation of a future profit. Marx distinguishes carefully between money-capital's functions. 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 two generic forms: 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.

Traditionally the capitalist financial system collects idle funds and channels them to investment through the credit and the capital markets (which operate differently). Credit markets involves both MDC and IBC. Capital markets involve solely IBC. The novelty of recent hybrid forms (such as 'shadow banking') is that they combine in complex ways the operation of both banking and capital markets. Hence, they combine MDC and IBC.

The credit system begins with trade credit, which arises through trade relations mostly tied to similar and/or related sectors and geographical proximity. Next comes Banking credit (collection and advance of LMC by banks), which arises in the discounting of trade bills and is based on the collection of idle money from several sources and thus overcomes some of the particularities of trade credit. By collecting idle money from several sources in the economy, banks partly homogenize credit and begin to give it a less individual character. The next instance is the money market (where LMC is traded among banks). The top of the credit system is the central bank (the leading bank of the money market).

The capital market accompanies the credit system. Contrary to the latter, it mobilises idle money on the basis of property (equity) rather than credit (debt). Nevertheless, the credit market is connected with the stock market, as both draw funds from the same pool of LMC and as lending by the former sustains the operations in the latter.

Because IBC is money-capital traded as a commodity commanding interest, it has a dual character in the context of the total circuit. On the one hand it is immediately related to the sphere of real accumulation for interest payment and on the other hand it is immediately related to the form of credit-money. Hence, it has certain degrees of freedom towards the sphere of real accumulation, as the interest rate which determines IBC is formed outside the total circuit by the supply and demand for LMC. This gives to IBC a second duality. First, because it is a relationship between a capitalist possessing money ('monied' capitalist) and a capitalist possessing an investment project ('functioning' capitalist) it can give rise to speculation (i.e. rent-seeking). Secondly, IBC comes out from the generation of sums of money in the turnover of total social capital, which are transformed subsequently into LMC by the credit system.

IBC differs from productive-capital because its owner through lending claims part of the surplus-value (in the form of interest) without any direct involvement in production. In cases of unwelcomed developments (conflicts between labour and capital in production and distribution, falling profitability etc.) IBC's lender withdraws it and invests in other sectors instead of having to intervene directly in the industry. This characteristic of IBC is crucial for money-capital (banks) because it enhances the liquidity of their liabilities. Their deposits, which (for commercial banks at least) form the basis of their money-dealing operations are highly liquid since depositors are not tied to any particular bank. In well-developed banking systems personal knowledge and

trust do not enter the relation so that deposits and other monetary instruments are non-specific and anonymous forms in which capital can be held. The money-dealing that banks carry out, and competition within banking facilitates this distancing of money and deposits from specific ties. However, IBC's freedom has limits because by lending directly to industry it cannot be totally indifferent to the latter's outcomes.

Fictitious capital is a form of IBC. IBC is already defined as 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 realize 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 it is artificially created. It denotes that its circulation is distinct from the circulation or the yield of capital which it represents (Fine (2013-2014), pp.49-50). Therefore, fictitious capital is related to the financial activities of capital in general and becomes more crucial when the financial system becomes more complex.

Practically, fictitious capital represents an uncertain bet on surplus-value that might be extracted in the future but which it is being discounted in the present. Its operation is closely related to the expansion of joint-stock companies, the negotiation of their assets in the stock exchange and the expansion of credit-money (that facilitates to a great extent their transactions and their valuations). Periods of economic euphoria usually foment high expectations about the future and, thus, can engineer waves of robust economic growth (as they influence positively investment). These expectations-led booms have usually the tendency to overshoot; that is to create increasingly over-optimistic future expectations. But as soon as the 'real economy' cannot keep pace with those expectations (i.e. investment does not lead to the expected profits) then its growth starts faltering. In other words, the so-called 'fundamentals' recall to reality the unsustainable growth engineered by fictitious capital. The busts that follow have also the tendency to overshoot; but this time to the downside. These usually lead to the eruption of an economic crisis because of the burst of the so-called 'bubble'.

This role has been recognized long ago by Marxist economists. H.Grossmann (1929, p.158) showed that "among the factors that counteract the breakdown Marx includes the fact the progressively larger part of social capital takes the form of share capital:

'...these capitals, although invested in large productive enterprises, yield only large or small amounts of interest, so-called dividends, once costs have been deducted ... These do not therefore go into levelling the rate of profit, because they yield a lower than average rate of profit. If they did not enter into it, the general rate of profit would fall much lower. (1959, p.240)'

This pinpoints the credit system's ability to continue making profits when real accumulation starts facing difficulties in a way which delays the fall of the general profit rate. However, despite the relative autonomy of the credit system, ultimately, its operations broadly comply with the essential motion of capitalist accumulation. Thus, the crisis phase of capitalist business cycle typically begins with the collapse of speculation in stockpiled commodities by wholesale merchants, and the rise of the

interest rate which affects the debt structure at some point causing its collapse, bringing the crisis phase to be followed by depression.

Itoh (1988, pp.303-342), following the Uno school of Japanese Marxism, embedded this function within the phases of economic cycles. He argued that towards the upswing's end and in the beginning of over-accumulation the profit rate declines and commodity prices tend to rise. Then, speculative trading and stockpiling of commodities take place in expectation of further price rises. Speculative trading also appears in the stock exchange as the share prices of some industries begin to rise in response to the increase in their commodity prices.

Summarising, Classical Marxism has a coherent and sophisticated framework to grasp the phenomenon of prolonged financial euphoria without separating it from real accumulation. This framework can also explain satisfactorily the recent financial innovations.

The most dramatic cotemporary change is that the bill of exchange (with its direct links to the financing of production and trade) is substituted as the dominant financial asset by the 'repo' ('sale and repurchase agreement'). In a repo, a borrower of cash sells a bundle of securities for an amount of money to a lender with the agreement that the former will repurchase the securities for another amount of money after a fixed period. The securities thereby act as collateral for the cash loan. In the event that the cash borrower defaults on repayment, the cash lender owns the securities to keep, sell or use again as collateral. In this context institutional developments led to the notion of 'bank' to become elastic and the phenomenon of 'shadow banking' emerged.

This trend tends to merge the two pillars of the financial system (credit and capital markets) mainly through securitization. However, securitization transforms property into tradable financial assets against a promise for repayment; that is into fictitious capital. In this way the contemporary financial system became more unstable as traditional institutional mechanisms and trust were disturbed.

All this contemporary financial house of cards depends upon the extraction of surplus-value in the sphere of production. In the aftermath of the 1973 profitability crisis, the subsequent waves of capitalist restructuring failed to resolve the overaccumulation crisis. Despite the dramatic increase of labour exploitation (that is the increase of the rate of surplus-value), they shied away from a decisive destruction of unviable capitals. Thus, profitability never recovered sufficiently. The last trick, together with the 'globalisation' (that never extinguished the national economy but increased pressure on both labour and unviable capitals), was the expansion of fictitious capital operations. Nevertheless, as argued above, this stratagem has definite limits. Expansion through financial doping soon met its limits set by the real accumulation. Thus, the 2008 crisis erupted. The financial collapse was strictly geared to the problems of the real accumulation.

With regards to the other pillar of the Marxisant FH currents, namely that finance acquires an independent from surplus-value mechanism of 'direct exploitation' through usury, there is a robust rejection. Fine (2009) argued accurately that it misinterprets the Marxist analytical framework. The financial revenues from loans given to workers can be (a) an additional appropriation of a part of the value of their labour-power or (b) a part of the value of their labour-power that is being expended for the acquisition of socially necessary commodities. In the first case, if this appropriation becomes permanent, then it will lead to a new lower value of labour-power. In the second case, the current value of labour-power is actually lower than what it appears. In both cases there are no extra – and moreover independent from surplus-value – financial profits. To argue otherwise means that these Marxisant FH currents propose a

different theory of the determination of the labour-power and of the operation of the labour market than that of Marxism. In such a theory, direct power relations instead of indirect economic mechanisms are the only mechanism that can enable the financial system to garner extra profits. Again, this view misinterprets capitalism as a pre-capitalist system.

IV. Conclusions

The Marxist and Marxisant FH currents, with the notable exception of B.Fine's rather peculiar interpretation, err on five counts.

First, they interpret short-run and conjunctural phenomena as long-run structural changes. In methodological terms, the FH is a middle-range theory (for a critique of this methodology see Mavroudeas (2012), Ch.3).

Second, they promote the false perception that the post-1990s financial expansion was a totally new phenomenon without any previous historical precedent.

Third, their argument about the financial system's novel 'direct exploitation' mechanism equates unwarrantedly capitalism with the pre-capitalist era of transition from feudalism to capitalism.

Fourth, they propose an unrealistic class analysis.

Fifth, they lead to unjustified analytical fuzziness as they obscure the understanding of capitalism's fundamental economic and social processes.

In a nutshell, FH's grandiose proposition about a new stage of capitalism or even a new brand of capitalism fails to account both analytically and empirically for the evolution of contemporary capitalism. On the contrary, Classical Marxism offers a superior analytical and empirical perspective.

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