THE BIFURCATION OF MARXIST ECONOMIC ANALYSIS

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Abstract: Contemporary mainstream economics, in both its Keynesian and New Classicalist perspectives, failed to predict not only the eruption of the recent economic crisis circa 2007–08, but also the historically weak and uneven recovery of the global economy, 2008–12. The article argues the basic reason for the failure is a deficient conceptual apparatus that fails to account for the role of credit, debt, asset prices, the growing weight of speculative investment, and financial variables in general. Leaving this theme for subsequent further development, the article maintains that a similar conceptual deficiency has prevented Marxist economists in recent years from adequately understanding and predicting the continuing global economic crisis. By focusing primarily on Marx's triad of production of value concepts (rate of exploitation, organic composition of capital, and falling rate of profit) as the core conceptual apparatus for explaining the crisis, Marxist economists have been unable to adequately account for the destabilizing role of finance capital in the 21st century. Financial instability is viewed as a second derivative of real economic instability—the latter represented and measured quantitatively by the tendency of the overall rate of profit to fall. The disruptive impact of finance capital on the realization of value, the full circuit of capital, and capital accumulation is largely de-emphasized. In contrast, the article argues that changes in global financial structure, financial institutions, and financial markets in 21st-century global Capitalism have rendered Marx's 19th-century view of money, credit and banking insufficient. Marxist economic analysis thus needs to develop a more complete conceptual apparatus, beyond the production of value conceptual "triad" and addressing more directly the realization of value processes, if it is to more adequately account for the disruptive role of finance capital in the 21st century. Only by so doing can Marxist analysis de-emphasize its excessive and misdirected reliance on the falling rate of profit as the key predictive variable for understanding the current crisis of Capital. Suggestions for a new

conceptual apparatus focusing on value realization, the full circuit of Capital, and thus finance capital, are offered.

Key words: Hybrid Keynesians; Retro-Classicalists; Marxist economics; falling rate of profit; value realization; disproportionalities; finance capital; speculative investment shift

Contemporary mainstream economics has repeatedly failed to explain or predict the evolution of the global capitalist economy over the past decade: neither the onset of the global financial crisis circa 2007–08, nor the failure of the global economy to return to a normal sustained growth path 2009–12, nor the recent global drift once again toward financial instability and global recession that has become increasingly evident the past 18 months. That indictment applies to both major wings of mainstream economics—i.e. what this writer has elsewhere called "Hybrid Keynesians" and "Retro-Classicalists." For distinctly different reasons, contemporary Marxist economic analysis has also fallen short of accurately predicting the eruption and present evolution of the current global crisis. Its analysis today may also be expressed in terms of a major dichotomy: those who adhere to a classical Marxist production of value approach, summarized in terms of the "falling rate of profit (FROP)" and a primary focus on the M-C phase of Marx's full circuit of capital concept (M-C-M′) on the one hand; and, on the other, those who focus on the realization of value, emphasize the C-M′ phase, and acknowledge that forms of exchange value can and do play a central role in the disruption of the full circuit of capital (M-C-M′) by generating significant disproportionalities that disrupt the accumulation of capital process in general.

What initially follows is a brief overview of why the two main schools of contemporary mainstream economics have been unable to understand adequately to predict the course of the current global crisis, which will require a subsequent deeper critique elsewhere to fully explain.[1]

A second segment of this article will then address the "falling rate of profit" (FROP) dominant wing of contemporary Marxist economic analysis, explaining why the focus on the falling rate of profit represents an insufficient conceptual apparatus for understanding the nature of the current crisis—given the inability of FROP to comprehend the unique role of finance capital in the 21st century and its greater (and growing) relative weight in recent decades in developing, precipitating, and determining the trajectory of the continuing crisis of global capitalism.

In a third segment of this article, this writer suggests how Marxist economic analysis might develop a more complete analysis of the full circuit of capital—i.e. an analysis that integrates the idea of FROP with an approach focusing more on what, in this writer's opinion, remains a relatively undeveloped side of contemporary Marxist analysis—i.e. the side associated with issues and problems involving the

"realization of value" in the C-M′ phase, the role of forms of exchange value (price) in the realization process, and disproportionalities in the circulation of capital caused by new forms and behaviors of finance capital that today are increasingly disrupting the accumulation of capital over its full M-C-M′ circuit. It will be argued that the FROP cannot be determined, and therefore cannot serve as the independent variable explaining the evolution of the crisis of global capital today.

The concluding segment will further argue that Marx himself never envisioned the FROP as the primary concept and variable for explaining today's crisis; that Marx never formulated a theory of capitalist business cycles, including depressions; and that even the idea of a "breakdown thesis" cannot be clearly attributed to Marx. FROP, it will be argued, is an abstract deductive concept created by Marx to explain the tendency of investment in constant capital to raise productivity in the short run while reducing it in the longer run. That tendency, Marx envisioned, would force capitalists to increase the rate of exploitation (in the sphere of production), and to retract nominal wages paid (in the sphere of exchange), to offset the longer-term trend of productivity's negative effects. The working class would subsequently organize economically and politically to resist. The outcome eventually would possibly (not certainly) result in a struggle for political power which, were the working class to win, might result in a socialist transformation of the economy and society. But this is not a view that profits need to fall initially to set off the greater exploitation, wage reclamation, and class conflict. It is just as conceivable that rising profits might generate a shift to greater exploitation, both in production and circulation. That rising profits in finance capital could disrupt the flow of M′ back to the production of real values (goods and services), divert M′ from the latter to the former, and thereby create the appearance of a FROP which addresses only profits from real value production. In this alternative scenario, the key causal conditions occur within the circulation of capital, C-M′, in the realization of value process, and in disproportionalities arising in the latter phase that disrupt the overall accumulation of capital process (M-C-M′) which was the primary focus of Marx's analysis and not the FROP per se.

The Two Wings of Mainstream Economic Analysis: "Hybrid Keynesians" and "Retro-Classicalists"

As a brief comparative overview, the reasons for the general failure of the two major schools of mainstream economics—which this writer elsewhere has called "Hybrid Keynesians" and "Retro-Classicalists"—has to do with their common conceptual apparatus. Although differences in that conceptual apparatus exist between the two schools, their commonalities are more fundamental.

The models and conceptual apparatus of the Hybrid Keynesians predicted in January 2009, for example, that the Obama administration's first recovery program—amounting to $787 billion in fiscal stimulus plus an additional several trillions of dollars as a consequence of the US Federal Reserve's first quantitative easing (QE) $1.7 trillion liquidity injection and zero bound interest rates—would produce a quick, sustained economic recovery and generate 6 million new jobs over the subsequent 18 months including 1 million new jobs in construction and 500,000 in manufacturing. The actual result, however, was another million more jobs lost in both these sectors of the US economy in the subsequent 18 months and a "stop-go" US recovery after 2009 characterized by repeated "relapses" in each of the following three consecutive years 2010–12. In reply to this historical record, Hybrid Keynesians have continued to argue since 2009 that the failure of sustained recovery since 2009 is still due to insufficient magnitude of fiscal stimulus—despite the trillions of dollars more in tax cuts and, to a lesser extent, government spending in subsequent Obama tax and spending programs between 2010 and 2012 in the US and despite four years of zero interest rates and more than $10 trillion in liquidity injections by the Federal Reserve. Although more than $3 trillion in fiscal stimulus and $10 trillion in monetary stimulus since 2009 has not produced sustained recovery, Hybrid Keynesians prescribe simply more of the same according to their models, more zero interest rates, and more quantitative easing liquidity injections by the central bank, the US Federal Reserve. But after more than $13 trillion in combined fiscal-monetary stimulus, no sustained recovery suggests the Hybrid Keynesian model is essentially broken. Neither its fiscal nor monetary prescriptions have worked. More of the same policies will likely produce more of the same results.

Meanwhile, the Retro-Classicalist wing of mainstream economic analysis has fared no better, suggesting its model and conceptual apparatus are just as broken and in need of major overhaul. Since 2008 the Retro-Classicalist wing has warned, and has continued to warn for more than four years now, that the massive money supply injections by the US and other central banks since 2008 would result in a runaway inflation. In contrast, however, a strong trend toward deflation in product and factor prices has characterized both the US and global economies for more than four years now. Adhering to the two-centuries-old classical economics idea of the "neutrality of money" which argues inflation is only, always and everywhere a result of excess money supply, Retro-Classicalists' models call repeatedly for money supply contraction (to prevent runaway inflation eventually), on the one hand, and austerity fiscal policies, on the other, to balance state budgets to ensure a return to "business confidence" which is allegedly the key to sustained economic recovery. But with real business investment stagnant or declining, raising interest rates would almost certainly produce even less investment, not more; and as the case

example of the euro economies has conclusively shown, reverse fiscal stimulus—i.e. austerity—results not only in the reversal of fiscal stimulus but the even faster reversal of economic recovery, i.e. deeper recession.

Since 2008 neither fiscal stimulus in the US nor reversed fiscal stimulus (e.g. austerity) in Europe has resulted in sustained recovery. Nor has massive multi-trillion-dollar liquidity injections by central banks globally produced recovery anywhere. Neither "Hybrid Keynesians" nor "Retro-Classicalists" models or solutions have resulted in anything resembling sustained economic recovery thus far. Despite both wings' different policy recommendations, both wings fundamentally share a common theoretical model and conceptual apparatus and thus have consequently failed in producing a solution to the current global economy's 2008 implosion, historic weak recovery the past four years, and its continuing drift toward repeated financial crises, real economic contractions, historically slow and incomplete economic recoveries—creating a cycle of near stagnant, "stop-go," "bumping along the bottom" short phases of economic performance at best.

A Fundamental Dichotomy in Contemporary Marxist Economic Analysis

Whereas the two wings of mainstream economic analysis have increasingly failed to explain or predict the trajectory of the US and global economies, and their policies are obviously increasingly failing to reverse that trajectory, Marxist economists have attempted to make sense of this trajectory employing a somewhat different model and conceptually apparatus. Marxist economists' attempts to explain the current global crisis might be divided into two "wings" as well. One wing can be described as the "falling rate of profit" (FROP) school of analysis that focuses primarily on the production of value and the M-C phase of Marx's well known, M-C-M′, full circuit of capital accumulation. A second wing of Marxist analysis focuses on the realization of value process, the C-M′ segment, and on how disproportionalities in this latter segment disrupt the full circuit of capital and thus capital accumulation in general. The former FROP wing and school employs an established conceptual apparatus developed by Marx in his well-known production of value process, whereas the latter attempt to develop further the conceptual framework left largely undeveloped by Marx addressing processes associated with the realization of value.

The former FROP wing attempts to employ Marx's well-known triad of concepts of rate of surplus value, organic composition of capital, and falling rate of profit, and a general "model" based on Marx's production of value approach. Very generally stated, this wing attempts to explain the crisis of global capital today by arguing, in somewhat linear fashion, that the rising organic composition of capital (OCC) and/or declining rate of surplus value (RSV) leads to a tendency of the rate of profit (FROP)

to fall. That falling rate of profit then forces capitalists to intensify exploitation (i.e. raise the rate of surplus value) and/or introduce measures to reduce workers' wages (i.e. reduce the value of labor power) to offset the negative trends in RSV and OCC and restore profitability. Since it is FROP (and the ratios that determine FROP—RSV and OCC) that are the primary drivers of the economic crisis, the role of financial variables and finance capital are secondary to the development of the crisis. Financial forces are therefore consequent, not primary. Thus the crisis in real profitability encourages capitalists to turn to finance to make up for the declining profitability from real production of values. The FROP approach assumes financialization is therefore of secondary import, i.e. a result of the crisis and not a fundamental primary initiating cause of it. This secondary, derivative role attributed to finance capital in turn leads proponents of the FROP approach to the need to underestimate profits from current non-financial production by various means when empirical data for profits suggest otherwise. It is necessary for FROP theorists to argue that empirical evidence is misleading and to provide downward adjustments to it in order to show a falling rate of profit.

As will be argued in this article shortly, the FROP approach suffers from various definitional, data availability, and logical assumptions and errors that renders it unable to adequately explain the origins and future trajectory of the current global crisis. Its underlying conceptual apparatus of value production variables is not incorrect, but insufficient. The crisis cannot be explained based on value production derived profitability, or the M-C partial circuit of capital accumulation only. The FROP approach fails to provide sufficient consideration to the role of finance capital and its growing influence in 21st-century capitalism. It does not account adequately for events in the realization of value, C-M′, phase of the circuit of capital. It provides little in the way of explaining the key transmission mechanisms from the production of value to the realization of value. It overly focuses as well on profit as a determinant of investment and capital accumulation. And it fails to understand that Marx never attributed a role to FROP as the key to explanations of capitalist business cycles—even severe representations of such as depressions or the current crisis which is still not quite a bona fide depression—nor did Marx even view FROP as a key to "capitalist breakdown."

The second wing of Marxist economic analysis that is emerging today attempts to seek explanations of the current global crisis of capitalism by focusing not just on production of value processes—and Marx's famous triad of concepts (RSV, OCC, FROP)—but on the realization of value processes and on the full circuit of capital, M-C-M′. This alternative focus does not necessarily reject Marx's classical triad or production of value approach, but recognizes that forms of capital in the circulation of capital can and do play an essential role in the full circuit of capital. It is in the C-M′ phase of the circuit in particular that problems of disproportionality in the circuit of

capital can arise—disproportionalities both between the C-M′ (realization of value) and the M-C (production of value) phases of the circuit as well as within the C-M′ (realization of value) phase itself. Disproportionalities disrupt the flow of capital from the various forms it assumes in the latter phase and thus prevents it from returning to value based production. This latter approach may be called, for lack of a better term, "value flow disruption" (VFD) analysis of capitalist crises. Moreover, since the C-M′ phase of capital circuit is also the phase in which exchange value and price can play an essential role in decelerating, disrupting, delaying or even destroying the flow and even value magnitude of capital over time, thus preventing its return to production of value processes, the analysis of the role of price in value determination is a critical focus of the VFD approach that the FROP approach must ignore by definition since it focuses solely on production of value concepts (RSV, OCC, FROP). And as will be argued shortly, even the FROP approach itself fails to understand the dual nature of profits as derived from both labor value (labor time) and exchange value (price). Not least, FROP approaches also fundamentally fail to focus on the real variable of importance per Marx—i.e. capital accumulation (and its proxy "investment"). For it is not profits per se but the disruption of capital accumulation in completing its full circuit, M-C-M′, that is the key to Marx's analysis.

The remainder of this article will address a fuller critique of the FROP production of value approach to explaining the current global crisis—with its allocation of a secondary role for finance capital—followed by an outline of this writer's alternative VFD realization of value alternative approach providing a more central role to finance capital which provides a more determining role to financial assets, price variables, and forces producing disproportionality in the circulation and realization of value and thus the full circuit of capital.

The Falling Rate of Profit Critique I: Definitional Issues

FROP theorists often do not define precisely what they mean by profits. They then argue deductively that profits fell preceding the eruption of the global crisis in 2007–08. Those that do provide a definition do so with the implicit assumption that the particular definition they choose is the appropriate, or even only, definition. Referring just to the US economy and data, there are several sources with different definitions of profits. Profits may be defined and estimated from Internal Revenue Service (IRS) estimates, from the Security Exchange Commission, from the US Department of Commerce, from internal corporate financial statements, and, most often, from the Bureau of Economic Analysis (BEA)—the US government agency responsible for the National Income and Product Accounts (NIPA, from which are estimated gross domestic product, or GDP). NIPA-BEA measures what might be called "current production."

NIPA-BEA provides estimates of corporate profits. Those estimates are based on data provided by corporations to the IRS, but is not defined the same as the IRS defines profits. So there are already two competing definitions of profits. Additional different definitions of profits are provided by the US Securities and Exchange Commission (SEC), to which corporations must also (like the IRS) provide data on profits. Similarly, data provided to the US Department of Commerce. The point is there are at least four major reports by corporations to different government agencies, which then "roll up" the data differently—excluding some categories and including others—to produce different estimate of profits. So which, then, is the real "corporate profits"? Considering profits before reporting to government bodies, for an individual corporation there's the question of which is the definition of profits as well. Is it gross income, net income, retained earnings, one of the dozens of ratios indicated in corporate income statements—i.e. return on investment, return on sales, etc.?

FROP theorists most often refer to BEA profits since it is the most publicly available, most frequently reported, and most segmented. However, BEA profit numbers are significantly underestimated for numerous reasons. Corporate profits are thus much higher than indicated by BEA, which consequently undermines FROP theorist efforts to prove their case using BEA profits data.

For example, BEA data specifically excludes capital gains, interest, and rent from its profits total. Profits from interest alone more than offsets profits decline from current production of goods and services. This is especially so for banks and finance corporations, but is also true for non-financial industrial corporations which lend significant capital to each other and therefore charge "interest" in turn and receive profits from interest charges.

FROP theorists who argue that interest, capital gains, and rent are forms of fictional capital should recall that Marx was very explicit, and on numerous occasions indicated that forms of capital like interest, rent, etc., were taken from profits and thus constitute forms of capital income. All forms of capital income should thus be considered "profits" in a total sense. FROP definition of profits constitutes therefore an abbreviated definition of profits. Interest income should be added to corporate profits from sales to get a truer picture of total profits from capital. Profits from interest have risen especially rapidly in the past decade, as corporations have turned to debt financing in the form of investment grade and junk bond grade corporation bond issues, and issuance of corporate commercial paper and asset backed securities, all now at historic record levels.

A special form of corporate interest income occurs in the case of leasing and leasing profits have reached record levels in recent decades. So too have capital gains income and business rent income earned by corporations. The point is that none of this income—all of which are really forms of corporate profits—are represented in

the BEA accounts as corporate profits by definition. They are represented elsewhere. However, they are nonetheless forms of corporate income and should be recorded as profits. Their exclusion from the definition of corporate profits thus significantly underestimating total corporate profits.

Yet another exclusion occurs in the case of non-corporate income from production, which is called simply "business income" in the BEA accounts but is just profits by business and capitalists by another name. There are approximately 7 million non-corporate businesses in the US alone. BEA indicates it as a separate category not included in the entry called corporate profits. But business income should be added to corporate profits to obtain a truer estimate of total profits from capital.

Less directly obvious than interest, capital gains, rent and business income is the matter of corporate special offset funds that artificially reduce the amount of profits actually reported by BEA or the other sources (IRS, SEC, etc.). The most important are depreciation and Debt Reserve Funds. Depreciation is essentially a fund that management can set aside a portion of what would otherwise be profits, earmarked for use in the future exclusively for new investment (not all of which gets eventually reused thus but absorbed into other company spending). Depreciation should also be considered a form of profits, separated from profits proper, for which taxes don't have to be paid—i.e. a reduction from after tax profits.

FROP theorists attempt to stand depreciation and its true relationship to profits on its head, by arguing depreciation overestimates profits.[2] Reported profits are therefore overstated by depreciation, which means profits are actually less than reported—i.e. an argument in support of the FROP thesis. But the opposite is actually the case. Depreciation in the sense of actual wearing out or obsolescence of capital is not the same as legislated depreciation. FROP theorists are confused on this. Depreciation is accelerated faster than actual obsolescence by State legislation, thus permitting the creation of an excess income fund before obsolescence actually occurs that should be added to reported profits. Moreover, FROP never distinguishes between the form of depreciation used—i.e. straight line or constant dollar method. The two approaches result in different profit outcomes. But FROP theorists never clarify which method is used and just assume a simple inverse linear relationship between profits and depreciation.

Non-financial corporations and financial corporations alike also increasingly deduct from reported profits funds that are then diverted to what is called Debt Reserve Funds. Corporations have issued in recent years record levels of corporate bond debt. Reserve funds have risen accordingly. Like depreciation funds, income diverted to debt reserves represents an underreporting of profits. A similar argument can be made for also including dividend payments to corporate shareholders as a form of profits that are subtracted from officially reported profits to the BEA, IRS, etc.

As in the case of interest, capital gains, and other financial income that is not included in corporate profits reporting, income from trillions of dollars of derivatives trading in the US and globally by financial and non-financial US corporations alike also goes largely unreported. Profits from derivatives trading goes largely uncounted since in most cases there are no clearing houses for such trading that would make this form of corporate profits publicly recorded.

Profits from derivatives trading, interest, rent, capital gains, and such are sometimes referred to as "portfolio" profits. Some sources estimate that portfolio profits for non-financial multinational corporations today amounts to around 25 percent of those firms' total corporate profits, and the proportion rises steadily over time and especially in the last decade. To note a recent case example, the Fox News holding corporation, News Corp, recently reported a tripling of its profits in 2012 as a consequence of a large sale of assets. Absent that asset sale, its profit totals would have otherwise slightly declined. FROP considers only profits from production and thus would have acknowledged a decline in profits—whereas in fact News Corp had a significant increase in profits.

Still another category that fails to show up in corporate profits indicated by BEA, IRS and other sources involve multinational corporations' profits underreporting as a consequence of their manipulation of internal pricing between their subsidiaries to reduce reported profits and thus tax obligations. US-based multinationals often engage in what is called "intra-company" transfer pricing in order to report that their US headquarters and operations realized little profits. Their foreign subsidiaries should therefore report excess profits. However, profits from offshore subsidiaries are more easily sheltered in the dozens of island-small country tax havens around the globe (referred to by the IRS as "special jurisdictions" from which it cannot obtain data) and are either underreported or not reported at all. Tax sheltering and tax fraud thus account for hundreds of billions of dollars more in unreported profits for US corporations alone. An example is the US mega-corporation Google Inc. It made several billions in profits in Europe and the UK. But by means of transfer pricing between Europe and its European headquarters in Ireland, it was able to underreport profits, and diverted those earnings to Bermuda, a tax haven, where the profits now sit instead of being returned to its global headquarters in California where it would have to pay taxes otherwise on those euro profits. Multinational corporations like Google thus are estimated to have sheltered more than $1.5 trillion, according to the Citizens for Tax Justice research group in the US. Those are estimates, and not reported profits of course. Corporate profits in this, and many ways, are thus grossly underestimated in official reporting globally. What appears to FROP as a decline in profits globally may in fact be a growth in tax sheltering via transfer pricing and other means that result in official corporate profits growing only slowly or even declining.

It is clear from the preceding that there are various examples why the often-referenced BEA source as indicator of corporate profits by FROP advocates very significantly underreports actual profits. This underreporting makes BEA data a favorite source for FROP advocates as they attempt to prove the falling rate of profit. However, even if one insists on focusing on profits as the predictor of capitalist crisis the proper category should be profits from all forms of business—corporate and non-corporate—as well as from all forms of capital incomes that represent returns on capital, that is a broader concept of profitability.

Unlike the BEA, IRS defines corporate profits differently. It does include capital gains as part of profits, especially from the sale of capitalist property. Government and private studies both show adding capital gains increased profits by 21 percent before 2000. After the Bush administration's massive capital gains tax cuts of the last decade the percentage is likely even higher. Similarly, IRS definitions of profit include dividend and debt funds, which together in past decades in the US amounted to another 24 percent addition to reported profits. Depreciation funds represent another 23 percent. While no studies estimate as yet the effect profits from derivatives trading would add to corporate profit totals if properly included, the effect of such and the inclusion of business income, capital gains, rents and interest mean that true total corporate profits are at least two-thirds to three-fourths greater than actually reported.

Another set of definition problems associated with FROP is specific to FROP itself. What exactly is meant, in other words, by "falling" in the definition of "falling rate of profit"? Does falling mean a still positive but declining rate of increase of profits? Or does it mean an actual negative decline in profits? At what point does "falling" produce a capitalist crisis? How much does the rate of profit have to fall to produce an onset of crisis? What is actually meant by "rate"? Is it a year to year definition? Or is there an earlier base year (i.e. not t–1) from which the rate is calculated? And why is "rate" of profit change more determinative of provoking a crisis than, say, changes in the absolute level or magnitude of profits? Or some other ratio involving profits and some other variable? Most FROP theorists never clearly define their terms.

FROP is a concept associated with what Marx meant by "productive labor." Only productive labor produced real value and profits measured by FROP represent profits derived from real value production. Profits produced in the process of exchange and a result of price movements are not relevant to the FROP concept. Marx's notion of FROP is derived from a ratio of the two key concepts associated with value production—i.e. the rate of surplus value (itself a ratio) and the organic composition of capital (also a ratio of constant to variable capital). The two ratios are integrated and result in the FROP. That means only profits from productive labor are associated with FROP. However, in what is a contradiction, FROP theorists then cite BEA

profits data which reflect exchange and price movements and are thus not based on profits from value production. BEA profits include not only exchange value (price) movements, but also profits from non-productive labor, such as many services, which Marxist economics would consider unproductive labor and therefore not relevant to FROP analysis. FROP therefore mixes productive and unproductive labor when it references government accounts data and does not include profits from exchange-price movements. In other words, a concept and definition limited to value production only. Profits that represent unproductive labor, price movements, or, to add a third category, profits where virtually no labor time is involved (portfolio profits and financial asset price fluctuations) remain outside FROP analysis.[3] FROP therefore employs an extremely limited and narrow definition of profits. Reference to actual BEA profits data by FROP theorists is to use a fundamentally different, and very much broader, definition of profits to prove the FROP case.

A final definitional limitation associated with FROP involves global capital. Despite consistent reference by FROP theorists to US data in the BEA-NIPA, IRS, etc., to marshal evidence to support a falling rate of profit claim, capital is essentially a global system. Definitions of profit therefore must be global as well. It simply will not do to refer to US profits definitions—BEA, IRS or any other—to make the case of a falling rate of profit. Other countries and economies do not necessary define profits as BEA, IRS, or SEC do. The problem then becomes how to reconcile the various definitions of profits across countries. A common definition is necessary. However, none exists.

The Falling Rate of Profit Critique II: Data Availability Issues

Closely associated with the problem of no common global definition of profits is the related problem of the great unevenness across countries in profits data availability, collection and reporting. Profits data availability, collection, and reporting in the US and OECD economies occurs at a level of reliability that simply does not exist in many other countries. Profits are purposely underestimated in many cases, especially in defense sector corporations or where political corruption is exceptionally severe with regard to certain industries and companies. Political forces in various countries are also inclined not to accurately report profits of nationalized companies. In many countries, corporations simply refuse to report fully, or even at all. Government data collection and verification of reports varies greatly from country to country as well.

It is also important to realize that profits are a statistic. They are not raw data. A statistic is raw data upon which an "operation" has been performed, i.e. an adjustment of some kind—whether seasonality or weighting or scores of other possible adjustments to raw data. The point is that different countries use different methodologies to adjust the raw data that gets reported as the profits statistic. Those

differences in methodologies may result in an overreporting or underreporting of the actual profits. Producing a true averaging of global corporate profits data is thus further difficult for this reason as well.

Other data difficulties also arise when trying to record corporate profits on a global scale. For example, how does one average or net out multinational corporations' transfer pricing effects on global profit totals? How does one estimate the massive, unreported profits sheltered in the dozens of offshore tax havens by corporations? How does one account for different price indices used by different countries in adjusting profits for inflation? How are profits from currency exchange rate fluctuations adjusted for inflation? And how does one account for profits from direct public investment corporations which are fully taxed, leaving no formally reported profits earned by such corporations—e.g. "profits" from military goods production in factories owned and operated by the Chinese army? Most of these issues tend to result in an underreporting of actual profits, thus lending false support to the FROP hypothesis.

FROP theorists generally don't see these preceding issues as a problem, however, since they are focused on profits from value production only or discuss the topic abstractly and deductively. Post-value production additional price and exchange value impacts on profits are disregarded. Price and exchange value fluctuations have no place in FROP, which is directly derived from the production of value ratios—i.e. the rate of surplus value and the organic composition of capital.

But the FROP approach cannot have it both ways. Its advocates cannot use a set of value concepts (Marx's triad), which do not incorporate exchange value and the influence of price fluctuations on profits, and then use government data, that does reflect price and exchange value, to support the claim of a falling rate of profit. This does not mean that profit is unrelated to value production. Value and profits are fundamentally associated. But they are not congruent. Profits reflect value production. They also reflect exchange value and price. Profits thus have a dual nature: they are reflective of both labor value content (labor time) as well as exchange value content (price). That means FROP is not wrong per se; it is only half right. It represents profits from the M-C phase of the circuit of capital; but not from the C-M′ phase and therefore the full circuit of capital. Nevertheless, FROP theorists do not recognize this basic dichotomy in the nature of profits—reflective of labor value but also exchange value—even though they refer to data that does include exchange value in the attempt to prove the concept (FROP) that doesn't.

The Falling Rate of Profit Critique III: Logical Issues

Whether Marxist or Mainstream, in economic analysis it is often too easy to assume that a correlation between variables is actually a causation relation. If a crisis has

erupted, as it did in 2007–09, and profits fall, according to FROP analysis it must be that falling profits caused the crisis. But that's only a correlation assumed to be causative. The actual causal direction may in fact be the opposite. The crisis may be causing the profits decline. Or a third force may actually be responsible for both the crisis and the profits decline.

Even the appearance of a correlation between a falling rate of profits and the onset of economic crisis circa 2007 is not necessarily supported by the BEA data FROP theorists typically refer to. US data show a rapid rise in US corporate profits beginning in the mid 1990s, followed by a short deep decline during the recession of 2000–01, a rapid recovery again 2002–07, followed by a deeper decline 2008–09, and an even more rapid recovery 2009–12. In other words, there is no consistent observable trend or even a correlation for the last nearly two decades. The picture is one of profits rising steadily and rapidly, a big drop 2008–09 but an even more rapid recovery and return to the longer-term trend line of steady growth.

Given this observation, FROP theorists attempt to "deflate" the actual profits numbers over the past two decades by means of several questionable logical assumptions. The assumptions serve, in effect, to "strip out" all profits due to price changes (capital gains, interest, etc.), unproductive labor, debt reserve and depreciation funds, etc., in order to leave only an estimation of profits from productive labor. However, after having done so, they then fail to describe the transmission mechanisms by which this narrow definition of profits—based only on productive labor and limited typically to US profits data—in fact precipitated the global financial crisis and consequent general economic contraction. We are left with an intuitive impression that a falling (rate) of profits precipitated a crisis, both financial and non-financial. FROP theorists slip from profits from production of value only (FROP) to a general decline in profits (determined by exchange (price) as well as output). Correlations of data—often manipulated to strip out forms of profits from price fluctuations and entire categories of the definition—are then employed to "prove" causation. Notwithstanding the redefinitions of the profits term and even the "correlation as causation" assumption, no transmission mechanism is offered.

The logic employed is that a falling rate of profit results in a decline in real, value producing investment—i.e. fixed or constant capital. Lower profits means less real physical asset investment—i.e. structures, equipment, software, inventories—and therefore less hiring of productive labor. That reduces the organic composition of capital that leads to a greater tendency of the rate of profit to fall. But this causative thread assumes that investment in the 21st century is primarily a function of profits (however defined). And that view reveals the logical limits of FROP analysis in yet another way. For in the 21st century investment is no longer primarily a function of profit levels or rates. Investment is determined increasingly by corporate debt financing (corporate bonds, commercial paper, etc.), equity financing (common-

preferred stock issues), and as a result of direct assistance by the capitalist state in the form of tax incentives, direct subsidies, etc. Debt financing is credit financing and, in the case of financial securities investment, leveraged and highly-leveraged debt financing. FROP theorists erroneously ignore the greater relative role of sources of financing and investment other than profits. It is a simple, linear, unidirectional view of profits as the sole determinant of investment and capital accumulation. Whereas mainstream economic analysis after two centuries still assumes "savings determines investment" (Say's law of Classical Economics), the Marxist FROP approach assumes profits determine investment. But neither views are predominantly true in the 21st century, where credit and debt have assumed prominence as determinants of investment and therefore capital accumulation.

From the above view and assumptions, FROP denies—and indeed must deny—any primacy to finance capital as the cause, or even precipitating force, behind the economic contraction. The role of credit and debt in 21st-century capitalism is assumed to be no different than it was in the 19th century. Credit is a positive force serving to speed up the process of real production. This limited view of credit results in FROP theorists relegating finance and finance capital in general to a secondary role so far as the development, precipitation, and propagation of a crisis is concerned. The rise of finance capital does not cause the crisis, but its rise and expansion is caused by it. The rapid expansion of finance capital witnessed in the past three decades is the result of capitalists turning from productive labor investment toward financial securities investment because of a falling rate of profit in the former. But the rapid expansion of finance capital, and that sector's profits, over the past three decades may not be the result of a falling rate of profit among non-financial corporations; it may simply mean non-financial (industrial, productive labor) corporations' profits are rising—but that profits in the new financial sector are rising even faster. Profits need not fall for corporations involved in production of goods by productive labor in order for profits by finance capital and other unproductive labor corporations to rise. Furthermore, yet another possible interpretation is that accelerating profits in the financial sector may be compressing investment and profits in the industrial sector. But that latter possibility would mean reversing the causality assumption of FROP theorists.

FROP assumes an "identity" between corporate profits in general and profits from productive labor-based corporations. Profits from exchange value and price movements, especially from financial assets price movements, are excluded. Contrary to FROP approaches, however, profits are both a function of labor value (labor time) and of exchange value-price fluctuations. Profits have a dual nature. They are value determined in part and price determined in part. FROP assumes the dichotomy is collapsed into one. It assumes value produced and its price expression

in exchange are equivalent. Yet Marx was very clear that value and price were equivalent only under very limited assumptions and conditions.

In the real world of capital, once value was produced in labor made goods and (some) services, once the goods and services were released to the market to be sold and the value embodied in them eventually "realized" and returned to production, the prices of the goods would not necessarily remain equivalent to their value. For Marx, exchange value and price clearly and almost always fluctuated around the "core" of labor value. This view that price fluctuated around a core of value was common to all classical economists before Marx who maintained some form of the labor theory of value. But if price fluctuated around value in the sphere of exchange, then profits had to have a value element and a price element. Price was as much a part of profits as value produced was. Thus profits have a dual nature reflecting both production and exchange. Exchange and price become critical variables in the C-M′ phase of capital circulation and in the realm of the realization of value, just as labor time was critical in the production of value, or M-C phase of the circuit. By assuming value and price as equivalent, however, FROP theory logically denies the contribution of price and exchange in determining profits. It follows that the realization of value and the C-M′ phase of capital circuit is of little theoretical interest to FROP theory, and thus remains undeveloped to this day.

As a final comment on the topic of logical limits, and to briefly restate a point made at the beginning of this article, FROP was not a concept envisioned by Marx as an explanation of capitalist business cycles—including deep depressions or the current "stop-go" stagnation which this writer has elsewhere called an "epic" recession and a potential antecedent to depression. Marx never had a theory of capitalist business cycles. The role of FROP in Marx was to explain how the exploitation of labor over the long run, as the organic composition of capital rose and profitability fell for that reason, would intensify. As the rate of profit fell on productive labor investment, capitalists would have to resort to new forms to reduce nominal wages and reclaim wages previously paid in order to offset the falling profit rate. This did not lead directly to financial instability or depressions, or even recessions, but to labor resistance, working-class economic organization, resistance, political action, and the intensification of class struggle by labor to change the system. This is not a theory of the business cycle. It is arguable even not a theory of capitalist breakdown. And the process was not inevitable or guaranteed to result in system transformation, replacing capitalism with socialism. It was just a tendency, driven by the internal logic of capital to replace labor (variable capital) with capital (constant capital) in order to increase productivity.

The insight of Marx on this topic (shared in a very rudimentary sense by Smith's recognition that capitalism tended to descend into a "steady state" and, only slightly more so, by Ricardo's similar recognition that capitalism tended to slow

to a "stationary state") is that Marx accurately saw productivity as a double-edged sword. Productivity (embodied in Marx's organic composition of capital or OCC concept) served both to increase output and profits but also eventually to reduce output and profits as well. Nor was it simply a matter of overproduction of goods that could not be purchased due to inadequate nominal wages. That argument led to underconsumptionism, which Marx rejected.

FROP is a concept directly derived from OCC that embodies this important recognition about the dual nature of productivity. Productivity increased profits by reducing the cost of production. At the same time, it reduced labor content and thus value in production. So it reduced value as well. It therefore reduced profits—but only in so far as one assumes profits are identical to value created. That is true in the production process. But production is only half of the circulation of capital. Profits are also created in the act of exchange, as a result of price fluctuations around value. Profits are thus not just a value concept but also an exchange value concept (as are nominal wages for that matter). Exploitation occurs not only in the process of production, but in the process of exchange as well—as will be explained below. But FROP as a concept is limited to value production—despite FROP theorists' repeated reference to profits data that is both value and price determined. As a theoretical construct and concept, by definition it is an extremely narrow definition of profits, and cannot tell us how much of total profits is represented by profits from value production only. Moreover, FROP is a not a conceptual device for predicting business cycles, even bona fide depressions that typically last five to ten years.

Attempting to explain the 21st-century crisis of capitalism by means of profits from production by productive labor, is virtually impossible quantitatively. It serves as an obstacle to a consideration of profits in a broader, more accurate sense. FROP analysis in effect "locks one in" to a rigid conceptual apparatus based on concepts associated with the production of value process only. Most importantly, production of value profits analysis (FROP) prevents a much needed focus on the full circulation of capital processes, on exchange value and price in disrupting that full circulation, and on the destabilizing role of financial asset prices in that disruption in particular.

Value Realization and Disproportionalities in the C-M′ Circuit of Capital

Marx himself was aware that exploitation need not occur only in the production of value. The rate of surplus value was not just a function of the length of the working day or increasing the intensity of exploitation—i.e. of absolute and/or relative surplus value. While he noted that the pressure on profits from a rising organic composition of capital (OCC) might be offset by an increase in exploitation (rate of surplus value), he also noted that the nominal wage paid to labor (value of

labor power) might also be reduced by capitalists to offset declining profits from value production.

By suggesting capitalists might reduce nominal wages—i.e. reduce the value of labor power at the time of production—in order to offset the tendency of profits to fall, Marx was in effect moving beyond production of value processes and venturing into the sphere of exchange value and price, i.e. into the sphere of the circulation of value.

Wages as value and price

Wages represent both value content and market price, which may exceed or fall below that part of the wage that is equal to value. Wages, like profits, are thus based on a "core" of value, but are not necessarily at any given time equivalent to that core. Wages contain elements of both value and market price. In a sense, FROP analysis assumes the very special, limited case that value is equal to price at all times. But that was only the case given a very restrictive set of assumptions, as noted by Marx himself. Like classical economists before him who embraced the idea of productive labor as the source of value, Marx's view was that labor value constituted the "core" of a price but that exchange value fluctuated around that core. But unlike many classical economists before him, Marx rejected the idea of a "wages fund" which would limit the total amount of wages. Wages therefore could exceed the value of labor power initially paid, as a result of price (wage) fluctuations in the C-M′ phase of circulation. The same was true of all forms of price in exchange that were derived initially from value production but were not limited to their initial magnitudes initially created in production.

Acknowledging that exchange value (price) fluctuates around a core of value suggests that capitalists might reduce not only nominal wages at the time of the production of goods and (some) services by productive labor, but that they might also "reclaim" wages in subsequent time periods in various ways after they were initially paid as the value of labor power. Nominal wages might be reclaimed in times t+1, t+2, etc., thus reducing the value of labor power initially paid in time t. That represents a secondary redistribution of surplus value in favor of capital, a form of "secondary exploitation."

There are multiple ways in which wage reclamation might take place in times t+1, t+2, etc. All such forms of wage reclamation take place in the C-M′ phase of the circuit of capital, i.e. in the sphere of exchange and therefore of price. One example raised by Marx was capitalists imposing excessive interest charges (where interest simply represents the "price" of money) for credit extended to workers to purchase goods and services when their nominal wage was insufficient. By charging workers interest for extending credit (in time t+1 to the end of the amortization period, t+x) capitalists take back nominal wages paid initially in time t. Marx called this

secondary exploitation. As he put it, "This is secondary exploitation, which runs parallel to the primary exploitation taking place in the production process itself."[4]

Volume 3 of *Capital* in fact provides a litany of money forms which capital assumes in its transit from the commodity form, C, to a final form, M′, before it may be invested to create value once again by means of employing productive labor in the start of another cycle of capital accumulation. Marx further recognized that during the transition in the circulation process, C-M′, capital in its various money forms is capable of generating additional value beyond that initially created in the production of value process. As Marx noted, in the process of assuming various exchange forms in the circulation process, "unassisted by the processes of production," capital is "capable of expanding its own value independently of reproduction."[5]

Marx also believed there was no such thing as a "finite fund" of wages (nor a similar "finite profits fund") which limited the amount of profits or wages in the circulation phase to that created in the production phase. On numerous occasions he explicitly rejected the idea of a "wages fund" theory proposed by economists like J. S. Mill. In other words, just as there are "core profits" derived from productive labor, there were core wages equal to the value of labor power. Core profits and wages therefore represent only a subset of total profits and wages. Thus total profits and total wages were potentially greater (or lesser) than value created in production or the value of labor power paid at the time of production to workers.

Once one assumes that price fluctuates around a core of value and that there are no finite "funds" created only in the production of value process, then all forms of price—wages, profits, interest, ground rent, etc.—may rise in excess of total value by means of fluctuations in exchange value during the C-M′ phase of circulation of capital. How this concretely occurs, and the implication it holds for the potential for disproportionalities in the circulation phase of capital, is a major task of Marxist economic analysis today for which an appropriate conceptual framework, similar to Marx's "triad" of concepts in the production of value, has yet to be developed.

If wage is also a price—i.e. a price for the value of labor power—then forms of wage reclamation after value is produced also represent capitalist forms of price manipulation in the sphere of exchange that result in the expansion of total profits in the circulation phase of capital (C-M′) that is not accounted for by FROP theory. It is essentially post-FROP.

Sweezy and Baran, and value realization analysis

Some pioneering work in the direction of understanding better the processes by which value is realized in circulation not simply by the sale of commodities but by forms of wage reclamation taking place in the sphere of exchange and circulation of capital was done by Marxist economists Paul Sweezy and Paul Baran in past decades. Their explorations into the area of "secondary exploitation" resulted in

their proposing concepts of "profits by deduction" and "economic surplus." Forms of "secondary exploitation" resulted in an expansion of the original surplus value created in production initially. Profits were enhanced post-production by "deduction" of wages in subsequent time periods by additional means. That created an additional "economic surplus." The capitalist State also assisted in expanding the "economic surplus" for capitalists in various ways. Much of their discussion of "profits by deduction" is in essence about profits enhancement by means of wage reclamation in times t+1 and beyond. But whereas Marx talked mostly about nominal wage reduction in time, t, or interest charges for credit, Sweezy and Baran address wage reclamation as a consequence of monopoly pricing by capitalists. In other words, they discuss the reclamation of "real" wages, whereas Marx discussed mostly nominal wages. Both nominal and real wages, however, are nonetheless forms of price manipulation occurring in circulation and the post-production of value.

Forms of wage reclamation—and thus "profits by deduction" not accounted for by FROP analysis—have been expanding especially rapidly in recent decades; not just nominal hourly wage reclamation or real hourly wage reclamation but reclamation in the form of "deferred" wages, "social" wages, and "future" wages and benefits reclamation.

Forms of wage reclamation in the 21st century

Deferred wages are wages paid in the form of defined benefit pensions. Workers make contributions to pensions in the form of a deduction from their pay. Employers make deductions to the same pension, in lieu of otherwise paying an additional nominal wage. They are due for payment upon retirement. But since the 1980s various ways have been created to "take back" those initial wages paid into pensions. Creating parallel 401k and cash balance plans and then discontinuing the pensions has been a favorite method since the early 1980s, before which 401k did not exist. 401k return far less to workers in terms of pension total payout than do defined benefit pensions. Capitalists pocket the difference. A related version of the same method is when corporations declare phony bankruptcy and dump their pension on the government agency, the US Pension Benefit Guaranty Corporation (PBGC). The PBGC then takes over the administration of the plan, paying workers on average about 55 percent of what they would have received from the original pension. Airline, steel, and other major corporations have used this approach with great success. More direct government assistance in the destruction of deferred pension wages is now occurring widely in the public sector. State governments simply reduce their contributions and raise workers' by the same amount (as in California) while reducing at the same time the pension payouts upon retirement. These and other variations on the same theme result in workers receiving at retirement less than their direct (and employer indirect) deferred wage contributions.[6]

Wages are reclaimed by capitalists in their "future form" as well. When worker households assume debt in order to purchase goods and services they are in effect agreeing to pay for the goods, as well as an interest charge, out of future wages. Forms of household debt have exploded in the past three decades, not least of which have been mortgage, medical, and student debt—as well as credit card and revolving debt. This debt escalation is directly correlated to stagnating and declining median household weekly earnings. Credit-debt purchases have surged to offset the stagnating wages and disposable income. The growing burden of debt reduces disposable income still further over time, setting in motion a downward cycle of rising debt-declining income.[7] Adjusted for inflation, US real weekly earnings today are less than in 1982. Debt payments are a claim on future wages by capital and, as those claims rise with rising consumer credit-debt, future wages are in effect claimed in the present by capital to be paid back to capital in times t+1, t+2 (or whatever the amortization schedule).

Not content with reducing wages via inflation, deferred wages or future wages—all of which represent accelerating trends of wage reclamation and therefore profits by deduction in recent decades—capital has begun to target and reclaim "social wages" as well. Social wages are wages deducted from workers' nominal pay to cover future repayment of the deductions in the form of social security benefits, Medicare benefits, workers' compensation, disability insurance funds, and other such paid benefits. Workers pay into these funds while working. Their employers also pay into the funds, in the process reducing wages that they would otherwise have paid to workers in lieu of the fund payments, as numerous studies show. In the case of social security, a "pay as you go system," wages deducted have been greater than wages paid out to retirees now for three decades. The State has then used the three decade, multi-trillion-dollar surplus largely to reduce taxes and pay for wars—both of which together have amounted to more than $5 trillion in just the past decade. Now that the funds—social security and Medicare in particular—are no longer generating surpluses, the State is now proposing and introducing ways to reduce social wage retirement payments from social security and Medicare. Should they succeed, contemporary attacks on social security and Medicare will amount to an historic, multi-trillion-dollar social wage reclamation of massive dimensions by the capitalist State on behalf of capitalist corporations.

Meanwhile, workers are also required to make even greater contributions to the State in the form of taxation, while the State grants growing tax reductions to capitalist corporations, investors, and wealthy households. The role of the State in transferring "economic surplus" from workers back to capital in various forms has never been greater—and continues to accelerate.[8]

To summarize: while Marx referred to nominal wage reductions by capitalists to offset declines in rate of surplus value and/or rising organic composition of capital

in the process of production, Sweezy and Baran expanded and generalized Marx's notion of wage reclamation after production by introducing the role of monopoly price, and the capitalist State, in expanding economic surplus on behalf of capitalists. But 21st-century capital has continued to invent new ways and new forms for yet more wage reclamation: Reclaiming "deferred wages" in various ways, massively expanding ways to reclaim "future wages" by means of credit-debt, and the latest, growing attacks on the "social wage" are examples of new forms by which capital is accelerating wage reclamation. All result in still further profits by deduction by means of price manipulation in the post-production of value process. Unfortunately, none of this is considered in FROP analysts' calculation of profits.

Money-fetish forms, exchange price, and finance

To Marx's original concept of countervailing nominal wage offsets, and to Sweezy and Baran's profits by deduction by means of monopoly pricing, must be added further forms of price manipulation that occur in the circulation phase, C-M′, of the full circuit of capital. We are referring to financial assets and securities, which have no value except exchange value. Their exchange value (price) is highly volatile and that price volatility produces disproportionalities in the C-M′ circuit, resulting in the diversion of money capital, M′, during the circulation phase and preventing M′ from returning once again to the reproduction of capital in commodity forms.

The manipulation of exchange and price by capitalists, post-production of value, is therefore not limited to the manipulation of price in its various wage forms. In recent decades capital has introduced many new price forms involving financial assets and securities and has elevated price manipulation to levels unforeseen or unimagined in prior decades. That raises the subject of "fetish capital" in general, and in particular exploding new forms of fetish capital in terms of financial securities and financial assets.[9]

Whereas Sweezy and Baran addressed the manipulation of monopoly price as a means to expand the "economic surplus" and "profits by deduction," in their consideration of monopoly price they were still talking about prices for commodities and wages that produced those commodities. But financial asset prices for securities involve a qualitatively different form of monopoly price not discussed by Sweezy and Baran. Financial assets and securities are not produced by productive labor and thus have virtually no relation to value production. They have no core of value around which their price may fluctuate. Devoid of any relationship to real commodity production, the circuit of fetish capital is M-M′, according to Marx.

Fetish forms of capital do not represent value from the production of commodities using labor power paid for by nominal wage at the time of production. It is not even value reclaimed by capitalists from workers after wages are paid, in future time t+1 and after—i.e. what Sweezy and Baran referred to as "profits by deduction"

and which Marx referred to as "secondary exploitation." Although there is virtually no core of value around which price fluctuates, fetish capital still has exchange value determined by price. It therefore represents yet a third kind of profit: neither profit from production of value nor profit by means of deduction from wages after production wage payments, but profit from pure exchange price fluctuation.

Fetish capital is the realm of financial securities and financial asset prices, of speculative investing forms of finance. Its value, according to Marx, "exists as an independent exchange value"…that is "capable of expanding its own value independently of reproduction."[10] This is the fundamental nature of financial asset prices and of finance capital in general today. Financial asset securities—i.e. forms of fetish capital—do not reflect monopoly pricing of commodities, but rather value-less financial assets. Financial asset prices are not about "profits by deduction."

Since financial securities and financial assets have no value core, all the value they generate is exchange value and therefore profits from financial assets represent exchange value price determined profits.[11] Like commodities prices and labor prices (wages), financial assets and securities are capable of price fluctuations. But financial asset price fluctuations exhibit even greater volatility and magnitudes since there is no value core serving as an anchor around which price may fluctuate.

Prices for financial securities and assets behave differently from commodity and factor (wage) prices. They are not constrained by supply forces. Financial asset prices are driven almost totally by demand for the financial assets, which explains in large part their highly volatile price run-ups and even more rapid price crashes (i.e. the asset price bubbles now growing in frequency and magnitude throughout 21st-century capitalism). Contrary to mainstream economics, therefore, prices do not equilibrate and stabilize the system. Contrary to mainstream economic ideology, there is not a "one price fits all" system where supply and demand eventually work in consort to return price instability to some imaginary equilibrium that in reality never exists. There are at least three price systems: commodity prices, factor prices (labor, money capital, etc.), and financial asset prices. Financial asset prices not only do *not* stabilize the system but endogenously bring about a repeated destabilization of the system. And as their role grows relative to commodity and wage prices, the system destabilizing effects of financial asset prices grows further in turn.[12]

Profits from value production, according to Marx, are qualitatively limited by the working day, by prevailing productive forces, and by the population. "Profits by deduction" represent an additional determinant of profits, according to Sweezy and Baran. But profits from financial asset prices—i.e. fetish capital—are potentially unlimited. Moreover, financial asset price volatility is capable of producing severe disproportionalities in the capital circulation process that have major feedback effects on the initial production of value process itself. Financial assets and securities produce periodic financial asset bubbles and thus periodic major cyclical run-ups

in excess profits for both financial and non-financial corporations and investors. Their price-driven profits expansion typically results in subsequent phases of severe profits contraction as financial asset prices crash. But financial asset prices and profits appear to recover rapidly from their contraction phases in recent decades, as a consequence of direct intervention and assistance from the capitalist State in the form of massive liquidity injections by legislatures (corporate tax cuts and subsidies) and central banks (subsidized zero interest rates and quantitative easing).

It can be shown that asset price bubbles precipitate, accelerate, and extend severe capitalist cyclical contractions. Financial assets and securities therefore must be accounted for in any Marxist analysis of capitalist business cycles and crises in the 21st century.[13]

Notwithstanding issues related to measurement of profits, despite their cyclical volatility financial assets prices over the longer term appear to consistently produce profits significantly greater than profits from physical assets (i.e. capital goods, consumer goods, services) and therefore commodity production. This greater profit generation—both cyclical and over the longer term—results in the diversion of money capital, M′, from completing the full circuit of capital and returning to the reproduction of commodities and value. This is especially true in those advanced economies in North America, Europe and Japan where financial asset markets are concentrated, most developed, and therefore most highly "liquid." It is less so in emerging markets like China, Brazil, etc., but even there a shift is underway toward more investing in financial assets relative to investing in structures, equipment, software and the consumer goods they produce—i.e. real commodity production.[14]

If the shift underway to financial asset investment is indeed the case, what it represents in Marxist economic terms is that money capital is assuming greater "fetish" forms in the circulation of capital phase, C-M′. And instead of returning to production of real values, it is being recycled, M-M′, over and over in lieu of being recommitted to commodity production. This is diverting money capital from commodity production. Expressed yet another way, fetish capital forms may be "crowding out" forms of capital that otherwise might have been re-employed in production. The full circuit of capital is thus being disrupted, in effect diverted to financial asset and securities.

The key therefore is to understand what is going on in the C-M′ phase of the circuit of capital, and with forms of finance capital evolution in that phase of the circuit. By diversion and disruption of the flow of value, finance capital in other words may be assuming a critical role preventing the full realization of value. Heretofore, Marxists have only considered a problem of value realization when goods produced were not sold in the circulation phase. But this restricts analysis to only value realization of forms of commodities. Realization of value problems may involve money capital forms as well as capital in commodity forms. To begin to understand this requires

an analysis—and the development of a conceptual apparatus—beyond FROP and Marx's conceptual triad associated with the production of value.

Indeed, FROP analysis may have the causality relationship between value production profits and finance capital backwards. It may not be the case that slowing profits from value production result in a shift by capitalists to sources of financial profits to make up for a decline in profits in the former. The causality may in fact be the reverse. The acceleration of financial profits may be reducing investment in, and therefore profits from, commodity production. Showing correlations between the two is insufficient, notwithstanding all the aforementioned issues related to profits per se. One must provide evidence of the direction of causality, and specifically the transmission mechanisms by which investment in financial securities may be crowding out investment in commodities, or vice versa if one adheres to a FROP analysis. Whichever the evidence, it means that analysis must focus not on profits but on the variable of investment—differentiating between forms of real capital investment (in structures, equipment, etc.) and forms of investment in financial securities and financial assets.

The undeniable role of finance capital

Marx made it abundantly clear in his notes in Volume 3 of *Capital* that he was only beginning to analyze the workings of the capitalist credit system, and that "conceptions which have some meaning on a more or less developed stage of capitalist production, become quite meaningless here."[15] However, he did presciently perceive that a "new financial aristocracy" was in development. An aristocracy of nominal directors, promoters, speculators and swindlers. He discussed this in the context of the rise of stock issuance and stock speculators, the prime form of speculative investing in the 19th century. However, Marx could not foresee the innumerable new forms of financial securities, markets and institutions that would arise by the 21st century, nor the greater relative impact that development would have on the reproduction of capital and capitalist systemic fragility.

Since the collapse of the Bretton Woods monetary system in 1973, finance capital has expanded at an accelerating rate. That expansion has been enabled first by the massive explosion in global liquidity, in turn made possible by central banks' (in particular the US Federal Reserve) pumping increasing amounts of money capital into the economy for more than a half century now. A second requisite for the rise of finance capital has been the elimination of controls on international capital flows, which began in earnest in the 1980s. Domestic financial deregulation was a third enabler, but was secondary to the main developments of the breakdown of the international monetary system in 1973 pegging the dollar to gold and the subsequent deregulation of controls on cross-border capital flows by the US and other leading capitalist countries. The massive liquidity injections that began, continuing and

accelerating to this day, made possible the concurrent explosion of forms of "shadow banking" in recent decades. By 2007, shadow banks—the main repositories of capital managed by a new sub-class of financial capitalist speculators globally—controlled more investible liquid assets than the commercial banking system.[16]

Finance capital has split into new groupings in the 21st century. The traditional bankers represent one segment. Professional speculators managing shadow banking institutions—as well as the very high net worth individuals (with $25 million plus in investible liquid capital) whose funds they manage along with their own—comprise a new grouping. Another might be financial VPs in non-financial corporations with a very high percentage commitment to financial investing.[17] Over time the lines between all three tend to blur.

These new elements of finance capital are not interested in traditional forms of investing long term in companies that produce goods and even services. They are not interested in lending or investing their liquid capital in projects with long lead times or with expected rates of return measured in years. They are interested in investing in highly liquid—and therefore financial securities—markets, and doing so in timeframes of months, days, and even minutes or seconds. That means they invest in derivatives and securitized financial instruments of various kinds, in foreign currency exchange markets, in property markets' securities (real estate bonds), in credit default, interest rate and other "swaps" securities, in commodities (oil, food, metals, etc.) futures markets, in "dark pools" stocks, and in various "secondary" securities (securitization) markets of all kinds. They represent the phenomenon of what this writer has termed the "speculative investing shift" that has risen in volume and magnitude in excess of what might alternatively be termed "enterprise investing."[18] Since such investing is typically in highly liquid markets, it is also typically very short term. Money is moved globally—enabled by technology since the 1990s—from liquid financial market to liquid market, causing financial asset bubbles as it rushes in and financial asset busts as it is pulled out. The Asian Crisis of 1997–98, the dot.com tech bust of 2000–01, and the subprime housing implosion of 2006–07 are all creations of these massive money flows in and out of liquid markets that characterize finance capital in the 21st century.

By "speculative investing shift" is meant speculation of a particular kind. All investment is speculative in a sense, but the "shift" here noted is investing in growing magnitudes in financial securities whose price escalation is driven almost totally by demand. Since nothing "real" is being produced, there are no supply constraints on price—unlike in the case of commodities. Prices are easily and rapidly driven up by massive inflows of liquidity, and when the money is pulled out the asset price collapses. Speculators then move on to another bubble. This kind of investing is possible only given the massive liquidity after decades, the lack of controls on capital flows and total floating of currencies, the creation of shadow financial institutions

and liquid financial markets globally, and the concurrent development of diverse new forms of securities for trading by these institutions in these markets.

A critical element of the speculative shift is the creation of new forms of "internal" credit. Not only have central banks accommodated the massive liquidity injections and international flows, but finance capital today has freed itself from money supply control by central banks, including the US Federal Reserve. By creating internal forms of credit, finance capitalists in the new segments have accelerated the speculative investing shift even further. Much of speculative investing assumes the use of credit. It is thus debt-based investing. It is highly leveraged investing and, in the case of derivatives, "super-leveraged" investing. Credit is extended based on collateral of previously invested financial securities and their price movements. If the price of financial securities escalates, more credit-debt is available to invest still more securities, driving the price of the financial assets still higher—producing a cycle of rising prices, credit-debt, more demand and still more price escalation until the inevitable asset price collapse follows.

Financialization thus includes this major shift to speculative forms of short term, price-volatile financial securities investing, in highly liquid global markets, made possible by decades of central bank liquidity injections and the exploding use of internal credit, and characterized by the use of heavy debt leveraging. In the US alone, from 1980 to 2000 to 2007, total debt rose from approximately $5 trillion to $22 trillion to nearly $50 trillion. However, more than $18 trillion of the $28 trillion rise from 2000 to 2007 was debt (credit issued) held by financial institutions. And that's just US-based. Financial corporation debt growth thus dwarfed that for US households and government combined.[19]

Credit and thus debt represents a form of investing that differs from traditional "enterprise" investing—i.e. investing in physical assets and the proxy for which might be considered "net private domestic investment" in the US (structures, equipment, software, inventories). The latter form of investing represents real goods (capital and consumer) and services. The former represents forms of "fetish capital," to use once again Marx's terminology. But capital flowing into forms of "fetish capital" in the form of derivatives, currency speculation, commodity futures speculation, dark pools stock investing, and so on is growing at a much faster rate globally than into "enterprise" capital. The total of the former globally exceeded the latter a decade ago and the rate continues faster. Investing in price volatile financial asset instruments not only produces a greater rate of return but does so much faster in most cases. And that higher return may, in turn, be producing a "shift" of money capital, that otherwise would have gone into producing goods and services, into liquid financial markets instead.

Marx viewed credit in two contradictory senses. First, credit had the capability of accelerating capital accumulation through the overall reproduction process and

therefore raising the rate of profit. But credit also raised the possibility of leading to speculation, which he also recognized as a potential.[20] But what Marx did not realize is that credit (and debt) could have the exact opposite effect on reproduction and could disrupt and slow the circuit of Capital, particularly in the C-M′ phase of that circuit. That is, if credit (and thus debt) had the effect of accelerating the shift to financial asset speculation, it could slow—not accelerate—the reproduction process. Internal forms of credit creation by shadow banks and speculative finance result in significantly greater returns on investment from speculation than returns from enterprise investing. Debt-enabled speculative investment has the potential therefore of diverting non-debt capital from "enterprise" investing and shifting it to speculative financial investing. A speculative investment shift might therefore ultimately reduce and slow real physical asset (enterprise) investment in structures, equipment, and so on. Speculative investing thus, in effect, serves to "crowd out" real asset investing over time. Except for so-called "emerging markets" like China, Brazil, etc., it appears that investing in real productive capital has been slowing noticeably in the US and other advanced economies. That slowing has recently also extended to the emerging markets as the global capitalist system has begun to slow further in recent years. Finance capital in general, and its speculative investing wing in particular, may thus be increasingly responsible for the slowing rate of real investment as capital and credit are increasingly diverted to higher and quicker rates of return in forms of speculative financial assets.

The key therefore to understanding the character of financialization in the 21st century is to understand this speculative shift and its impact on real "enterprise" investment. Contrary to mainstream economic theory, there is no such thing as just "investment" per se. There are two critical forms of investment: speculative financial asset investment and traditional physical asset (i.e. enterprise) investment. And it appears the former is beginning to determine the magnitude and rate of the latter. The key to understanding 21st-century finance capital and financialization is therefore to understand this changing nature of capitalist investment itself—and not the measurement of profits from either the production of value (FROP) or profits from FIRE (finance, insurance, real estate) sectors of finance. It is investment and capital accumulation that is the key, not profits. Profits are only one of many potential forms out of which investment, and capital accumulation, may be financed.

Speculative finance and disproportionality

The growing volume and rates of money capital and credit (including "internal" forms of the latter) flowing into speculative financial asset markets globally is thus creating in turn a growing disproportionality between real asset investment and financial securities investment.[21]

In Marx's discussion of disproportionality between branches of production—i.e. between Departments I or II and the production of capital goods versus consumer goods—led to the inability of capitalists to "realize the value" produced. Under certain conditions, capital migrated from one branch to the other, creating an imbalance that at times might be severe. That imbalance might also "contain within itself the seeds of the crisis," according to Marx.[22] But Marx never developed this possibility to any significant degree, apart from recognizing its potential for crisis generation. And Rudolf Hilferding, in his work *Finance Capital*, attempted unconvincingly to develop the idea of disproportionality involving finance.[23]

But financial disproportionality analysis does not constitute a theoretical refutation of FROP and production of value processes. As noted earlier in this chapter, FROP analysis is not incorrect; it is only half right. When occurring in the C-M′ sphere of circulation and involving investment imbalances, disproportionality analysis may support the idea of declining rates of surplus value (RSV) and rising organic composition (OCC) of capital in production analysis.

Disproportionalities between enterprise investment and forms of financial securities speculative investing can disrupt the circulation of capital in the C-M′ phase.[24]

In notational terms, the preceding focus on disproportionality in forms of investment as a topic for exploring the contribution of finance capital toward today's global crisis can be expressed by altering Marx's famous full circuit of capital representation of M-C-M′. In the normal circulation process, C produces a corresponding quantity of M (assuming those products, C, thus created are "realized" by their purchase). But the quantity of M is also expanded artificially beyond M′ by central banks pumping excess liquidity in the form of money supply into the economy since at least 1973 and the collapse of Bretton Woods. So M′ is now even greater. M′ is inflated still further by the rapid growth of "internal" forms of credit creation. M′ is now composed of M_c, money from commodity value realization; M_{cb}, excess central bank liquidity injections; and M_{cr}, internal credit generation by unregulated financial intermediaries (shadow banking system). The traditional Marxist circuit becomes: $M - C - M'$ where $M' = (M + M_c + M_{cb} + M_{cr})$.

And whereas enterprise investment, I, is a function of M_c and partly M_{cb}, and may be represented by:

$$I = 1 / M_c + M_{cb}$$

speculative financial asset investing, I′, is represented by:

$$I' = M_{cr} + 1 - (1/M_c + M_{cb})$$

The key to understanding the relationships between real asset investment and speculative financial asset investment is to understand the multiple interrelationships between the three forms of money and credit—M_c, M_{cb}, and M_{cr}. These three forms of capital affect each other interdependently and together drive real asset investment, I—including the subset of I that represents real assets (both capital and consumption goods) created by what Marx would call production labor—as well as the I′ that represents the many forms of speculative financial securities assets. As M_{cb} and M_{cr} rise in proportion to M_c in the circulation process, the rate of return on finance capital rises in relation to non-financial capital which, in turn, diverts forms of M_c money capital in circulation toward speculative financial investment, I′, at the expense of real asset investment, I. The process results in a reduction in total capital accumulation that would otherwise have occurred. That is, value that would have been realized in circulation, and subsequently recycled and recommitted to future M-C production, is disrupted and diverted in the circulation process, C-M′, and is not fully recycled back into production of values.

Speculative finance as capitalist consumption

Another related way of looking at finance capital's induced disproportionalities is that the shift toward speculative forms of financial asset investing also represents a form of capitalist consumption and therefore not truly "investment" per se. Capitalists refer to "investing in financial securities" but when such expenditure is not associated with real asset (enterprise) investment—as in the case of derivatives and other speculative forms of investing—it is really a kind of capitalist consumption. Buying and selling derivatives, foreign exchange, commodities futures, dark pools, and the like, is more like gambling and betting on price changes for securities. Investing becomes little more than betting. Nothing is really produced. It is similar to workers buying lotto tickets or going to Las Vegas and betting on crap tables or card games. Speculative financial asset investing is, in many cases, simply a 21st-century form of wasteful capitalist consumption necessary to absorb the growing excess of liquidity and fetish capital in the system. In that sense it is similar to wasted investment in war goods or in excessive advertising and "sales efforts," which Sweezy and others identified decades ago. Speculative financial investing-consumption is a 21st-century form of global capitalism's need to generate wasteful spending in order to maintain itself and continue to expand in new forms.

Nevertheless, such "consumption investment" is made possible by the massive explosion of liquidity in the global system today, for which "traditional" enterprise investment opportunities are not sufficient to absorb capital—even in emerging markets. Liquidity and "fetish capital" now massively exceeds opportunities for real investment and traditional capital accumulation. It therefore enables the expansion of finance capital in general, and in particular its speculative arm. It has given rise

in recent decades to the set of complex global shadow financial institutions, a new sub-class of finance capitalists controlling a growing share of total global capital, to a network of global liquid markets, and to innovative forms of financial products, like derivatives, that are necessary to absorb that liquidity and fetish capital. That general process is in turn generating extreme imbalances in the global capitalist system today, leading to an increase in the frequency, magnitude, and global scope of financial asset bubbles and financial crashes that are having a growing impact on the stability of the global capitalist system itself.

Finally, the growing financial instability and consequent deep contractions of the real economy are rendering traditional capitalist fiscal and monetary policy solutions and programs increasingly ineffective in generating a sustained economic recovery from the deep contractions.[25] Financial instability events are not only growing more frequent and more serious in terms of magnitude effects. They are growing more globally synchronized. The real, non-financial sectors of the economy are in turn becoming more "sensitive" and responsive to financial imbalances and instability. The banking crisis of 2008–09 is likely only the first of what will prove to be a series of such over the next decade. And with each successive financial crash, the global economy grows closer to a bona fide global depression.

Summary Remarks

Marxist economic analysis today is overly preoccupied with trying to explain the current crisis of global capital by means of concepts and categories related to the production of value. It therefore focuses on only half of the full circuit of capital, M-C-M′. It assumes that profits is key independent variable, instead of investment and the accumulation of capital which was Marx's true focus. FROP employs a value of production profits concept to try to explain capitalist business cycles and depressions, something Marx never intended. The falling rate of profit concept in Marx is a deductive concept, derived from ratios of rate of surplus value and organic composition of capital, developed for the purpose of illustrating a tendency of profits from value production to decline and the various responses capitalists might undertake to offset that tendency. FROP therefore was never intended by Marx to explain or predict capitalist business cycles, including depressions or the pre-depression condition in which global capital is presently immersed, which this writer has called an "epic recession." Nor was FROP ever intended by Marx to explain the "final breakdown" of capitalism. For Marx, that crisis was represented by a crisis in the accumulation and reproduction of capital over the long term, not by a falling rate of profit. In addition, FROP analysis is constrained by issues of definitional imprecision, data unavailability, and logical inconsistency. FROP analysis, moreover, attempts to verify its predictions by means of reference to

empirical data on profits that represent exchange value profitability—in effect attempting to count "apples in order to estimate oranges," to employ a metaphor.

FROP analysis, and reliance on production of value concepts (Marx's triad), have resulted in contemporary Marxist economic analysis unnecessarily disregarding issues relating to the realization of value and consequently the second half of the circuit of capital, C-M′, where exchange, price, and finance play a critical role in the development and evolution of the crisis of 21st-century capital. Marxist economic analysis must therefore develop a more thorough explanation of processes involved in the circulation of capital and how those processes may create disproportionalities in the circuit of capital that prevent the full realization of value and thus in turn reduce the availability of money capital for subsequent commodity production and reproduction of capital.

This article has offered a few brief suggestions of a possible direction for such a new project of analysis by Marxist economists—a project focused on processes and forms of capital in the C-M′ circuit of capital, where value realization is the issue, where exchange and price play a key role, and where investment of money capital is apparently being diverted to financial assets and securities, creating investment disproportionalities that increasingly divert capital from a C-M′ phase into an M-M′ phase. New forms of wage (price of labor) reclamation are also a topic of analysis for this phase of circulation. As fetish forms of capital divert capital into M-M′ and financial securities, thus reducing the production of value in the form of commodities, capitalists are turning increasingly toward new ways to reclaim wages (value of labor power) in circulation, and not just new ways to intensify exploitation in production. However, it appears increasingly that capital is no longer intent on increasing the rate of exploitation in production, but is turning more and more toward reclaiming wages previously paid as well.

There can be no thorough Marxist analysis of the current crisis without a consideration of the new forms assumed by finance capital in the late 20th to early 21st century and how finance capital today disrupts the circuit of capital. Finance capital cannot simply be relegated to a dependent role, the consequence of a FROP. To do so is to relegate Marxist economic analysis itself to a "half analysis"—an analysis of a production of value without an analysis involving problems of realization of value. It is not that FROP is incorrect or irrelevant. It is that FROP analysis is only "half right." But to insist on FROP analysis as providing a full picture of Marxist economic analysis is to insist on the continuation of a bifurcation of Marxist economic analysis. It is time to recognize that exchange value, price, financial securities and financial assets as forms of fetish capital play a central role in creating disproportionalities in the full circuit of capital that are diverting capital from commodity production and thus inhibiting reproduction and capital accumulation. A new conceptual apparatus (supplementing Marx's triad of concepts

describing value production) is necessary to fully explain 21st-century capitalism. That conceptual apparatus must address problems and issues associated with the realization of value in the C-M′ circulation of capital (and M-M′) and the new forms and influence of finance capital in the 21st century. Without such, Marxist economic analysis will remain a bifurcated partial, and therefore incomplete, analysis of 21st-century capital and its continuing crisis.

Notes

1. This writer's two recently published books, *Epic Recession: Prelude to Global Depression* (Pluto Press, 2010) and *Obama's Economy: Recovery for the Few* (Pluto Press, 2012), provide a critique in part of contemporary mainstream economics' failure to predict and accurately describe the trajectory of the current crisis of global capital. *Epic Recession* predicted in late 2009 that there would be no sustained economic recovery, contrary to that predicted by mainstream economics' two wings. *Obama's Economy* in particular argued that the fiscal-monetary policy recommendations of both wings would fail to generate a sustained economic recovery because the fiscal multipliers would collapse and the immense monetary stimulus by central banks would be either hoarded by corporations or diverted to speculative investing in financial instruments once again or to emerging markets. Thus neither fiscal stimulus nor money supply injections would produce the predictions of either wing's main theoretical assumptions and models.
2. For a more accurate understanding of the relationship between depreciation and profits, see Greta Krippner, *Capitalizing on Crisis* (Harvard University Press, 2011). Krippner correctly notes that the massive increase in depreciation allowances since 1981 result in a gross understating of profits, especially for the manufacturing sector and its industries with high capital intensive operations.
3. For a discussion of portfolio profits in general see ibid., pp. 34–40.
4. K. Marx, *Capital*, Vol. 3 (International Publishers, 1967), p. 609.
5. Ibid., pp. 391–392, 393.
6. A variant on this is corporations' dumping their union negotiated health benefit funds on their unions, such as occurred in the case of General Motors VEBA fund. Instead of paying benefits based on past deferred wage contributions, GM gave the fund to the auto workers' union to reduce the benefits instead of taking the heat by reducing benefits itself. Workers ended up with less health care coverage. Thus the unions, the UAW in this case, served the function similar to the quasi-State agency, the PBGC, for pensions.
7. This growing interdependency between household debt and income creates a condition this writer has termed "consumption fragility," one of the three forms of fragility driving aggregate "systemic fragility" today. The other two are financial fragility and public balance sheet fragility. It is interesting to note that while debt has a negative impact on household income, debt is a means by which financial securities investment rates are increased. Thus debt serves to drive a growing income inequality between worker-households and a growing segment of finance capital.
8. One might argue as well that the shift in taxation policies by the State represents a kind of price manipulation as well. Raising or lowering tax rates (i.e. the price) for the different State tax products—i.e. income tax, capital gains tax, dividend tax, estate tax, excise tax, corporate tax, payroll tax, etc.—may be interpreted as a price manipulation of the various "tax products" offered by the State. The State here would also represent a kind of monopoly involved in price manipulation, the products of which must be purchased by tax payers, worker and capitalist. Capitalists are offered preferential discounts to the price, while workers must be the full required price, and so on.
9. Note that "fetish capital" is not the same as Marx's notion of "fictitious capital," although the two ideas overlap.
10. Marx, *Capital*, Vol. 3, p. 393.

11. We are referring here not simply to fetish capital per Marx, in the sense of stocks and bonds, but to various asset back securities, derivatives like MBS, RMBS, CMBS, interest rate and currency swaps, collateralized debt obligations, credit default swaps, and the myriad forms of securitized assets of all kinds which amount to tens of trillions of dollars, at minimum, of highly liquid assets—a total of investible, liquid assets that now far exceed the price value of real physical assets such as capitalist structures, equipment, inventories, software and the like.
12. This is the fundamental theoretical basis for contemporary "efficient markets theory" of mainstream economics and modern financial analysis, which is largely economic ideology.
13. The severe cyclical contractions, which differ from "normal" recessions, this writer has called "epic" recessions, which are potentially preludes to bona fide global depressions. See chapters 1–3, on the theory of epic recessions, in Rasmus, *Epic Recession: Prelude to Global Depression* (Pluto Books, May 2010). How asset price crashes set off a transmission mechanism causing a deeper, more rapid, and more protracted contraction of the real economy is also explained in this book.
14. Chapter 7 of *Epic Recession* provides data illustrating the shift of investment by Capitalists—both individual and institutionals—toward financial securities and assets and the corresponding slowing of investing into physical assets in the case of the US since 2000.
15. Marx, *Capital*, Vol. 3, p. 439.
16. See Rasmus, *Epic Recession*, and in particular the tables on pp. 218–219.
17. It was this last group in particular that in 2011 played a key role in convincing Washington politicians in both parties to exempt non-financial corporations from Dodd-Frank financial regulation of derivatives trading.
18. It is interesting to note that more than half a century after Marx commented on the growing role of speculative investing with the advent of joint stock companies, among the best of bourgeois economists, John Keynes, very similarly noted the rise of the professional speculator and his role in provoking financial crises. In his somewhat out of place chapter 12 of his *General Theory*, Keynes discussed how the separation of investor from owner-capitalists to the professional speculator caused greater instability in the traditional investment process. Keynes' analysis lacked, however, any institutional or class basis for his view and he never developed it further, leaving chapter 12 as something of an aberration in the otherwise flow of his analysis in the *General Theory*.
19. These figures are from the US Federal Reserve Bank's "Flow of Funds" Reports, which in fact understates the totals for US financial companies' debt. Global financial institution debt issued was likely about 2.5 times that of the US, which is typically about 40 percent of global totals.
20. See Marx's discussion in chapter 25 of *Capital*, Vol. 3, where Marx quotes the work of the banker, J. W. Gilbert. Engels followed with his own comments on railroad and textiles speculation in England during the 1837–43 global depression. See also this writer's chapters 4 and 5 in *Epic Recession* on the speculative investing roots of the financial crashes and subsequent depressions in the US that occurred in 1837–44, 1872–78, 1892–98, and 1907–14. All these depressions were global and were precipitated by financial crashes that were preceded by runaway financial asset speculation.
21. Mainstream economists refer to this incorrectly as a "global savings glut." But it has nothing to do with "savings." Their insistence on viewing the process in terms of "savings = 'investment'" reveals once again their ideological limits that prevents them from understanding the significance of this fundamental development.
22. K. Marx, *Theories of Surplus Value*, II (Moscow: Progress Publishers, 1968), p. 293.
23. A more complete critique of Hilferding's approach for reasons of length of this article is not undertaken at this point.
24. This hypothesis, by the way, is fundamentally different from the view of disproportionality proposed a century ago by the Russian economist, Tugan-Baranofsky, which Sweezy critiqued in his *Theory of Capitalist Development* (Monthly Review, 1964 edition), pp. 156–162.
25. This is the thesis of this writer's latest book, *Obama's Economy*.