DEPARTMENT OF ECONOMICS

Working Paper

Problematizing the Global Economy: Financialization and the “Feudalization” of Capital

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Paper No. 01, Spring 2014, revised

Problematizing the Global Economy: Financialization and the “Feudalization” of Capital

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Abstract

In this essay we note that contemporary debates on financialization revolve around a purported “separation” between finance and production, implying that financial profits expand at the cost of production of real value. Within the literature on financialization, we primarily focus on those contributions that connect financialization to global value-chains, production of knowledge-capital and the significance of rent (ground rent, in Marx’s language) in driving financial strategies of firms, processes that are part of what we call, following others, the *feudalization of capital*. Building on the contributions of Stephen A. Resnick and Richard D. Wolff, we problematize the categories of capital and capitalism to uncover the capitalocentric premises of these contributions. In our understanding, any discussion of the global economy must recognize a) the simultaneous expansion of capitalist economic space and a non-capitalist “outside” of capital and b) the processes of exclusion (dispossession without proletarianization) in sustaining the capital/non-capital complex. In doing so, one must recognize the significance of both traditional forms of primitive accumulation as well as instances of “new enclosures” in securing rent for dominant financialized firms. Investment in knowledge-capital appears as an increasingly dominant instrument of extraction of rent from both capitalist and non-capitalist producers within a transformed economic geography. In our understanding, such a Marxian analysis renders the separation problem an untenable proposition.

I. Introduction

Financialization is perhaps the most controversial aspect of the series of transformations that have altered the face of capitalism in the last four decades. Broadly speaking, financialization refers to the dominance of financial capital over other forms of capital, evident in “the increasing role of financial motives, financial markets, financial actors and financial

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institutions in the operation of the domestic and international economies" (Epstein, 2005: 3). The most significant aspect of financialization, emphasized by heterodox economists, is the purported 'separation' of finance from material production. In empirical accounts, this separation refers to a set of associated phenomena—e.g. the subjugation of manufacturing to financial interests (Orhangazi, 2011), the rise to power of financial over productive capitalists (Dumenil and Levy, 2011), the trade-off between short-term profit maximization to long-term growth (Stockhammer, 2004), etc. At a more theoretical level, separation has been understood in terms of the privileging of financial profits over real production of value as the dominant mode of valorization of capital[3] (Arrighi, 1994; Krippner, 2005; Foster and Magdoff, 2008) or as the "autonomization" of capital from its material bases (Teixeira and Rotta, 2012; Rotta and Teixeira, 2015; Paulani, 2014).[4]

Despite its rich historical-empirical content and theoretical insights, the literature on financialization, in general, suffers from a tendency to study it in isolation from other transformations of the global economy and to focus on richer capitalist economies only. More specifically, while connecting financialization to neoliberalism, the literature has not explored it in connection with other strands of critical literature on neoliberalism—notably, the literature on primitive accumulation as a strategy for enhancing corporate profitability (Harvey 2003; Perelman 2000, 2002; Sanyal, 2007; Basu 2007; Bhattacharya, 2010) and the literature on the "global value-chains" (Bair, 2005; Gereffi and Korzeniewicz, 1994; Gereffi et al, 2005) that captures the new economic geography of global production. The connection between these transformations can be understood using the Marxian category of (ground) rent. Very few works have explored the link between financialized capital and organization of production in global value chains (Milberg, 2008; Milberg and Winkler, 2009; Palpaceur, 2008; Newman, 2009). Teixeira and Rotta (2012) have investigated the connection among "new enclosures" of knowledge-products, ground rent, and financialization. Serfati (2008) has tried to connect financialization, global value-chains, and the significance of rents in corporate strategies. It is the absence of these theoretical connections that sustains the separation thesis in the existing literature on financialization. Once we recognize these connections, the separation thesis, in the

[3] "I define financialization as a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production" (Krippner 2004: 14)

[4] The separation thesis explicitly or implicitly contained in the above contributions at first seems to pose a fundamental challenge to Marx's theoretical contributions given the latters' emphasis on the *connection* among labor, value, and the different forms surplus value can take (i.e. industrial profit, commercial profit, rent, interest, dividends, etc.). The cited works of the "autonomization school" are a Marxian response to this challenge.

form it is currently articulated, must give way to a new theoretical problematic—one that we refer to as the *feudalization* of capital. Feudalization of capital points to the set of processes that forge an inseparable yet distanced connection between capital and labour that relies on primitive accumulation and extraction of rent. For this connection to become visible, we must eschew the richer capitalist economies as the unit of analysis and look at the global organization of production.

We believe that Marx's contributions concerning financial capital are extremely relevant to the current debate on the separation of finance from production. Specifically, his understanding of financial, interest-bearing capital as the most *fetishistic* form of capital is central to our endeavor.[5] The purported separation of finance from production then becomes one of confusing the distance between value-producing labor and the profits realized in finance with the apparent autonomy/dislocation/separation of the latter from the former. In other words, fetishization of financial capital renders invisible living labor as the source of surplus value.

In this essay, we seek to develop a theoretical critique of the separation thesis by following the leads provided by those who have made the connection among financialization, global value-chains and the importance of rent in corporate strategies. However, we also point to the shortcomings of these attempts to reconceptualize global capitalism. Specifically, we argue that the literature of financialization continues to be blind to a) the presence of non-capitalist production spaces in the global economy that are subjected to control by mercantile and financial capital, with revenues flowing from such control largely appropriated by firms headquartered in the richer capitalist economies and b) the salience of primitive accumulation for rent-earning capital.

Our critique builds on the contributions of Stephen A. Resnick and Richard D. Wolff (1987), particularly those enabling complex and disaggregated analyses of the economy.[6] More specifically, we find their distinction between different forms of *capital* and *capitalism* particularly illuminating. One of the insights following from their Marxian framework is that an economy is labeled capitalist because the capitalist class structure is *prevalent* in the social formation of which it is a part, but not because it is the only class structure present in the social

[5] "In interest-bearing capital, the capital relationship reaches its most superficial and fetishized form" (Marx, 1993: 515).

[6] See Bhattacharya and Seda-Irizarry (2015: 674-676) for our understanding of their work.

formation. The social formation can and often does include non-capitalist class structures, and sometimes the latter might constitute a significant or even the major part of the economy.[7] Further, the capitalist class structure consists of a subset of specific articulations between productive (industrial) and unproductive (merchant, financial) forms of capital in any social context. A class structure is called capitalist because class exploitation in production is capitalist in character, not because productive capital is dominant over unproductive capital. Thus, a capitalist class structure can exist in which unproductive capitalists have greater power over productive capitalists. Similarly, unproductive capital can be and has always been deeply connected to non-capitalist class structures whenever they are present in the social formation. Moreover, unproductive capital can be associated with expansion of both capitalist and non-capitalist class structures at the same time, or they might facilitate the expansion of one at the cost of the other. Thus, financialization has to be located in a more complex picture of the economy, particularly when we are taking the global economy as the unit of analysis. However, while Resnick and Wolff's works allow us to problematize the economy by a) making a distinction between class structures and the social formation containing them and b) by disaggregating the connections between different forms of capital and non-capitalist class structures, we argue that the salience of primitive accumulation and rent as a source of revenue for capitalists has been largely ignored in their work.

The rest of the paper is organized as follows. Section II briefly presents the separation thesis as a theoretical problem in the literature on financialization and reviews the literature that connects financialization with global value-chains and the significance of rent in corporate strategies. Section III builds on the contributions of Resnick and Wolff to argue that if we acknowledge the complex relations between different forms of capital and non-capital—which may together constitute a capitalist social formation—then the separation thesis cannot be sustained as a Marxian proposition. Instead, a different transformation of the global economy becomes discernible, which is elaborated in Section IV. Section IV argues that any account of capitalism that does not recognize non-capitalist class structures obscures the continuous and central role of primitive accumulation to the valorization of capital. Capital may subject its non-capitalist "outside" to primitive accumulation to secure its conditions of existence, without

[7] Sanyal (2007) gives an account of capital's hegemony over postcolonial social formations where capitalist accumulation may in fact be accompanied by an expansion, rather than the dissolution, of the non-capitalist space.

necessarily dissolving the latter (Bhattacharya, 2010). This opens up a theoretical connection among primitive accumulation, rent, and financialization. Section V concludes.

II: Financialization and the separation thesis

The point of departure of the separation thesis is the observed slowdown in physical capital accumulation in the richer Western economies relative to the post-WWII Golden Age. Since the same period also witnessed rising financial profits, it has been argued that financial accumulation has happened at the cost of physical capital accumulation. These empirical observations have given birth to a literature on the purported trade-off between financial and productive investment. This trade-off has been linked to the rise of shareholder value as the dominant principle of corporate governance (Lazonick and O'Sullivan, 2000), a class-offensive against the workers in advanced countries (Harvey, 2010), the deregulation of the financial sector since the 1970s (Crotty, 2009, 2011), the global dispersion of production of goods and services (Milberg 2008; Milberg and Winkler 2009), and structural changes within the United States as the center of global capitalism (Bakir, 2015; Kotz, 2015). This trade-off approach to the separation thesis has been criticized on two grounds; a) it takes advanced countries—individually or as a group—as the unit of analysis, and b) it takes the post-WWII Golden Age rate of physical accumulation as the comparator. As McNally (2011) points out, if capital is not territorially fixed, then the world-economy is the appropriate unit of analysis of accumulation of capital, not the nation-state. In particular, the focus on advanced countries hides the dramatic increase in the rates of physical capital accumulation in developing countries, most notably East Asian countries and two of the largest economies of the world, India and China. A growing literature (Milberg, 2008; Palpaceur, 2008; Newman, 2009; Milberg and Winkler, 2009) has made a connection between financialization and global value-chains. Outsourcing and offshoring of production to developing countries can explain both the dramatic rise in physical capital accumulation in developing economies and a slowdown in the developed countries, thus ruling out a trade-off at the global level. Second, McNally (2011) also points out that the post-WWII Golden Age capitalism should not be taken as the period of comparison, since it was an exceptional period, driven by the post-war reconstruction of Western Europe and Japan and exceptionally low competition in world markets.

A second approach to the separation thesis emphasizes the connection between

financialization and structural transformations in capitalism. Arrighi (1994) argues that financialization occurs when a certain mode of accumulation of productive capital exhausts itself, so that capital seeks to transform itself from productive to its unproductive forms and prefers financial or mercantile profits over direct production and accumulation of surplus value. Financialization, according to Arrighi, represents the end to long cycles of capitalist expansion. Thus, current financialization is a symptom of the exhaustion of the "American" century of productive accumulation that began around 1870s and started showing signs of exhaustion in the 1970s. Also within the structuralist tradition, Kotz (2011, 2015) uses the *social structure of accumulation* (SSA) framework to analyze financialization as a 'mode of accumulation,' and Boyer (2000) uses the *regulation* framework to understand financialization as a 'regime of accumulation' succeeding the post-WWII Golden Age phase. In both these frameworks, there is the notion of exhaustion of a 'mode' or 'regime' of accumulation, which ushers in the subsequent one, and financialization is traced to the 'exhaustion' of the previous 'mode' or 'regime'. In this respect, their works have a certain affinity with Arrighi's, even though he uses the *longe durée* approach of the French *Annales* school of historiography.

In all of these formulations, financialization represents a phase (cycle, regime etc.) during which production is subjugated to finance, the productive to the unproductive, and the 'real' to the 'fictitious'. Implicit in these formulations is the belief that finance becomes *independent* of material production— i.e. it separates itself from the processes of value-creation— and even expands at the cost of the latter Hence, all accounts of financialization, historical or contemporary, link this separation to capitalist crises. The theoretical puzzle implicit in framing the separation thesis was pointedly presented in Pollin's (1996) review of Arrighi's (1994) book: "[In the M-M' circuit] where do the profits come from if not from the production and exchange of commodities?" (Pollin 1996: 115).

Pollin (ibid) locates three possible sources of financial profits—

i) A general trade-off between capitalists that are making money and other capitalists that are losing money, thereby implying a redistribution within the capitalist class itself. At a more concrete level, as seems to be the case with financialization, financial firms or financial wings of firms can gain at the expense of non-financial firms or non-financial wings of firms. Thus financial profits can rise as a result of

redistribution of surplus value from the productive wing of capital, while total surplus value remains unchanged.

ii) Financial profits can come from a redistribution of income directly in favor of financial capitalists through the extension of credit to the working class (who make interest payments to financial firms) or indirectly by increasing profits of industrial capitalists, which is then redistributed as interest to financial firms. The latter happens when industrial capitalists increase their profits without increasing surplus value—by lowering of tax burdens or by decreasing real wages. In this case, there is redistribution of total existing value, including the part paid as wages to workers.[8]

iii) Enhanced financial profits accrue when capitalists move their funds out of less profitable and into more profitable areas of material production. Here, financial firms enable a shift of capital from less productive to more productive investments. This source of profit is an expansion of surplus value, even if capital invested remains same.

The literature on financialization provides arguments and empirical evidence that shows how all the three sources mentioned above have indeed been important for the expansion of financial profits. For example, Stockhammer (2004), Crotty (2005), and Orhangazi (2008) have examined the performance of non-financial vis-à-vis financial corporations in the neoliberal era, emphasizing the negative impact of financialization on real investment. Lapavitsas (2009) has highlighted how expansion of the sphere of circulation and the stagnation in production has led to a process of "financial expropriation" where profits are extracted from wages. Finally, Harvey (2003) and Guttman (2008) have focused on asset stripping, mergers and acquisitions as strategies to increase profitability.

While we recognize the importance of the contributions cited above, the literature on financialization ignores two parallel transformations in global capitalism—the ascendance of

[8] One can make a distinction between current versus anticipated future value. When credit is extended to the working class to finance investment in durable assets (houses) or when credit is extended to firms for investment in capital goods, the financial profits are premised on the future (and in many cases, expanded) production of value (Lapavitsas, 2011). Financial assets are then claims on future (as-yet-not-existing) values. When such claims to future values are commoditized and are subjected to multiple, repeated exchanges, speculation in the face of radical uncertainty invariably affects exchange-values, leading to "spurious" future values. A part of financial profits is, therefore, purely mercantile profit from selling "commodities" that are nothing but claims on future value, real or spurious. The financial profits can therefore be a redistribution of both real and spurious surplus values.

intangible capital (knowledge capital) in driving financial profits and the geographical dispersion of production embedded in global value chains. Though there has been a substantial literature on both these transformations, there exist very few scholarly works that connect them to financialization and even fewer works that seek to do so from a Marxian perspective.

One thought-provoking contribution in this regard is by Teixeira and Rotta (2012) who make a connection among financialization, rent, and knowledge-commodities. They point to the salience of knowledge-commodities in contemporary capitalism— e.g. "privatized knowledge and commodified information, such as computer software, chemical formulae, cultural and musical production, engineering secrets, and patented knowledge" (Teixeira and Rotta, 2012: 454). They argue that knowledge-commodities are "valueless" commodities. Using Marx's definition of value as that "determined not by the labour-time originally taken by their production, but rather by the labour-time that their reproduction takes" (Marx 1993, 522) they assert that knowledge-commodities are valueless because labour is employed in their production but not in their re-production (except for the material content of the storage and transportation devices which constitute an insignificant component of its market price). The price of such "valueless" commodities is therefore the result of monopoly property rights— just like land, which has no value but yields ground-rent to its owner. Thus, for them, the return to capital in production of knowledge-commodities is not surplus value from direct production, but "rent" earned from monopolizing the knowledge-product and leasing or selling it to producers who make rental payments to use these knowledge-commodities in production. Thus, what the owners of the knowledge-commodities get is a cut of the surplus value generated in production by others using the knowledge-commodities. Teixeira and Rotta argue that "new enclosures" pertaining to privatization and commoditization of potentially freely reproducable knowledge-commodities points to the salience of rent and rent-bearing capital in contemporary corporate strategies of maximizing profit.

In general, Teixeira and Rotta understand financialization as one aspect of the transformation of capitalism—in the sphere of finance. Its counterpart in the sphere of production is "value-less commodities." Both of these transformations—financialization and value-less commodities—are said to be manifestations of a single process, the "autonomization of social forms" in capitalism from their "material bases." Fundamental to understanding the *logic* of autonomization is the recognition that capital "has the tendency to expel its own

content" (ibid: 451). Specifically, the contradiction of capital is that, even though living labor is the source of new value, and hence surplus value, capital "both depends on and expels productive labor" (ibid). Thus, for example, the objective of production of knowledge-commodities is not the direct exploitation of labourers through appropriation of their surplus labour time—in fact, strictly speaking, the labourers producing patented knowledge-commodities are not "exploited" in the Marxian sense, since they are not producing value and hence, surplus value— but rather the production of monopolizable "valueless" commodities which are nonetheless essential conditions of production where value-production and class-exploitation of labourers goes on. Thus, rent-bearing capital distances itself from production and productive labourers.

As far as social forms in capitalism are concerned, autonomization consists in the *retreat* from the M-C-C'-M' (productive capitalist) circuit and its associated M-C-M' (mercantile capitalist) circuit to the pure M-M' (financial capitalist) circuit. The dominant social forms of capital in contemporary capitalism are financial or 'fictitious' capital and rent-bearing capital, which are forms farthest removed from real value-producing activities, and which we will explore in detail in the next section. But Teixeira and Rotta's work, in pointing to valueless commodities and knowledge-rents as the increasingly dominant elements in securing financial profits, is also susceptible to Pollin's question—where do interest and rent come from, if not from real production in which capital is exploiting labor? To look for an answer to this vexed question, we suggest that we look beyond the heartland of financialization—i.e. the richer capitalist economies—and beyond the capitalist economy itself. The literature on global value chains offers important clues in this respect.

In the era of financialization, a new economic geography of production has taken shape[9], in which firms in the developed and developing countries occupy specific locations in the global value chain of production, with most of the value captured as returns to intangible capital (i.e. rents) by large firms in developed countries that specialize in the higher end (design, logistics, branding etc.) operations of the value-chain[10]. One of the earlier works that connected financialization to the emergent economic geography of production was Saskia Sassen's writings

[9] See Guttmann (2008, 3) for a strong case for connecting financialization with the new geography of production in terms of how "the capacity for decentralization depends on centralizing a collection of cash flows and investing them in liquid assets for easier redeployment of capital."

[10] For the case of coffee, see Newman (2009).

on "global cities," where she argued that the vertical disintegration of production and its global dispersal is accompanied by a corresponding centralization of command and control functions in "global cities" like New York, London, Tokyo etc. where financial markets have been instrumental in intensifying such centralization (Sassen 2000, 81-82). This pattern of globalization is different from the colonial pattern of trade, where underdeveloped countries specialized in primary products and developed countries specialized in industrial products. We will elaborate this point in section IV.

The imperatives of finance in such global organization of production come out clearly in Milberg and Winkler (2009).

> We find that the expansion of global production networks has served a dual purpose in the evolving corporate strategy. Cost reductions from the globalisation of production have supported the financialisation of the non-financial corporate sector, both by raising profits and by reducing the need for domestic reinvestment of those profits, freeing earnings for the purchase of financial assets and raising shareholder returns'(Milberg and Winkler, 2009: 2).

We believe that if understand the connection among financialization, global value-chains, and appropriation of surplus value in the form of rent, then the separation thesis cannot be sustained; at most, separation of production and finance is a regional empirical phenomenon confined to select Western economies. When we consider the role of global value chains, as we try to argue in the next two sections, what emerges is a more disaggregated picture of global production of surplus in both capitalist and non-capitalist production spaces and new forms of appropriation of that surplus in the form of rent. In the process, the "outside" of capital and primitive accumulation become theoretically visible—but only when we move beyond the capitalocentric limits of the literature on financialization.

III: A Critique of the separation problem: Forms of Capital and Capitalism

Any account of financialization in contemporary capitalism must explain the relations among different forms of capital, the relation between different forms of capital and non-capitalist production, and hence what capitalism means in the face of such heterogeneity. Traditionally, Marxists understood capital as "self-expansion of value", i.e. something which exists only in order to grow. The simplest form which captures this self-expansion is the circuit of money-capital, $\mathrm{M} - \mathrm{M}'$. In this circuit, value can expand in different ways. It can expand

because the money-capitalist has advanced unproductive loans to any economic agent and get a cut (as interest) of the diverse incomes generated in production—wages, profits, rent, interest etc. It can expand because the money-capitalist has lent money as capital to the undertaker of production and get a cut from the surplus value (as interest) generated in production. The cut can be from either capitalist or *non-capitalist* surplus value, depending on the class structure in which the borrower participates. Money-capital can also expand when it is invested in monopoly rights over conditions of production (land, knowledge etc.) and earn rent. Interest-bearing and rent-bearing capital are different instances of the same circuit of capital at work.

In the circuit of mercantile capital, $\mathrm{M} - \mathrm{C} - \mathrm{M}'$ capital valorizes itself by enabling the circulation of produced commodities. Mercantile profit is a cut of the surplus value generated in the production processes of the commodities being merchanted. The source of mercantile profit can be either capitalist or non-capitalist surplus value depending on whether mercantile capital is invested in the circulation of capitalist or non-capitalist commodities. Finally, the connection between capital and production is most intimate in the case of the circuit of productive capital, i.e. $\mathrm{M} - \mathrm{C} - \mathrm{P} - \mathrm{C}' - \mathrm{M}'$. Here, capital can only valorize itself by being involved in the actual process of production, through direct appropriation of produced surplus value.

In a social formation, the multiple connections between the different circuits of capital and the different (class) forms of production yield a complex economic totality. A class structure is defined in terms of the social relations entailed in the processes of production, appropriation, and distribution of surplus labor performed by direct producers (Resnick and Wolff 1987). By a capitalist class structure we mean the specific configuration of class relations that sustain the circuit of productive capital. In Resnick and Wolff's view, the concept of "social formation" then refers to a social totality exhibiting multiple and ever-changing class structures (ibid: 118). Social formations are often named after the class structure "prevalent" in the social formation at that particular time (ibid), where "prevalence" is often, but not necessarily, understood in terms of the class structure's dominance in the share of the total surplus in society. Capitalism refers to a social formation in which the capitalist fundamental class process is "prevalent." Unlike capital and capitalist class structures, which are theoretical categories, capitalism is a historical category that refers to the context of a particular social formation – say, USA in the twentieth century[11].

[11] See Resnick and Wolff (1987: 118-121, 141-143) for a detailed discussion of the distinction among capital, capitalist class structure, social formation, and the prevalence of a class structure in social formation.

Sustained valorization of capital in any social conjuncture is, in the final analysis, based on the value created in production. To pose a fundamental disconnect between valorization of capital and value-creating activities, i.e. to pose something like "valorization without value", is therefore to subscribe to a non-Marxian position. There is nothing in the conceptualization of a capitalist class structure that rules out the possibility that the landlord or the money-capitalist may end up possessing more surplus value than the productive capitalist. The logic of self-expansion of value might require that capital be fluid among its forms so as to bypass any obstacles to its expansion. For individual firms, this need for fluidity might require transformations in the production and appropriation of surplus, like the geographical dispersion of production to take advantage of lower unit costs (due to lower wages for territorially less mobile workers), or it might imply a diversification of activities to secure already produced surplus (e.g. productive capitalist firms developing financial branches). These and other possibilities can combine in ways in which rent-bearing and interest-bearing capitals are more prominent than productive capital. However, it does not mean that capital has separated itself from value-creating activities. The capitalist class-structure, i.e. the productive circuit of capital, can be prevalent and yet the productive capitalist's share of total surplus value can be less than those of financial and rent-bearing capital. In fact, faster accumulation of financial or rent-bearing capital can enable faster rates of accumulation of productive capital through expanding the supply of loans and purchase of equities. The fact that productive capital is less privileged in comparison with interest-bearing or rent-bearing forms of capital does not mean that it is less prevalent in the sphere of production, as the following example illustrates.

> The largest share of the value created by the iPhone accrues to providers of distribution and retail services in the United States and to Apple, mainly to its innovations in design, marketing and supply-chain management. For each iPhone4 sold, at a retail price of USD 600, Apple earns around USD 270, while Korean firms supplying core components earn USD 80, and Chinese enterprises that undertake the assembly earn USD 6.5, a mere 1% of the total value (OECD 2013: 23).

The fact that Apple earns large rents from "value-less" knowledge-commodities (design, branding etc.) does not subtract from the significance of "value-creating activities" in Korean and Chinese capitalist factories. In this case, one class-position—the 'landlord class-position' of Apple by virtue of its monopoly rights over iPhone's design—has greater ability to capture surplus value than the productive capitalists in China and Korea. However, this doesn't prevent high rates of accumulation of productive capital in China or Korea, nor does Apple valorize its

capital without an underlying production of commodities.

In advancing the autonomization thesis, Teixeira and Rotta (2012) have inadvertently fallen into a trap that theoretically privileges the social forms of capital (symbolized by Apple, Nike, Reebok, Monsanto etc.) prominent in Western economies. Capitalism—when understood at the global level— is about the prevalence of the capitalist class process in the production of surplus value, not the dominance of this or that form of capital. In the same vein, as we argue in the next section, the "prevalence" of the capitalist class structure does not rule out the presence (or even numerical significance, for example, in employment etc.) of non-capitalist class structures in the social formation. Coffee is often grown by small peasant families in various countries of Latin America, Africa, and elsewhere, and the fact that big capitalist firms, who may themselves be highly active in the financial sphere, control that trade, does not mean that the entire coffee-chain exhibits a capitalist class structure.

A more disaggregated analysis of the global economy can open up the debate on financialization to newer theoretical possibilities. When considering capital as a process (i.e. self-expansion of value) at the micro-level, the strategic choices of a firm are a response to the entire context. It is possible for the self-expansion of value to involve a retreat from direct production (i.e. a retreat from class-exploitation of workers) in certain social contexts (richer capitalist economies, for example) and an expansion in other social contexts (developing economies, for example), as an outcome of the pursuit of surplus value. This geography of exploitation is determined by the degree of resistance to class-exploitation, the level of productivity of workers, the policies of the respective governments, and so on, in different jurisdictions. Therefore, in certain regions, financial capital may appear socially prevalent, while in others industrial capital may be socially prevalent. If we focus on the class process in production, then we realize that the mobility of capital across jurisdictions, which has expanded in the neoliberal era under free trade policies across the world, coupled with immobility of workers under stricter immigration policies, creates the conditions of precisely such an economic geography of exploitation. Correspondingly, the prevalent form of capital will also vary across global regions, making it imperative to analyze capitalism at a global level in order to sustain a Marxian account.

IV. Financialization and Non-capital: A Critique of Capitalocentrism

The account of capitalism in the debate on financialization gets further problematized if we bring in non-capitalist class-structures linked to productive, mercantile, interest-bearing or rent-bearing forms of capital. Unfortunately, even those who make a connection between financialization and global value-chains fail to recognize the articulation of non-capitalist class structures in developing countries into circuits of capital dominated by capitalist firms, often headquartered in the developed countries. Failure to recognize non-capitalist production sites obscures the flows of value between non-capitalist and capitalist class structures within and across nations and the significance of primitive accumulation. For example, Teixeira and Rotta (2012) draw the analogy between knowledge-commodities and land, but they do not bring out the full implications of the centrality of primitive accumulation ("new enclosures") to the production of value-less commodities and the appropriation of knowledge-rent. This is because to posit primitive accumulation as a process constitutive of capitalism requires the acknowledgment of an inescapable (non-capitalist) "outside" of capital (Bhattacharya, 2010).

In the literature on global value chains involving coffee and other agricultural products, athletic footwear, sporting goods, etc., we often find that sometimes a major part of the production is done by peasants, family enterprises, and petty producers at the lowest level of the global value chain. Much of this production goes on within non-capitalist class structures, often using just family labor in home-based production. These direct producers are often located in developing countries and get an insignificant share of the value. The bulk of the value is retained by retailers and parent firms who provide the design specification and the brand name. In Marxian terms, non-capitalist surplus value is extracted by mercantile capitalist firms or captured as rents by firms who provide a crucial element that cannot be imitated, whether knowledge-commodities like patented designs (Nike, Reebok etc.), brand image, or consumption ambience (Starbucks). But the source of these mercantile profits and rents is the non-capitalist surplus value produced in the developing countries. The reduction of all economic sites and class processes to capitalist ones hides an important source of surplus value for merchants and rent-bearing capital: non-capitalist value.[12]

Thus looking only at capitalist production sites and their rate of accumulation of physical

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[12] This point is brought out forcefully by Ruccio, Resnick, and Wolff (1991: 35).

capital does not exhaust the potential sources of value for financial profits. Financial profits can expand on the basis of *non*-capitalist surplus value. While the example of Apple products in the previous section mainly illustrates the presence of *capitalist* firms in China or South Korea in its global value chain, the examples of textiles, coffee, footwear and sportswear are well-known examples of *non-capitalist* units (characterized by feminized work in many cases) in the global value-chain led by highly financialized capitalist firms.

The financialization of the dominant firm is reflected in the rising significance of "intangible capital"[13] or "knowledge-capital" in the firm's strategies. In the past, global competition was driven by accumulation of physical capital; today it is driven by the accumulation of knowledge/intellectual/intangible capital. As Belloc and Pagano (2012: 448) argue, "[i]f a good like knowledge is moved from the public to the private sphere, the legal positions on intellectual property influence the comparative advantages of nations and cause patterns of asymmetric development". As production gets globally dispersed, what matters is not the dominance of material production and physical capital, but the prevalence of immaterial production (Hardt and Negri, 2001) and knowledge capital (Burton-Jones, 1999). Immaterial production based on knowledge capital dominates the global value-chains. In the past, firms specializing in industrial products ruled over those that produced primary products; today, firms specializing in immaterial production dominate firms specializing in material production in the global value-chains.

The elements constituting these new forms of capital clearly belong to the domain of culture, knowledge and communications; investment in intellectual capital now outstrips that in physical capital in several advanced countries. According to an OECD report (2013), in Sweden, the United Kingdom, and the United States, investment in knowledge-based capital matches or exceeds investment in physical capital. The report emphasizes that the importance of knowledge capital will increase in the future as countries compete over the upper segments of the value-

[13] In the business literature, intellectual/intangible capital often refers to a set of assets—human capital, structural capital and relational capital. While human capital is a familiar term, the other two refer to very specific firm-level assets and capabilities. Structural capital refers to organizational structure, culture and procedures as well as patents, trademarks and copyrights and other intellectual properties of the organization enhanced through R &D (Martín-de-Castro et al, 2006). Relational capital includes customer relationships, supplier relationships, trademarks, trade names, licenses, and franchises (Bontis, 1998; Joia, 2000).

chains given that the “allocation of value depends on the ability of participants to supply sophisticated, *hard-to-imitate* products or services” (OECD, 2013: 23, emphasis added).

As Milberg argues, “many ‘manufacturing’ firms do not manufacture at all, providing only brand design, marketing, supply chain logistics and financial management services” (Milberg, 2008: 425). The reason behind this strategy is that as productive capacities develop in other countries, only the most *hard-to-imitate* parts of the production process become the means of extracting greater value. Investment in intangible assets creates instruments that secure monopoly rights over conditions of production (because it is hard or illegal to imitate), forcing producing firms to yield a greater share of their value to the providers of such conditions of production.

Once we recognize the importance of rent in the contemporary era of financialization, we must also recognize the the processes of primitive accumulation that transform the conditions of non-capitalist production across the world. The introduction of genetically modified seeds, the extension of intellectual property rights to living organisms like plants, and ‘theft’ of traditional knowledge all contribute to the production of what Teixeira and Rotta call “value-less” knowledge-commodities that yield rents to the firms with state-protected property rights in these commodities. Scholars have often referred to these novel forms of primitive accumulation as “new enclosures” or “second enclosure” (May, 2000; Boyle, 2003; Evans, 2005). The introduction of knowledge-commodities through these “new enclosures” can lead to the extraction of heavy rents from both capitalist and non-capitalist producers. Primitive accumulation, therefore, does not necessarily lead to the dissolution of non-capitalist class structures; instead, it might alter the conditions of existence of non-capitalist production such that the producers must pay rent for access to crucial conditions of production—e.g. Monsanto selling patented seeds to peasants. It is this aspect of financialization that, in our understanding, contributes to the “feudalization” of an economy we have been accustomed to refer to as capitalism.

V. Conclusion

In this essay we have argued that the separation problem is at the heart of a substantial part of the contemporary discourse on financialization. Within the literature on financialization,

we have singled out those contributions that have connected financialization to global value and commodity chains, the production of knowledge-capital, and to the significance of rent in driving various financial strategies of firms. While recognizing the significance of these contributions, we have found them to be trapped within capitalocentric discourses where the experience of the richer countries remains the focus. Using the insights from the works of Stephen A. Resnick and Richard D. Wolff, we have offered a more disaggregated view of capital, capitalism and the world economy. In our understanding, any discussion of the global economy must recognize the empirical possibility of a) simultaneous existence and uneven development of capitalist and non-capitalist class structures and b) the complex articulation of different forms of productive and unproductive capital with each other and with non-capitalist economy. In doing so, one must recognize the significance of both traditional forms of primitive accumulation as well as instances of new enclosures in securing rent for dominant financialized firms. Investment in knowledge-capital appears as an increasingly dominant instrument for extraction of rent from both capitalist and non-capitalist producers within a transformed economic geography. For us, such a Marxian analysis renders the separation problem an untenable proposition. What we refer to as the feudalization of capital is the set of processes that contribute to an accumulation of (unproductive) capital through control over conditions of production rather than direct exploitation of workers—a strange distancing of capital from labor that is more reminiscent of what we have come to believe as the pre-capitalist era. It has been our purpose in this essay to introduce certain theoretical problems in the ongoing debate on financialization in the hope of eliciting more responses in this direction.

Acknowledgement

We are thankful to Ted Burczak for detailed comments on draft versions of the chapter.

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