

Theoretical tools to understand the current economic crisis: Marx law of value and the dynamics of fictitious capital

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Introduction

This paper comes out with a modest, but important, aim. To offer a Marxian theoretical approach that is capable of giving an account on the current economic crisis. This means that we go back to Marx writings, more specifically his *Critique of Political Economy*, to find on that assessment on the general laws of motion of capitalist mode of production the systemic need for the phenomenon.

In short, our aim is to understand the phenomenon's cause, in a highly abstract level (as we shall see) by the elucidation of the content that underlies its possible forms of manifestation. Such a highly abstract, general, account must, although, offer an explanation for economic crisis as they appear. Thus, in the first place, what is offered here is an analysis that must resist the confrontation within the historical forms of appearance of the phenomenon. Then, to deal with crisis most recent form of manifestation it is offered an account on the Marxian category of fictitious capital. Such category represents the deepening of the contradictions of capitalist mode of production sketched by Marx under his law of value.

Moreover, such an approach must deal with a mode of production that escape the control of individuals engaged on this process, under each an every social class. Must also account for the cyclical nature of the process of accumulation of capital (as economic crisis emerges periodically). For a Marxist the only way to do so is by using Marx's law of value, the law that regulates the operation of capitalist society.

1. Economic Crisis: its content

Our first goal, then, must be to show how capitalist mode of production tends to create, from time to time, crisis. In short, we must not only assert but demonstrate that “[t]he *real barrier* of capitalist production is *capital itself*”. (MARX, 1959, p. 171) Hence, must be stressed that economic crisis constitute the moment of irruption of the contradiction between the realization and the production of surplus-value, which means that it is the point of time when the unity among those spheres must be

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recovered. In other words, economic crisis are part of the cyclical process of capital accumulation, not anomalies within it, but a moment of its normal reproduction, the destruction of part of over-accumulated capital.

To do so, we must take a highly abstract level. The tendencies that we must demonstrate were already presented in Marx's law of value, "the economic law of motion of modern society". (MARX, 1887, p. 7) Capital defines itself as a process, its movement of cumulative expansion, i.e., its movement of accumulation. Such process, as we shall briefly present below by Marx's arguments, concerns not only quantitative changes but also qualitative transformations. Both appear as peculiar tendencies of this mode of production. Obviously such an object (that is in itself movement) can only be adequately grasped in its movement, for this reason the dialectical method is still undisputed. Real contradictions are solved by movement, which is, at the same time, its process of reproduction, i.e., contradictions are solved only as they are replaced.

Through Marx analyses of the process of production and circulation of capital, as a totality, we shall show that among its contradictory tendencies we can identify: tendency to expand the production of commodities; to expand the mass of consumers; and to restrict the possibility of realization of the produced surplus-value.(RIBEIRO, 2009) All together, these contradictory outcomes of the process of accumulation of capital are enough to demonstrate, in such abstract level, how capitalist dynamics creates crisis. In short, in the following paragraphs we intend to show that:

The stupendous productivity developing under the capitalist mode of production relative to population, and the increase, if not in the same proportion, of capital-values (not just of their material substance) which grow much more rapidly than the population, contradict the basis, which constantly narrows in relation to the expanding wealth, and for which all this immense productiveness works. They also contradict the conditions under which this swelling capital augments its value. Hence crisis. (MARX, 1959, p. 181)

Moreover, following Marx's logical-dialectic path, it could be shown how the 'autonomization' of money-capital and commodity-capital represent the deepening (in the sense of becoming more complex) of the contradiction between production and appropriation of surplus-value, the social ground of the first facing the individual drive of the former.

1.1 Tendency to expand the production of commodities

Both in terms of mass of use-values available in the market and in terms of value, the process of production of surplus-value has an immanent tendency to enlarge the supply of commodities. This refers to all kinds of commodities: those for personal consumption; means of production; labor-power; and capital-commodity (this one corresponds to the phenomenon of over-accumulation of capital in relation to the possibility of completing its movement of valorization, in other words, economic crisis).

First of all, capitalist production process entails the need for the reproduction of its social and material conditions. Both are guaranteed for the very process. The first requirement, i.e., the reproduction of the social conditions of the process, is guaranteed as one of the results of it is the division between objective and subjective working conditions. In another words the point of departure of capitalist production – the existence of a mass of dispossessed that has no other option than selling its capacity of labour as means for acquiring, in the market, the portion of social production needed for their existence, in one side, and in the other a class that possesses previously accumulated capital and is willing to make it grow by its application in the production of surplus-value – appear as a result constantly renewed².

Obviously every mode of production must have as its outcome, constantly, the materials means for its reproduction. Moreover, if it is to increase the scale of production, those material means must absolutely increase. As capitalist mode of production has as its content production and appropriation of surplus-value and is it is only quantitatively limited, this task is taken to its maximum. Moreover, as the bigger the capital, the bigger the mass of surplus-value it can produce and the possibility of having competitive advantages over other capitals (and so, to appropriate of higher mass of surplus-value), it is imperative to transform surplus-value into capital, to accumulate. Then, the normal form of reproduction of capitalist mode of production is in progressively increasing scale. Hence,

[...] a part of the annual surplus labor must have been applied to the production of additional means of production and subsistence, over and above the quantity of these things required to replace the capital advanced. In one word, surplus-value is convertible into capital solely

² “On the one hand, the process of production incessantly converts material wealth into capital, into means of creating more wealth and means of enjoyment for the capitalist. On the other hand, the laborer, on quitting the process, is what he was on entering it, a source of wealth, but devoid of all means of making that wealth his own. (...)The laborer therefore constantly produces material, objective wealth, but in the form of capital, of an alien power that dominates and exploits him; and the capitalist as constantly produces labor-power, but in the form of a subjective source of wealth, separated from the objects in and by which it can alone be realized; in short he produces the laborer, but as wage laborer. This incessant reproduction, this perpetuation of the laborer, is the sine qua non of capitalist production”. (MARX, 1887, p. 397)

because the surplus-product, whose value it is, already comprises the material elements of new capital. (MARX, 1887, p. 405)

Also, the elevation of the organic composition of capital is a law of this mode of production that, like all other immanent tendencies of it, assert itself by competition among capitals in the quest for appropriation of an extraordinary surplus-value (the possibility of selling a commodity above its value, even if below market value). This elevation of the organic composition of capital is, as defined by Marx, the expression in terms of value of an elevation in the technical composition of capital, in another words, the growing of the number of means of production a laborer transforms into product in some given period of time. This reinforces the need for crescent production of means of production.

This problem is solved as the production of means of production is also capitalist production. Then it possesses all the immanent tendencies already sketched that impels capitalist production to an ever growing supply of commodities.

But this is not all, this growing appetite for means of production is also an growing appetite for labor-power. Even though there is a tendency for a relative reduction of the variable capital, its mass tends to grow, as it is the progress of accumulation of capital that leads to the growing productivity of labor. In capitalist regime the number of employed workers tends to increase absolutely, although decrease relatively³. So, this specific commodity, labor-power, must also be available in ever growing quantities.

Once again, this necessity is satisfied by the process own legalities. According to Marx the “general absolute law of capitalist accumulation” implies that the bigger the social wealth, the functioning capital, its expansion capacity and, consequently, the magnitude of the proletariat, the greater the industrial reserve army. “The same causes which develop the expansive power of capital, develop also the labor power at its disposal”. (Ibid., p. 444) This is due to the relative decrease of the variable capital, previously mentioned, as a consequence of the increase in the productive capacity of labor in the quest for extraordinary surplus-value.

At the same time, the competitive interaction among capital's leads to centralization of capital, i.e., those capitals that cannot meet the productive requirements in constant evolution are swallowed by the more capable ones. In this struggle, size matters. The need for hefty investments makes bigger capitals more prone to apply

³ “A development of productive forces which would diminish the absolute number of laborers, i.e., enable the entire nation to accomplish its total production in a shorter time span, would cause a revolution, because it would put the bulk of the population out of the running. This is another manifestation of the specific barrier of capitalist production, showing also that capitalist production is by no means an absolute form for the development of the productive forces and for the creation of wealth, but rather that at a certain point it comes into collision with this development”. (MARX, 1959, p. 179)

the most modern productive measures. As a result, some capitalists are expropriated, in another words, in some cases, their only option is to sell their labor power, they become wage laborers. This among old and new forms of expropriation, separation between workers and means of production, helps to create an ever growing mass of labor power available for capitalist accumulation. In this sense, the so-called *Primitive Accumulation* is seen not only as a historic passage of Marx's *Capital*, but as part of his theoretical argument, as a moment of replacement of the conditions of capitalist accumulation, something that is constantly put into effect by the process itself.

All these people thrown in the labor power market must consume and, of course, so as the capitalist class. There must be a growing mass of commodities for personal consumption available. The tendency to increase productivity of labor means that the same amount of value is represented by a bigger amount of use-values. If capital tend to grow, these bigger amount of value is represented by (and its realization depends on the realization of) an even bigger mass of use-values. Therefore, capitals are obliged to throw in the market an ever increasing quantity of commodities. Further, the consume of subsistence means reproduces labor power, the commodity whose use-value is to create surplus-value.

So, the higher the amount of alien labor that capital can appropriate, the higher the amount of labor power it will be able to buy, thus the higher the amount of alien labor that can be appropriated in the future. It is some species of virtuous cycle, the more you have accumulated, the more you will be able to accumulate, once the condition for appropriation of non compensated alien labor is the property over past non compensated alien labor. In summary, all the related springs for accumulation to work better the bigger the accumulated capital.

To apply one term used by Marx in reference to interest-bearing capital, it can be said that capitalist mode of production has a tendency to produce boundlessly capital as a commodity. Such commodities use-value has the peculiarity the capacity to generate profit for the one that possesses it, it means that it doesn't disappear in consumption, contrarily the very act of consumption of this commodity not only preserves its value and use-value, but also increases both. This corresponds to the over-accumulation of capital, but before we go on with this we have to show how it collides with the capacity of realization of the ever increasing value in the form of capital.

1.2 Tendency to enlarge the mass of consumers

Such tendency to increase supply must find a market for it. Thus, crescent production brings the need for crescent mass of consumers. As an answer for its own necessity

capital tends to expand geographically, creating new points for exchanging products. This represents a constant process of primitive accumulation, increasing the number of people that needs to access the market to meet its necessities.

This means that the barriers that the process of accumulation of capital finds in its way are suppressed by the same forces that erected them (only as they are reproduced in a higher level of complexity, however). The tendency to produce without limits surplus-values comes together with the tendency to enlarge the field for commodities circulation, i.e., the possibilities for realization of the increasing surplus-value. "The tendency to create the *world market* is inherent directly in the concept of capital itself. Every limit appears as a barrier to be overcome". (MARX, 1986, p. 335)

Together with this, as so to say, extensive expansion of capital we find a tendency to create new necessities. In one hand, there is a propagation of consumption habits to places where were not already present, on the other, there is a search for new use-values that can function as vehicle of surplus-value, thus the creation of new needs, which walks around with the already mentioned tendency for increasing the productivity of labor.

Hence the exploration of the whole of nature in order to discover new useful properties of things; the universal exchange of the products coming from the most diverse climates and lands; new (artificial) modes of processing natural objects to give them new use values. (Ibid., p. 336)

Capital's roots expand to all sides and at the same time dig deeper for its vital energy. This has profound consequences for the use of nature. Let us just briefly stress that, as it can be derived from this analysis, the tendency to exploit boundlessly nature, potentially driving it to exhaustion, with serious consequences for the reproduction of human life, is immanent within capitalist mode of production.

Besides personal consumption, capitalist enterprises also buy means of production and labour power through the market. As accumulation is the rule here, enterprises must always consume increasing quantities of constant and variable capital. Additionally, the needs of productive consumption are much different from the physically and psychologically limited personal consumption. Its major drive is the unlimited desire for the accumulation of surplus-value.

Finally, capitalist production relations contrive the existence of the State apparatus, with its employees, army force, technicians etc. This, of course, plays an important role for the realizations of the surplus-values created.

1.3 tendency to restrict the possibility of realization of the produced value

All immanent laws that produces the tendencies above sketched, also leads to the relative reduction of societies consumption capacity. Thus, here we must demonstrate that although this mode of production marches towards the absolute enlargement of commodities consumption, it also takes the direction of the incapacity for the realization of all surplus-values created. To do so we will have to deal both with directly productive consumption, taken within the purpose of producing surplus-value, and personal consumption, with respect to the satisfaction of wage laborers needs (the class that is responsible for the majority of personal consumption)⁴.

To begin with, in terms of productive consumption, the goal is the appropriation of surplus-value, thus the capitalist must take out of the circulation more than he have put on it, in terms of value. This means that capital's demand must be always smaller than its supply. In Marx's words:

The capitalist throws less value in the form of money into the circulation than he draws out of it, because he throws into it more value in the form of commodities than he withdrew from it in the form of commodities. Since he functions simply as a personification of capital, as an industrial capitalist, his supply of commodity-value is always greater than his demand for it. If his supply and demand in this respect covered each other it would mean that his capital had not produced any surplus-value, that it had not functioned as productive capital [...]. (MARX, 1907, p. 68)

The difference among what capital demands (constant capital plus variable capital) and what it throws in the circulation sphere in terms of value (the above plus surplus-value) is exactly the amount it can appropriate. The profit rate ($s/(c+v)$) depends positively on this amount (at least considering capitalist production in totality, as long as each capital do not necessarily appropriate in the form of profit of all surplus it has produced). In this sense, it is rational for the capitalist to try to restrict his own consumption of means of production and labour power, although only relatively, in so far as the normal form of reproduction in this society goes in an increasing scale. In short, the tendency to increase the supply of commodities as a necessity with this social mode of production tends not to be accompanied by capital (also) increasing demand. As Marx put it:

The rate at which the capitalist makes the value of his capital expand is the greater, the greater the difference between his supply and his demand, i.e., the greater the excess of the commodity-value he supplies

⁴ As subsistence consumption corresponds to the reproduction of labor power, it can also be seen as productive for capital, at least indirectly.

over the commodity-value he demands. His aim is not to equalize his supply and demand, but to make the inequality between them, the excess of his supply over his demand, as great as possible. (Ibid.)

We have said previously that capital is an insatiable consumer as its goal is unlimited by its own nature. But its demand is predicated on the possibility of realization of a bigger supply, so it can only grow under the perspective of an increase in the appropriation of surplus-value. Thus, following the cyclical movement of the process accumulation (non-teleological synthesis of individual behaviors), capitals can turn from insatiable to very moderate consumers whenever their profits are under risk.

With respect solely to means of production, as a result of the general law of capitalist accumulation, inasmuch social capital grows the gap between capital employed and capital consumed increases. Machines, buildings and other elements that constitute fixed capital, with higher value are employed, although they transfer more slowly their value to the final product. This means that it is needed a bigger period of time till these elements must be replaced. Moreover,

While the circulating part of constant capital, such as raw materials, etc., continually increases its mass in proportion to the productivity of labor, this is not the case with fixed capital, such as buildings, machinery, and lighting and heating facilities, etc. [...] If five laborers produce ten times as much of a commodity as before, this does not increase the outlay for fixed capital ten-fold; although the value of this part of constant capital increases with the development of the productiveness, it does not by any means increase in the same proportion. (MARX, 1959, p. 177)

Hence, the demand for means of production doesn't follow the increase on supply of commodities. If the demand for means of production is necessarily smaller than the advanced capital and much smaller than the value of the final product, its demand for labor power, as a consequence of the general law of capitalist accumulation, tends to be ever decreasing in relation to capitalists demand for means of production.

One could argue that all this could be compensated by capitalist class extravagant consumption habits. A few words are enough to show that we must reject such hypothesis, for the individual capitalist it is necessary to constitute a reserve of capital, to take advantage of profitable opportunities whenever they show up, as much as to defend himself from possible price and demand oscillations. Besides this, competition obliges that a considerable part of the surplus-value must be kept in standby, for the expansion needs of capitals.

In order to accumulate capital he must first withdraw in money-form from circulation a part of the surplus-value which he obtained from that circulation, and must hoard it until it has increased sufficiently for the

extension of his old business or the opening of a side-line. So long as the formation of the hoard continues, it does not increase the demand of the capitalist. The money is immobilized. It does not withdraw from the commodity-market any equivalent in commodities for the money equivalent withdrawn from it for commodities supplied. (MARX, 1907, p. 70)

Summing up, the process of accumulation of capital has a tendency for a relative decrease in consumption of both means of production and labor-power. Nevertheless, the demand of labor-power by capitalists is, indirectly, the demand for consumption of the working class. The new value created by laborers in the production process corresponds to variable capital plus surplus-value ($v+s$). It is, therefore, rational, for the capitalist, corresponding to its private impetus (the endless appropriation of surplus-value), to always try to increase s to the detriment of v , which is in clear contradiction with the need for social confirmation of production. Each capitalist treat its employer in accordance with the general rule for the relation between labor and capital, trying to increase to its maximum the surplus labor and to decrease the necessary one.

Each capitalist knows that he does not confront his own worker as a producer confronts a consumer, and so he wants to restrict his consumption, i.e. his ability to exchange, his wages, as much as possible. But, of course, he wants the workers of other capitalists to be the greatest possible consumers of his commodity. Yet the relationship of each capitalist to his workers is the general relationship of capital and labor, the essential relation. (MARX, 1986, p. 346)

In capitalists perspective wages are nothing but costs and this is absolutely true. Nevertheless, the affirmation of the immanent (within the system) relation among capital and labor collides with the social conditions for production, as wage laborers corresponds to potential buyers of personal consumption commodities.

Furthermore, we have already talked about the tendency to increase the organic composition of capital, i.e., about the creation of a relative over-population, the industrial reserve army. If the decrease in the employment is not necessarily absolute, varying within the economic cycle, the process of accumulation of capital works in such way that every reduction in the degree of exploitation of labor (s/v) or every possible increase in wages that might compromise capitalist reproduction is excluded. It is thus continuous, in the economic cycle, the process of formation of the industrial reserve army, with moments of higher and lower absorption of labor power. Hence, in moments of prosperity for capital accumulation, the absorption of workers grows and in moments of crisis workers are "freed". We can't forget that the movements of wages are regulated by the expansion and contraction of the industrial reserve army. Thus wages follows the cyclical manifestation of the variation in the proportion in

which the population working class is divided between active and reserve army. In summary, the higher the progress of productive forces the bigger the portion of means of production can be operated by equal outlay of labor-power, thus the higher the competition among laborers, thus the lower the bargaining conditions of the working class for their share on social wealth.

In any case, we presume it is clear that the underlying laws of the process of accumulation of capital result on a tendency to erect barriers to consumption, which are, at the same time, barriers to itself. In capitalist mode of production

[t]he boundless enlargement of its value – the boundless positing of value – is thus absolutely identical here with the setting of limits to the sphere of exchange, i.e. to the possibility of valorization, to the realization of the value posited in the production process. (MARX, 1986, p. 350)

It could not be different in a social form of production in which production and consumption are subordinated to accumulation of abstract wealth, capital's needs, instead of overtly human needs. In such social system the consumption of wage earners is almost an accident in the course of capital accumulation, just one of the imperatives of the process that appear as an subject, as it had its own desires. According to Marx:

Since the aim of capital is not to minister to certain wants, but to produce profit, and since it accomplishes this purpose by methods which adapt the mass of production to the scale of production, not vice versa, a rift must continually ensue between the limited dimensions of consumption under capitalism and a production which forever tends to exceed this immanent barrier. Furthermore, capital consists of commodities, and therefore over-production of capital implies over-production of commodities. (MARX, 1959, p. 175)

Capital is the unity of two spheres that are external to one another – production and circulation – separated in time and space. Both moments exists “independently alongside one another, despite their inner unity, and each exists as the precondition of the other”. (MARX, 1986, p. 330) As this unity, capital must pass by each moment that constitutes its reproduction cycle. The analysis of the process of circulation sheds light on this question. Taking the cycle of an individual capital, it is easy to see that each phase precedes the other and, thus, that the interruption of one phase is the halt of the whole cycle. The process of valorization, capitals movement, is a sequence of phases in juxtaposition, i.e., when part of capital is in the commodity form, another is in money form and another in the productive form. “Every stagnation in succession carries disorder into co-existence, every stagnation in one stage causes more or less

stagnation in the entire circuit of not only the stagnant part of capital but also of the total individual capital.” (MARX, 1907, p. 60)

We tried to demonstrate that capital in itself has the tendency to create this stagnation. It is important to stress that here we reported tendencies general – laws, indentified by Marx – about the operation of capitalist mode of production. The concrete manifestation of such laws may be modified by innumerable circumstances whose analysis goes beyond this papers aim. We tried to demonstrate that those laws display internally contradictory outcomes. To do so, as did Marx, we adopted a higher level of abstraction, one in which, for instance, the forms of capital that are restricted to the sphere of circulation were not yet considered. This forms plays an important dialectical role for capitalist accumulation, deepening all referred tendencies.

Finally, must be retained that capitalist mode of production walks constantly towards crisis in a cyclical manner, in another words, constantly walks to its amplification beyond the limits within which are possible its valorization, towards over-accumulation.

By its very nature, therefore, capital sets a limit for labor and the creation of value, which stands in contradiction to its tendency to expand them boundlessly. And by both positing a limit specific to itself and on the other hand driving beyond any limit, it is the very embodiment of contradiction. (MARX, 1986, p. 350)

In this point, in such abstract level, it is already possible to assert that process of accumulation of capital generates crisis in a cyclical manner, as a result of its own immanent tendencies. Crisis are thus necessary for this process and, surprisingly for most economists who has their visions still blurred by the forms of manifestation of the phenomenon, they constitute some kind of a medicine for the process of accumulation. They are nothing but a necessary moment for the reproduction of the process. From time to time those above mentioned tendencies bring about a situation in which it is not possible anymore, for an expressive part of the social capital, to continue the process of valorization. In another terms, such tendencies necessarily leads to over-accumulation of capital. This means that, in such situation, there is more capital in society, fighting for the appropriation of surplus-value, than surplus-value to serve as temporary relief for the eternally thirst capital.

Two conclusions can be drawn from this: the content of the phenomena that we are interested in this paper (economic crisis) consists in over-accumulation of capital; this shows up as capitalist mode of production tends to continually generate disharmony between the non-dissociable spheres of production and appropriation of surplus-value. All we have here is a very general account of phenomena. To give an account on each concrete manifestation of economic crisis is not only necessary to go on with

theoretical analysis of capitalist mode of production (specially with respect to other forms of appropriation of surplus-value and acceleration of the process of accumulation of capital, consequently complexifying all tendencies that generates, all together, crisis), but also to analyze the historical specificities of each case. Thus the phenomena can manifest itself in several forms. Additionally, some events are common to different forms of economic crisis, as the fall of the rate of profit, over-production (accumulation of commodities in stock), severe unemployment (in another words, expansion of industrial reserve army), etc. All this confirms what was said before about the role of economic crisis in the process of accumulation, i.e., crisis as moments for the replacement of the conditions for accumulation of capital, as they signify destruction of capital, augmentation of the rate of surplus-value and activate a process of seeking for new spaces (not only in geographical terms) for valorization of capital.

For instance, to talk about the current economic crisis it would be necessary to draw considerations on the process of accumulation of fictitious capital, emphasizing its role in process of accumulation of capital as a totality. Moreover, such characteristic of contemporary capitalism can just be grasped by the understanding of the outcomes of the 60/70's crisis, this means that it must be understood as a response to the concrete questions of the process of accumulation of capital as they got apparent on that crisis. The process of accumulation of fictitious capital is a major response (among others) for the crisis that emerged in the end of the 60's, in such a way that it can be said that it is a major feature of contemporary capitalism.

Leaving this aside by now to go back to our high, very general, level of analysis, a question arises: What causes a situation such as economic crisis? What is the cause of the disarray between production and appropriation of surplus-value?

This answer is not difficult in Marxian terms and it is going to be given in the next session.

2. The general cause of economic crisis

Which is the peculiarity of this mode of production that makes crisis a necessary moment of it?

Let's try to give an answer in terms of the disruption between appropriation and production. First of all, it can be seen from this dialectical pair that one is related to the individual level and the other one must be understood taking in consideration capitalist relations of production as a whole. Appropriation refers to a private impetus,

i.e., is the individual capitalist that appropriates surplus-value in the form of profit. On the other side, capitalist relations of production taken as a whole, as unity of production and circulation of surplus-value, corresponds to the totality of capitalist relations of production, i.e., they correspond to the articulation of all that individual behaviors that follows individual desires. In another words, they are the non-teleological outcome of the sum of innumerous teleological actions.

The *telos* of those individual capitalist actions, as we already know, is the appropriation of the maximum surplus-value as possible. The type of individual practices in a world that presents itself (to the individuals) as one of abstract wealth must be adequate to it. We have, also, already noted that competition among capitalists (but also among workers) functions as a coactive element, this means that it imposes some specific type of behavior, which is exactly the type of behavior that corresponds to the process of accumulation of capital. In Marx's words: "Conceptually, competition is nothing but the inner nature of capital, its essential character, manifested and realized as the reciprocal action of many capitals upon each other; immanent tendency realized as external necessity". (MARX, 1986, p. 341)

Although, what corresponds to the individual level shows another aspects when totality is taken into account. The social outcome of such individual actions escape the control of the same individuals that carry then. Let us take a widely know proposition of Marx's law of value as an example. For one capitalist, to use a more productive process of production, i.e., to decrease relatively its employment of labor power, leads to the appropriation of extraordinary surplus-value, that presents itself as an extraordinary profit, thus, for him, the elevation of the organic composition of capital is a source of profits (this, of course, represents a mystification of the origin of the surplus-values, as he appropriates a higher amount applying relatively more means of production); nevertheless, the figure is quite the opposite if we take totality into consideration, as what he appropriates extraordinarily is produced by others, and as other capitalists will make an effort also to use more productive methods of production an elevation on the organic composition of average social capital must take place and, consequently, the rate of profit has a decreasing tendency. In short, the individual efforts in the seeking for higher profit rates, produces its contrary.

We have demonstrated above how the impetus for surplus-value brings out mutually contradictory outcomes that leads the process of accumulation of capital to its impossibility for a considerable part of the social capital. This means that, as so to say, this two spheres, the private and the social, are in contradiction. Such contradiction must be seen as the cause of economic crisis in general. In other words, the general cause for capitalist economic crisis is the contradiction between the private impetus for appropriation of surplus-value and the need for social confirmation of the surplus-

value created, that must be, after produced, confirmed by the circulation of commodities.

Hence, in this society the dynamics of capital accumulation is imposed to individuals and the outcome is uncontrollable and even for the capitalist class (at least periodically) hostile. Capital, i.e., the movement of accumulation, asserts itself, appears then as subject. Capitalist may seem to be as the masters of the whole process. They buy, they sell, but they only buy when market conditions are favorable and they only sell if someone else buys. Besides that, the quasi-independent form of the movement gets clear in each frustration of capitalists plans, in every economic crisis.

Capital comes more and more to the fore as a social power, whose agent is the capitalist. This social power no longer stands in any possible relation to that which the labor of a single individual can create. It becomes an alienated, independent, social power, which stands opposed to society as an object, and as an object that is the capitalist's source of power. The contradiction between the general social power into which capital develops, on the one hand, and the private power of the individual capitalists over these social conditions of production, on the other, becomes ever more irreconcilable [...]. (MARX, 1959, p. 179)

From this stand point it is possible to perceive that the phenomenon of alienation in capitalist mode of production surpasses the dichotomy among capital and labor, surpasses mere (although important) questions regarding the distribution of social production, that 'class struggle' is not the key point to understand Marx's critical assessment on capitalist society, as each in every individual under this social conditions (in spite of class, income level, etc.) is subordinated to uncontrollable social relations. In this sense they can be called *thingly* social relations, as this apparently autonomous dynamic must necessarily assume a fetishized representation in individuals consciences. Marx's theory of fetish, then, only shows the necessary form of apprehension of social dynamic that is external, apparently independent and hostile to individuals.

3. The dynamics of fictitious capital

In accordance to *Capital's* mode of exposition, the sections that follows "The Law of the Tendency of the Rate of Profit to Fall" corresponds to a more complex level in the analysis of modern capitalist societies. Thus, all the tendencies that were presented before are put in relation with another complexes, i.e., under a dialectical interaction that corresponds to a lower abstract level in the analysis, a gradual process of

approximation to the real complex constitution of capitalist society. The aspects of the process of accumulation of capital that are further considered reinforce its movement or, to put in another words, reinforce its contradictions. By one side permits the deepening of production and appropriation of surplus value, by the other it raises more barriers to the process itself.

We are interested on this section of this paper in the two parts of the third volume of Marx's *Capital* that deals with the circuits of accumulation of capital that doesn't pass through production. More specifically to what, in the mode of presentation of *Capital*, represents an autonomous form of money-capital⁵, i.e., the autonomization of the functions played by money in the circuit of accumulation of productive capital⁶. Namely, the peculiar logic of accumulation of fictitious capital, as it seems to be an essential category to deal with an important aspect of contemporary capitalism. Its dialectical genesis will be shortly reproduced here, inasmuch as it helps to understand fictitious capital features and dialectical role in the process of accumulation of capital as a whole.

To begin with, in the circuit of accumulation of productive or commercial capital, the role of money is solely to buy (means of production and labor power) and to sell. Such technical tasks do not create value but represent costs that are "shortened in being carried out by a special section of agents, or capitalists, for the rest of the capitalist class". (Ibid., p. 210) Moreover, part of the industrial and commercial capital must be kept in the form of treasure, as latent capital waiting till it reaches the minimal amount required for its application. The guard of this treasury is also taken by the money-dealing capital. Thus, when money serves as means of payment, payments and receipts can be executed by a mere accounting operation, without the need of any piece of money.

This centralization of money-capital represents the possibility of commercialization of credit. "The money trade becomes fully developed, even in its first stages, as soon as its ordinary functions are supplemented by lending and borrowing and by credit" (Ibid., p. 212). This fully developed form of money-dealing capital corresponds to the category of bank capital, the mediation (in logical dialectical terms) between the former and interest bearing capital. Thus, bank capital is an autonomous form that comes from money-capital and has the function of commercializing credit, given the expansion of money trade and the administration of interest bearing capital. In this

⁵ In the first section of the second volume of *Capital* in analyzing the different forms assumed by capital in the process of circulation, Marx has to deal with the functions each of these forms plays in the circuit of accumulation of capital: money-capital; productive-capital; and commodity-capital. Part of the industrial capital is always in one of these three forms, constantly and transitorily (if everything goes well, i.e., if the circuit of accumulation doesn't suffer any disturbance).

⁶ We shall see that such autonomy is merely a relative one.

sense, bank capital represents the dialectical unity between money-dealing capital and interest bearing capital.

One important aspect of the money-dealing capital is that it doesn't promote the circulation of money. Its amount and movement are derived from the circulation of commodities. This subordination to the circulation of commodities represents an important difference with relation to the other parcels of the totality of capital that derives, dialectically, from money-capital. The interest bearing capital promotes the circulation of money as a peculiar commodity, as capital-commodity. In capitalist mode of production money can turn into capital when used for the acquisition of the component elements of industrial capital (means of production and labor force) or buying commodities that shall be sold later. Thus it can be said that money has not only the use value of being the general equivalent, but also for having the potency to be applied as capital.

The peculiarity of capital-commodity is that when consumed its use value doesn't disappear. On the contrary, it is expanded. Capital's movement corresponds to the accumulation of value ultimately on the form of money, and this is capital's consumption. Thus, the bigger the amount of money, *ceteris paribus*, the bigger the mass of surplus value that can be appropriated on a circuit of accumulation, so the bigger the use value of money as capital.

Also, the peculiar nature of this commodity implies that it can't be exchanged for an equivalent of its value. The capitalist that has the property of the loaned money cannot sell it once and for all, otherwise it ceases to be capital for himself. The value in the money form must then return to its starting point, plus remuneration, so that the circuit of accumulation of interest bearing capital is completed. Thus the adequate form for handing over money as capital is lending instead of selling and can be represented in the formula $M-M'$. According to Marx this is the most fetishized form possible for the capitalist relation.

The characteristic movement of capital in general, the return of the money to the capitalist, i.e., the return of capital to its point of departure, assumes in the case of interest-bearing capital a wholly external appearance, separated from the actual movement, of which it is a form. (...)The actual movement of loaned money as capital is an operation lying outside the transactions between lender and borrower. In these the intermediate act is obliterated, invisible, not directly included. A special sort of commodity, capital has its own peculiar mode of alienation. Neither does its return, therefore, express itself as the consequence and result, of some definite series of economic processes, but as the effect of a specific legal agreement between buyer and seller. The time of return depends on the progress of the process of

reproduction; in the case of interest-bearing capital, its return as capital seems to depend on the mere agreement between lender and borrower. So that in regard to this transaction the return of capital no longer appears as a result arising out of the process of reproduction; it appears as if the loaned capital never lost the form of money. (Ibid., p. 228)

The appearance that loaned capital never abandons the money-capital form corresponds to a mystification. In $M-M'$ the result (M') appears directly without the intermediation of a process of production manifesting itself as the inherent result of a *thing*, instead of product of specific social relations. In another words, in the mystified immediate form of manifestation of interest bearing capital a social relation appear as a relation of money with itself. In Marx's words:

The thing (money, commodity, value) is now capital even as a mere thing, and capital appears as a mere thing. The result of the entire process of reproduction appears as a property inherent in the thing itself. It depends on the owner of the money, i.e., of the commodity in its continually exchangeable form, whether he wants to spend it as money or loan it out as capital. In interest bearing capital, therefore, this automatic fetish, self-expanding value, money generating money, are brought out in their pure state and in this form it no longer bears the birth-marks of its origin. (Ibid., p. 255)

The accumulation of fictitious capital corresponds to the exacerbation of this fetish. The illusion that any considerable amount of money is able to generate a remuneration is taken to its limits. Although, this is not false! That's exactly what happens for the proprietor of money when his expectations are realized. Nevertheless this point of view is obviously partial. It is correct from the perspective of the individual capitalist (at least as long as it works) but not for capital as totality, as the appropriation of surplus value depends on its production.

The magnitude of the interest that the proprietor of the capital must receive from its user depends on the relation between these two fractions of the capitalist class. Thus, the competition between lender and borrower determines the interest and two different significations for capital originates two different forms of appropriation of surplus value: entrepreneurs profit and interest. "And this ossification and individualization of the two parts of the gross profit in respect to one another, as though they originated from two essentially different sources, now takes firm shape for the entire capitalist class and the total capital". (Ibid., p. 244) Marx is arguing that this division is crystalized as revenue that is due to the property of capital and another for its use, even when a productive capitalist employs its own capital. Thus, entrepreneurs profit appears as deduction of interest from the gross profit. The

consequence is that the function of the active capitalist of producing surplus value is covered by the antinomy between interest and entrepreneurs profit. By one side, interests come from the relation among two different species of capitalists instead of coming out of the relation between capitalists and working class. The contradiction between capital and labor as the source of the revenue of the capitalist class is hidden. By the other side, the interest gives to other fraction of the gross profit the appearance of a salary for the direction and coordination of the production process. "He creates surplus-value not because he works as a capitalist, but because he also works, regardless of his capacity of capitalist. This portion of surplus-value is thus no longer surplus-value, but its opposite, an equivalent for labor performed". (Ibid., p. 248) Such mystification has sharp consequences for the struggles of our days, as the opposition between the so-called financial capital and productive capital is put as the main contradiction of contemporary capitalism by a number of radical theorists that present its visions under the rubric of *financialization*. We argue that such approach falls in the mystification of the origin of the surplus value appropriated under different forms by diverse fractions of the capitalist class.

Interest as such expresses precisely the existence of the conditions of labor as capital, in their social antithesis to labor, and in their transformation into personal power vis-à-vis and over labor. It represents the ownership of capital as a means of appropriating the products of the labor of others. But it represents this characteristic of capital as something which belongs to it outside the production process and by no means is the result of the specifically capitalist attribute of this production process itself. (Ibid.)

The mystified appearance that money has, in itself, the property of generating more money, regardless labor, is taken to an even higher ground within fictitious capital, as previously mentioned. These forms of appropriation of surplus value bring the illusion that the process of accumulation of capital has no qualitative limits. Capital's fetish obscures the problems associated with over-accumulation in financial markets, with its tremendous potential for generating crisis, as much as the whole process of accumulation of capital (capitalist mode of production) as a historical form of sociability.

Now, the concept of capital as a fetish reaches its height in interest-bearing capital, being a conception which attributes to the accumulated product of labor, and at that in the fixed form of money, the inherent secret power, as an automaton, of creating surplus-value in geometrical progression, so that the accumulated product of labor (...) has long discounted all the wealth of the world for all time as belonging to it and rightfully coming to it. The product of past labor, the past labor itself, is

here pregnant in itself with a portion of present or future living surplus-labor. We know, however, that in reality the preservation, and to that extent also the reproduction of the value of products of past labor is only the result of their contact with living labor; and secondly, that the domination of the products of past labor over living surplus-labor lasts only as long as the relations of capital, which rest on those particular social relations in which past labor independently and overwhelmingly dominates over living labor. (Ibid., p. 261)

Thus, capital fetish involves the naturalization of capitalist social relations, inasmuch as it creates the illusion that the accumulation of capital has no bounds but merely quantitative limits, as under such social mystification accumulation is solely increase of capital due to money properties. The destruction of this myth involves (although this is not sufficient as the very form of sociability that creates such illusion must be suppressed) the knowledge that accumulation of capital depends ultimately on the creation of value through the contact between living and dead labor objectified as means of production under capitalists property.

Under the appearance that money in itself generates more money, every regular revenue is perceived as capital's interest, existing or not this capital. "The money income is first converted into interest, and from the interest one can determine the capital from which it arises". (Ibid., p. 318) This phenomenon is called capitalization. In Marx's translucent words:

The matter is simple. Let the average rate of interest be 5% annually. A sum of £500 would then yield £25 annually if converted into interest-bearing capital. Every fixed annual income of £25 may then be considered as interest on a capital of £500. This, however, is and remains a purely illusory conception, except in the case where the source of the £25, whether it be a mere title of ownership or claim, or an actual element of production such as real estate, is directly transferable or assumes a form in which it becomes transferable. (Ibid., p. 318)

As such bonds are tradable on secondary markets the individual can sell it and appropriate its principal in the money form, doing whatever he might want with it (applying it somewhere else – as productive capital, for instance – or buying commodities for personal consumption). This, of course, reinforces the mystification, as these bonds are actually capital from the individuals perspective. The other perspective, social reality as what it is, a totality, nevertheless, from time to time insists to melt such castles made of sand into the sea.

One of Marx's examples of fictitious capital may clarify the matter: public debt. When the State issues a bond to collect money it is making a promise of paying interest periodically. Although the creditor cannot claim to recover the principal before the stipulated term, he can recover it by selling the bond. Although, there isn't any capital. The money was spent by the government according to its needs. Thus, the periodical interest that owes to the proprietor of the bond is not directly related to production but corresponds to the appropriation of part of socially produced surplus value through States receipt. In short, that amount of money spent in the purchase of the bond hasn't directly concurred for the production of surplus value. This capital is, thus, illusory, fictitious.

Another of various possible forms of fictitious capital are companies shares. In this case dividends can be generated in the very company, but those shares are nothing but a representation of actually existing capital. Shares represent the right for the appropriation of part of the surplus value appropriated by the company but it cannot be itself the really existing capital. Capital exists only once as really applied capital, instead of twice (itself plus capital-value of shares). Moreover, shares capital-value can fluctuate without any relation to the really existing capital. One of fictitious capital characteristics (has it an effective capital in its origin or not) is that it possesses an autonomous movement that derives from speculation in markets constituted for trading fictitious capital.

Also laborers wages can turn into fictitious capital. For instance, several working class debts can be grouped into obscure financial products and sold on secondary markets. Such bonds' gives the right for the appropriation of a periodic revenue that comes straight out wages, not capitals.

In summary, fictitious capital has the following distinctive characteristics in relation to interest bearing capital: not necessarily has in its origin a productive capital, as on public debt bonds, but even when they are referred to a really exiting capital its value is fictitious, as in the case of companies shares; they correspond to tradable bonds and this is fundamental for their underlying mystified character; its value fluctuates according to the speculative spirit of the market investors, although in the case of companies shares some fluctuations can be partially explained by the company's real result.

Finally, it is time to deal with the dialectical relation between the capitals that doesn't produce surplus value and the process of accumulation of capital as a whole. It must be stressed that those capitals categorically derived from money-capital⁷ are necessary for the accumulation process as a whole, but, at the same time, they deepen the immanent contradictions of capitalist mode of production. We believe that the

⁷ Also the capitals that are logically derived from commodity capital.

dialectical relation of what will be subsequently referred as functionalities and “disfunctionalities” of capitals whose circuits of accumulation doesn’t pass through production has a very important role for the cyclical dynamics of capitalist economies.

To begin with, we have noted that money-dealing capital represents a reduction on the costs associated with the circulation of money. Also it reduces the amount of money that must be kept idle, as reserve, and hence a bigger part of an industrial capital can be applied on producing surplus value. The annual rate of profit increases for the decrease in the turnover time of capital.

The centralization of the reserve of various capitals allows for the commercialization of credit, i.e., the reserves that would be idle can be productively used by other capitalists. Interest bearing capital gives the medium for the application and thus multiplication of those money reserves. This connection between different capitals of various branches accelerates the circulation in its various phases and thus the process of reproduction in general, allowing for the increase in the number of turnovers of all social capital for a given period. Interest bearing and fictitious capital represents the possibility of the new forms for financing capitalist accumulation, allowing for an increase in the global scale of accumulation of capital and the reduction in capitals turnover time. With the development of stock companies there is an “enormous expansion of the scale of production and of enterprises, that was impossible for individual capitals”. (Ibid., p. 303) In those cases since shares revenues assumes the form of dividend these companies – in general the bigger enterprises (with higher ration of constant over variable capital) – do not enter in the formation of the general rate of profit, what represents a counteracting influence on its tendency to fall.

Although, as already mentioned, those partitions of total capital have at the same time a “disfunctional” character for the process of accumulation as a whole. Industrial capital in its circulation forms doesn’t create new value. Those circumstances cannot be modified if those functions are exercised by autonomous capitals. Thus, the surplus value that owes to capitals that are logically derived from money-capital and commodity-capital, in the form of average rate of profit, interests or dividends, is part of the surplus value produced by industrial capital. The participation of banking capital in the tendency for the equalization of the average rate of profit leads to its reduction. The same amount of surplus value now must be divided not only among producers but also with capitalists that haven’t directly produced it. Moreover, in accelerating the process of accumulation as a whole, i.e., being functional to it, they accelerate all its underlying contradictory tendencies, including those sketched on the previous section.

The system of credit, the financial system, appears as the major propeller of the over-accumulation of capital. For this reason it has an important role to play on economic crisis. Interest bearing capital and fictitious capital dissimulates the connection between their own circuit of accumulation and the process of production of surplus

value, accelerating the irruption of capitalists mode of production contradictions (economic crisis) while accelerating the development of productive forces. In this sense, it can be said that the contradiction between the private character of the appropriation of surplus value and the social character of the process as a whole finds expression in the functional and “dysfunctional” character of circulation capitals. From interest bearing capital to fictitious capital the illusion of accumulation of capital without any social limits is deepened. Nevertheless, when crisis emerges this illusion disappears. We agree with Paineira e Carcanholo (2009) when they say that the dynamics of fictitious capital reinforces the accumulation of capital cyclical tendency.

By one side, the functionality of fictitious capital allows for the extension of the ascendant phase of the cycle, making possible the reduction of turnover time for capital as a whole and the increase in the rate of profit. By the other side, by the expansion of its individual logic of appropriation, the descendent phase (crisis) of the cycle is also deepened. The disfunctionality of fictitious capital amplifies crisis potentiality. Fictitious capital dialectics, with its (dis)functionality, complexifies/amplifies the cyclical tendency of capital accumulation. (PAINCEIRA & CARCANHOLO, 2009, p. 10)

Thus, capitals that are specialized solely in the appropriation of surplus value, without producing it, represent the amplification of all immanent contradictions of capitalist mode of production treated at a higher level of abstraction, i.e., all contradictions that Marx has presented as representing the movement of capitalist societies till the chapter 15 of the third book of *Capital*, including those that were presented on the previous section in order to demonstrate that capitalism has an immanent tendency to generate economic crisis, grow in complexity when the order fractions of total capital are added to the analysis (in accordance with social reality). Specially, it amplifies the contradiction between the private dominium of appropriation and social character of surplus value production.

Concluding remarks

We tried to present here an account of economic crises, in a very general level, in Marxian terms, using the categories proposed by him in his critical assessment on capitalist mode of production. In this sense we tried to deal with the phenomenon in a methodological coherent manner in respect with our theoretical point of departure, but mostly because we believe that it is the correct way to study societies. What we want to stress right now is that we tried to reveal the real content of economic crises (over-accumulation as a result of the immanent tendencies of the very process of

accumulation of capital) as a necessary step to understand its general cause (the contradiction between private and social spheres in capitalist mode of production), that must serve to shed light on the phenomenon in every possible form of manifestation within this social system. Moreover, we tried to show that such situation reaffirms a central Marxian statement: that capitalist social formation corresponds to an abstract form of domination, in other words, that it corresponds to an external, independent and hostile dynamics that subordinate individual behavior.

It is also important to point out one more thing about such attempt to offer a Marxian perspective on economic crisis: the importance of Marx's law of value. We have already said (but it is worth to repeat) that the law of value is general law of movement of capitalist mode of production. Thus it is fundamental to display its underlying general tendencies that, as we tried to show, are responsible for the cyclical movement of capitalist economy. Further, to state that the law of value regulates capitalist society is to put in evidence the alienated character that comprises this social formation.

In such approach Marx's critics of political economy corresponds to the crowning moment of his theory of alienation. Since the beginning, Marx's *Capital* (since the first chapter to be more precise), the law of value is seen as one that operates as a transcendental ruler of human praxis. In the commodity fetish it is already present the contradiction between private and social spheres in capitalist mode of production (treated in a very abstract level, just by its "economic cell-form", the commodity) as there is a dichotomy among individual action and its practical-social outcome, i.e., producers are subsumed to the uncontrollable articulation of their individual acts of production. The capital fetish, as argued, represents such dichotomy in a more complex form. This uncontrollability appears as the social confirmation of their productive activities is not immediately guaranteed, creating an image that although mystified is not false, i.e., that capitalist relations of production are merely relations among products through individuals, instead of the contrary, as individuals are dominated by the seemingly independent movement of their products. In fact, as we have seen, the process of accumulation of capital confirms itself as a subject, appears as a *thing* with free will.

Hence, no concession can be made: economic crisis are an inherently feature of capitalist society, a form of manifestation of the alienated character of this sociability. This "monster" uncontrollable will is such that generates this kind of outcome (among others that are also absolutely unacceptable). This doesn't mean that it isn't important the engagement in punctual questions, like the opposition to austerity measures that try to pass the crisis burden to the population in general. Nevertheless, this signifies that the anti-capitalist horizon must not escape from our sights, that we can't fool ourselves with bourgeois reformist measures.

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