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The Duality of Labour and the Financial Crisis

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Abstract

The current financial crisis has meant a sudden drying-up of the widely-assumed basis of profitability and capital accumulation — reward for entrepreneurship or risk. In this context, it is timely to revisit the Marxian concept that profits derive from the dual role of labour, as both a commodity and a non-commodity. Surplus is created by the difference between the commodity dimension of labour, the value of labour power, and its non-commodity dimension — the value added by labour, over and above the value of inputs, or the cost of reproducing the workforce. Since the 1980s and 1990s, however, labour has become a commodity in a new sense. Risks to working class self-reproduction in the form of wage decline and withdrawal of state welfare, have pushed workers into becoming entrepreneurs of their own lives, calculating the risks of debt servicing and involuntarily buying services from privatised and financialised utilities and health care providers. In this sense, newly commodified labour is required to treat itself as a commercial entity, and it is thereby a player in the market for risk. The reproduction of labour power has itself become a source of surplus value, in the form of interest payments. But, as indicated by the US sub-prime housing market and its fall-out, capital now shares in the risk, through a fall in the value of labour power (lower consumption), and through incalculable financial instability.

Introduction

Where do profits come from, and what is the social rationale for owners accruing profits? It is such a basic question that it rarely receives analytical attention. Basic questions are often the hardest for which to give coherent and persuasive answers, for they invariably address the assumed foundations of a discourse, not its analytical products. In the light of the current financial crisis, it is a question with a fresh urgency, for what constitutes the widely-assumed basis of profitability has suddenly dried up. But no new answers are apparent. Instead of questioning what has changed about the nature of capital accumulation, debates have focussed on immediate policy strategy and how to reconstitute 'stability': an inherently conservative vision.

In the Marxian tradition, the category of profit is tied directly to the dual role of labour: of being and not being a commodity. It is a significant analysis that warrants reiteration, but it is also the case that for old, canonical propositions to

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stay useful they must be able to offer a sharp insight into current issues. So after a brief formal theoretical elaboration for those less familiar with the Marxian tradition, I will turn to how the dichotomy of labour as commodity and non-commodity both gets reframed by, and helps us understand some contradictions of, the current financial crisis.

Marx, Profits, Labour

The origin of profits was a central question for Marx, and at its source was labour. Engels (1877) contended that Marx's greatest insight in the labour theory of value was in explaining the source of surplus production, and hence the social foundations of 'profit'. The notion that society usually produced surplus output (that is, more than is needed to sustain current production and consumption) was an established economic insight in the classical tradition of economics, and it was empirically clear that the economy did, under usual circumstances, produce surplus output. Moreover, within this surplus lay the basis of profit. But what was the source of the surplus (and hence profit) in a society based on the principle of exchange of equivalent values?

Marx provided an emphatic answer to this question and, no matter what one makes of the Marxian economic project today, it has to be conceded that it was a profound and lasting insight. Marx argued that the surplus comes from labour. But it is not a surplus extracted by force or indenture (an unequal exchange) as was the case under feudalism, nor need it be judged as immoral, at least on its own terms. Indeed, Marx emphasised that, with the transition to capitalism, labour acquired a 'dual freedom': freedom from physical compulsion to labour (it becomes a choice), and freedom from a direct attachment to capital (as in the peasant's attachment to the land) (1867: 272–273). For Marx, the explanation of the appropriation of a surplus under conditions of free (un-indentured) labour pivoted on the contention that labour is both a commodity and not a commodity at the same time.

Labour and Labour Power

Marx explained this commodity/non-commodity attribute of labour via a distinction between the value of labour power and the value created by labour. The distinction requires explanation.

The former, he argued, is a commodity that, like all commodities, is valued according to its own costs of production. In a world of prices, we would look to an explanation of the wage, and, if idealistic neo-classicals, to the marginal productivity of labour. Marx also emphasised individual productivity, but not before he had highlighted what it is that all workers have in common, and which makes them a class. It is that they must reproduce themselves, both short-term (food, housing, etc.) and inter-generationally (food, housing, etc. for dependents). This bundle of commodities is, in effect, sufficient to keep the worker returning to the factory day after day, year after year and generation after generation. Framed this way, the cost of reproducing the worker is understood in the same

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way as the cost of production of all commodities. Moreover, to emphasise the moral neutrality, this is a free and voluntary exchange, as is, in principle, all exchange within capitalism.

It could be said that Marx over-states the argument that the costs of production of the worker (the value of labour power) is determined in the same way as is the cost of production of other commodities. Marx's proposition does not provide a formal explanation for the actual level of consumption of food and housing at any particular point in time and space, although it will well be appreciated that these geographical and historical difference are context-specific and socially negotiated. Nor does Marx's proposition suggest an immediate or comprehensive explanation for systematic wage differences between workers (e.g. due to skill differences — the neo-classical marginal productivity focus). Further, it does not leave room for an understanding of unpaid resources that go into the reproduction of the worker and their dependents (especially 'domestic' labour): there is an extensive literature explaining that some of the resources that go into the reproduction of the worker are not purchased, but come from non-wage labour, especially in the household.[1] These insights need not divert us here, for the debates are driven by different agendas than those under consideration.

In contrast with the value of labour power, the commodity dimension of labour, there is the value created by labour. The latter, what labour does in production, is not directly a commodity — at least not in the same sense. Inside the factory, Marx contended, labour (the noun) is set to labour (the verb). There are two critical elements here that make labour different from other productive inputs. One is that labour is embedded in the worker — so the owner of the capacity to work is always there, in the production process. They cannot hire out their 'asset' without hiring out themselves. This will shortly become a critical factor in our analysis. Second, in the act of labouring, labour creates new value, and it creates in a way that machines do not. In both these senses, the employment process is innately social — not just a process of arms-length exchange.

In the act of creation, labour makes products which, to cut a long analysis short, embody more value than the value of the inputs. In price terms, we would say that the price of output is greater than the combined price of the inputs (under 'normal' circumstances) because of 'value added'. What is the source of 'value added'? Not, says Marx, some nebulous 'return to entrepreneurship' or 'reward for risk' (the two popular conventional rationales of profit that look so inadequate in the current crisis), but the extra value created by labour in excess of its own costs of reproduction.

So it is in the distinction between labour being a commodity (labour power) and not being a commodity (labour in production) at the same time that Marx found the source of a capitalist surplus. Does this build to a theory of corporate accounting? Certainly not. Is it a comprehensive explanation of the sociology of work? Hardly. But it does give an important handle on the role of labour in capital accumulation, and it gives some grounding of an explanation of the current crisis.

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Finance and Risk: Reconstituting Labour as Capital

What can go wrong when the role of labour within capitalism is misunderstood or mutated? The current financial crisis provides a site for investigation. As the global economy has unravelled from 2008 onwards, the popular question in a (broadly) Marxian discourse is whether accumulation was producing 'real surpluses, or just 'paper', 'fictitious' surpluses. Is it all about the bursting of a speculative bubble?

It is a regrettable detour, reverting directly to idealism and moralism, to see finance as somehow 'unreal', as if, in the absence of 'financial speculation', capitalist economies would somehow be stable and morally virtuous. It is important not to dismiss finance simply as 'unproductive', and there are serious limitations in the agenda of taming finance, so that it will resume its supposed appropriate role (Bryan and Rafferty 2006, 2007a, 2007b). Finance is not simply unproductive, nor is it simply speculative; neither does it have an allocated role (except in the fantasies of equilibrium economists). For Marxian analysis, building on the role of labour in generating the economic surplus, the focus is more usefully on class relations, not 'fictitious capital'.

We can see antecedents for the current crisis in the US labour market in the 1980s and 1990s. Stagnant and falling real wages were combining with rising productivity to generate high profits, leading to a significant shift in the profit share of national income (Panitch and Gindin 2008). With low interest rates and loose money, there was an 'appetite for risk': a desire to enter a booming financial asset market (equities, house prices, etc.) to share in the expected profits. Hence, for workers, stagnant and falling living standards (an increase in the cost of reproducing labour power) created a clear message: the way to increase living standards is not via wage labour, but by claiming part of the surplus — that is, borrowing to purchase assets, and waiting for the asset values to appreciate. Labour's economic role was dramatically shifting: from a commodity/non commodity which *produces* a surplus to being also a player in the *appropriation* of surplus.

The question of 'risk' gives a useful point of access to the changing role of labour, and its attributes of commodity/non-commodity. It seems that risk and the calculation of risk is a new thing, and indeed it is in popular discussions of finance, although it was always latent in reality. We used to think that risk was something that entrepreneurs engage in. The theoretical rationale for profits was that entrepreneurs engage in risk-taking ventures, and need the expectation of profits to motivate them to risk their money. But — and this is critical — the undertaking of risk was a voluntary act; an act of commercial bravery.

We now see risk is not just a choice made by entrepreneurs: it is unavoidable and everywhere, and we all face it. The reason we did not see it in the past (or didn't frame it that way) was that throughout the post-war period, the state covered so many risks — it 'collectively self-insured'. Instead of floating and volatile exchange rates, we had fixed and stable exchange rates. The same was true of interest rates, and especially mortgage rates. They were fixed by the state and subject to infrequent change. The same was true of agricultural prices and

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the utilities — gas, electricity, telephone — all prescribed by the state and stable. Health and education were the same: funded by the state.

But as the state withdrew from managing these aggregates — call it the rise of neo-liberalism if you will — the risks were dramatically revealed, and some new ones created. Exchange rate risk and interest rate risk — especially for corporations — became conspicuous and, from the 1980s, there emerged rapidly growing markets for foreign exchange and interest rate derivative products to hedge market volatility. Subsequently, we saw the growth of more diverse and complex derivative products, addressing newly perceived (and perhaps newly conceived) risks, such as the risk of default by other market participants, giving rise to the now-infamous market for credit derivatives.

For workers, borrowing became the norm and interest rate risk became conspicuous. Working people became exposed to choices about borrowing: fixed or floating rate; duration of loan, balance of fees and interest. They concurrently faced a plethora of choice about telephones, electricity and gas 'packages', about pension schemes, health insurance and privately funded education. Privatisation and the celebration of choice brought with it the exposure of the risk of wrong choices, even if they were wrong only retrospectively.

In many ways labour acquired the profile we had once attributed to 'entrepreneurs' — the calculation of risk, and 'trading' according to our risk profile. Do I think interest rates will go up or down? Do I make more long-distance phone calls than local calls? Do I insure for spectacles and pathology, or just for hospital stays? It is all about risk calculation. Randy Martin (2002) has called it the '*Financialization of Daily Life*'. We are now the compulsory entrepreneurs of our own lives: labour is being re-conceived in the image of capital. It is in this sense that labour is newly commodified: it is required to treat itself as a commercial entity, and it is thereby a player in the market for risk.

But individual workers are not *simply* converted into individual entrepreneurs, for labour's assets (and its conception of its assets) are different from those assumed of profit-maximising entrepreneurs. In his 2006 Presidential Address to the American Finance Association, John Campbell (2006: 1559) emphasised the distinctiveness of 'workers' capital' (albeit framed as human capital):

> Models in the Merton tradition[2] assume that all wealth is held in a liquid, easily tradable form. However, the largest component of wealth for most households is human capital, which is nontradable. Put differently, households receive labour income but cannot sell claims to that income … In practice … much of the risk in labour income is idiosyncratic and therefore unhedgeable.

Adopting Campbell's approach, labour bears risk which cannot be transferred because labour is *not* a commodity, at least not an ordinary commodity. If labour were a commodity, it could 'sell claims to its income': it could securitise itself. A worker would sell exposure to the variability of their income in return for a guaranteed income stream (or standard of living). But in this contract, labour would effectively indenture itself to the owner of the security: a modern-day, voluntary slavery. It is simply unimaginable socially and politically. But the effect

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is that labour is left as the holder of risks that cannot be transferred. (While Campbell focuses on human capital, something similar could be said of housing: as a place to live, it cannot be understood as a liquid asset. This is an issue to which I will return.)

It is in the light of Campbell's framework that we can understand the International Monetary Fund's observation of the distinctive role of workers (households) in the market for financial risk:

> Overall, there has been a transfer of financial risk over a number of years, away from the banking sector to nonbanking sectors … This dispersion of risk has made the financial system more resilient, not the least because the household sector is acting more as a 'shock absorber of last resort'. (IMF 2005: 89)

Financialisation: Reconceiving the Surplus

Financialisation changes somewhat the way we appreciate the conventional Marxist characterisation of surplus value creation and appropriation. Surplus value continues to be produced and appropriated in the 'conventional' way, but financialisation adds new dimensions: dimensions which themselves embody contradictions that gravitate towards crisis.

While issues of unpaid domestic labour raise the identification of a non-capitalist dimension to the reproduction of labour power, the process of financialisation sees the direct incursion of capitalist calculation inside the household. Financialisation points to the need to frame the household increasingly also as a unit of financial calculation, and not just in its internal operation but in its wider social role. Households live the contradiction of being both capitalist and non-capitalist at the same time.[3] Economically, the household not only consumes commodities and reproduces labour power, it also 'engages' finance, particularly through its exposure to credit and risk.

How does this process of financialisation change our understanding of the reproduction of labour power? Simply, it constitutes labour as a form of capital. If we think of Marx's formulation of the value of labour power, it is as a commodity input/output matrix: commodities (labour's means of subsistence) go in and commodities (labour power) come out.

Yet the reproduction of capital (and by extrapolation of labour as capital) cannot be understood as 'monetised barter', but through finance (money with an expected rate of return over time). Finance in itself assumes the operation of a process of accumulation, depicted by a circuit of capital. With the process of financialisation, this circuit of capital increasingly comes to depict the reproduction of labour as well as capital. It isn't exactly the same,[4] and it may not be as universal, but a parallel is apparent. With financialisation, the reproduction of labour power starts not with consumption of commodities, as conventionally posed, but with credit. Credit is used to buy commodity inputs for the household (M-C at the 'beginning' of the circuit). Then, leaving aside the issue of how we conceive of production within the household, somewhere before the circuit begins again, some part of the wages paid to labour power (C-M at the

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'end' of the circuit) must accrue as interest payments on money capital advanced to households (Lapavitsas 2009). Moreover, because this interest commitment occurs independent of the receipt of wages, the household's standard of living is determined by the extent of the wage 'residual'.

From the perspective of capital, the post-interest wage starts to appear as labour's investible surplus, and thereby is subject to competitive attack. Further, this circuit became a globally integrated process. The 'surplus' of interest payments and other risk management fees, especially insurance, became the income streams that formed the basis of asset-backed securities (especially mortgage-backed securities) which fed into collateralised debt obligations (CDOs) that were sold into global markets and triggered the global financial crisis. The commodified household, therefore, became an integral, but precarious, component of global finance markets.

An Application to Housing

John Campbell's observation has already been noted — of labour power as a non-tradable asset, denying workers the flexibility and liquidity assumed in a competitive market for risk. A similar, though less stark, case can be made about housing. From the point of view of labour, housing is an illiquid asset: it is a place to live. But from the point of view of capital, housing needs to be a liquid asset — just part of an asset portfolio. The popularity of mortgage-backed securities is testimony to this ideal for capital. So how has capital used this duality of housing, in combination with labour-as-capital, as a source of profitability, and what contradictions does it embody? We can look briefly as lending practices in the Australian and the US housing markets.

Traditionally within Australia, lenders to home buyers adopted a debt servicing ratio to determine the level of lending. A certain portion of income would be attributed to consumption; another proportion to debt servicing. A figure of up to 30 per cent for debt servicing was often adopted as the convention. This meant that as income grows, consumption for the reproduction of labour power and debt servicing can both grow proportionately. But with 'financialisation', it seems this traditional calculation is being replaced by the adoption of net income surplus models, which understand wages from the perspective of capital. As described by John Laker (2007: 3), Chairman of the Australian Prudential Regulation Authority (APRA):

> These models require the borrower to have a minimum surplus of net after-tax income after taking into account debt servicing, other fixed payments and a basic level of living expenses. In contrast to the debt servicing ratio method, these expenses do not vary with the borrower's income … At the same time, net income surplus models can in principle allow a higher level of borrowing than the debt servicing ratio method for borrowers with the same characteristics.

So in applying net income surplus models, how do lending institutions determine the basic level of living standards, above which income can be constituted as 'surplus' and so allocated to debt servicing? According to Laker (2007: 4), a

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survey by APRA shows that '… most ADIs (authorised deposit-taking institutions) use either the Henderson Poverty Index (HPI) or (the higher) Household Expenditure Survey (HES) data from the Australian Bureau of Statistics as the basis for their living expense calculations'.[5]

The Regulator's survey shows a clear shift in the way a wage is understood. Instead of it being the basis to support current standards of living (the value of labour power), it is treated in financial terms as a cash-flow, with the objective of leveraging maximum debt, with the only proviso that there is sufficient wage 'residual' to maintain what are essentially poverty levels of consumption. Consumption is seen not as the *raison d'être* of the wage, but as a drain on the wage-as-cash-flow!

The more 'extreme' version of labour being re-constituted as capital is found in the very structure of a sub-prime loan in the US housing market. These 'loans' were designed specifically for mortgage lenders (the mortgagee) to use labour-as-capital as a means to hold leveraged, but risk-minimised, exposures to the domestic property market.

There are many types of sub-prime loans, but built into the defining structure of these loans were two attributes: 'teaser' interest rates (low opening rates which increase dramatically after a time) and high fees for both late payments and loan rescheduling. Given that it was understood that many borrowers would default on these loans, the mortgagee had two complementary strategies. One, which is extensively described elsewhere, was the securitisation of the income streams, such that when mortgagors miss repayments (as was almost inevitable in many cases), the burden was borne by the security holder, not the mortgagee.[6] This is now widely described as the 'originate and distribute' model, and popular debate has centred on the associated securitisation practice.

The other, less considered, strategy built into a sub-prime loan was the use of late fees and loan-rescheduling fees as the primary source of income remaining with the mortgagee (that is, not sold off in the securitisation process). The logic here was that, although the mortgagor might not have the income to meet repayments, they would, it was expected, be occupying a house of increased value. Because the house is treated by the mortgagor as a place to live, not a liquid capital asset, the mortgagor would not sell the asset to repay the loan, but would bear late fees and be inclined to reschedule the loan (for a fee). For the mortgagee, these fees were a means to make house price appreciation liquid, but without the house itself being a liquid asset.

The source of income for a mortgagee, therefore, is not the conventional conception of credit (interest rate spreads: the difference between the borrowing rate and the lending rate) but fees designed precisely to appropriate the appreciation of house prices. In summary, capital developed the sub-prime contract specifically to utilise the fact of labour's lack of liquidity in risk management as a means for capital to appropriate the benefits of asset price appreciation.

We know that the formula ultimately didn't work. Like all speculative positions, it could meet its purpose only so long as it was not over-played. The supply

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of sub-prime loans grew exponentially, such that any flattening in house prices would lead not to minor rates of insolvency, which could be absorbed in the risk management profile of the mortgagee, but widespread insolvency, with the effect of a downward spiral of house prices and further insolvencies.

The effect has been that the class of labour has imposed on capital what is probably history's largest assault on profits. But it was not imposed in the name of labour and class struggle. It was imposed by labour re-configured in the image of capital; labour as dysfunctional capital. At its base was a confusion of the origins of surplus: a failure to recognise that labour's role is to 'be' labour and 'do' labour, and that that asset price appreciation in the name of labour is not a sustainable source of surplus.

Conclusion

In some dimensions labour is a commodity; in other dimensions not. This is not an anomaly or an ambiguity; it is a distinction, and a tension, at the core of the working of a capitalist economy.

Finance encourages us to see labour as a commodity in the same sense that capital is a commodity — as an asset to be risk managed. But labour, as a lived, social experience, cannot be reduced to the same conception of capital, and in that sense, it remains not a commodity. An effect of labour both being and not being a commodity is that it is a commodity different from other commodities. That difference itself gives a particular role to labour in a capitalist economy. In production, it makes labour the source of the surplus, and so the originator of profit. In finance, it makes labour the 'risk-absorber of last resort'.

When we focus on the financial dimension, two features stand out that are subtly different from the way Marx cast his analysis. First, the reproduction of labour power is itself a source of surplus value, in the form of interest payments. It signals that a monetary surplus is being appropriated from labour in a process that is conventionally conceived as 'circulation', not production. This is not to disassociate surplus from production but that, just as surplus is distributed between different functions of capital (interest, rent, etc.) as part of the accumulation process, so labour-as-capital opens up broader class issues of surplus transfer.

Second, I referred in the introduction to Marx's identification of labour's dual freedom under capitalism. We now see that labour has another dual freedom in the sphere of finance: workers are free to accumulate (a 're-attachment' to capital) and free to convert part of their income into surplus (interest payments). While the original dual freedom imposed the costs of non-compliance onto labour (starvation), the new dual freedom imposes the costs also onto capital (insolvency). As shown by the US sub-prime housing market and the resulting global financial crisis, the effect of labour being cast in the image of capital, as a new class of accumulators, manifests not just as a fall in the value of labour power (lower consumption), but also as seemingly incalculable risks to capital.

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Notes

1. For summary reviews of these debates see Vogel (1983: 151–175) and Himmelweit (1987).
2. 'Merton emphasises that long-term investors must consider not only risks to their wealth, but also risks to the productivity of their wealth, that is, the rate of return at which wealth can be reinvested.' (Campbell 2006: 1558).
3. If we look to Marx and debates within Marxism on this sort of issue, we can recall Marx's analysis of 'primitive accumulation' (pre-capitalist production relations within capitalist accumulation) (Marx 1867, Part VIII) or debates about the reproduction of peasant-based production. But these analyses carry a conception of an alternative form of accumulation: the capitalist future in the case of primitive accumulation, and the capitalist plantation in the case of the peasantry. There is no such alternative to the household within capitalism.
4. We should not seek to push the parallels into the sphere of what is meant by 'production'.
5. For a more detailed explanation, see Bryan 2008.
6. Strictly, it was generally not the mortgagee who held the mortgage, but a special purpose vehicle or entity (SPV; SPE) constructed by the mortgagee to hold the mortgages on its books. For an explanation of the risk shifting involved in mortgage backed securities see, for example, Nomura 2006 and ECB 2008.

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