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ABSTRACT
This study shows that "financialization," widely accepted as a theoretical framework representing the structural change in modern capitalist economy, is one aspect of the "free investment capitalism" that resulted from globalization and deindustrialization as the long-term institutional and technological trends since the 1970s. Globalization is understood as the tendency for the simultaneous expansion (more accurately, extensive expansion and intensive deepening) of market and the reduction of state and community. Its ultimate goal is free investment capitalism, in which fictitious capital is ubiquitous and free investment in it is totally pursued. The study theoretically sees it as G mode (general mode) capitalist market economy with general commodification of labor power as seen in human capital investment and financialization of labor power.

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Financialization and financial capitalism

In recent years, the role of financial markets and the financial industry in economic activities has grown more than that of industrial production, and financial crises have frequently occurred. The structural features of contemporary capitalism became known as financialization in the early 1990s and, in the 21st century, this term became widely shared, from Marxian to post-Keynesian and regulation schools. Despite differences in meaning and emphasis, it is commonly thought that financialization is a theoretical framework representing the structural change in modern capitalist economy. This study, although it shares this problematic setting, is an attempt to look at financialization as one aspect of "free investment capitalism," which resulted from globalization and deindustrialization.

First, I will briefly introduce discussions representative of the Marxian school. According to Lapavitsas, financialization indicates a system

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transformation of the mature capitalist economy and has three characteristics:

1. independence of monopoly capital from banks and self-finance;
2. expanding financial market intermediaries at banks (investment banking operations) and loans to households and workers; and
3. increase in households' financial debt and financial assets (Lapavitsas 2010).

In addition, Itoh (2010) said that the historical specialty of the subprime crisis is attributable to the increase in workers' assets and liabilities, particularly the "financialization of labor-power" found in the speculative expansion of housing loans and consumer finance related to durable consumer goods, such as automobiles. Both of these authors believed that the characteristics of modern capitalism's financialization lie in the increase of the financial role in households, as well as that of corporations and banks, which is the cause of the subprime crisis.

In note 99, Chapter 3, Volume 1 of *Capital,* Marx (1867), classified monetary crises into two types: the first, which occurred as one phase of every crisis in industry and commerce, and the second, a special type of crisis that originated from "moneyed capital," occurred in banks and exchanges, independently of industry and commerce, and only had reactionary effects on industry and commerce. The first type has occurred in the late boom of industrial cycles in classical capitalism and has been seen before in capitalism. The second type, in modern times, appeared as a monetary and financial instability, such as the collapse of Japan's bubble and the Asian currency crisis in the 1990s.

The first thing to note is that the modern financial crisis represented by the 2008 subprime crisis is closer to the second type than to the first type. Since the 1980s, global excess liquidity was formed by an increase in investment funds by institutional investors, accumulation of internal reserves and self-financing by large enterprises, an increase in household assets and liabilities, an expansion in asset/income disparity, a proliferation of wealthy financial assets, and central banks' monetary easing policies. Large-scale bubbles were intermittently formed by such overaccumulated moneyed capital flowing into real estate, stock, the foreign exchange market, and the financial derivatives market. The collapse of the bubbles caused financial panic, with bank collapses and currency crashes, which led to a crisis involving the collapse of the financial system. Thus, the modern financial crisis was not due to excessive accumulation of industrial capital based on the expansion of traditional bank credit. Fictitious capital markets—such as a derivatives market and a structured commodity market—are formed by the securitization of finance, and a large amount of moneyed capital flowing there forms self-fulfilling bubbles. It creates a systemic risk of a total collapse of the financial system. Therefore, beyond the central bank, public relief by the state or the state coalition (in the case of the European Union) was requested. In this respect, there is a characteristic of monetary crisis in modern financial capitalism.

The next point to remember is that modern finance-led capitalism is different from "finance capital-controlled capitalism"[1] that was dominated by "finance capital" (Hilferding 1910) at the end of the 19th century. In Lenin's (1916) imperialism, it is stated that capital accumulation and concentration has advanced, and when the market shifts from free competition to monopoly, finance capital, as an integrated form of monopoly capital and bank capital, becomes dominant. In contemporary financial capitalism, contrary to the case of finance capital, corporations leave banks, aiming for direct finance and self-finance. On the other hand, banks turn to financial market mediation and household loans. Why did these differences emerge?

Lenin believed that, because the economy of scale works more effectively as heavy chemical industrialization proceeds, the monopoly and oligopoly of industrial capital progresses so that production is socialized. Hence, if "bookkeeping and control" were extended to all areas of production and distribution, it would be possible to abolish commerce and money and to operate the economy of a country like a large factory, through quantity planning. He conceived a centralized planned economy based on the "one country as one factory" theory and led the Russian Revolution. Whether the Soviet-type socialist economy is viable was discussed in the socialist economic calculation debate. Hayek (1948) criticized the centralized planning of a socialist economy because there are fundamental defects that only the market can overcome, such as the difficulty in collection, discovery, and creation of knowledge.[2] Nevertheless, until the first half of the 20th century, production technology remained heavy and large, and industrial structure was monopolized, so the defect of Lenin's vision was not revealed and the Soviet-type socialism managed to survive.

However, as deindustrialization rapidly proceeded in developed countries in the 1970s, production technology transformed into light and small, and industrial structure became more oligopolistic or monopolistically competitive. Nonprice competition, such as product differentiation among oligopolistic suppliers, intensified. Consumers placed more importance on quality than on quantity, on service or information than on material goods, and on design rather than on function. Then, as both process and product innovations in information and communication technology (ICT) industries rapidly progressed, the problem of centralized planning—as a difficulty in gathering, discovering, and creating knowledge—gradually became more serious. Lenin's vision, thus, gradually lost its validity, and this ultimately resulted in the collapse of Soviet-type socialism. Although the Keynesian welfare state, which maintained macroeconomic financial and fiscal policies after the 1970s, also deepened the confusion, financial capitalism emerged.

Rearranging the history of the 20th century as above, we can now understand that the objective grounds for the expansion of neoliberalism and the collapse of the socialist countries lay in a shift toward deindustrialization in production technology and industrial structure. The combination of the financial big bang that globalization caused in the financial world and the financial innovation that advanced on the basis of the ICT revolution resulted in the financialization of the economy, industry, households, and motivation. Under the long-term tendency for a change toward globalization, shifts in production technology and industrial structure through deindustrialization resulted in financialization.

Globalization in the depths of financialization and free investment capitalism as its ultimate goal

What, then, is the globalization that lies in the depths of financialization? Globalization is often understood as institutional and policy changes, such as liberalization and deregulation, caused by a thought or an ideology called neoliberalism. However, it is rather the consequence of objective economic tendencies, such as deindustrialization. Globalization apparently can be recognized as a trend toward a global single free market accompanied by development of transportation technology as well as ICT and financial expansion. However, a more abstract and theoretical definition is necessary.

Polanyi (1944) depicted market (money exchange, private, freedom, and blue), state (redistribution, public, equality, and white), and community (reciprocity, common, fraternity, and red) as the integrative principles enabling the reproduction of socio-economy. My interpretation here is that blue, white, and red as tricolor of French national flag represent three political ideas of the French Revolution—freedom, equality, and fraternity—which respectively correspond to economic adjustment principles: money exchange in market, redistribution in state, and reciprocity in community. By using these three integrative principles, globalization is more deeply understood as the tendency for the expansion of market and the reduction of state and community to progress simultaneously, and the process in which the private and individual areas become relatively larger than the public and common areas. In view of political thought, it represents the growth of freedom (blue) and the decline of equality (white) and fraternity (red; see Figure 1).

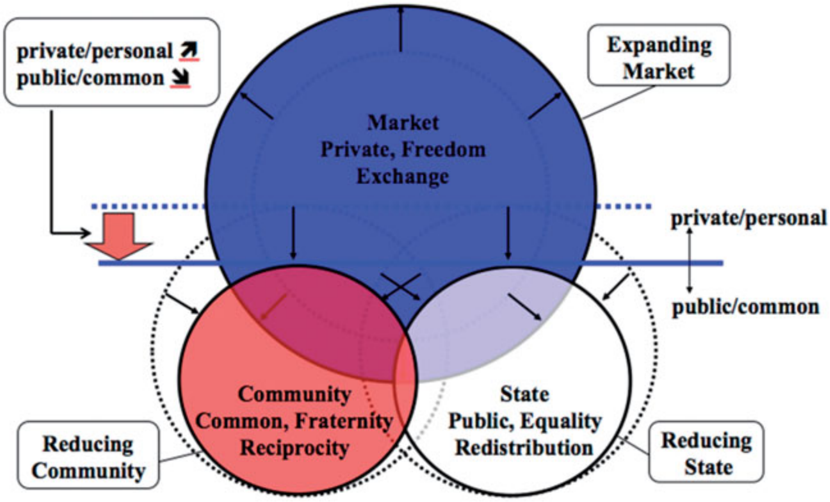

Figure 1. Globalization.

Here, let me make two definitions:

1. "Extensive expansion of the market" is expanding the market size of existing products and extending the geographical region of the market.
2. "Intensive deepening of the market" is the conversion of public or common free goods into private paid goods as commodity (commodification), or the innovation and sale of new products (new commodification) through a shift of the integrative principles from state (redistribution) and community (reciprocity) to market (monetary exchange).

Then, we can see that globalization is the rapidly progressing tendency of both the extensive expansion of the market and the intensive deepening of the market in modern capitalism.

Market, here, is a decentralized market as a chain network of bilateral money buying and selling, not a centralized market as an auctioneer type of price mechanism only with *numéraire,* as in neoclassical economics. In the decentralized market, two kinds of freedom are distinguished. The first is freedom of trade—that is, consumers can use money to buy and sell various kinds of goods (use value) without any restriction. The second is freedom of investment—that is, investors can use money to buy and sell various capital (revenue opportunities) without any restriction. Both are "negative liberties," but the latter is a higher-order freedom that presupposes the former. Although trade has the ultimate goal of the consumption of use value or enjoyment of utility, investment seeks an abstract and endless purpose for profit.[3]

Globalization is ultimately oriented toward free investment capitalism and has the following aspects: When an individual invests in fictitious capital—called human capital—all goods and services, including labor power, become capitalistic (produced) products for profit (universalization of capitalist products). In addition, companies employ labor power as fictitious capital to innovate, produce, and sell not only industrial products but also financial products, such as stocks and bonds, and acquire founder's profit (universalization of fictitious capital). As a result, people, goods, and money move globally in search of high profitability (universalization of investment), as investment is selected based on the rate of return.

In Chapter 29, Volume 3, of *Capital,* Marx (1894), called "real capital," on the one hand, the capital of real entities, such as physical means of production, including machines, factories, and laborers, which usefully function in production. On the other hand, he called fictitious capital the stocks and bonds, which are "nothing but accumulated claims, or legal titles, to future production." In this chapter, he indicated that the price of "bonds (the state's promissory note)" as fictitious capital can be obtained by capitalization—that is, by calculating the sum of the streams of the discounted present value of expected future profit. In case of a consol, which is a perpetual bond with a certain amount of coupon, say, c, its price, p, by capitalization at a current rate of interest, i, is simply calculated as $p = c/i$.

Hilferding (1910) claimed that as the stock and bond markets dealing in such fictitious capital spread, the dividends received by the shareholders would approach interest, and the capital with profit and the capital with interest would eventually become equivalent. Therefore, the founder would obtain the founder's profit, calculated by capitalizing the expected profit for the capital invested at the time of the establishment of the company. For example, if the founding capital is K and the expected profit rate is r^e, the security price of all shares that capitalize the expected profit of the following term Kr^e with a market interest rate i is calculated as Kr^e/i, and, if $r^e > i$, the founder's profit $R = K\left({r^e}/_{i} - 1\right)$ is positive.

Fictitious capital is a bundle of various claims, not just the bonds and stocks of modern times. Futures, options, and swaps, which are derivative instruments, are all digitized and can be traded by people or AI robots on the internet. In the case of options, we conduct investment by buying and selling market priced packages consisting of the rights to buy (call) and the rights to sell (put) on a base asset (a certain stock, bond, stock price index, etc.) by a certain time (the expiration date) for a certain price (the strike price). Collateralized debt obligations and credit default swaps, which became famous in the subprime crisis, are also fictitious capital. The former is a type of structured asset-backed security (ABS) issued as collateral with mortgages, loans, and bonds (both public and corporate bonds). Its composition is flexible, as there are diverse assets for its structure, from "low risk and low return" to "high risk and high return." With the development of ICT, such ABSs for liquidating and off-balancing can be easily and massively produced and sold to investors around the world. The ultimate goal of globalization is idealized as free investment capitalism—that is, a world in which such fictitious capital is ubiquitous.

In free investment capitalism, labor power is also converted into fictitious capital, called human capital. Here, let us examine fictitious capital in education and training. As Becker's (1964) human capital theory explained, fictitious capital in education is realized if students invest monetary expenses (such as tuition and interest on education loans) and opportunity costs (such as time of education and training) to acquire professional knowledge and skills to increase the expected earnings they can see in the future. Acquisition of qualifications and skills through a professional education and vocational training of workers is also considered to be human capital formation. The present value of human capital is the sum of a stream of present value obtained by discounting the expected increase of income at a constant interest rate. For example, suppose you expect to work for 40 years after you graduate from university. The expected returns (the difference in salary between university graduates and high school graduates) are 1 million yen each year, and the discount rate is 1 percent. Then, the present value (discounted present value; DPV) of human capital through university education can be calculated as follows:

$$\mathrm{DPV} = \sum\nolimits_{i=1}^{40} \frac{100}{(1+0.01)^i} = 32,830,000 \ \text{yen}.$$

Human capital investment is feasible if current education costs fall below this amount. Once the method of capitalization is applied to education and training, human beings are regarded as a stock of human capital that produces future income flows, so fictitious capital in education and training is established. If we extend this investors' logic to marriage choices and household chores, childcare, and nursing care of family members, fictitious capital can be found everywhere in one's personal life. Financialization of workers through households' increased financial assets and liabilities represents a situation in which workers or their agents (institutional investors who operate funds and insurance) have been investing, based on projected future returns (income and capital gains), rather than saving money in deposits with a given interest. Their investment is in larger quantities of many types of fictitious capital, such as volatile and risky real estate, stocks and bonds, derivatives (including FX and futures), and even human capital. This omnipresence of the replicator called fictitious capital is, thus, the most important characteristic of free investment capitalism, which is the ultimate goal of globalization.

Free investment capitalism differs from the "self-regulating market" referred to by Polanyi (1944) in *The Great Transformation*. In the end of the 18th century, labor, land, and money became fictitious commodities that were objects for money exchange, and the self-regulating market was established in the industrial capitalism of the 19th century ("external commodification of labor power"). After the 1970s, when labor power, next to land and money, had become a "capitalist product"—that is, a general commodity sold for profit purposes (hereafter, "general commodification of labor power")—fictitious capital was extended to include labor power. Therefore, the leading characteristic of modern free investment capitalism is Marx's fictitious capital instead of Polanyi's "fictitious commodities." In free investment capitalism, all services and rights—including labor power, which used to be regarded as a simple commodity—are sold as "revenue opportunities" or fictitious capital. Globalization has serious negative impacts not only on the economy but also on society, culture, and ethics.

The contemporary problems of globalization have spread into economic ones, such as the financial instability found in the repetition of bubble expansion and collapse, increase in unemployment and nonregular employment, economic inequality, and expansion of poverty. However, they have also spread into social and cultural ones, such as the weakening of people's connections; the collapse of communities such as families, schools, and neighborhoods; loss of diversity; and moral decay. The root cause can be found in the fact that the transformation from fictitious commodities into fictitious capital was caused by extensive expansion and intensive deepening of the market, which severely damaged community (reciprocity) and state (redistribution).

Three modes of 'internalization of the market' and evolution of the capitalist economy

"Internalization of the market" is the logic for the establishment and evolution of capitalism. Marx explained this in *A Contribution to the Critique of Political Economy* (1859) and in Chapter 2, in *Capital* (1867), as follows:

> In fact, the exchange of commodities evolves originally not within primitive communities, but on their margins, on their borders, the few points where they come into contact with other communities. This is where barter begins and moves thence into the interior of the community, exerting a disintegrating influence upon it. (Marx 1859: S.35–36)

> The exchange of commodities begins where communities have their boundaries, at their points of contact with other communities, or with members of the latter.

Table 1. Three modes of commodification in internalization of the market.

	Modes of commodification	Place of commodification	Purpose of production	Frequency of monetary exchange	Degree of economic integration by Market
I	External commodification	Outside of community and state	Consumption	Casual	Low
II	Internal commodification	Inside community and state	Income	Frequent	Medium
III	General commodification	Disappearance of community and state	Profit	Constant	High

> However, as soon as products have become commodities in the external relations of a community, they also, by reaction, become commodities in the internal life of the communities. (Marx 1867: S.102–103)

Markets formed as a chain of commodity exchanges emerged and expanded outside communities and states (on their borders), penetrated to their interior, disassembled redistribution and reciprocity as the internal socioeconomic principles, and replaced them with money exchanges in the market. As a result, goods become commodities, even inside communities and states.[4] Although I include state, which was not mentioned in Marx's quotes, such a theory of internalization of the market should become an important "leading thread" for economics.[5]

The pattern that markets arising between communities and states prevent reproduction of the substantive economy and reorganize it based on the exchange relationship forms the evolutionary process through which the capitalist economy emerged through the generation and development of the market economy. To clarify the logic of this intensive deepening of markets, I call the process "internalization of the market," in which capital, as a circular form of the market derived from the commodity relationship, permeates and dissolves the nonmarket society and self-organizes the economy again.

There are three modes of internalization of the market: external commodification, internal commodification, and general commodification (Table 1). As commodification progresses asI→II→III, the degree of integration in which the market dominates the real economy increases. This is merely a typical pattern, and in actual history, a sequence involving bypassing modes and retrograding may occur. The capitalist market economy is a market economy in which general goods other than labor power and land are all produced and sold for the purpose of profit, on the premise of the labor market's existence. It is a special market economy, derived by combining two commodifications related to general goods and labor power (Table 2). Accordingly, "economy includes market economy, which, in turn, includes capitalist (market) economy" holds.

Table 2. Evolution of capitalist economy through shifts in the modes of commodification of labor power.

I.	External commodification of general goods	
II.	Internal commodification of general goods	
III.	General commodification of general goods	
IV.	General commodification of general goods + External commodification of labor power = Establishment of capitalist market economy	
	1. Capitalist market economy with external commodification of labor power	(E Mode)
V.	Capitalist market economy with internal commodification of labor power	(I Mode)
VI.	Capitalist market economy with general commodification of labor power	(G Mode)

A capitalist economy will evolve as the intensive deepening of market progresses and the mode of commodification of labor power shifts to external commodification, internal commodification, and general commodification. In the past, labor power was produced in-house in the community as a family and was a "simple commodity" that did not produce profit (E mode). When housework and childcare were indispensable for reproducing the labor power in the family community, they were naturally regarded as free-of-charge activities, "shadow work," which did not involve money (Illich 1981). However, domestic labor has gradually been recognized as representing the opportunity costs associated with the loss of income opportunities in the market, and it became explicitly added as the cost of labor reproduction (I mode). Furthermore, as seen in human capital investment and financialization of labor power, labor power also became a capitalist commodity or fictitious capital pursuing profit (G mode). As a result of this type of globalization, the reciprocity and redistribution principles were replaced with a monetary market relationship and, seemingly, family as the last community has been transformed into an industrial sector that supplies labor power commodity capitalistically.

In the evolution process of capitalism through a mode change of the commodification of labor power, what is the average profit rate for capitalists and the real wage rate for workers—that is, how does the distribution relation changes between labor and management, and what does innovation mean in general commodification of labor power?[6]

In E mode, labor power is disadvantageously evaluated compared to general commodities because domestic labor costs and profits are not included in labor power, but domestic labor costs are incurred in I mode. Furthermore, in G mode, in which labor power demands the same profit rate as that of general commodities, labor power is evaluated as equal to general commodities, so that the status of workers and living standards both increase. The mode of commodification of labor power changes in E, I, and G and, as a result of the inequality between general commodities and labor power in price determination disappearing, the real wage rate rises and the profit rate decreases. This can be called the law of tendency for a decline in the rate of profit with internalization of the market. In G mode, income distribution is advantageous to the labor side, but as it is determined endogenously at the same time as the relative price, the requirement for a rise in the money wage rate by the trade union will only result in a price increase that is proportional to it.[7]

In E mode and I mode, innovation only benefits capitalists. However, in G mode, technological innovation that reduces the cost of general commodities raises the real wage rate and profit rate, and technological innovation that lowers labor cost decreases the real wage rate and raises the profit rate. Innovation that incentivizes both laborers and capitalists now progresses at an accelerated pace, and superprofits continue to be dynamically created. Thus, the capitalist economy itself finds solutions to the problem of the profit rate decrease by changing the mode of labor commodification, and it evolves to create further potentiality.

If capitalism seeks profits for its growth not from exploitation of surplus labor in production but from temporary quasi-rents through innovation, the information and service industries, in which it is relatively easy to create a "difference" through innovation, must largely grow. As a result, deindustrialization accelerates, and fictitious capitalization progresses further. In capitalism, financialization of labor power represents a dilution of the class relationship between capital and labor. Although workers remain wage earners and consumers, they are also approaching capitalists or investors as owners of tangible and intangible assets (real estate, financial products, and human capital), including moneyed capital (fictitious capital). In such a world, the profits earned through trading commodities are created more from innovation activities of services and information involving finance than from production activities of physical goods. Even automobile production activities can be regarded only as activities replicating design information on technique, function, and lifestyle in materials.

Globalization is a process that expands its potential by introducing mutations in parts of capitalist replicators so that capitalism can evolve autonomously to free investment capitalism. Marx said in *Capital* that "individuals (capitalists and land owners) are dealt with here only in so far as they are the personifications of economic categories, the bearers of particular class-relations and interests" (1867), and he virtually admitted that capital was a social "replicator" (meme) and human beings were only a "vehicle" operated by it. The globalization of modern capitalism attempts to build up all subjects as investors. "All people should become free investors" is its slogan. Its limit is pure capitalism, in which fictitious capital is ubiquitous—that is, free investment capitalism, in which financialization of labor power is expanding. However, there is an increasing disparity between these trends of contemporary capitalism and the conditions in which human beings live their daily lives.

Notes

1. In Germany and Japan, finance capital was actually dominant and, although Hilferding never called it so, it can be named as such.
2. See Nishibe (1996) regarding the contents of the socialist economic calculation debate—in particular, the parallelism in Hayek's criticism of socialist planning and his criticism of the general equilibrium theory and its related knowledge problems.
3. Investment also implies self-directed involvement in choosing clothes and acquiring them by themselves, and freedom of investment can also be directed toward "positive freedom." This may suggest one to consider beyond capitalism and globalization.
4. Although "state" does not appear in the related text by Marx, I added it in the sense according to the views of K. Polanyi.
5. Kozo Uno (1980, 2016) focused on this discussion. He argued, in the beginning of the principle of political economy, the theory of circulation—that is, that various forms of circulation (the market formers) of commodities, money, and capital emerge successively outside social reproduction and penetrate the community. He could, thus, explain the "extrinsic" character of forms of circulation such as commodities, money, and capital, without addressing labor value and the reproduction of the real economy.
6. Here, I present no model analysis for these problems, so I will introduce only the results. Readers interested in the analysis should refer to Nishibe (2015).
7. Here, when the mode of commodification of labor power advances as E→I→G and shifts to G mode representing the labor power's fictitious capitalization, it can be described as fully developed investment capitalism, but it is just a simplification. In investment capitalism, it is extremely emphasized that workers with special skills and licenses—such as lawyers and doctors, as well as college students and craftsmen—can be said to be owners of fictitious capital if university education and skill training are regarded as an accumulation of human capital. In reality, it should be seen that the G mode and previous modes are mixed. For example, although the creative class with professional skills reaches the G mode, workers doing simple labor that does not require as much skill and expertise remain in the E mode, forming the group of nonregular workers and industrial reserve army. In this case, class differentiation occurs (Nishibe 2015).

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