Article

Consumer Finance and Labor Exploitation

Review of Radical Political Economics
1–16

DOI: 10.1177/0486613417707530
rrpe.sagepub.com
SAGE

Luke Lattanzi-Silveus

Abstract

Lending to the working class is increasingly becoming an essential feature in modern capitalism. Marxist theory, however, does not possess an adequate account of this phenomenon, particularly its effect on labor exploitation. This paper seeks to show how Marxist economic theory could understand and account for this form of finance. It finds that lending to the working class enables increases in both absolute and relative surplus value.

JEL Classification: B51, G21, J50

Keywords

finance, Marxist economics, labor and workers, surplus value and economic surplus

1. Introduction

Household debt has increased rapidly in the past few decades in the United States. Even the widespread phenomenon of paying down debt since the 2008 financial crisis, a crisis in which household debt played a key role, has barely put a dent in household debt (Figure 1). Debt has become so high that the personal savings rate in the United States actually became negative in the lead-up to the crisis (Steindel 2007). All of this suggests that consumer finance is becoming a crucial feature of contemporary capitalism. However, the relationship of this new aspect of capitalism to labor exploitation, the process that produces value in capitalism, has not sufficiently been expounded in Marxist scholarship. This paper seeks to explore this relationship. I argue that consumer finance allows greater extraction of surplus value than would otherwise have been possible. It does so by encouraging workers to work longer, by decreasing working-class bargaining power, and by causing workers to accept a lower level of means of subsistence when this debt can no longer be sustained.

In spite of the importance of household debt, contemporary Marxist economic scholarship has not developed a strong theoretical understanding of this new aspect of capitalism, in particular as it has not drawn the relation between consumer finance and the exploitation of labor. Marx himself did not address the subject in any detail because, in his time, household debt was not a widespread phenomenon. It was limited mainly to borrowing that resulted from the desperation of

Date received: April 5, 2016
Date accepted: April 5, 2017

Corresponding Author:
Luke Lattanzi-Silveus, 11 Ship Street, Oxford, OX1 3DW, UK.
Email: lukel-s@hotmail.com

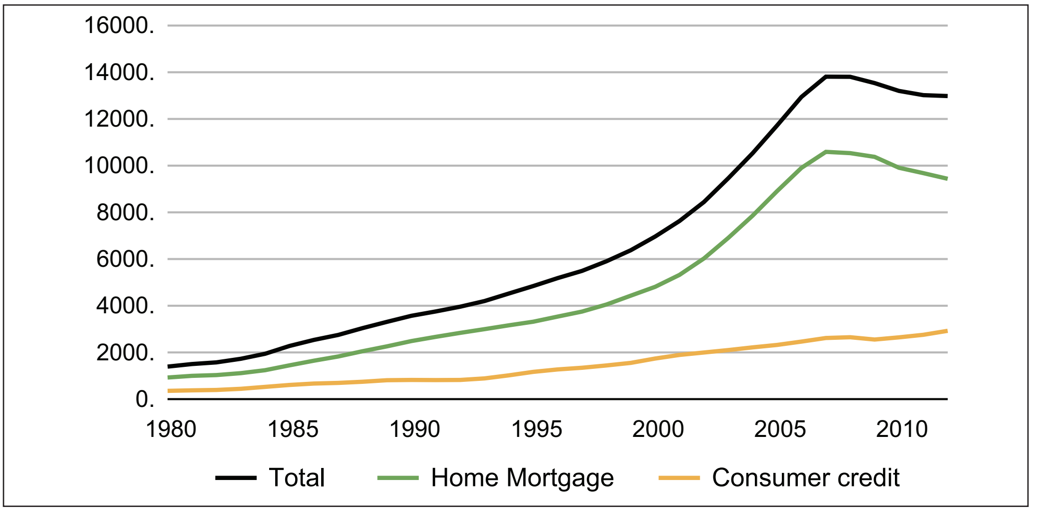

Figure 1. Household debt in the United States, in billions of dollars.
Source: US Federal Reserve, Flow of Funds, Q2, 2013.

certain members of the working class or from the extravagant consumption of the wealthy (Marx [1894] 1991: 735). Today, it has clearly taken on a much more systemic role as debt is taken out for everyday consumption, not just in moments of desperation.

This has led some contemporary Marxist economists to begin to look at this form of debt and the role it plays in capitalism. There are two main analyses that have come out of Marxist scholarship to help understand consumer finance and the role it plays in contemporary capitalism. Both offer insights to which this paper is indebted, but both are incomplete.

The first, developed primarily by David Harvey, suggests an important societal role for consumer finance. Lending to the working class makes it possible for real wages to stagnate while productivity is increasing (see Figure 2). Normally, this should entail a problem of consumption. If workers are producing more commodities but their wages allow them to buy the same amount, who is buying all of the extra production? Some of this can be accounted for by increased spending by the capitalist class, but that is limited. Even the wealthiest people can have only so many yachts, mansions, and luxury cars. The rest of the extra consumption is accounted for by household debt. By lending money to the working class, the capitalist class is able to keep wages stagnant and have workers buy increasing amounts of commodities at the same time (Harvey 2010).

The second analysis comes primarily from Costas Lapavitsas. Lapavitsas's argument stems from the little Marx said on the subject of consumer finance. Marx notes that such debt is usurious, meaning that lenders can extract unusually high interest rates because the lender has more social power than the borrower. Lapavitsas argues that this financial expropriation is essentially how consumer finance works in contemporary society. Lenders are able to extract high interest rates due to better information, better organization, and the need of the working class to take out debt to pay for basic goods such as housing, cars, healthcare, and education. Lenders, therefore, become a new class of rentiers who are able to extract value from the working class (Lapavitsas 2009; see also Dos Santos 2009).

Other Marxist authors have usually relied on either or both of these interpretations (see, for instance, McNally 2011), or they have simply not addressed the question in much detail.[1]

[1]Robert Brenner and Michael Roberts, for example, have both written extensively about the financial crisis of 2008, but their focus has been on broader economic factors. Their work on the declining rate of profit does, however, give us an explanation of where all of the capital for this consumer finance is coming from. As profit rates in productive sectors decline, capital seeks another outlet, which it finds in consumer finance (as well as the more traditional outlet of speculation, on commodities, stocks, bonds, and so on, that cause market bubbles).

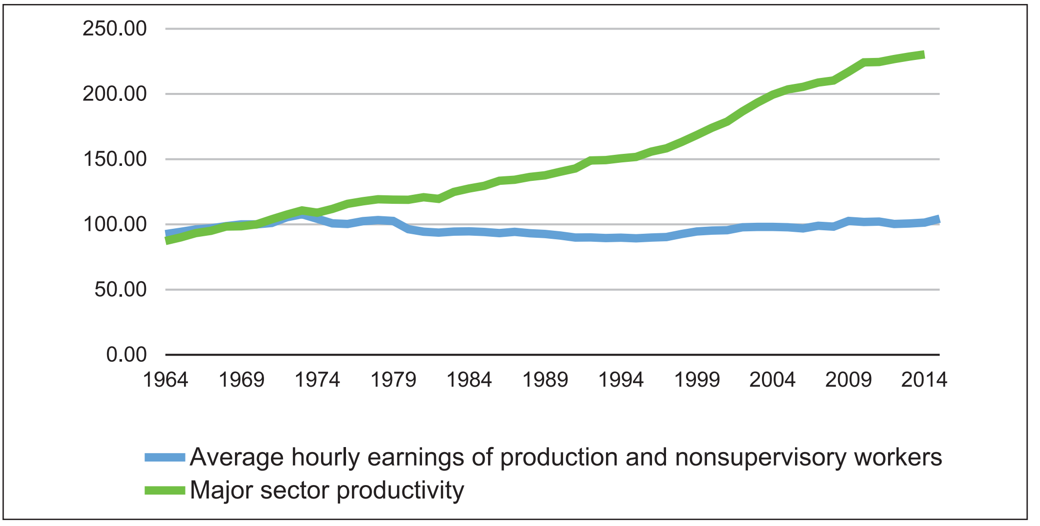

Figure 2. Productivity and average real earnings in the United States (index relative to 1970).
Source: Bureau of Labour Statistics, https://www.bls.gov/data/.

However, these interpretations of consumer finance, while very useful, do not clearly show how consumer finance relates to the exploitation of labor, the fundamental relation in Marxist economics. Harvey (2010) shows us a social role for consumer lending but does not show where the value being used to repay these loans is coming from. Nor does he explain how consumer lending relates to the production of value in the workplace, even though the importance of household debt comes from the fact that it has become integral to the working class as a whole obtaining their means of subsistence. Harvey shows us how consumer finance helps capitalism, but not how it is related to the most fundamental aspect of capitalist production: labor exploitation.

Lapavitsas argues that these loans are possible because the value underlying them is extracted directly from the working class. His analysis shows correctly the imbalance of power that exists between lenders and creditors in consumer finance, but his theory entails that all of this is occurring essentially outside of the capitalist mode of production. In fact, it appears to undermine it. While lenders are a part of a more general transformation in capitalism, which does include changes in exploitation for other reasons (Lapavitsas 2009: 11–12), the net effect of the lender in this view is to extract value from the working class without contributing to the processes of production or labor exploitation (Lapavitsas 2009: 16). It risks, therefore, causing a demand for higher wages or cheaper provision of social services from the working class, threatening to at least hamper the reproduction of surplus value. If consumer finance does nothing but undermine capitalism in this way, then a Marxist analysis should say that it could not exist, at least not in any widespread manner.[2] In the chapter that Lapavitsas (2009) cites from Marx (Marx [1894] 1991: 735), the only example of lending to the working class that is provided is the example of pawnshops, in other words, lending in times of desperation. Even then, he characterizes this usury as

[2]I make implicit use here and elsewhere of the functional explanation by positing a functional relationship between consumer finance and the process of exploitation (which is a fundamental part of the relations of production in capitalism). While I do not have the space to defend my use of a functional explanation in detail here, the defense I would propose of such a use would rely on the works of Cohen ([1978] 2000) and Alan Carling (2002), who have argued for the primacy of the relations of production over the superstructure using the functional explanation. While consumer finance is not a part of the superstructure, the mechanisms used by these authors (rational actors or a selection mechanism) would work just as well in establishing the primacy of something as fundamental as the process of exploitation over consumer finance.

something that happens only on the fringe of capitalism; if it were not, it would be removed in the same way as medieval usury was (Marx [1894] 1991). In another passage that Lapavitsas (2013) cites from *Theories of Surplus Value*, Marx ends by noting "that interest, like profit upon expropriation constitutes a form which, although it is reproduced in capitalist production, is nevertheless independent of it, and represents a form of interest *which belongs to earlier modes of production* [emphasis added]." Consuming by borrowing is not a stopgap measure for the working class like a pawnshop, and it is not a holdover from an earlier mode of production; it is an integral part of modern capitalism and a new form of consumption. Here again, there is a need to develop the relation of consumer finance to the capitalist mode of production.

To achieve a fuller and more theoretically complete Marxist understanding of consumer finance, its role in modern capitalism, and its influence on the working class in the workplace, this paper must look directly at the effect of consumer finance on labor exploitation. This article seeks to develop the basics of such a theory, thereby showing the ways consumer finance shifts the structural relations of exploitation.

In the following analysis, I focus on the United States. As the world's leading economy, the United States offers arguably the purest large form of modern capitalism today. It has also been the source of most household debt innovations, such as credit ratings and credit default swaps, and was the epicenter of the financial crisis of 2008, in which household debt played a very apparent role. As such, it is the place where the development of consumer finance and its effects are most pronounced, making it the best society to study to understand the dynamics of this form of finance. However, empirical evidence in this paper is only meant to be indicative of, rather than empirically justify, the theory. While I expect that the theory could be empirically verified, the purpose of this paper is merely to elaborate a Marxist understanding of consumer finance, with particular emphasis on the exploitation of labor.

2. The Nature of Consumer Finance

Before entering into the details of the effects of consumer finance, it is worth further investigating how it functions. In this section, I seek to show both the coercive nature of household debt and its basis in the future sale of labor power.

Lenders make their money by claiming a share of revenue. Finance capital, as Marx describes it, lends to productive capital[3] in return for a share of the profit that is produced as the capital they have provided is used to employ labor and create surplus value (Marx [1894] 1991: 460). For the worker, the loan is quite different. The capital advanced to the worker is not used to produce more revenue, but rather to consume. The worker still has to pay back this loan with interest, however. Because workers gain money through the sale of labor power, this must be what they use to pay back their loans. In other words, the loan is backed by the worker's commitment to sell his or her labor power in the future, with the creditor getting a claim to a portion of the revenue from this sale. The difficulty for the creditor is determining how credible this commitment is, hence the limitation of this market before the invention of credit ratings.

It might be objected that the goods themselves purchased by debt, such as housing, automobiles, or education, can be investments, and the returns from such investments can form the basis for repayment of debt as opposed to labor power. However, in Marxist terms at least, the purchase of housing, automobiles, and education should be considered consumption. Aside from the fact that they are at least partially consumed for intrinsic reasons, they cannot form the value basis for repayment of debt on a societal scale. Purchasing housing as an investment most obviously does not produce any value (in the Marxian sense), as the extra revenue expected is simply

[3]In this paper, I distinguish productive capital, capital that is employed in the process of production, and finance capital, capital that is employed in lending or other financial activities.

a gamble on the housing market. A car allows people to perform jobs that they otherwise would not have been able to (due to distance), but it does not increase the value of their labor. It may increase an individual's ability to find work, but not the collective ability of the working class to do so. Education "forms a part of the total value spent producing" (Marx [1867] 1990: 276) the labor power required in industries, which require a given level of education. As such, repayment for education forms part of the means of subsistence for those working in such industries (or forms a part of the means of subsistence generally when such education is considered an expectation for the working class). The same argument applies when an automobile is necessary to perform a job as opposed to simply reaching one. As such, the actual goods purchased cannot form the value basis for the repayment of debt.

Similarly, the existence of collateral backing certain forms of debt might cause some to doubt that the loan is underwritten solely by the worker's future labor. However, collateral is really only an insurance against default. It allows the credit market to expand, taking on debt that would otherwise have been too risky, but the credit industry is fundamentally premised on the expectation that debtors will pay back their loans. So while the value obtained in the case of default may be backed either by a commodity or by future labor power, the value of the loan itself rests solely on the value of the future revenue. In the case of loans to the working class, the revenue consists mainly or exclusively of the value of future labor power.[4] In working-class debt, therefore, workers receive value in the form of money in exchange for a claim to a portion of the value of their future labor power. In other words, this debt is backed by the future sale of a commodity, labor power, and not increased revenue obtained by the employment of the capital that is being lent.

This means that household debt becomes a problem when this future commodity is not produced in sufficient quantities. As long as wages remain stagnant but debt increases, future labor power must be sold for an increasingly higher value to cover increasingly higher debt (caused by the staking up of past debts and the consistent underpayment for labor power relative to the means of subsistence). Debt may find its basis in the sale of future labor power, but this does not mean that it cannot be taken out in greater quantities than will be, or even could be, paid back through the sale of future labor power. Difficulties arising from household debt's basis in unrealized and possibly never to be realized labor lie at the heart of the effect of household debt on exploitation. Also important for our later analysis is the coercive nature of debt—through penalties for default, difficulty of bankruptcy, and credit scores—which will play an important role in exploitation.

3. The Displacement Effect of Consumer Finance

Because consumer finance is based on the future sale of labor power, there is a time gap between the loan to the worker to purchase a commodity and the realization of the labor that will be sold to pay for that commodity. In this section, therefore, I begin by analyzing the effects of this displacement in time as if interest did not exist. In the next, I add the effects of the payment of interest. I look at the effects of consumer finance on the two ways Marx notes for increasing the rate of exploitation: increasing absolute surplus value and increasing relative surplus value.[5]

---

[4]This is implied by the very definition of the working class. A member of the working class is an individual who must sell his or her labor power to obtain the means of subsistence. While this does not entail that the sale of labor power is the individual's only source of revenue, it must be that other sources are not enough to cover the means of subsistence on their own.

[5]An increase in reactive surplus value is an increase in surplus value caused by decreasing the value of labor power (usually through increased productivity, but it can also be through decreasing the commodities that constitute the means of subsistence). An increase in absolute surplus value, however, leaves the value labor power constant and, instead, increases surplus value by increasing total working time.

3.1. Effects on absolute surplus value

Increasing absolute surplus value means increasing the amount of time the worker works. According to Marx, the working class will tend to be paid the amount required to purchase the means of subsistence prevailing in any given society. The means of subsistence includes not only certain basic necessities such as food, clothing, and shelter but also a "historical and moral element" (Marx [1867] 1990: 275). This includes certain commodities that are necessary in contemporary society (it is very difficult in most places in the United States today to get by without a car or electricity, for instance, even though about a century ago, they were considered a luxury) and certain goods to which the working class are understood to be entitled (the things that "every American should be able to have," for example, a television). Means of subsistence are variable from epoch to epoch and society to society and can change based on social trends. Indeed, I argue below that debt plays a role in changing the commodities that constitute the means of subsistence. But at any given time and place, they can be considered fixed (Marx [1867] 1990: 275). People's circumstances may differ, but the means of subsistence is what determines what the working class as a whole is paid.

Because workers in the Marxian view are paid their means of subsistence, Marx notes that increasing the average working time does not actually increase the amount workers are paid. They do not need to be paid any more than what they expect as an acceptable standard of living, no matter how long they are working. If one worker works longer, he or she is likely to be paid more than others. After all, the capitalist class is getting more labor out of this worker than others, so why not pay a little extra? However, once longer working hours become the norm rather than the exception, there is no longer any need to pay individual workers more for working longer hours. Because they are all working the same (higher) amount, most if not all would be willing to provide their labor for less than the increased wage initially offered so as to obtain or keep a job, as long as this does not go below the means of subsistence. This means that, gradually, wages return to the means of subsistence.

One of the effects of pushing payment into the future through household debt is, indeed, to provide an incentive for workers to work longer. Assuming roughly constant real wages, and an inability to increase their wage,[6] the only way workers can individually increase their revenue to be able to pay off their debt is by increasing their working hours. This means workers are pushed to work longer, taking longer hours, overtime, and second jobs to make up for the increased debt required to maintain the value of the means of subsistence. This is likely part of why working time has increased so much in the past few decades. In 2007, a husband and wife in an average middle-class household, taken together, were working 540 hours more per year than they had twenty-five years before (Mishel, Bernstein, and Allegretto 2007: 91). Weekly hours increased gradually over this same period (see Figure 3).[7] Furthermore, this increased working time does not appear to have been voluntary. In 2004, 60 to 70 percent of workers reported that they did not have enough time for themselves or their spouses/partners (Galinsky, Bond, and Hill 2004: 12), while in 1992, only 50 percent did (Greenhouse 2009: 185).

However, while individuals are incentivized to work longer to try to repay their debt, for the working class as a whole, this is self-defeating. As noted above, once increased working times become the norm, there is no need to pay any individual worker extra for this working time. Any other will provide the same working time, and many may offer to provide it for less as long as it does not go under the means of subsistence. Therefore, as increased working time is generalized,

[6]Due, for instance, to low rates of unionization. There is also reason to believe that debt itself impedes working-class ability to fight for increased wages, as this paper argues below.

[7]The fact that they increased more gradually over the period than the 540 hours cited before is probably due to increased women's participation in the workforce, and possibly decline in annual vacation time.

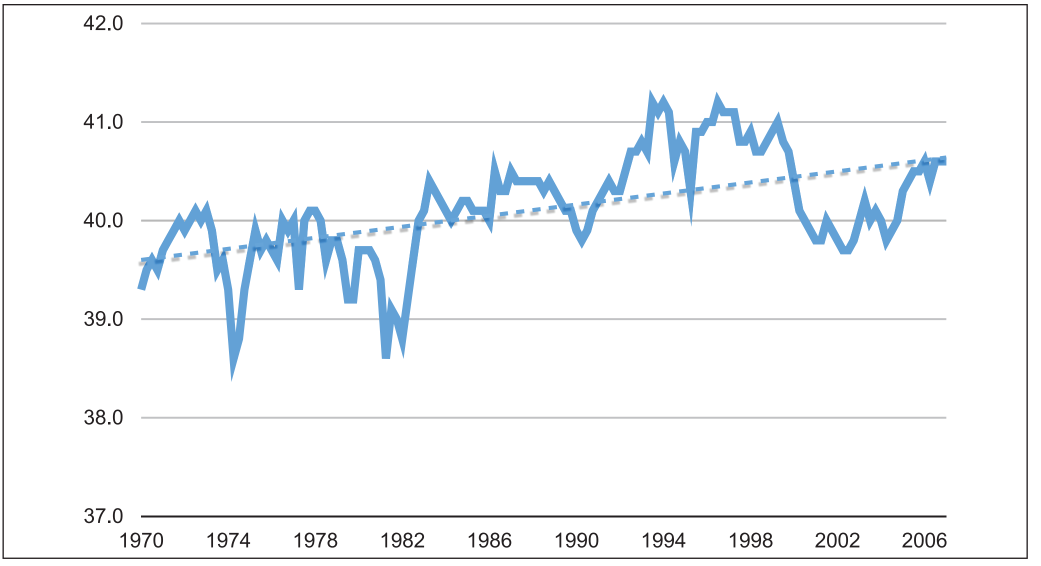

Figure 3. Average weekly hours of production and nonsupervisory employees: Goods producing.
Source: Bureau of Labor Statistics, retrieved from the Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/CES0600000007

workers' pay returns toward the means of subsistence. The working class as a whole simply ends up working longer for the same pay.

As the theory would predict, this increase in working time, while undoubtedly allowing some individual workers to increase their own wages, has not translated into an increase in real wages for the working class. Indeed, median weekly[8] pay has remained relatively stable (see Figure 4), with the exception of a jump in the late 1990s. The speed of this jump, as well as its timing, indicate that it did not have to do with increased compensation for working time. Were it caused by increased working times, one would expect it to have increased gradually, as weekly working hours did, and to increase at roughly the same time as weekly hours did. The sharp jump in income, however, occurs in 1998 to 2001, at the same time that weekly working hours are undergoing one of their few declines (2000–2001). The increase in wages was, therefore, caused by some other factor (decreased unemployment or rise in the minimum wage perhaps) than by increased compensation for increased working time.

The above argument indicates that *one* social role of consumer finance is to push the laborer to provide more labor. Instead of providing capital, this form of finance operates as a means of coercion to increase working time without increasing the value of labor power. It provides more labor at the same price and so constitutes an increase in unpaid labor and, consequently, an increase in absolute surplus value. This is not an effect that either the finance capitalist or the worker intends when the loan is made. It is an unintended, but very important, consequence of consumer finance.

[8]Since 1994, these data were measured by asking workers to report their wages in whatever time scale (from hourly to yearly) they deemed easiest, and then this was converted to weekly earnings taking into account the "usual" amount that the worker worked per week. Thus, it can be used to show that pay has not significantly increased through people increasing the amount of hours or days that they worked in a week. It cannot show what the effect for those who took on extra or fewer weeks of work for the same employer might have been. The Bureau of Labor Statistics does not measure annual earnings, which would have been preferable for our purposes, but weekly earnings are enough to show that the increase in working time has not meant an increase in total pay (Bureau of Labor Statistics 2015).

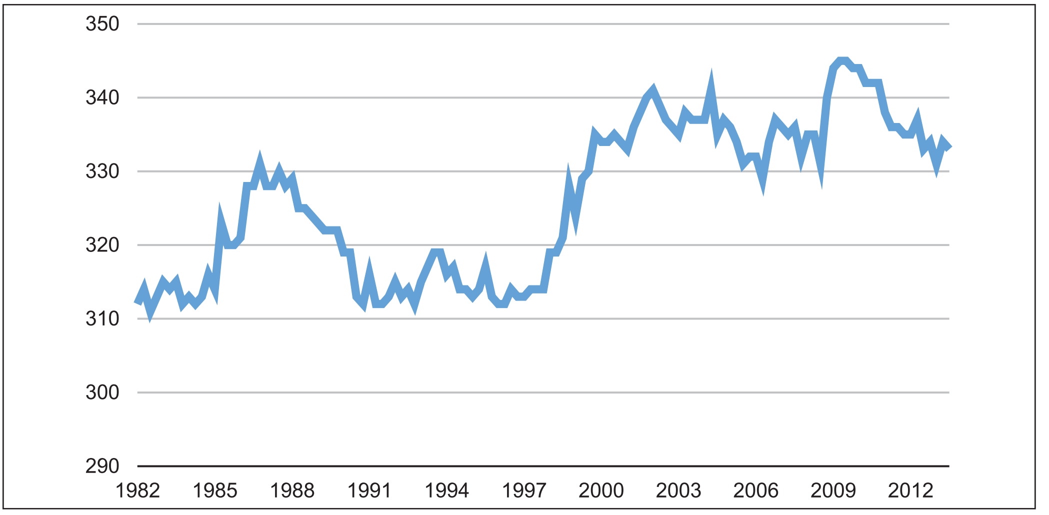

Figure 4. Weekly median earnings for full-time wage and salary workers (in constant 1982–1984 dollars).
Source: Bureau of Labor Statistics, https://www.bls.gov/webapps/legacy/cpswktab1.htm.

To illustrate this process, I use Marx's schematic representations. Let each dash represent an hour, and let AB represent the value of labor power (or the value allocated to the working class) and BC represent surplus value (or the value allocated to the capitalist class). I arbitrarily start with a working day of eight hours where the value of four hours of work goes to the working class and the value of four hours of work goes to the capitalist class to illustrate this process. The decreases and increases of AB and BC are also chosen arbitrarily and are meant only to be illustrative of the process. The increase in working time will, therefore, mean a move from (1) to (2):

(1) A— — — —B— — — —C
(2) A— — — —B— — — — — — —C

3.2. Effects on relative surplus value

Relative surplus value is increased by decreasing the value of the means of subsistence. There are two ways to accomplish this. The first is rather straightforward: the capitalist class requires workers to accept a lower standard of living. Through whatever means, the capitalist class makes the working class accept as means of subsistence a set of commodities with a lower value. This could mean forgoing certain commodities or accepting cheaper and worse versions of these commodities. But to be considered a change in the value of the means of subsistence, this reduction must be a social trend. An individual employer cutting her or his worker's pay is not enough to change the value of the means of subsistence. However, consistent attacks on workers' wages and workers' unions accompanied by an argument that, for whatever reason, workers need to accept a lower standard of living can decrease the value of the means of subsistence in this way. Consumer finance primarily makes use of this first means to increase relative surplus value.

The second way to decrease the value of the means of subsistence is by increasing productivity, which decreases the value of commodities, while holding the commodities that constitute the means of subsistence constant. This plays a role in the analysis below as well, but only as background forces eroding the value of the means of subsistence.

The displacement in time of payment, made possible by consumer finance, allows workers to consume by taking out debt as opposed to using their wages. With debt, the living wage no longer has to be able to cover a worker's living standards. Or in value terms, the value of labor power (the value that workers receive in exchange for their labor) becomes systematically different from the value of the means of subsistence (the value of the commodities that constitute what a worker is expected to receive). This should be impossible. And, indeed, in the long term, it is, as we see below. But in the short term, borrowing makes up the gap between the value of labor power and the value of the means of subsistence. This is a decoupling of the value of the means of subsistence from the value of labor power. I am arguing, in effect, that debt allows labor power to be sold for less than its value consistently over the medium term.

This decoupling has consequences for the bargaining power of the working class. Consumption through debt allows workers to survive a pay cut, or not demand a pay increase, because it appears as if they can get the desired increase in their standard of living simply by borrowing. In other words, the solution to stagnating real wages and the resulting stagnating living standards is presented as not being collective bargaining, unionization, and strikes, but shrewd personal finance management. This is an appealingly easy solution, as it does not require the worker to organize with other workers and does not entail opposing management and risking one's job.

Although this is a false solution for the worker, it can appear initially to make sense. Workers are told it is fine to take on debt because they should be able to pay it back in the future. On an individual level, this seems quite believable. After all, workers are likely to be paid more as they become older, so taking out debt now to pay it back later, when wages will be higher, makes some sense. In the parlance of contemporary economics, debt here can be used as a means of smoothing out consumption. This is not, however, what is happening as debt is increasing on a macroeconomic level. Smoothing out consumption is not the goal of this debt, or at least not its only goal. Debt is also being taken by workers as a replacement for the wage gains that could have been obtained through workers' struggles and for the social services that are no longer being provided for them. The contradiction presents itself on the macroeconomic level, where the problem of debt increasing as wages stagnate becomes readily apparent.

Because an easier alternative to unionizing and fighting for higher wages is presented to the working class, some workers become less invested in the working-class struggle. This helps diminish both the unity and the urgency with which workers fight to increase their wages, making them less combative and making it easier for employers to keep wages stagnant. What may, at first, appear like increased security, as debt allows workers to be seemingly less dependent on their pay to meet their needs, turns, in fact, into decreased security as workers find themselves facing mounting debt and less ability to bargain collectively.

The decline in the bargaining power of the worker caused by the displacement effect is exacerbated by the fact that debt increases the need for the working class to hold on to their employment. Even excluding the fact that employment is often necessary to have access to debt, workers need to have some form of income stream if they are to have any hope of not only procuring their means of subsistence but also making payments for past debt.[9] If they were to lose their jobs, they would not only have difficulty procuring the means of subsistence but would also be on the hook for their debt, facing whatever legal consequences would accompany the nonpayment of debt. This means that they are more desperate to keep their jobs, further reducing their bargaining power. The more workers need to hold on to their jobs, the less likely they will be to put their jobs at risk by organizing with unions or striking, and the more likely they will be to accept pay cuts, cuts to benefits, and worse working conditions.[10]

[9]Thus far, as we are not considering interest, this consists only of principal payments. Inclusion of the payment of interest, however, only exacerbates this problem.

[10]Workers are also likely to be pushed to increase the intensity of their production for the same reason, which would constitute a further increase in absolute surplus value to add to the section above.

What lending to the working class does, therefore, is allow the living standards of workers to increase without an increase in wages.[11] Capitalists get to have their cake and eat it too, so to speak. Loans to the working class allow it to have enough money for the value of the capitalists' production to be realized in exchange (in other words, for their goods to be sold) without having to increase the value of labor power. The argument I earlier attributed to David Harvey already noted this was happening; here, however, I have shown that household debt also helped the capitalist class maintain these stagnating wages.

And, more importantly, keeping wages stagnant as productivity increases means that the value of the means of subsistence begins to erode. As productivity increases, the value of the commodities constituting the means of subsistence decreases. The stagnation of real wages shows that workers' wages have represented roughly the same bundle of commodities for the past few decades. As productivity increased, the value of these commodities decreased. Thus, the value of labor power has decreased and thereby the rate of exploitation has increased. This is reflected in Figure 5 by the decrease of wages as a share of GDP. More value in society is being allocated to capital and less to the working class.

This effect can, therefore, be represented as a decrease in surplus value, or the move from (2) to (3) in the following schematic representation:

(2) A— — — —B— — — — — — —C
(3) A— — —B— — — — — — — — —C

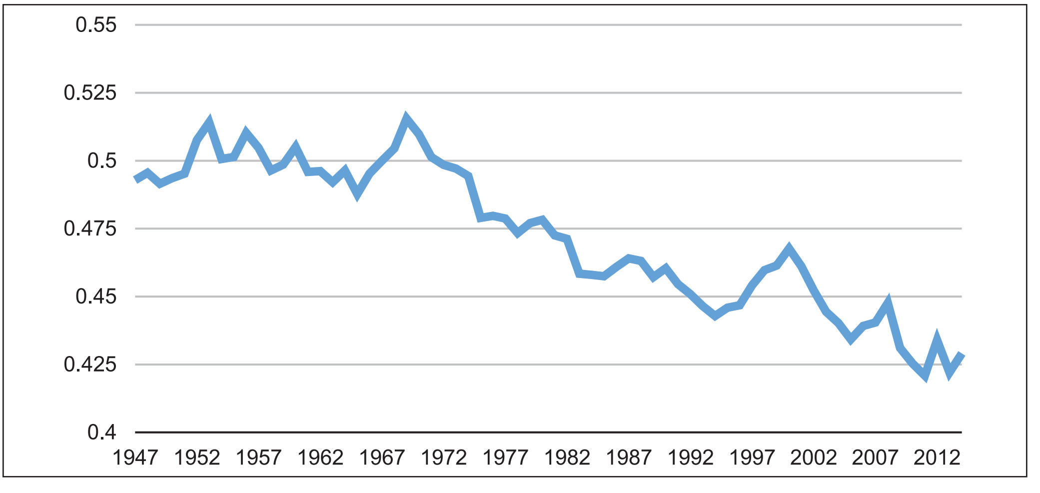

Figure 5. Wages as a portion of GDP.
Source: US Bureau of Economic Analysis data on wages and GDP, retrieved from the Federal Reserve Bank of St. Louis. https://fred.stlouisfed.org/series/WASCUR, https://fred.stlouisfed.org/series/GDP

[11]The actual extent of this increase is not crucial to my analysis. Total consumption must keep up with growth, but it need not all be working-class consumption; some portion of the extra product was probably consumed by the ruling class. Until recently, studies on consumption inequality suggested that working-class consumption increased significantly because consumption inequality was reported to not have increased much while income inequality increased significantly. However, more recent scholarship has argued that consumption inequality has increased at a much closer rate to income inequality even though the latter has still increased more (Aguiar and Bils 2011; Attanasio, Hurst, and Pistaferri 2012; Meyer and Sullivan 2013; Fisher, Johnson, and Smeeding 2013). How much more inequality increased varies between authors. Either way, the important point for our purposes is that the working class is consuming more than they are earning, with this extra consumption being financed through increasing amounts of debt.

It should be clear, however, that this decoupling of the means of subsistence and the value of labor power cannot last forever. A temporary solution is for workers to simply take on more debt and thereby push this problem into the future. This can work for a while, but it cannot go on indefinitely. The gap between workers' real wages and their means of subsistence continues to expand as more commodities are produced but real wages remain stagnant. And this gap continues to be covered by ever-increasing amounts of debt. But, eventually, the loans that creditors made must be paid back. The future labor promised to the creditor must eventually be realized.

The demand for repayment comes at a moment of crisis of debt repayment. This is what happened, for instance, in a generalized form in the aftermath of the crisis of 2008. Workers, faced with the inability to get new loans and pressures to pay off many of their existing loans, began to decrease their debt. However, since in the middle of a crisis, the last thing employers are likely to do is increase wages,[12] workers are forced to change which commodities form their means of subsistence in such a way as to decrease their value. This means that they cannot repay their debt by increasing the value of labor power to include the cost of the debt. The only way they can repay it is by decreasing their means of subsistence. In other words, they have to cut back on their spending; they must consume less. This is exactly what they did (Lee, Rabanal, and Sandri 2010: 6).

Workers have, therefore, been forced to accept a lower standard of living. Abruptly, workers are made to accept a combination of commodities with a lower value. Instead of being above the value of their labor power, as before the crisis, crisis forces the means of subsistence to decrease below that value for the working class to pay off their debt.

At the very least, this means that the costs of repaying the debt will fall to the working class by forcing them to accept a lower standard of living. However, there is reason to believe that this is more than just a temporary phenomenon. I have already noted that what is required to change the commodities that constitute the means of subsistence is a social trend that forces it to increase or decrease. It seems unlikely, however, that the fact of the repayment of debt will entail an increase in the means of subsistence because it is unclear in what way it would require the capitalist class to increase wages to keep up with inflation. Instead, what seems more likely is that the value of labor power will creep down toward the means of subsistence after the crisis as workers repay their debt. All this would require is that the capitalist class not increase nominal wages, or that they increase them at a lower rate than the rate of inflation, and simply let inflation decrease real wages. Whether or not this is, in fact, what is happening will only be discerned in hindsight; for the moment, it is impossible to separate a short-term decrease in real wages due to crisis and the long-term decreases in real wages that this theory entails.[13]

This second effect on relative surplus value can be modeled as follows (where FB represents the value allocated to consumer finance, through principal repayment)[14]:

- —Before the crisis: A— — — —B— — — — — — —C
- —During the crisis: A— — —F—B— — — — — — —C

[12]Wages fell for the bottom 70 percent in the wage distribution from 2007 to 2012 (Mishel and Shierholz 2013: 2).

[13]It is worth noting that, empirically, total household debt has stagnated, not decreased. And household debt excluding mortgage debt has actually risen after a brief decline in the immediate aftermath of the crisis. This does not invalidate my claim. The repayments of debt were still accompanied by a decrease in the consumption of the working class and so a decrease in the means of subsistence.

[14]Technically, this means that whenever F is present, surplus value is FC and not BC. I have represented it the way I have, however, because my objective is to show that BC, surplus value excluding consumer finance, is greater with consumer finance than without it. In other words, I am trying to show that productive capitalists themselves also profit from consumer finance, and that it is not a cost to the system. This means of illustration also makes it clearer that the portion obtained by finance capital comes directly from the worker and not from productive capital via the worker.

And if I am right about consumer finance ultimately entailing a shift toward lower living standards,

- —After the crisis: A— — —B— — — — — — — —C

How permanent this last shift would be is open to question and will likely be the result of class struggle. What I am arguing is that this shift will entail new norms about what people are expected to have (thereby decreasing the means of subsistence). And it will be from this lower basis that the working class will have to fight to increase its standard of living.

This paper has now put forward a theory about two different effects of the displacement of consumption through debt on relative surplus value. In the first effect, workers' bargaining power is decreased, enabling wages to be kept at a level where they can purchase roughly the same amount of commodities as productivity erodes their value. In the second, achieved when this debt encounters a crisis, the increase in relative surplus value is achieved by changing the commodities that constitute the means of subsistence.

As both are means of increasing relative surplus value, they can both, therefore, be presented schematically as a move from (2) to (3)[15]:

(2) A— — — —B— — — — — — —C
(3) A— — — B— — — — — — — — —C

Therefore, the displacement of payment caused by working-class debt allows both relative and absolute surplus value to increase. It increases relative surplus value by decreasing the worker's ability to fight for increases in means of subsistence (which, through increases in productivity, are decreasing in value) and ultimately by forcing a decrease in what constitutes the means of subsistence themselves at the moment when workers are collectively forced to begin to pay back their debt. And it increases absolute surplus value by incentivizing the individual worker to take on longer hours to pay back her or his debt. The effect so far can be represented as an increase in absolute surplus value, (1) to (2), and an increase in relative surplus value, (2) to (3), in the following:

(1) A— — — —B— — — —C
(2) A— — — —B— — — — — —C
(3) A— — —B— — — — — — —C

4. The Effect of Interest

Having gone through the effects of the displacement of wages in time engendered by consumer finance, let us now look at how the payment of interest adds to the picture.

At first glance, it is tempting to argue that the extraction of interest itself constitutes exploitation. Indeed, in common parlance, it could be considered to be exploitation due to the social power being used to exact usurious interest rates from the working class. There are certainly arguments to be made that finance is profiting unjustly from this whole process.

But in the Marxian sense, this does not constitute exploitation. Exploitation in the Marxian sense is the production of surplus value (Marx [1867] 1990: 326fn7), and this valorization process is limited to the sphere of production.[16] Finance capital comes in after the production process

[15]Note that these representations are in no way supposed to represent the magnitude of the actual impact of these effects; rather, they are schematic representations designed to illustrate the effect.

[16]"... the valorization process, which is entirely confined to the sphere of production" (Marx [1867] 1990: 302).

(in the sphere of circulation) to extract value from the working class. Interest may be usurious, but it does not directly enter into the process of extraction of surplus value and so does not directly constitute exploitation. None of this, however, entails that interest has no effect on the exploitation of labor in the Marxian sense of the phrase.

What are we to make, therefore, of the value represented by the payment of interest? While finance capital is not making use of workers, it is extracting value from them. A portion of the worker's labor is performed for the finance capitalist instead of for the worker herself or himself. While the repayment of the principal is the repayment of the worker's own consumption, and, therefore, still the worker working for himself or herself, the repayment of interest requires the worker to perform extra labor that produces value for the creditor. This is distinct from the extra labor that workers have to perform to compensate for their debt. In repayment of principal, labor is simply displaced into the future; the worker is still obtaining the proceeds of her or his labor. In repayment of interest, the proceeds of labor go to the financier.

Does this extracted value end up contributing to the profits of the productive capitalist directly? If it could be shown that the profits made by finance ended up in the hands of productive capitalists in some way, perhaps through the ability to provide capital at lower interest rates, then consumer finance could be understood as providing a new means of increasing surplus value at the expense of the value of the means of subsistence. In other words, it would be a convoluted way of increasing surplus value, but through an intermediary. However, since very little lending is performed between finance capital and productive capital,[17] the value obtained through this process would only have a very small role in the increase of surplus value if it has any role at all.

What role then does the extraction of labor though interest perform in the process of valorization? Does it perform a service to the process of valorization? If it does not, it would appear to exist outside of the process of production and employ social power to extract revenue without contributing. Such a conclusion should not appeal to a Marxist, because it implies the existence of a large structure within capitalism that is undermining it by extracting value from the whole system without providing a service to the process of valorization. In this case, it would be extracting value from the worker, which, while not a net loss to a capitalist, is also not, in and of itself, desirable to the capitalist. This is because the extra cost imposed on the worker by finance could (in theory) form the basis for a working-class demand for higher wages, or the provision of cheaper or free provision of public services such as healthcare and education, or other measures allowing a transfer value from the capitalist class to the working class.[18]

Determining whether consumer finance has this effect requires working out where the value allocated to lenders through consumer finance through interest is coming from. After all, if this value is being drawn from surplus value, then the payment of interest has the potential to reverse the gains to surplus value that I have already noted. Clearly, the worker is the one paying interest to the financier but this does not necessarily mean that interest is taken out of the value of the means of subsistence. It would be possible for the payment of interest to be taken out of surplus value if capitalists had to pay workers more, so that they could pay the interest while keeping their standard of living constant. If that were to be the case, total surplus value would decrease.

It would be theoretically possible for the increase in indebtedness to be accompanied by a compensating increase in wages or social services fought for by the working class. What we have

[17]This is because productive capital is financing itself primarily through retained profits (Lapavitsas 2009; US Senate Committee on Finance 2011: 5–6). Banks, however, have largely shifted to financing households (Lapavitsas, 2013, chapter 8).

[18]This is where Lapavitsas (2009; 2013) and I differ. While for him it is unproblematic that finance capital is able to engage in expropriation from the working class that is independent of surplus value, in my view, such expropriation can only take place on a broad scale if it helps increase or at least does not decrease the ability of capital to extract surplus value.

seen empirically already, though, is that wages have not increased, even though debt has. Therefore, in actual history, the payment of interest has very clearly come directly out of the worker's means of subsistence.

Furthermore, this state of affairs is suggested as very likely in the theory I have just constructed for the operation of working-class debt. It is to be expected that workers will not be able to increase their wages to compensate for this interest, as some of the main effects I have noted of the increase in working-class debt are precisely a weakening of working-class power. Moreover, the framing of consumer finance as personal finance management absolves the employer of a responsibility to finance it. It is not absolutely impossible that the working class could obtain higher wages to keep up with debt, but the argument in this paper suggests that it is very unlikely. The theory entails that, generally, the payment of interest is a deduction from the worker's means of subsistence.[19] This effect can, therefore, be represented as the following (with IB representing the portion allocated to the finance capitalist consistently in the form of interest):

(3) A— — —B— — — — — — — —C
(4) A— —I—B— — — — — — — — —C

The decline in bargaining power, therefore, allows the productive capitalist's profits to be sheltered from the extra costs entailed by the payment of interest. But if this were all that was happening, then consumer finance would at best have a neutral effect on surplus value, and would likely pose a long-term risk of contributing to the immiseration of the working class and eventually helping spur resistance. The analysis of this paper allows us to say more, however. Consumer finance does, in fact, increase surplus value. This is achieved through the decline in bargaining power allowing the stagnation of the real wage and the erosion of its value due to productivity, the decrease in the commodities constituting the means of subsistence when principal must be repaid, and the increase in the working day that are argued for in this paper. Interest, if anything, further strengthens some of these effects as the extra revenue being extracted increases workers' desperation to keep their jobs and their motivation to try to work more to repay their debt.

To sum up, therefore, I end with one final schematic representing the argument laid out in this paper. I move from (1) to (4) through an increase in relative surplus value, an increase in absolute surplus value, and a payment to the finance capitalist to make this all possible.

(1) A— — — —B— — — —C
(2) A— — — —B— — — — — — —C
(3) A— — —B— — — — — — — — —C
(4) A— —I—B— — — — — — — — —C

Conclusion

The purpose of this paper is to argue that an understanding of how consumer finance relates to labor exploitation is essential for a Marxist understanding of this form of finance. I argue that consumer finance increases labor exploitation in three ways. The first is to encourage workers to work longer to try to repay their debt. The second is to reduce the bargaining power of the working class, both by making workers more desperate to hold on to their employment to repay their debt and by providing debt as an individualized and easier, but ultimately self-defeating,

[19]I would like to note that I am not arguing that it is unlikely that the working class will seize upon increased indebtedness as a justification for increasing wages. Particularly in the aftermath of this crisis, as workers' wages are decreasing and part-time jobs are replacing full-time jobs, the general indebtedness of the working class could be used as an argument that a living wage needs to be higher now for that reason.

alternative to class struggle to provide themselves with the means of subsistence. And the final way is by forcing the working class to accept a lower level of means of subsistence when the increasing debt can no longer be sustained and must be repaid.

The relationship between consumer finance and the exploitation of the working class has some very important implications for the economic system of capitalism, as we have seen. I have not, however, gone into the full extent to which this is the case. Most notably, it has implications for the long-term evolution of capitalism and for a causal explanation of the crisis of 2008 that I have not had the space to investigate. Furthermore, while I have attempted to indicate some evidence for my theory, the main purpose of this paper is to lay out the theory. More empirical research would need to be done to substantiate the theory, so this paper should be understood as suggesting the beginning of a larger research agenda.

Declaration of Conflicting Interests

The author declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author received no financial support for the research, authorship, and/or publication of this article.

References

Aguiar, M., and M. Bils. 2011. *Has Consumption Inequality Mirrored Income Inequality?* (NBER Working Paper No. 16807). Cambridge, MA: National Bureau of Economic Research.

Attanasio, O., E. Hurst, and L. Pistaferri. 2012. *The Evolution of Income, Consumption, and Leisure Inequality in the United States, 1980–2010* (NBER Working Paper No. 17982). Cambridge, MA: National Bureau of Economic Research.

Bureau of Labor Statistics. 2015. *Usual weekly earnings technical note*. http://www.bls.gov/news.release/wkyeng.tn.htm.

Carling, A. 2002. Analytical Marxism and the debate on social evolution. In *Historical Materialism and Social Evolution*, ed. P. Blackledge and G. Kirkpatrick, 98–128. New York: Palgrave Macmillan.

Cohen, G. A. [1978] 2000. *Karl Marx's Theory of History: A Defence*. Oxford: Oxford University Press.

Dos Santos, P. L. 2009. On the content of banking in contemporary capitalism. *Historical Materialism* 17 (2): 180–213.

Fisher, J., D. Johnson, and T. Smeeding. 2013. Measuring the trends in inequality of individuals and families: Income and consumption. *American Economic Review* 103 (3): 184–88.

Galinsky, E., J. Bond, and E. J. Hill. 2004. *When Work Works, Workplace Flexibility in the United States: A Status Report*. New York: Families and Work Institute.

Greenhouse, S. 2009. *The Big Squeeze: Tough Times for American Workers*. New York: Anchor Books.

Harvey, D. 2010. *The Enigma of Capital: And the Crises of Capitalism*. New York: Oxford University Press.

Lapavitsas, C. 2009. Financialised capitalism: Crisis and financial expropriation. *Historical Materialism* 17 (2): 114–48.

———. 2013. *Profiting without Producing: How Finance Exploits Us All*. New York: Verso.

Lee, J., P. Rabanal, and D. Sandri. 2010. *U.S. consumption after the 2008 crisis*. International Monetary Fund. https://www.imf.org/external/pubs/cat/longres.aspx?sk=23469.0.

Marx, K. [1867] 1990. *Capital*, *Volume 1*. St. Ives: Penguin Classics.

———. [1894] 1991. *Capital*, *Volume 3*. St. Ives: Penguin Classics.

McNally, D. 2011. *Global Slump: The Economics and Politics of Crisis and Resistance*. Oakland: PM Press.

Meyer, B., and J. Sullivan. 2013. Consumption and income inequality and the Great Recession. *American Economic Review* 103 (3): 178–83.

Mishel, L., J. Bernstein, and S. Allegretto. 2007. *State of Working America 2006/2007*. New York: Cornell University ILR Press.
Mishel, L., and H. Shierholz. 2013. *A Decade of Flat Wages: The Key Barrier to Shared Prosperity and a Rising Middle Class*. Washington, DC: Economic Policy Institute.
Steindel, C. 2007. How worrisome is a negative saving rate? *Current Issues in Economics and Finance* 13(4). http://www.newyorkfed.org/research/current_issues/ci13-4.html.
U.S. Senate Committee on Finance. 2011. *Testimony of Mihir A. Desai before the U.S. Senate Committee on Finance and the U.S. House Committee on Ways and Means*. http://www.finance.senate.gov/hearings/hearing/?id=77064ffc-5056-a032-52ea-6379dcda3ab3.

Author Biography

Luke Lattanzi-Silveus is a DPhil candidate in Politics at the University of Oxford. His research focuses on methodological questions in Marxist theory, with a particular focus on Marxist economics and historical materialism.