Marx's *Critique of* (Ricardian) *Political Economy*, the Quantity Theory of Money and Credit Money[*]

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Abstract

The Marxist concept of value is very frequently equated, whether explicitly or merely tacitly, with the corresponding Ricardian concept of "labour expended". This paper argues that unlike the Ricardian theory of value, the Marxist theory of value is a *monetary theory*. In the Marxist system, the value of a commodity is expressed not through itself but through its distorted forms of appearance, in prices. Moreover, it cannot be defined in isolation, but *exclusively in relation to all other commodities*, in a process of exchange. In this relation of exchange value is materialised in money. The essential feature of the "market economy" (of capitalism) is thus not simply commodity exchange but monetary circulation and money. Commodity exchange *presupposes* thus the (positive) prices of all commodities involved. In other words, prices are *not determined after* the establishment of a non-monetary equilibrium system of barter between "production sectors", like the Sraffian "linear production systems". On the contrary, barter is for Marx non-existing, as all exchange transactions are made up of separate acts of exchange of commodities with money.

Prices are determined in the process of capitalist *commodity* production, i.e. in a historically unique process of (capitalist) production-for-the-exchange, a process which unites immediate production with circulation. Money is thus conceived as *the adequate form of appearance of capital,* that is a material embodiment of abstract and therefore equal human labour, which the capitalist appropriates, and which in the framework of capitalist relations of exploitation is accumulated and functions as a "self-valorising value".

Only these Marxian concepts of value and money enable, on the one hand, a radical critique to the Quantity Theory of money, and on the other, an insight into the process of credit-money formation, in the framework of the *reproduction and circulation of the total social capital*.

PART I
Marx versus Ricardo
(The Marxian Theory of Value)

1. Introduction

Marx formulated after 1857 a new labour theory of value. He placed particular emphasis on the question of the commensurability of "economic goods" which take the form of commodities. He preceded to construct around that idea of value the entirety of his theoretical system as a logically consistent chain of analyses and concepts.

Nevertheless, the Marxist concept of value is very frequently equated, whether explicitly or merely tacitly, by Marxist and non-Marxist economists, with the corresponding Ricardian: explicitly when it is stated that Marx as an economist was a Ricardian -this is the position usually taken by non-Marxist economists studying the history of economic theory- implicitly when the Marxist theory of value is confined to theses (and their grounding) encompassed by or derived directly from the Classical School of Political Economy, and it is also the view taken by many Marxist economists[1].

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[*] The paper is a summary of Chapters 2 & 3 of the book: Milios, J., D. Dimoulis & G. Economakis, *Karl Marx and the Classics. An Essay on Value, Crises and the Capitalist Mode of Production.* London: Ashgate. (Forthcoming, ISBN 075461798X).

[1] However there are also Marxists who expressly declare that Marx retained Ricardian economic theory and simply appended it to the dialectical philosophy of Hegel. The distinguished Italian Marxist Antonio Gramsci wrote characteristically: "It seems to me that in a certain sense we can say that the philosophy of

In the present section of the paper referring to Marx's theory of value I will place particular emphasis on what distinguishes it from the classical theory of value. From this starting point we can go on to present other significant developments in Marxist economic theory, which touch on issues such as the role of technological innovation in the productive process, economic crises and the role of the money and credit in the process of expanded reproduction of the capitalist system.

2. The Classical concept of value

Marx began to occupy himself systematically with Political Economy just at the time that the Classical School had completed its historic cycle, that is to say when on the one hand its basic analyses (Smith, Ricardo) had been formulated, and on the other the classical theory of value had begun to be disputed from a theoretical standpoint (as it appeared incompatible with the existence of a uniform rate of profit in the capitalist economy), but also for political and other reasons.

The concept of value in its Smithian version of "labour expended" (on the production of a commodity), or in its relevant Ricardian version, can be summarised in the following theses:

> *A commodity comprises use value and exchange value. What is interesting from an economic viewpoint is exchange value, which is determined independently of use value. Exchange value as a relation of commodity exchange expresses the value inherent in commodities* (**Thesis 1**).
>
> *The value of a commodity (as a characteristic or property of the "economic good") derives from labour and (quantitatively) is proportional to the labour time which has been expended for its production.* (**Thesis 2**).

Theses 1 and 2 are necessary conclusions from an analysis which holds that value is inherent in commodities (giving rise to Smith and Ricardo's notion of the inherent value of money[2] which is taken to be a commodity that simply facilitates the exchange of all other commodities). It is therefore considered that value is a *property* of all commodities (a qualitative feature of them), which derives from the fact that they are the products of labour. Consequently (following Thesis 2), *labour secures commensurability between commodities: their common quality is that they are the products of labour*. ("Labour [is] the real measure of the exchangeable value of all commodities (...) Labour alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only" -Smith, I.v.4&7).

The following two *theses are logical consequences of Thesis 1 and Thesis 2*, within the framework of the Classical System:

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praxis (meaning Marxism) equals Hegel + David Ricardo (…) Ricardo is to be conjoined with Hegel and Robespierre" (Gramsci 1977, 1247-8).

[2] "By the money-price of goods, it is to be observed, I understand always the quantity of pure gold or silver for which they are sold, without any regard to the denomination of the coin" (Smith, I.v.42). It is on this notion that Smith bases his view of the "neutrality of money" as a medium which simply facilitates the exchange of one commodity with another: "The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either." (Smith, II.ii.86). Consequently, it is the exchange of one commodity with another (on the model of non-monetary exchange - barter), not the circulation of money, that is seen as the essential characteristic of the "market economy". Also see below.

> The relative values, as *relations of exchange* between commodities derive from their (inherent) values, as the ratio of (the quotient of) their values (**Thesis 3**).[3]
> The incomes of the capitalist and the landowner derive from the value of the totality of commodities produced by the labourer in a certain period of time. Otherwise formulated, *the possessing classes appropriate a part of the value produced by the labourer* (**Thesis 4**).[4]

Those who maintain that Marx is an exponent of the Classical theoretical system consider that the four above mentioned Classical theses are also a distillation of the Marxist theory of value. According to these conceptions Marx "appended" to the abovementioned four theses a) the observation that these theses apply only in the context of certain historical epochs, which resulted from class-struggle, b) the statement (which was in any case shared by the British socialists of the first half of the 19th century) that the incomes of the possessing classes (Thesis 4) derive from a relation of exploitation which will be abolished by socialism, c) the qualification that (for Thesis 4 to apply) the worker's wage (and that which the worker sells on the labour market) cannot entail (or in other words be) "labour" but must be the capacity to work or labour power.[5]

If this were indeed the case, then we would be obliged to agree with Schumpeter, who maintained: "Marx must be considered a 'classic' economist and more specifically a member of the Ricardian group" (Schumpeter 1994, 390). This conviction is shared by almost all Neoclassical historians of economic theory. Thus Samuelson argued that we have to see Marx as "a minor post-Ricardian", while G.D.H. Cole, in a more nuanced treatment, wrote of the line of argument developed in the first volume of *Capital*: "Not one single idea in this theory of value was invented by Marx, or would have been regarded by him as an original contribution of his own to economic science. Marx merely took over this conception from the classical economists (...) There is nothing specifically Marxian about Marx's theory of value; what is novel is the use to which he puts the theory, not the theory itself" (Introduction to the Everyman edition of *Capital*, Vol. 1, London, xxi. Both citations in Meikle 1995: 185).

Before answering the question of how far Marx shares the assumptions of the four theses of the Classical School we have summarised above, we should perhaps mention another attempt at extrication from the theoretical crisis of the Classical School that was undertaken before the crystallisation of the Marxist outlook: the perception of value as a mere *relation* of exchange *between commodities*.

3. The structure of the Marxian argument

In the great self-published work, Volume 1 of *Capital*, Marx devotes Part One, which is 120 pages long (Penguin edition) to an analysis of value. Of these the first seven (125-31) are devoted to formulating and clarifying Theses 1-3. The following six pages (132-37) are devoted to a formulation of the concept of *abstract labour.* Thesis 4 is not examined in this section of *Capital*, but is introduced, in the context of what has already been analysed, in Part Two of the work. The 107 pages which follow the analysis of abstract labour (138-244) are concerned with exchange value, that is to say with value as a *relation* of exchange, and in this framework (i.e. not that of Theses 1-3) they arrive at the question of money.

If we wish to take Marx seriously, we must therefore see what is said in these 6 + 107 pages beyond the Theses 1-3 of the first seven pages. To put the question another way, what is

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[3] "The value of a commodity, or the quantity of any other commodity for which it will exchange, depends on the relative quantity of labour which is necessary for its production, and not on the greater or less compensation which is paid for that labour" (Ricardo, *Principles...*, chapter 1).

[4] "As soon as land becomes private property, the landlord demands a share of almost all the produce which the labourer can either raise, or collect from it. His rent makes t*he first deduction from the produce of the labour* which is employed upon land. (...) Profit, makes a *second deduction from the produce of the labour* which is employed upon land" (Smith, I.viii.6 & 7, emphasis added).

[5] This in any case emerges from the *Classical thesis* that the value of the wage ("of labour") is equal to the value of the worker's necessary means of subsistence. This magnitude is consequently something entirely different from the quantity of labour expended by the labourer and is not regulated either by the intensity or by the productivity of his labour.

involved is how the Classical concepts of Theses 1 - 3 *are theoretically recast* by the 6 + 107 pages which follow. Because if Marx were a Classical (Ricardian) economist, if he had no wish to assign a different meaning to the Classical Theses 1 - 3, he would have had no reason to append so many additional pages to the crystal-clear formulations of these Theses in the first seven pages of his work. Crystal-clear formulations such as the following:

"If then we disregard the use-value of commodities, only one property remains, that of being products of labour. (...) The common factor in the exchange relation, or in the exchange value of the commodity, is therefore its value (...) How, then, is the magnitude of this value to be measured? By means of the quantity of the 'value-forming substance', the labour, contained in the article" (128-9).[11]

4. Abstract labour

That "wealth", that is to say everything that is useful, is mostly a product of labour applies not only to capitalism but to every mode of production. Every mode of production presupposes the *worker-producer* and his (her) particular relationship with the *means of production*, from which can be deciphered the particular structural characteristics of the community in which that mode of production is predominant. However, as stressed by Marx on the very first page of *Capital*, it is only in "those societies in which the capitalist mode of production prevails", that wealth "presents itself as 'an immense accumulation of commodities'" (125).[11a] It is thus obvious that it is not because it is a product of labour that wealth is a commodity, but because that labour is carried out within the framework of the capitalist mode of production and so is subjected to the standardisation and uniformity that is inherent in that mode of production. To put it another way, *value* is a manifestation of the structural characteristics of the capitalist mode of production and not a manifestation of labour in general.[12]

It is therefore clear that Marx conceived of value as a historically specific *social relation*: Value is the "property" that products of labour acquire in capitalism, a property which acquires material substance, that is actualised, in the market, through the exchangeability of any product of labour with any other, i.e. through their character as commodities bearing a specific (monetary) price on the market. From the first text in the period under examination, the *Grundrisse* (1857-8)[13], to Capital (1867)[14], Marx insisted that value is an expression of relations exclusively characteristic of the capitalist mode of production. Thus, wherever in his work he introduces the concept of "generalised commodity production" (such as for example in the first section of the first volume of *Capital*) so as to undertake a description on the basis of that value, in reality he is shaping a preliminary intellectual construct (which to some extent

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[11] The quotation or references to page number alone come from Marx 1990 [*Capital*, Vol. 1]. Referring to Bailey, Marx states: "S. Bailey (...), despite the narrowness of his own outlook he was able to put his finger on some serious defects in the Ricardian theory, as it is demonstrated by the animosity with which he was attacked by Ricardo's followers (...)" (155).

[11a] "The specific economic form in which unpaid surplus labour is pumped out of the direct producers determines the relationship of domination and servitude, as this grows directly out of production itself and reacts back on it in turn as a determinant (...) It is in each case the direct relationship of the owners of the conditions of production to the immediate producers (...) in which we find the innermost secret, the hidden basis of the entire social edifice, and hence also the political form of the relationship of sovereignty and dependence, in short, the specific form of state in each case" (Marx 1991: 927). Also, concerning wealth being under all social regimes a product of labour, Marx notes: "The middle ages could not live on Catholicism, nor could the ancient world on politics. On the contrary, it is the manner in which they gained a livelihood that explains why in one case politics, in the other case Catholicism, played the chief part" (176).

[12] "In the ancient Indian community labour is socially allocated without its products becoming commodities" (MEGA II.5: 22). See also Marx 1990: 170.

[13] "The concept of value is entirely peculiar to the most modern economy, since it is the most abstract expression of capital itself and of the production resting on it. In the concept of value, its secret is betrayed (...) The economic concept of value does not occur in antiquity" (Marx 1993 [*Grundrisse,*], 776 ff.).

[14] "*The value form of the product of labour* is the most abstract, but also the *most general form* of the bourgeois mode of production as a particular kind of social production of a historical and transitory character" (174).

corresponds to the superficial "visible reality" of the capitalist economy[15]), which will help him to come to grips with capitalist production, and subsequently construct his concept of it. In no way does he describe a (pre-capitalist) community of simple commodity production, as many Marxists have imagined: "Had we gone further, and inquired under what circumstances all, or even the majority of products take the form of commodities, we should have found that this only happens on the basis of one particular mode of production, the capitalist one" (273).

Value is thus not an "essence" infused by the individual worker always and everywhere, i.e. under any imaginable historical conditions, into the products of his labour. [Moreover, under capitalism it is not only the products of labour that are commodities but also the labour power of working people, who during the course of historical development have forfeited all their ownership rights over the means of production (at the same time as being liberated from every unmediated form of personal dependency) and are obliged to sell their labour power to capitalists (owners of the means of production) as their sole recourse for obtaining the necessary means of subsistence. Marx however chooses not to speak of that issue until Part 2 (Chapter 4) of the first volume of *Capital*].

Marx approaches the problem by way of the question of commensurability. If under non-capitalist modes of production the "market economy" is absent and the *products of labour* are not exposed to relations of equivalence-for-exchange, then it is pointless arguing that under capitalism they become economically commensurable because they are products of labour. Put in another way, where Classical Political Economy believed that it was giving a conclusive answer (qualitatively different objects –use values– are rendered economically commensurate –exchangeable– because they are all products of labour), Marx simply sees a question which has to be answered: How and why can qualitatively different kinds of labour be made equivalents?

"Let us suppose that one ounce of gold, one ton of iron, one quarter of wheat and twenty yards of silk are exchange-values of equal magnitude (...) But digging gold, mining iron, cultivating wheat and weaving silk are qualitatively different kinds of labour. In fact, what appears objectively as diversity of the use-values, appears, when looked at dynamically, as diversity of the activities which produce those use-values" (Marx 1981: 29).

For the riddle of the equivalence of different kinds of labour to be solved, what must be comprehended is the *social character of labour under capitalism*: The capitalist organisation of production and the resultant social division of labour is underpinned by the direct (institutional) independence of each individual producer (capitalist) from all the others. Nevertheless, all these individual productive procedures are linked indirectly between themselves through the mechanism of the market, since each of them produces not for himself or for the "community" but for exchange on the market, for the rest of society, whose economic encounter with him takes place only in the market-place. This procedure imposes an increasing social (capitalistic) uniformity on all individual productive activities precisely through generalised commodity exchange and competition between individual commodity producers (capitalists).

Marx defines this procedure of social homogenisation of individual labour procedures and productive processes through introduction of the term *abstract labour*. Labour has a dual nature in the capitalist mode of production – on the one hand it is concrete labour (labour which produces a concrete use value, as in any mode of production) and on the other it is at the same time abstract labour (labour in general), *labour which is from the social viewpoint qualitatively identical.* From this stem the overall commensurability and exchangeability of the products of labour, i.e. that they are constituted (produced) as commodities: "The labour contained in exchange-value is abstract universal social labour, which is brought about by the universal alienation of individual labour" (Marx 1981: 56-7). This means that "every commodity is *the* commodity which, as a result of the alienation of its particular use-value, must appear as the direct materialisation of universal labour-time" (Marx 1981: 45). The expenditure in abstract labour (labour in general) or general labour time, thus regulates the magnitude of the value in the commodities.

[15] "The simple circulation is mainly an abstract sphere of the bourgeois overall production process, which manifests itself through its own determinations as a trend, a mere form of appearance of a deeper process which lies behind it, and equally results from it but also produces it –the industrial capital" (MEGA II.2, 68-9).

In Vol. 1 of *Capital* the analysis of abstract labour takes up no more than seven pages (131-37), in part because Marx had placed emphasis on that issue in *A Contribution to the Critique of Political Economy*. Nevertheless, he hastens to declare that he is proud of the formulation of this concept (which in the course of outlining his theory in *Capital* represents his first substantial differentiation from the Ricardian system), a declaration the like of which we would probably find no more than once or twice in all the rest of his writings.

"I was the first to point out and examine critically this twofold nature of the labour contained in commodities" (132).

Abstract labour does not "emerge" from the concrete: it is the historically specific property of *all* labour under capitalism. Thus it is not the mechanisation of production and the de-specialisation of the worker that transform useful labour into abstract labour, as certain Marxists maintain. This assertion arises from a category confusion (from the inadmissible conjunction of the two sides of the semantic gap between concrete and abstract labour), because concrete-natural labour as a distinct concept can in no way be reduced to abstract labour or constitute the content of exchange value: Abstract labour is a property of *every (concrete) act of labour under the capitalist mode of production*, i.e. an expression of the particular form of social arrangement that characterises that (and only that) specific mode of production, irrespective of whether the work in question is simple or more complex and requiring a high degree of specialisation.[16]

The problem of social homogenisation of labour to which one is referred by the concept of abstract labour is also different from the problem of "quantitative correspondence" of work of differing degrees of intensity, specialisation and productivity. For one hour of the work of an engineer to be able to correspond (quantitatively) to *n* hours of the work of an unskilled labourer, the two types of work must already constitute "qualitatively similar" (i.e. *abstract*) labour. This is something that empiricism (even in its Marxist variants, see Howard/King 1985, Rosdolsky 1969) will never perceive.

In conclusion: The products of labour are commodities, hence values and exchange values, not simply because they are products of labour but because they are products of abstract labour, i.e. "capitalist labour" (labour which is performed under capitalist conditions, within the framework of the capitalist mode of production). Abstract labour produces the value of commodities, which constitutes their common measure (securing the relationship of commensurability), since value lacks every predicate beyond that of size.[17]

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[16] A characteristic instance is that of Rosdolsky. In his book *The Making of Marx's Capital*, which had a significant influence on post-World War II Marxist theoretical analysis, he maintains that decline from the "craftsmanship" of the pre-capitalist artisan led to concrete labour becoming "abstract labour". He writes: "Marx accepted the thesis of Ricardo, which is confirmed by the workings of the market, that what is involved is a reduction of specialised labour to unspecialised." (Rosdolsky 1969, 609. Also see the English translation by P. Burgess, London 1977, 510 ff.).

[17] "All labour is expressed as equal human labour and therefore as labour of equal quality" (152). By contrast Classical Political Economy never grasped the concept of abstract labour. It stuck to the empiricist inference that for there to be exchange there must be commensurability and that labour (although of a differing "quality" of usefulness in each case) creates this commensurability. As Meikle observes: "Ricardo, for instance, at the beginning of chapter 1, section 2 of his *Principles*, seems about to recognize the problem of the incommensurability of labours: 'In speaking, however, of labour, as being the foundation of all value (...) I am not be supposed to be inattentive to the different qualities of labour, and the difficulty of comparing an hour's or a day's labour, in one employment, with the same duration of labour in another'. Ricardo appears to be about to address matters of quality, intention, and end, which might lead into consideration of the problem of commensurability. But in the next sentence he changes direction: 'The estimation in which different qualities of labour are held, comes soon to be adjusted in the market with sufficient precision for practical purposes, and depends much on the comparative skill of the labourer, and the intensity of the labour performed'. If he had at first got the matters of quality, end, and commensurability in his sights, which is at best doubtful, he vees away from it in his second sentence (...)" (Meikle 1995: 188). On the same question Smith wrote: "But it is not easy to find any accurate measure either of hardship or ingenuity. In exchanging, indeed, the different productions of different sorts of labour for one another, some allowance is commonly made for both. It is adjusted, however, not by any accurate measure, but by the higgling and bargaining of the market, according to that sort of rough equality which, though not exact, is sufficient for carrying on the business of common life" (Smith I.v.4).

Here it is worth noting two points:

a) Abstract labour (and consequently "abstract labour time") is not a straightforward (empirically verifiable) property of labour but an "abstraction", i.e. a concept which renders comprehensible the process of social homogenisation of labour *under the capitalist mode of production*: "Universal labour-time itself is an abstraction which, as such, does not exist for commodities" (Marx 1981: 45). That which empirically exists is merely the specific commodities which are bought and sold on the market (and so exchanged, with money playing the role of intermediary).

b) Abstract labour, as the concept which conveys the specifically social (capitalist) character of the labour process, does not have to do with each separate productive procedure but with the *social interrelation of all* the separate, institutionally unrelated, *capitalist productive processes*, as this interrelation reveals itself in the market-place: "Social labour-time exists in these commodities in a latent state, so to speak, and becomes evident only in the course of their exchange (...) Universal social labour is consequently not a ready-made prerequisite but an emerging result" (Marx 1981: 45).

These two issues suggest why the whole weight of the analysis must be placed on exchange value, i.e. on the *manifestation* of value as *exchange value* (the "form of appearance" of value) and this is where Marx places it: he does not close his analysis of value with the concept of abstract labour but on the contrary devotes by far the greatest part of his analysis (107 of the 120 pages) to exchange value, or value as an exchange relation between commodities.

Exchange value is the sole *objective materialisation* (form of appearance) of value. In *Capital* Marx introduces his readers to these questions through the following phrase:

"The reality of the value of commodities differs in this respect from Dame Quickly, that we don't know 'where to have it'. The value of commodities is the very opposite of the coarse materiality of their substance, not an atom of matter enters into its composition. Turn and examine a single commodity, by itself, as we will, yet in so far as it remains an object of value, it seems impossible to grasp it. (…) *Value can only manifest itself in the social relation of commodity to commodity*. In fact we started from exchange-value, or the exchange relation of commodities, in order to get at the value that lies hidden behind it. We must now return to this form under which value first appeared to us" (138-39, emphasis added).

Marx perceives that abstractions alone do not constitute concepts of the empirically perceptible objects of reality. For the process of intellectual/scientific appropriation of reality to be consummated a second step is needed. The "return" from abstraction to the concrete object.

There thus emerges a theoretical procedure by means of which the *scientific concept of the concrete* is constructed. This is a concept which conveys the causal relationships that regulate reality without ever themselves appearing as such in the realm of reality and of appearance, since they do not belong to the realm of empirically tangible entities and phenomena. The transition from the abstract to the concrete object of scientific method is thus radically distinct from the method of rationalisation (but also from the way in which Hegel employs abstraction) because it does not constitute an autonomous process but the second phase of a process of conceptual decoding of the concrete (after the construction of the abstraction, the return to the concrete by means of it).

Through this theoretical method abstract categories are generated which constitute conceptual determinants of concrete (contemporary or historical) reality. Thus, for example, the Marxist concept of capital "does indeed appear *only as an abstraction*; not an arbitrary abstraction, but an abstraction which grasps the specific characteristics which distinguish capital from all other forms of wealth – or modes in which (social) production develops" (Marx 1993: 449).

This methodological approach represents a break with the empiricism of Classical Political Economy, since it is grounded on the position that empirical observation does not suffice for comprehension of the causality which governs economic processes or the fact that the "essence" cannot be expected to manifest itself on the plane of immediate experience.[18] To

[18] This means that while in the empiricist (inspired by Hume) Classical system the "natural or central prices" are values, in the Marxist system these "central prices" *cannot be* values. In fact, as we shall see subsequently, in Marx's system "central prices" are *production prices*.

quote Marx: "the form of appearance (…) makes the actual relation invisible, and indeed presents to the eye the precise opposite of that relation. (…) A scientific analysis of competition is not possible, before we have a conception of the inner nature of capital, just as the apparent motions of the heavenly bodies are not intelligible to any but him, who is acquainted with their real motions, motions which are not directly perceptible by the senses" (Marx 1990: 680, 433).

The conclusion that may be inferred from the above theses is that the value of commodities never appears as such, as an immediately perceivable (empirically observable) and thus measurable entity. It finds expression only through the (distorted) forms of its appearance, i.e. commodity prices. These forms of appearance of value do not, as we have argued, relate to each commodity separately, that is to say, it is not a matter of isolated, of *initially mutually independent* expressions of the value of each commodity. The forms register the *relationship of exchange* between each commodity and *all other* commodities. They constitute material expression of the social homogeneisation of labour in the capitalist mode of production (as delineated through the concept of *abstract labour*).

In order to be able to decipher the form of appearance of value as money, Marx starts from the scheme of simple barter relations, in which a quantity of a commodity is exchanged for a different quantity of another commodity. The Classical economists believed, as we have said, that all market transactions can be reduced to simple barter relations, which are merely facilitated by money.[19]

5. The value form and money

5.1 "The simple, isolated or accidental form of value"

This form corresponds to the simple case of barter:

x Commodity A = y Commodity B or 20 yards of linen = 1 coat,

of which Marx says that "the whole mystery of the form of value lies hidden in this simple form" (139). It is abstruse because it is simple, yet if deciphered it will reveal the secret of even its most developed configuration, that of money.

This relation does not amount to equality in the mathematical sense or a conventional equivalence but is characterised by a "polarisation", i.e. by the fact that each "pole" of the equality (the linen or –by the same token– the coat) occupies a qualitatively different position and has a correspondingly different function, such that, from a mathematical viewpoint, the converse (permutational) property does not apply [if a=b => b=a]. The linen (commodity A) has the *relative value form*, the coat (commodity B) the *form of equivalent*, which means that "they play two different parts", i.e. while they "belong to and mutually condition each other (…), at the same time, they are mutually exclusive or opposed extremes, i.e. poles of the expression of value" (139-40).

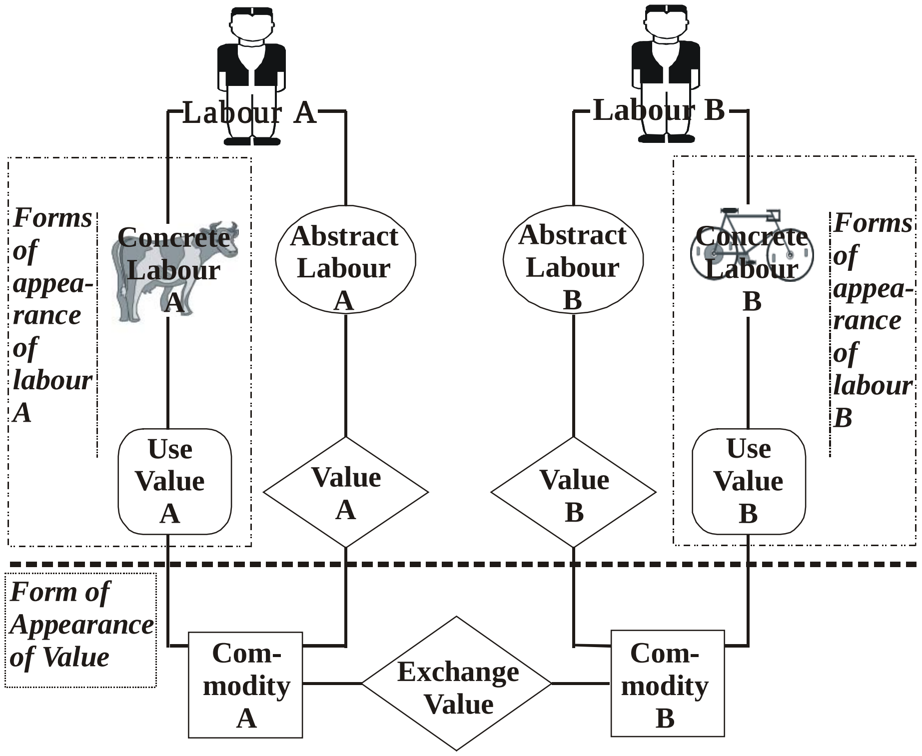
[19] "But when the division of labour first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. (...) In order to avoid the inconveniency of such situations, every prudent man in every period of society, after the first establishment of the division of labour, must naturally have endeavoured to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse in exchange for the produce of their industry (...) In all countries, however, men seem at last to have been determined by irresistible reasons to give the preference, for this employment, to metals above every other commodity. Metals can not only be kept with as little loss as any other commodity, scarce anything being less perishable than they are, but they can likewise, without any loss, be divided into any number of parts, as by fusion those parts can easily be reunited again; a quality which no other equally durable commodities possess, and which more than any other quality renders them fit to be the instruments of commerce and circulation" (Smith, I.iv.2&4).

This polarisation and this difference result from the fact that exchange value (as content or "essence" deriving from capitalistically expended labour) is manifested (i.e., empirically, exists) *only* in the exchange *relation* between commodities, in exchange value. In the simple form of the exchange relation, the equivalent (the coat) constitutes the measure of value of the "relative". In other words the simple form of value tells us that twenty yards of linen *have the value of* one coat. "The value of the commodity linen is expressed by the physical body of the commodity coat, the value of one by the use-value of the other" (143). The reason for this is that the value of linen "must be related to another commodity as equivalent" (148). "The same commodity cannot accordingly appear in the same expression of value in its two forms simultaneously. These two forms are polar opposites and mutually exclusive" (MEGA II.5: 628).

Thus commodity A (relative form) "makes the use-value B into the material through which its own value is expressed" (144). So B, or the coat (equivalent form) becomes the *measure of value* (the *"money"*) of A, of linen. The equivalent (commodity B or the coat), although itself a useful thing, through the process of exchange, functions as a "form of appearance of value", which means that concrete labour embodied in it (coat tailoring work) functions (for the moment only vis a vis the linen) as a manifestation of labour in general, of abstract labour. Value is manifested only through these forms of its appearance: "Within the value relation and the expression of value immanent in it, the abstractedly general [i.e. value] does not constitute a property of the concrete, sensorily actual (i.e. of exchange value) but on the contrary the sensorily actual is a simple form of appearance or specific form of realisation of the abstractedly general (…) *Only the sensorily concrete is valid as a form of appearance of the abstractedly general*" (MEGA II.5: 634, emphasis added). The form of the equivalent, as tangible manifestation of value, is characterised by the following elements: a) Its use value constitutes the form of appearance of value, b) concrete labour (tailoring) constitutes the form of appearance of abstract labour, c) individual labour is manifested as directly social labour.

Another important question concerns the value of the coat or of commodity B (equivalent form). To the extent that the coat remains in the position of the equivalent, its value remains latent, which is to say it "does not exist" in the world of tangible reality, of the forms of appearance: "But as soon as the coat takes up the position of the equivalent in the value expression, the magnitude of its value ceases to be expressed quantitatively. On the contrary, the coat now figures in the value equation merely as a definite quantity of some article" (147). Just as the value of commodity A, i.e. of the linen (relative form) "cannot be related to itself as equivalent, and therefore cannot make its own physical shape into the expression of its own value" (148), so by analogy neither is the coat able to assume any tangible form of expression: "it cannot express its value in its own body or in its own use value (…) it cannot be referred to the (…) concrete labour contained in itself as a simple form of realisation of abstract human labour" (MEGA II.5: 32). If that could happen with the coat, then the same would apply for the linen or for any other commodity and value would be a self-existent manifestation (form of appearance) of labour. The form and content of labour would be identical. Consequently the Marxian system of analysis could be considered synonymous with the Ricardian. But this is not the case.

The following schema reconstructs the simple value form (Altvater et al 1999):



x commodity A = y commodity B

or one unit of commodity A has the value of y/x units of B

5.2 Total or expanded, general and money form of value

From the analysis of the simple value form, Marx now has no difficulty in deciphering the money form. For this purpose he utilises two intermediate intellectual formulas, the *total or expanded* and the *general* form for expressing value.

The first formula connotes an endless series of acts of barter of the kind:

w Commodity A = v Commodity B = x Commodity C = y Commodity D = etc.

It is characterised by two deficiencies, a) that as an overall proposition it is endless and so indeterminate, since it conveys a random selection of successive commodities, in which a commodity may be seen either as a relative value form with a multitude of equivalents or as one of the multitude of equivalents of another commodity occupying the position corresponding to the relative expression of value and b) that it can be seen as a medley of endless sequences of simple value forms: “Firstly, the relative expression of value of the commodity is incomplete because the series representing it is interminable (...) Secondly, it is a many-coloured mosaic of disparate and independent expressions of value. And lastly, (...) we get for each of them [commodities] a relative value-form, different in every case, and consisting of an interminable series of expressions of value” (156).

The second form in this developmental sequence is the general form of value, which is characterised by one and only one equivalent (e.g. of linen) in which all the other commodities express their value. These commodities are thus always in the position of *relative* value. The fabric has come to constitute the *general form of relative value* (Marx 1991: 64). Every other commodity is now excluded from the status of equivalent, which is now occupied only by the general equivalent, the fabric. Given that for all commodities apart from linen fabric a “common form of appearance of value is now applicable, (…) the specific labour materialised in the fabric now applies (…) as a general form of actualisation of human labour, as *labour in general*” (MEGA II.5: 37), and so as a form of appearance of abstract labour. Through the expression of the value of each commodity in quantities of fabric, “the value of every commodity is now not only differentiated from its own use-value, but from all use-values, and is, by this very fact, expressed as that which is common to all commodities. By this form, commodities are, for the first time, really brought into relation with each other as values, or permitted to appear to each other as exchange-values" (158).

Commodities are now exchangeable between themselves not *directly* but only through the general equivalent (of linen fabric). Their social "essence" (that all are products of capitalistically expended labour) is not expressed immediately but with the general equivalent playing the role of *intermediary*: "Commodities do not then assume the form of *direct mutual exchangeability*. *Their socially validated form is a mediated one*. Conversely: through the relation of all other commodities to linen fabric as the form of appearance of their value, the physical form of linen material becomes *the form of direct exchangeability* between these commodities and all other commodities and as such their *direct* or *general social* form" (MEGA II.5: 40). "All types of private labour acquire their *social* character only through *antithesis*, with all of them *equated* with an exclusive variety of private labour, in this case that of linen-weaving. Hence the latter becomes a direct and general form of abstract human labour" (MEGA II.5: 42).

When a commodity on the market definitively adopts the role of general equivalent, the form of the general equivalent leads directly to the money form. That commodity (gold) then becomes money, and the form of the general equivalent is the money form. Nevertheless, as we shall see later when we refer in more detail to the Marxist theory of money, it is no accident that Marx distinguishes the form of the general equivalent from the money form. We shall see, in other words, that he deliberately chose as his initial example a chance commodity (linen fabric) and not gold (money's historical "body") when he introduced the concept of the general equivalent. Money is much more than a commodity playing the role of the general equivalent.

Thus the relation of general exchangeability of commodities is expressed (or realised) only in an indirect, *mediated* sense, i.e. through money, which functions as *general equivalent* in the process of exchange, and through which all commodities express their value. The Marxian analysis does not therefore entail reproduction of the barter model (of exchanging one commodity for another), since it holds that exchange *is necessarily mediated by money*. This amounts to a monetary theory of the capitalist economy (a monetary theory of value) since money is interpreted as an intrinsic and necessary element in economic relations.

Having acquired an exclusive commodity over the expression and measurement of prices (of distorted forms of appearance of value) money itself does not have a price (even if we are speaking of a commodity that has been withdrawn from circulation so as to be able to play the role of money: gold). As Marx puts it: "Money has no price. In order to form a part of this uniform relative form of value of the other commodities, it would have to be brought into relation with itself as its own equivalent" (189). It is the "adequate form of appearance of value, that is a material embodiment of abstract and therefore equal human labour" (184).

To summarise: unlike the Ricardian theory of value, but also the Neoclassical theory, the Marxist theory of value is a *monetary theory*. In the Marxist system the value of a commodity is expressed not through itself but through its distorted forms of appearance in prices. Moreover, it cannot be defined in isolation, but *exclusively in relation to all other commodities*, in a process of exchange. This relation of exchange value is materialised in money. In the Marxist system there cannot be any other "material condensation" of (abstract) labour, any other measure (or form of appearance) of value: "It has become apparent in the course of our presentation that value, which appeared as an abstraction, is only possible as such an abstraction, as soon as money is posited" (Marx 1993: 776). The essential feature of the "market economy" (of capitalism) is thus not simply commodity exchange (as maintained by previous theories) but monetary circulation and money.[20]

[20] In distinction to the Marxian theory, a non-monetary theory of labour value (à la Ricardo) could be reconciled with the neoclassical variant of ordinal utility, as Pareto demonstrated in a critique of what he regarded as the Marxian theory of value, since he too thought that "K. Marx simply follows the theories of Ricardo" (Pareto 1921: 28). He wrote: "If we suppose that the water consumer is a shoemaker paying the water carriers in shoes, what reveals to us the fact of the exchange is the shoemaker's assumption of equality between the effort expended in making a pair of shoes and the deprivation he would experience if left without water, which would be the recompense. And the same applies for the other similar assumption of equality made by the water carriers when they equate the trouble involved in their

From a quantitative viewpoint, the value of a commodity *would be* the quantity of *socially necessary labour* (i.e. of *abstract* labour with socially average characteristics of productivity and intensity) which is expended for its production. Nevertheless, the necessarily distorted form of appearance of all the internal-causal definitions of economic relations results in the formation of relative prices (ratios of exchange of quantities expressed through prices) between commodities which differ from what the relative values between them would be (ratios of exchange in values). Marx nonetheless supposed in the first and second volumes of *Capital* that commodities are exchanged in accordance with their values. In this section of his analysis what chiefly concerned him was to study the causal determinants of the capitalist economy, and in particular capitalist exploitation as the motor of capitalist production and economic growth as well as of the results created by increases in labour productivity. In the third volume of Capital he abandoned this assumption, focusing his analysis on the forms of appearance of capitalist production relations. Here he introduced the concept of *production prices* as the forms of appearance of value which secure the equalisation of the rate of profit for all individual capitals, which become interlinked, through competition, within the framework of a capitalist economy. According to Marx, the price of production constitutes what may be called the "gravitation centre" (or, in a Classical vocabulary, the "natural price") around which the actual market price oscillates. On the contrary, the Classics considered the "natural price" to be identical with the value of the commodity, i.e. they regarded prices and values as commensurable quantities. (See Smith I.vi.15).

What is more important, according to Marx, is that commodity exchange *presupposes* the (positive) prices of all commodities involved. In other words, prices are *not determined after* the establishment of a non-monetary equilibrium system of barter between "production sectors", like the Sraffian "linear production systems" (see below). On the contrary, barter is for Marx non-existing, as all exchange transactions are made up of separate acts of exchange of commodities with money, which means that *commodities are by definition price-carrying products*. Prices are determined in the process of *commodity* production, i.e. in a historically unique process of (capitalist) production-for-the-exchange, a process which unites immediate production (in the narrow sense) with circulation. It is in this sense that, as Rubin (1978: 123) puts it, "exchange is the form of whole production process, or the form of social labour".

Something that perhaps complicates the understanding of Marx's theory of value is that after completion of his analysis of the value form and the money form, and without any warning to the reader, he adopts a simplistic, resembling the Ricardian, approach to value, in order to make easier perceivable the quantitative aspect of his exegesis: he mentions the value of a commodity as if it was in itself an empirically measurable figure, e.g. "value created by n hours of labour of average intensiveness", "forgetting" that the labour deployed in this instance is *abstract labour* (a concept not to be counted among empirically tangible measures), and also ignoring the fact that value can be manifested (appear) only in the form of, i.e. through, the general equivalent – in other words through money and so measured not in hours of labour time but in units of the general equivalent – precisely in units of money.

PART II

transporting a new quantity of water and the inconvenience they would suffer if deprived of shoes (…). In order to come to grips with the theory of Karl Marx, let us acknowledge that this trouble is proportionate to the straightforward task of making the shoes as it is to that of transporting the water. That, however, is not enough. We must also suppose that there is no circumstance (…) that would prevent the shoemakers from changing profession such that it would be indifferent to them whether they should be provided with the commodity directly or through exchange. (…) So, since both instances of inconvenience are calculated on the basis of simple labour, which in any one place is relative, it follows that equal quantities of simple labour are contained in the shoes and the water. We thus have before us the hypothesis of Karl Marx". (Pareto 1921: 34, 35).

Money and Capital
(The Marxian Theory of Money and the Circuit of Capital)

1. Money-mediated exchange

From the above it has become apparent that for Marx value can be expressed (or manifested) only through money, as a "money-mediated" form of appearance registering the general exchangeability of commodities. According to the Marxist approach and in contrast to the Classical and Neoclassical schools, even the most straightforward act, that of exchanging two commodities[21] must be understood as a procedure consisting of two successive monetary transactions, a sale followed by a purchase, in accordance with the formula C-M-C, (where C symbolises the commodity and M the money).

Thus, whereas in "simple commodity production" each sale is carried out with a view to making a purchase, already in this introductory scheme Marx is allowing it to be inferred that on the one hand one may buy without previously selling (an inference which introduces credit as a constitutive element in the "market economy") but also sell without buying ("hoarding" or, in present-day economic terms "saving"). But since there are no grounds for believing that an act of purchase by an economic agent should presuppose the same person selling anything (and conversely that a sale must be followed by the same person purchasing anything), Say's law ceases to apply and it becomes apparent that economic crisis is an inherent potentiality of the "market economy"[22].

In other words, the splitting of the whole business of exchange process into two separate processes is a primary prerequisite for economic crises, which Classical economists (following Say's law) were not in a position to comprehend because they expunged money from their analysis and approached exchange on the basis of a barter model (exchange in kind).

2. Money as a measure (of value) as a medium (of circulation of commodities) and as an end in itself ("money")

Marx initially describes money in the context of its functions as a measure of value (in its form of appearance)[23] as a standard of prices[24] and as a medium of circulation – during the process of exchange, in accordance with the formula C-M-C.[25] In these functions, money serves the purpose of facilitating commodity transactions; it is the *medium* of commodity circulation in the broadest sense of the term. In this sense, these functions of money correspond to the *classic conception of money*, since, as we have said, the Classical School (and for that matter the Neoclassical School also) perceives commodity transactions as actions analogous to barter, which are merely facilitated in a technical sense by money.

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[21] An act during which "all commodities are non-use-values for their owners, and use-values for their non-owners" (179).

[22] "Nothing could be more foolish than the dogma that because every sale is a purchase, and every purchase a sale, the circulation of commodities necessarily implies an equilibrium between sales and purchases. If this means that the number of actual sales is equal to the number of purchases, it is mere tautology (...) No one can sell unless some one else purchases. But no one directly needs to purchase because he has just sold. Circulation bursts through all the temporal, spatial and personal barriers imposed by the direct exchange of products, and it does this by splitting up the direct identity present in this case between the exchange of one's own product and the acquisition of someone else's into the antithetical segments of sale and purchase" (208-9).

[23] "The first main function of gold is (...) to represent their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a universal measure of value (...). Money as a measure of value, is the necessary form of appearance of the measure of value which is immanent in commodities, merely labour-time" (188).

[24] "[Money] is the standard of price inasmuch as it is a fixed weight of metal. As the measure of value it serves to convert the values of all the manifold commodities into prices, into imaginary quantities of gold; as the standard of price it measures those quantities of gold. The measure of values measures commodities considered as values; the standard of price measures, on the contrary, quantities of gold by a unit quantity of gold, not the value of one quantity of gold by the weight of another. In order to make gold a standard of price, a certain weight must be fixed as the unit of measurement" (192).

But Marx's analysis transcends the classic notional framework, as it refers to three additional functions of money: money as a means of hoarding, as means of payment and as "world money". All three of these functions of money according to Marx belong in the same category, denoting the same type of function, which is the function of money "as money". By this Marx means that in all three cases money functions as an *end in itself, not* as *a medium* of commodity circulation:

In the case of hoarding, "commodities are thus sold not in order to buy commodities, but in order to replace their commodity-form by their money-form. From being the mere means of effecting the circulation of commodities, this change of form becomes the end and aim" (227-8).

As a *means of payment* money can be used in all cases where there is a commodity market based not on immediate deposit of money but on an agreement (a contract) of payment at a specific time in the future.[26] Of course, at the prearranged deadline "the means of payment enters circulation (...) after the commodity has already left it" (234). And in this case "money has now become the self-sufficient purpose of the sale" (234). Of course this function of money as a means of payment develops under that form of economy where *money is already an end in itself*: "The movement of the means of payment expresses a social connection which was already present independently" (235). We know from fragmentary comments by Marx in the first three chapters of the first volume of *Capital*, which we are examining here, and also from what follows in the fourth chapter, that we have to do here with the "social connection" of capitalism.

But also in its function as *world money* what predominates is its "function as means of payment in the settling of international balances" and for the "transferring wealth from one country to another" (243).

3. Money as capital

3.1 A question of methodology

Marx's entire analysis of money as an end in itself (as "money") essentially refers to the function it performs as *capital*. Nevertheless, Marx chose to present "*what is value?*" and "*what is money?*" in the first three chapters of *Capital* before formulating the concept of capital and the capitalist mode of production. So, for instance, his treatment of the concept of "money as a means of payment" is necessarily carried out in reference to money's function as loan *capital*, and characteristically Marx in fact states that "the seller becomes a creditor, the buyer becomes a debtor" (233), but without having introduced the concept of interest (precisely because he has not defined what capital, and thus interest-bearing capital, is) although it is indispensable that he should do so for the functions of the creditor and the debtor to be comprehensible.

In the first volume of *Capital*, perhaps the most important section of the theory of money in the capitalist mode of production (money as capital) is contained in Part 2, Chapters 4-6 ("Transformation of money into capital"), where the analysis of money as a means of payment is "deciphered". There we read: "Capital is money, capital is commodities. In truth, however, value is here the subject of a process, in which, while constantly assuming the form in turn of money and commodities, it at the same time changes in magnitude, throws off surplus-value from itself considered as original value, and thus valorises itself independently (...) *The circulation of money as capital is an end in itself*, for the expansion of value takes place only within this constantly renewed movement. *The circulation of capital is therefore limitless* (...) As the conscious bearer of this movement, the possessor of money becomes a capitalist. (...) it is only in so far as the appropriation of ever more and more wealth in the abstract is the sole

[25] "The circulation of money is the constant and monotonous repetition of the same process. The commodity is always in the hands of the seller; the money, as a means of purchase, always in the hands of the buyer. (...) This realisation transfers the commodity from the seller to the buyer and removes the money from the hands of the buyer into those of the seller, where it again goes through the same process with another commodity" (210-11).

[26] "The price fixed by contract measures the obligation of the buyer, i.e. the sum of money he owes at a particular time" (234).

driving force of his operations, that he functions as a capitalist, i.e. as capital personified and endowed with consciousness and a will" (255, 253-4, emphasis added).

We see, then, that money is reduced to *an end in itself* in the economic process when it functions as capital [and that Marx's analysis of money as "money" (an end in itself) has begun to introduce us to this function it has as capital, as is evident in formulations like the following: "as the hart pants after fresh water, so pants his [the bourgeois's] soul after money" (236)].[1]

To come to grips, then, with Marx's analysis of money, it is necessary to define the concept of capital and describe the function of money as capital. Before doing so, however, let us take the liberty of dwelling for a little on the consequences that have arisen vis a vis interpretation of Marx's work from the fact that in *Capital* value and money are initially defined in Chapters 1-3 without any reference to the concept of capital.

In the first three chapters of Volume 1, having chosen not to introduce the concept of capital, Marx to some extent restricts himself to the context of Aristotle's analysis of money, in which the distinction between money as a medium of circulation of commodities (in accordance with the formula C-M-C′ which he himself coined) and its function as an end in itself (in accordance with the Aristotelian formula: M-C-M') was first introduced.

For Aristotle, the essence of commodities is to be found in their use-values, and accordingly that essence is not lost in the course of circulation C-M-C′, since a useful thing (C) which is surplus to our needs is employed for the purposes of acquiring another similarly useful thing (C′). By contrast, in the formula M-C-M′, the useful essence of the thing (C) is transformed into a means for acquiring more money (since M<M′), that is to say, money becomes an end in itself, so that the essence of the goods, and/or the natural purpose of the human activity which produced them, is lost. As Scott Meikle remarks, "this is the main contrast Aristotle draws between the circuit M-C-M′ and C-M-C′. He says that the aim or point of and C-M-C′ lies in the fact that C and C′ are different use-values. The aim is to acquire the specific usefulness of C′ which is needed, and the sale of C is simply a means to that end. Once C′ is acquired in this way, exchange reaches a natural terminus, because the thing acquired now leaves the sphere of circulation of exchange values, and enters the sphere of consumption, in which its use-value is appropriated. But the M-C-M′ circuit has no natural terminus. It has no end outside of circulation. 'Money is the starting point and the goal' of this form of activity, as Aristotle observes (1257^b22 f.), and since there is no difference of quality between one sum of money and another, the only possible difference being one of quantity, this quantitative growth of exchange value in the form of money is the only aim that M-C-M′ can have. But if M can be advanced to become M′, so can M′ be advanced to become M′′, and so on, without limit. Aristotle says of this kind of exchange that 'there is no limit to the end it seeks; and the end it seeks is wealth of the sort we have mentioned (...) the mere acquisition of currency' (1257^b28 f.)" (Meikle 1995: 58-9).[2]

Characteristic of Marx's analysis of money as end in itself (as "money") being a first approximation to the concept of money-capital (money in its function as capital) is the fact that

[1] Unlike for Marx, for Classical Political Economy, perceiving money as it does as a simple *means* of facilitating transactions (which are interpreted as acts of mutual exchange of commodities on the barter model) the purpose of (capitalist) economics cannot be other than the acquisition of useful things (use values), in the final analysis goods for individual consumption: "To maintain and augment the stock which may be reserved for immediate consumption is the sole end and purpose both of the fixed and circulating capitals. It is this stock which feeds, clothes, and lodges the people. Their riches or poverty depends upon the abundant or sparing supplies which those two capitals can afford to the stock reserved for immediate consumption" (Smith II.i.26). Keynes was aware of money's function as an "end in itself" but he did not develop a conception of capital comparable to that of Marx. In contrast to Aristotle, who saw the root of money's function as an end in itself in the inherent qualities of money as such (i.e., ultimately, in the social relations through which it is articulated or which it tends to establish, see Meikle 1995), Keynes sought for the source of money's function as an end in itself in quasi-psychological conceptions of "human nature", in which were grounded both the "marginal propensity to consume" and the "propensity to save" or the "propensity to hoard".

[2] It is recommended that the reader compare the extracts from Aristotle quoted by Meikle to the following formulations by Marx: "The hoarding drive is boundless in its very nature. (...) But at the same time every actual sum of money is limited in amount (...) This contradiction between the quantitative limitation and the qualitative lack of limitation of money keeps driving the hoarder back to his Sisyphean task: accumulation" (230-31).

he chooses not to include in his analysis the Aristotelian formula of M-C-M′, describing the movement of capital as end in itself, until he gets to the fourth chapter of Vol. 1, (where he introduces the notion of capital).

3.2 Theoretical consequences and conclusions

The manner in which Marx presents money (and value) prior to introducing the concept of capital has given rise to two significant instances of theoretical confusion among Marxists.

The *first confusion* is that whereby a distinction is drawn between the theory of value and the theory of the capitalist mode of production, with a more comprehensive content being assigned to the former. According to this conception, value is not a constitutive category of the concept of a capitalist mode of production but rather points in principle to a (supposed) historical epoch of generalised *simple* commodity production preceding capitalism. This means at the same time that value is a concept which (may) pertain to various modes and forms of production. We should bear in mind that Engels himself in his Preface to the third volume of *Capital* hastened to assert that in Volume 1 Marx "takes simple commodity production as [the] historical presupposition" of capitalism, i.e. that he is "proceeding from this basis, to come on to capital - (...) he proceeds precisely there from the simple commodity and not from a conceptually and historically secondary form, the commodity as already modified by capitalism"[3]. This overlooks all those formulations by Marx himself according to which "*the value form of the product of labour* is the most abstract but also the *most universal form of the bourgeois* mode of production" (174, see also footnotes 13-15 of the present section of this study).

Apart from the "delinkage" of the concept of value from the capitalist mode of production and its consideration in relation to a whole host of "commodified" modes and forms of production[4], the introductory reference to value "as such" has *a further consequence* for Marxist theory. It creates the illusion that the first three chapters of Vol. 1 of Capital contain (*can* contain) a consummated and definitive theoretical investigation of the concepts referred to.

This is particularly true of money, which in the context of Marx's original analysis (Chapters 1-3) is defined as the "adequate form of appearance of value, that is a material embodiment of abstract and therefore equal human labour" (184). This approach leaves outside of Marxist theory all of Marx's analysis, above all in the 3rd volume of *Capital*, of the function of money as capital, of the interpretation of interest, etc.[5] We shall return to this question. Let us now proceed to the concept of money as capital.

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[3] Engels in Marx 1991: 91, emphasis added. Also see Hecker 1998: 73ff.

[4] The delinkage is reinforced by the empirical fact of the existence of commodities, money, interest-bearing loans, etc. within the structures of pre-capitalist societies. Nevertheless, no pre-capitalist society has been a society of generalised commodity production, or generalised monetary circulation and extensive credit relations. In other words only capitalism has, or is, a "market economy". Nevertheless, having opted for not yet introducing the concept of capital, in the first three chapters of Volume 1, Marx derives many of the examples he cites from these pre-capitalist forms of money, interest, saving, etc. thus facilitating a misconstrual of the content of his analysis.

[5] A characteristic example of entrapment in the view that there can be a Marxist theory of money without prior formulation of the concept of capital (money as capital) is a 1994 text by Lapavitsas, where we read: "Marx's own theory had a highly structured view of the functions of money (...) His theory started with the essence of money (the 'universal equivalent' or 'independent form of value' (...) From this starting point, three functions were derived in strict logical sequence: measure of value, means of circulation and money as money (which includes the dimensions of money as hoard, as means of payment and as international money)" (Lapavitsas 1994, 449). Following the general rule, the author considers that the first three chapters of Vol. 1 contain the basic components of the Marxist theory of money. Nevertheless, most treatises on Marxist economic theory are completely indifferent to the Marxist theory of money. In other words, they seem not to perceive the monetary character of the Marxist concepts of value and capital, but to accept the Classical dichotomy between the "real" magnitudes and money as a simple means for facilitating the workings of the "real" economy, or even – in a more "Marxist" variant, its "concealment". Note – by way of illustration - the eloquent absence of the Marxist theory of money and capital as money in Sweezy, (1942) Meek (1956), Dobb (1973), Fine & Harris (1979), Howard & King (1985), Catefores (1989). Some other Marxists,, such as Elson (1979) and

Money, functioning as capital, unifies the capitalist production process and the process of circulation, in accordance with the Aristotelian formula M-C-M′ (or M-C-[M + ΔM]). However, unlike in the age of Aristotle, where commerce was a marginal economic activity in the framework of a non-monetary and non-commercial economy (most useful goods were not commodities, so that there could be no question of an exchange of equivalents), within which ΔM could emerge as *direct appropriation of wealth* through exploitation of local peculiarities, or, as Aristotle wrote "through mutual deception" (quoted by Marx 1990:177), in the capitalist mode of production the Aristotelian formula is nothing more than the "outer husk" of the overall process of capitalist production, i.e. the *circuit of (social) capital* (O'Hara 1999):

$$M \text{ -- } C\ (= Mp+Lp)\ [\rightarrow P \rightarrow C']\text{--}M'$$

The capitalist appears on the market as the owner of money (M) buying commodities (C) which consist of means of production (Mp) and labour power (Lp). In the process of production (P), the C are productively used up in order to create an outflow of commodities, a product (C′) whose value exceeds that of C. Finally he sells that outflow in order to recover a sum of money (M′) higher than (M). Thus the "circulation of money leads (...) to capital" (Marx 1993: 776). Money appears to possess "the occult ability to add value to itself " (255). This is particularly so in the case of loan (or interest-bearing) capital, which the banker or finance capitalist lends to the industrial capitalist. The surplus value created in the process of production is then divided into profit and interest, and the latter appears to emerge automatically from the loan capital itself.

Surplus value (s = M′-M) acquired by the capitalists, and, according to the above representing the product of exploitation of the working class by capital (the class of capitalists), is transformed partially into means of private consumption for the capitalists themselves and partially into additional fixed and variable capital (i.e. additional means of production and labour power) for the expansion of production. The latter process (i.e. the conversion of surplus value into capital) is defined as *accumulation*. Through accumulation, the capitalist economy reproduces itself on an expanded scale. (In the special case of non-accumulation, i.e. when all the surplus value goes into the private consumption of the capitalist, we have *simple reproduction*. In Volume two of *Capital*, Marx formulates the conditions of uninterrupted –simple and expanded– reproduction of a pure capitalist economy comprising two sectors, one of which produces means of production for the whole economy, and the other means of consumption for all labourers and capitalists, see Ch. 5).

With the production process consuming (using up) one part of the pre-existing material capital, which is not only replaced by the (gross) product but also increased through invested (capitalised) surplus value, after a certain point the entire material capital becomes a product of (capitalised) surplus value. Surplus value (as the process of capitalist production and capitalist exploitation of labour) is produced by – and also produces – capital.

Surplus-value production is a process of exploitation of the labourers by the capitalist. Marx defines as *exploitation rate* (or surplus-value rate) the quotient s/v (where v is the variable capital advanced by the capitalists to the wage earners). The aim of capitalist production is to increase surplus-value and the rate of exploitation. This is a moment inherent in the capital relation, which shapes the will of its "bearer", the individual capitalist, who functions "as capital personified and endowed with consciousness and a will" (254). Surplus-value increases accruing from a prolongation of the work-day or the intensification of labour are regarded by Marx as production of *absolute surplus-labour*. However, increases in s/v also result from increases in productivity of labour, which suppress the value of unit commodities and consequently reduce nominal wages if real wages remain unchanged (or even increase at rates lower than the increase rates in labour productivity). This process is defined as production of *relative surplus-labour*. From the point of view of prices, (the "adequate form of appearance of value"), absolute surplus-value production designates an increase in the profit share due to reductions of the unit labour costs –in a given technological environment, whereas relative

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Levine (1985) in fact seem to believe that Marx introduced two measures for value, labour time and money.

surplus value production designates profit share increases due to technological change (which lowers both the nominal wage and the constant capital costs).

So according to Marx's theory the capitalist productive process is simultaneously a process of exploitation and domination of the working class by the class of capitalists. The class struggle is an immanent motive force of that process and the object over which the struggle is waged is first of all the magnitude of the capitalist exploitation (increase, stabilisation or curtailment of capitalist exploitation).

There thus emerges the radically amended Marxian version of Thesis 4 of Classical Political Economy (see Chapter 2 Section 1 of this text). Surplus value is not conceived as a simple "subtraction" or "deduction" from the product of the worker's labour but as a social relation, a result of and prerequisite for capitalist exploitation, which necessarily takes the form of (more) money, as the increment in value brought about by uniting the process of production with the process of circulation. The concept of surplus value is inseparable from that of value, since under the capitalist mode of production value is mobilised for the sake of surplus value (money as an end in itself) and is made possible through surplus value. Capital is a "self-valorising value" and "as the dominant subject of this process (...) value requires above all an independent form by means of which its identity with itself may be asserted. *Only in the shape of money does it possess this form*. Money therefore forms the starting-point and the conclusion of every valorisation process" (255).

From the above it emerges that money, to paraphrase a previously quoted extract from Marx, constitutes the most general form of appearance of capital. It is *the adequate form of appearance of value, that is a material embodiment of abstract and therefore equal human labour, which the capitalist has appropriated, and which in the framework of capitalist relations of exploitation is accumulated and functions as a "self-valorising value"*. "Capital essentially produces capital" (Marx 1991: 1020). Capital is therefore not merely "the means of production" in general as held by the Classical and Neoclassical Schools. It is the social relation of capitalistic economic exploitation and domination, which is put in motion by money. *Money* is not a mere "medium" for facilitating economic transactions. It *is the necessary form of appearance of "self-valorising value", of capital*. A highly specific role in the activation of money as capital is played by interest-bearing capital, the operations of which Marx attempts to come to grips with above all in that part of his *Manuscripts 1863-67* which appeared as Part Five of the third volume of *Capital*, particularly in chapters 21-24.

In the Marxist system both value and money are concepts which cannot be defined independently of (or before) the notion of capital. They contain (and are also contained in) the concept of capital. "Value, which appeared as an abstraction, is possible only as such an abstraction as soon as money is posited; this circulation of money in turn leads to capital, hence can be fully developed only on the foundation of capital, just as, generally, only on this foundation can circulation seize hold of all moments of production" (Marx 1993: 776).

4. Marx's critique to the quantity theory of money

4.1 Description of the quantity theory

Even before the formulation of Adam Smith's labour theory of value, the view had been put forward that price levels are determined by the quantity of money in circulation in a country. This idea was first propounded as an interpretation of the price rises that occurred in Europe during the 16th and 17th centuries, since it coincided with a mass influx of precious metals from the new South American mines. At the same time it was the basis for critique of the mercantilist views that "wealth" could be equated with money. If only price levels are regulated by the quantity of money, then this is a question merely of a nominalistic consequence. "Real" wealth consists in commodities' total value, irrespective of the quantity of precious metals which serve to put those commodities in circulation.

A further consequence of this quantity theory of money is that, *given that the analysis concerns metallic money*, it will be necessary at the same time to adopt the nominalistic view of money, i.e. the view according to which money is a public "symbol of value" (or "imaginary value") and not a commodity: Conversely, according to the Classical labour theory of value, whether in its Smithian version of expended labour or its Ricardian variant, money is a commodity and as such has “intrinsic value”, whose dimensions are determined by the quantity of labour expended on bringing it to market (see above).

In fact it is in the work of David Hume, who first systematised the quantity theory of money, that we find its theoretical grounding in the nominalistic stance towards money: “Money having chiefly a fictitious value, the greater or less plenty of it is of no consequence, if we consider a nation within itself; and the quantity of specie, when once fixed, though ever so large, has no other effect, than to oblige every one to tell out a greater number of those shining bits of metal, for clothes, furniture or equipage” (D. Hume, *Of Interest*, quoted in Rubin 1989: 82). But in the same author we find the idea that the quantity theory applies not for the total sum of money that exists in a country as a whole but for that part of it which functions as a means of circulation for commodities: “Prices do not so much depend on the absolute quantity of commodities and that of money, which are in a nation, as on that of the commodities which come or may come to market, and of the money which circulates. If the coin be locked up in chests, it is the same thing with regard to prices, as if it were annihilated; if the commodities be hoarded in magazines and granaries, a like effect follows. As the money and commodities, in these cases, never meet, they cannot affect each other” (D. Hume, *Of Money*, cited in Rubin 1989: 83).

In more up-to-date mode, the quantity theory of money can be formulated as follows:

$M \cdot V = P \cdot Y$ (1),

where M is the quantity of money in circulation, in other words the nominal money supply, V the speed of circulation (the multitude of transactions in which on average each monetary unit participates in the course of a given period of time), P is the level of prices and Y the real income (in material terms) of the economy. Thus P*Y is the nominal income (in monetary terms).

We can accordingly record relation (1) as follows:

$M/P = Y/V$ (2).

Relation (2) has as its left-hand component the “real money supply” (money as “purchasing power”) and so the right-hand component must refer to the real demand for money. Given that money demand is regarded as a function of real income and interest rate, we may postulate that the speed of circulation registers the consequences of the level of interest rate on real money demand (Heinrich 1999: 244 ff.).

Assuming that at any given moment not only real income (Y) but also the speed of circulation (as determined by “standard business practice” but also by the levels of interest rates) is correspondingly stable, it follows that real money supply must also be stable, ie. that

$M/P = \text{const.}$ (3).

This means that any variation in the nominal money supply (M*) will lead to a corresponding inverse variation in price levels (P).*

4.2 Non-Marxist criticisms of quantity theory

From all the preceding it is not hard to understand that the quantity theory of money is open to criticism from three perspectives:

a) From the perspective of the Classical theory of value, according to which money is a commodity with “intrinsic value” which is determined by duration of production time (quantity of expended labour).

b) From a questioning of the thesis that speed of circulation (V) remains stable despite the alteration in the nominal money supply, i.e. questioning that real money demand is constant or that relation (2) can be reduced or converted to relation (3).

c) From an reversal of the flow of cause and effect introduced by quantity theory, i.e. from questioning the thesis that nominal money supply (M) may be considered an exogenous quantity (or as the independent variable in relation 3). Thus, even if relations (1)-(3) apply and real money demand is stable, price increases are not regarded as a consequence of the increase in nominal money supply, but on the contrary the increase in nominal money supply is regarded as a consequence of price increases (the cause of which must be located outside the realm of monetary circulation, in the sphere of production).

The key representatives of the Classical School were exponents of the first type of criticism (point a). Criticism of the quantity theory was voiced unequivocally by Adam Smith, who argued that the quantity of money in circulation (M) is determined by the inherent features of economic activity, i.e. endogenously, and cannot be modified (increased) even when metallic money is replaced by paper money:

"The increase of paper money, it has been said, by augmenting the quantity, and consequently diminishing the value of the whole currency, necessarily augments the money price of commodities. But as the quantity of gold and silver, which is taken from the currency, is always equal to the quantity of paper which is added to it, paper money does not necessarily increase the quantity of the whole currency. From the beginning of the last century to the present time, provisions never were cheaper in Scotland than in 1759, though, from the circulation of ten and five shilling bank notes, there was then more paper money in the country than at present. The proportion between the price of provisions in Scotland and that in England is the same now as before the great multiplication of banking companies in Scotland. Corn is, upon most occasions, fully as cheap in England as in France; though there is a great deal of paper money in England, and scarce any in France. In 1751 and in 1752, when Mr. Hume published his Political Discourses, and soon after the great multiplication of paper money in Scotland, there was a very sensible rise in the price of provisions, owing, probably, to the badness of the seasons, and not to the multiplication of paper money (...) A paper currency which falls below the value of gold and silver coin does not thereby sink the value of those metals, or occasion equal quantities of them to exchange for a smaller quantity of goods of any other kind. The proportion between the value of gold and silver and that of goods of any other kind depends in all cases not upon the nature or quantity of any particular paper money, which may be current in any particular country, but upon the richness or poverty of the mines, which happen at any particular time to supply the great market of the commercial world with those metals. It depends upon the proportion between the quantity of labour which is necessary in order to bring a certain quantity of gold and silver to market, and that which is necessary in order to bring thither a certain quantity of any other sort of goods" (Smith II.ii).[6]

Somewhat more obliquely, Ricardo criticised the quantity theory of money on the basis of the argument that money "has an intrinsic value".[7] Nevertheless, in contrast to Smith, Ricardo adopted the view that the value of coins is something separate from the value of the *precious metal* they contain, and so finally arrived at the quantity theory of money. In Chapter VII, entitled "On foreign trade", of his *Principles of Political Economy and Taxation*, he grounds the famous theory of "comparative costs" in the quantity theory of money, thus assuming that in the context of international competition between different countries, price increases will emerge (in country A) on account of the attraction of precious metals in consequence of a positive trade balance,[8] with corresponding price reductions (in country B) due to an outflow of precious metals in consequence of a negative trade balance. Thus, in contrast to Smith, Ricardo equates the value of money with its nominal and not with its "real"

[6] Nevertheless, with the inconsistency for which his work is notorious, Smith at other points in the *Wealth of Nations* accepts the quantity theory of money: "Any increase in the quantity of silver, while that of the commodities circulated by means of it remained the same, could have no other effect than to diminish the value of that metal. The nominal value of all sorts of goods would be greater, but their real value would be precisely the same as before. They would be exchanged for a greater number of pieces of silver; but the quantity of labour which they could command, the number of people whom they could maintain and employ, would be precisely the same." (Smith II.iv.11).

[7] "Gold and silver, like other commodities, have an intrinsic value, which is not arbitrary, but is dependent on their scarcity, the quantity of labour bestowed in procuring them and the value of the capital employed in the mines which produce them" (Ricardo, *On the High Price of Bullion*, 2).

[8] "Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow, when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavourable to the country where it is excessive in quantity: just so would be the effects of a metallic circulation, if by forcible means, by laws which could not be evaded, money should be detained in a country, when the stream of trade gave it an impetus towards other countries" (Ricardo 1973: 91).

price: “While gold is exclusively the standard in this country money will be depreciated when a pound sterling is not of equal value with 5 dwts. and 3 grs. of standard gold, and that whether gold rises or falls in general value” (Ricardo 1973: 93). In short we might say that while Smith was an inconsistent critic of the quantity theory of money (on the basis of his thesis on the intrinsic value of gold), Ricardo was an inconsistent exponent of the quantity theory of money.

The second criticism of the quantity theory, i.e. that increase (fall) in the nominal supply of money may be accompanied by a parallel fall (increase) in the speed of circulation (point b), which may be equivalent to the outflow (or correspondingly the inflow) of money to (or from) circulation, was elaborated in the framework of non-Marxist economic theories, however not from the Classics but from Keynes and Keynesian-inspired macroeconomic analysis (see Mollo 1999: 6 ff.).

The third criticism of the quantity theory of money, according to which the quantity of money in circulation is an endogenously established magnitude, determined by the total income and the characteristics of the transactions (point c) is indirectly implied in Smith’s argument concerning the intrinsic value of money. In Smith’s account not only is the value of money always to be equated with the value of the precious metal it contains, but not even the issue of paper money or even promissory notes (money in the form of credit) can increase the quantity of money beyond what it is *necessary at any given time*, which is why paper money and promissory notes of necessity correspond to the value of the precious metal which they have replaced and which they “represent”. Nevertheless, the view concerning the intrinsic character of the quantity of money in circulation was specifically formulated by Thomas Tooke (1774-1858)[9] (and later by John Stuart Mill), in the framework of the so-called Banking School. Tooke maintained, on the basis of extensive empirical documentation, that the value of bank-notes can never exceed what is necessary to cover the real needs of the economy.

4.3 Marx’s approach in the context of the theory of “simple commodity production”

Marx knew and subscribed to critiques of the quantity theory of money quite a few years prior to commencing the researching and writing of his theoretical system for the Critique of Political Economy. On 3.2.1851, in a long letter to Engels: “What I want to take issue with is the fundamental essence of the matter. Specifically, I argue: *Even in the situation of a purely metallic currency, its expansion or contraction has nothing whatever to do with the inflow and outflow of precious metals, with a favourable or unfavourable trade balance, with favourable or unfavourable rates of exchange*, except in unusual circumstances, which in practice never arise, but can be designated theoretically. Tooke makes the same assertion. In any case I found no evidence in the *History of Prices* (...) So the *currency* functions here not as a *cause*. Its increase is in the final analysis a *consequence* of a larger capital being activated, not the opposite” (MEW 27, 174-5). For this reason, Marx maintained, contraction in a country’s reserves of metals would have to be confronted with an expansionist monetary policy and not a restrictive one, as has been the case until now: “I now maintain that the Bank [of England] should increase its discounting when there is a reduction in the amount of available metals (...) for example through the purchase of government securities, exchequer bills, etc.” (MEW 27, 174).

As early as 1851, Marx’s remarks were suggesting that accumulation and the process of expanded reproduction of total capital determines (and is not determined by) expansion of the amount of money in circulation, in other words “the money supply”. Of course this analysis cannot be formulated in the framework of the preliminary approach to the capitalist mode of production that is pursued by Marx in the first three chapters of *Capital* (or in *A Contribution to the Critique of Political Economy*), when he introduces the concept of money before that of capital. Marx limits himself initially to repeating the criticism that derives from the theses of the “Banking School” (see point (c) above).

In his *Contribution to the Critique of Political Economy* he writes: “If the velocity of circulation is given, then the quantity of the means of circulation is simply determined by the prices of commodities. Prices are thus high or low not because more or less money is in

[9] His three-volume work, *A History of Prices and of the State of the Circulation from 1792 to 1847 inclusive,* was published in 1848.

circulation, but there is more or less money in circulation because prices are high or low" (Marx 1981: 105). Nevertheless, even at this stage of his analysis, Marx warns the reader that the analysis cannot be brought to completion within the theoretical framework of "simple commodity production". "If the aggregate prices of the commodities in circulation rise, but to a smaller extent than the velocity of currency increases, then the volume of money in circulation will decrease (...) But the causes occasioning a rise in the level of prices and at the same time an even larger rise in the velocity of currency, as also the converse development, lie outside the scope of an investigation into simple circulation. We may mention by way of illustration that in periods of expanding credit the velocity of currency increase faster than the prices of commodities, whereas in periods of contracting credit the velocity of currency declines faster than the prices of commodities" (Marx 1981: 105).[10]

Marx's "self-limitation" to the conceptual framework of simple commodity production, in the first section of his analysis of money, thus leads him to restrict his critique to a reversal of the flow of cause and effect in the relation between prices and the available money supply. This reversal nevertheless continues to allow of a quantitative relation between the two variables (amount of money and prices). In the context of simple commodity production Marx in fact accepts the validity of Smith's analysis of the circulation of paper money, in fact postulating a "law peculiar to the circulation of paper money": "the issue of paper money must be restricted to the quantity of gold (or silver) which would actually be in circulation and which is represented symbolically by the paper money" (224).

It thus becomes clear that in the context of a theory of simple commodity circulation, in which money is a measure of value and a medium for circulation, the critique of the quantity theory of money cannot progress beyond the logic of the Classical arguments (Smith, Tooke). Marx is only able to elaborate his theoretical system from the moment that he introduces the concept of money as capital, even in the preliminary form of money as an "end in itself", i.e. the formula of "money as money".

4.4 "Money as money" and the quantity theory

As soon as Marx makes reference to "hoarding" (as the preliminary concept of saving and credit money), the quantitative relation between alterations in the nominal money supply on one hand and price level on the other ceases to apply, given that *the money supply is no longer to be equated with the quantity of coins or paper money in circulation* and that the quantity of money in circulation is regulated endogenously by the movement (expanded reproduction) of capital, from which is derived the expansion or contraction of credit.

Even if one does not mention the ability of the credit system to create money whenever that becomes necessary for the process of expanded reproduction of overall capital (see below), a certain portion of the money (fluctuating in accordance with the economic conjuncture) remains out of circulation "stagnating" as a "hoard", thereby abolishing whatever quantitative relation exists between total money funds and price level. This position complements and provides an interpretative context for the preceding one, whereby the flow of cause and effect starts from prices and is directed towards the quantity in circulation. The new theoretical framework thus allows for the introduction, retrospectively, of the concept of credit money, which is produced by the credit system within the framework of the debtor-creditor relation.

Marx writes in relation to the formation of "hoards":

"The total quantity of money in circulation must therefore perpetually increase or decrease in accordance with the changing aggregate price of the commodities in circulation, that is in accordance, on the one hand, with *the volume of their metamorphoses which take place simultaneously and, on the other hand, with the each time prevailing velocity of their transformation*. This is only possible provided that *the proportion of money in circulation to the total amount of money in a given country varies continuously*. Thanks to the *formation of hoards* this condition is fulfilled (...) The solidification of circulating money into hoards and the flowing of the hoards into circulation is a continuously changing and oscillating movement, and

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[10] In *Capital*, where the corresponding analysis is much briefer, Marx notes: "credit-money take[s] root spontaneously in the function of money as means of payment" (224).

the prevalence of the one or the other trend is solely *determined by variations in the circulation of commodities*" (MEGA II.2, 197-8, poorly translated in Marx 1981: 136, emphasis added).

It follows therefore, that Marx's critique of the quantity theory of money cannot be brought to a conclusion, as is true also of the concept of money as such, prior to analysis of the function of money as capital. Nevertheless, from what has been said previously in the course of the present analysis, we are enabled to apprehend the Marxist argumentation implicit in the extract just quoted:

a) The "circulation of commodities" is merely a manifestation of the movement of capital, of expanded reproduction of the total social capital (the circuit of social capital).

b) The fluctuations in this movement are to be sought for in the Marxist theory of crises, of the economic cycle and of fluctuations in the rate of profit.

c) The *result* of this movement and of these fluctuations is the expansion or contraction of the sphere of money and credit.

In this framework, relation (1), reflecting the quantity theory of money, is transformed by Marx into an identity, which equates the price of the total output of a time period with the total sum of *all money forms* circulating during this period plus the payments that balance one another:

$$P \cdot Y = M \cdot V + \text{Mutually Balanced Payments (MBP)} \Rightarrow M \cdot V = P \cdot Y - MBP.$$

Marx also makes reference to the payments which still fall dew at the end of the period; he writes: "The law regarding the quantity of money in circulation as it emerged from the examination of simple circulation of money is significantly modified by the circulation of means of payment. If the velocity of money, both as means of circulation and as means of payment, is given, then the aggregate amount of money in circulation during a particular period is determined by the total amount of commodity-prices to be realised [plus] the total amount of payments falling due during this period minus the payments that balance one another"(Marx 1981: 147).

5. A note on the relation between interest and profit

The question that is raised on the basis of the above argument is the following: If the total amount of all forms of money in circulation is determined by the price of the total output, and with given the fact that an expansion of the monetary circulation is implemented mainly through the expansion of credit, then what is the type of relationship between, on the one hand, interest and the credit sphere and on the other average profit the circuit of social capital?

Like the Classical economists, Marx's point of departure is the thesis that interest is a "derivative revenue"[11], more precisely that part of profit which the active capitalist is obliged to pay back to his lenders (the money-capitalists) for lending him (part of) his initial money capital.

In contrast to the Keynesian theory, Marx explicitly argues that the accumulation of capital in the industrial or service sectors is not determined by the movements of the interest rate (due to developments in the sphere of money and credit) but on the contrary, that the circuit of total-social capital determines more or less, depending on the economic conjuncture, the expansion or contraction of the financial sphere and influences the long-run trend of the interest rate. To put it somewhat differently, the rate of profit and its fluctuations, as the indicator which reflects the movement of total-social capital and the economic conjuncture, and not the interest rate (the indicator which correlates with fluctuations in the sphere of money and credit) is the

[11] "Whoever derives his revenue from a fund which is his own, must draw it either from his labour, from his stock, or from his land. The revenue derived from labour is called wages. That derived from stock, by the person who manages or employes it, is called profit. That derived from it by the person who does not employ it himself, but lends it to another, is called the interest or the use of money. It is the compensation which the borrower pays to the lender, for the profit which he has an opportunity of making by the use of the money. Part of that profit naturally belongs to the borrower, who runs the risk and takes the trouble of employing it; and part to the lender, who affords him the opportunity of making this profit. The interest of money is always a derivative revenue, which, if it is not paid from the profit which is made by the use of the money, must be paid from some other source of revenue" (Smith I.vi.18).

determinant variable for the accumulation of capital ("economic development", as one might say in non-Marxist terminology). In the third volume of *Capital*, Marx makes clear the power of the above-mentioned theses.[12]

Furthermore, Marx argues that the "antithesis" between industrial capital and interest bearing capital appears only on the surface of capitalist economic and social relations, disguising their essential characteristics, i.e. the surplus-value production through exploitation of the labour-force. This "antithesis" cannot provide thus any scientific explanation in regard to the source or even the magnitude of profit, or the rate of capital accumulation:

"The characteristic movement of capital in general, the return of money to the capitalist, the return of capital to its point of departure, receives in the case of interest-bearing capital a completely superficial form, separated from the real movement whose form it is. (…) All that we see is the giving-out and the repayment. Everything that happens in between is obliterated. (…) From the *quantitative* point of view, the part of profit that forms interest seems to be related not to industrial and commercial capital as such but rather to money capital, and the rate of this part of the surplus-value, the interest rate, confirms this relationship. This is firstly because the rate of interest – despite its dependence on the general rate of profit – is separately determined, and secondly because it appears, just like the market price of commodities, as something hard and fast, for all its changes: a palpable and always given relationship as opposed to the intangible rate of profit (…) taking the average profit as given, the rate of profit of enterprise is determined not by wages but rather by the rate of interest. It is either high or low in inverse proportion to the latter. (…) The purely quantitative division of profit between two persons with different legal titles to it has been transformed into a qualitative distinction that seems to arise from the very nature of capital and profit. (…) These two forms, interest and profit of enterprise, exist only in their antithesis. Thus they are neither of them related to surplus-value, of which they are simply parts, under different categories, titles or names, but rather related to each other. It is because one part of profit has been turned into interest that the other part accordingly appears as profit of enterprise" (Marx 1991: 468-9, 471, 500, 503, 502).

According to Marx, credit, as the form of money anticipating and facilitating future production (i.e. the expanded reproduction of the capitalist economy), constitutes the par excellance manifestation of capital's innate "essence", its ability to function as self-valorising value, which constitutes its sole aim: an "end in itself".

6. Credit and the question of commodity-money

6.1 The developed Marxian argument

A final question to complete the theory of money from the viewpoint of Marxian analysis is the question of the "money commodity", i.e. the question of how far money must be reduced to the material substance of a manufactured medium, which was subsequently a commodity prior to

[12] "Since interest is simply a part of profit (...) which the industrial capitalist has to pay to the money capitalist, the maximum limit of interest would seem to be the profit itself, in which case the share that accrues to the functioning capitalist would be zero. Leaving aside those special cases (...), we might perhaps consider the maximum limit of interest as the whole profit minus the part of it reducible to the 'wages of superintendence ' (...). The minimum limit of interest is completely inditerminate. It could fall to any level, however low (...) If we consider the turnover cycles in which modern industry moves (...) we find that a low level of interest generally corresponds to periods of prosperity or especially high profit, a rise in interest comes between prosperity and its collapse, while maximum interest up to extreme usury corresponds to a period of crisis (...) Yet low interest can also be accompanied by stagnation, and a moderate rise in interest by growing animation (...) But there is also a tendency for the rate of interest to fall, quite independently of fluctuations in the rate of profit (...)

»The prevailing average rate of interest in a country (...) cannot be determined by any law (...) The coincidence of demand and supply means nothing at all here (...) There is no reason at all why the average conditions of competition, of equilibrium between lender and borrower, should give the lender an interest of 3, 4, 5 per cent, etc. on his capital, or alternatively a certain percentage, 20 per cent or 50 per cent, of the gross profit. Where, as here, it is competition as such that decides, the determination is inherently accidental, purely empirical, and only pedantry or fantasy can seek to present this accident as something necessary" (Marx 1991: 480, 482-5).

becoming entirely (or partially) separated from the world of commodities and confined to the monetary function (or the function of both money and of the commodity: precious metal).

We know that not only in the time of Marx but even as early as the time of Adam Smith (see for example Kindleberger 1993: 79ff.) the money available for utilisation in the economy does not include only the so-called "monetary base", i.e. the disposable liquid assets in circulation and the disposable liquid assets of lending institutions, but that monetary base augmented through loans from the above-mentioned institutions to individuals and companies (the credit system as a producer of money), which loans always involve sums many times greater than the disposable liquid assets of the banks (irrespective of whether they consist of disposable assets in the form of bullion, metallic coin or of paper money). Credit money circulates in the form of promissory notes, overdraft loan accounts,[13] government securities, etc. while at the same time the actions of clearance carried out through the credit system make it possible for there to be transactions without any actual cash changing hands, etc., so that the overall amount (supply) of disposable money and money in circulation will differ to a greater or lesser extent from the total sum of liquid assets, and even more so of coin.

It is quite possible to come to an understanding of these different forms of money in the framework of Marxist theory, since this theory perceives money as *the necessary form of appearance of value* (and so of *capital*) and value not as a quality of each individual commodity but as a *comprehensive social-economic* relation (mediated through money).[14] It is a relation derived from (and linked to) the structural characteristics of the capitalist mode of production, which is why comprehension of it presupposes the concept of capital.

Money is not the representative of a material or of a commodity, but the embodiment of the capital relation: It can thus be produced within the framework of the expanded reproduction of this relation (i.e. independently of any commodity or material), and this is exactly what happens when the bank opens an advance credit account for a businessman client. The loans and the credit of every bank always amount to a sum many times greater than its liquid assets. In the first place, the bank does not simply transfer some already existing sum of paper money or gold (belonging to itself or to its depositors). It creates additional credit money (since credit money is created at precisely the moment the loan is concluded, e.g. through loan-consolidation services), without making demands on some treasury or other. That is to say it expands, depending on the conjuncture (the expected rate of profit, etc.) the boundaries of the formula M -- C (= Mp+Lp) [$\rightarrow$P$\rightarrow$C']—M' in which the client(s) is (are) implicated. Credit is a demand on *future* production, but it functions as money (exchange value) in the present. Through this

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[13] "Instead of a paper note, the bank can open a credit account for A, so that A, as its debtor, becomes an imaginary depositor" (Marx 1991: 589).

[14] This explains why "exchange value" (price), as the form of appearance of value, adheres to nearly "everything" in the capitalist system, and not only to "produced goods". In this connection, we remind the reader that money has no price, and its "value" can only be assessed through the Marxian formula of "total or expanded form of value": it is the series of commodities (given the role of the "equivalent") that can be purchased with one monetary unit. For this reason, not even metallic money is a commodity like others, but an "object" in the body of which value finds representation and which, in the words of Marx "it is universal wealth in an individual form" (Marx 1981: 125). In the *Grundrisse* this position of Marx is formulated with even greater clarity: "In order to realise the commodity as exchange value in one stroke, and in order to give it the general influence of an exchange value, it is not enough to exchange it for one particular commodity. It must be exchanged against a third thing which is not in turn itself a particular commodity, but is the symbol of the commodity as commodity, of the commodity's exchange value itself; *which thus represents, say, labour time as such*, say a piece of paper or of leather, which represents a fractional part of labour time. (Such a symbol presupposes general recognition; it can only be a social symbol; it expresses, indeed, nothing more than a social relation" (Marx 1993: 144). In the 1st volume of *Capital*, Marx explains that often there is no point in distinguishing between the different forms of money: "In a crisis, the antithesis between commodities and their value-form, money, is raised to the level of an absolute contradiction. Hence, money's form of appearance is here also a matter of indifference. The monetary famine remains whether payments have to be made in gold or in credit-money, such as bank-notes" (236-7). (For the question of the "money commodity" but also the extensive Marxist discussion around this question, see Heinrich 1999: 233-44. For a convincing vindication of the thesis that the reduction of money to a commodity constitutes a confusion of categories within Marx's system, see Williams 1998. For the opposite position, according to which money has to be a commodity with intrinsic value, see Giussani 1999, Matsumoto 2001).

procedure the bank will cream off, in the form of interest, a part of the profit ($\Delta M=M'-M$) which will enable it to expand further, at a multiplying rate, its credit and loans. In this way it creates the prerequisites for production of profit to an extent *regulated by the particularities of the specific conjuncture*. It becomes thus clear that "this social character of capital is mediated and completely realised only by the full development of the credit and banking system" (Marx 1991: 742).

The implication of the above is that the creation of credit money (the expansion of credit) takes place under preconditions which make possible the expanded reproduction of capital at a given rate.[15] In other words, they allow the expansion of the process of surplus-value extraction from labour, as well as the process of surplus value accumulation. These preconditions are judged by the economic parties concerned (banks, entrepreneurs) to secure a) the existence of an additional supply of means of production and labour power, in quantities and at prices which make possible the expansion of the individual capitals resorting to borrowing, b) the capacity of these individual capitals, through expanding their production, to manufacture a product in quantities and at prices that will secure its absorption by demand capable to pay, c) the ability of capitals in question to secure by this means a sufficient rate of profit to make it worthwhile for them to have concluded the loan (and thus expanded the credit).[16]

At the level of the economy as a whole, Marx studied the issues connected with points (a) and (b) in the 2nd volume of *Capital*, part three, where he examined the conditions of "reproduction and circulation of the total social capital". The issues bearing on point (c) were examined by Marx in the 3rd volume of Capital, both in relation to fluctuation of the average rate of profit and economic crises (sections 1–3) and in relation to money capital and the credit system (sections 4 & 5). Under the preconditions mentioned, money capital appears to have "the power of producing surplus-value in geometric progression by way of an inherent secret quality, as a pure automaton, so that this accumulated product of labour (...) has long since discounted the whole world's wealth for all time, as belonging to it by right and rightfully coming its way" (Marx 1991: 523-4).

Money, according to the Marxian analysis of credit and expanded reproduction of the total social capital cannot be reduced to a "commodity" with "intrinsic value". Money (and credit money) is a form of appearance of the capital-relation: "It is the foundation of capitalist production that money confronts commodities as an autonomous form of value, or that exchange-value must obtain an autonomous form in money (…) This must show itself in two ways, particularly in developed capitalist countries, which replace money to a large extent either by credit operations or by credit money. (…) In former modes of production, this does not happen, because given the narrow basis on which these move, neither credit nor credit money is able to develop" (Marx 1991: 648-9).

The above cardinal thesis enables Marx to come to grips to the relative autonomy of *money crises* from "actual" economic crises of capital overaccumulation (see Milios 1999): "As long as the *social* character of labour appears as the *money existence* of the commodity and hence as a *thing* outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable. It is evident on the other hand that, as long as a bank's credit is not undermined, it can alleviate the panic in such cases by increasing its credit money, whereas it increases this panic by contracting credit. The entire history of modern industry shows that metal would be required only to settle international trade and its temporary imbalances, if production at home were organized. The suspension of cash payments by the so-called national banks, which is resorted to as the sole expedient in all extreme cases, shows that even now no metal money is needed at home" (Marx 1991: 649).

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[15] For an intruding analysis of the endogeneity of money in Marx's system see Mollo 1999.

[16] "The limits of this commercial credit, considered by itself, are (1) the wealth of the industrialists and merchants, i.e. the reserve capital at their disposal in case of a delay in returns; (2) these returns themselves. They may be delayed in time, or commodity prices may fall in the meantime, or again the commodities may temporarily become unsaleable as a result of a glut on the market. (…) The development of the production process expands credit, while credit in turn leads to an expansion of industrial and commercial operations. (…) The maximum of credit is the same thing here as the fullest employment of industrial capital, i.e. the utmost taxing of its reproductive power" (Marx 1991: 611-12, 612, 613).

As Williams (1998) puts it: “Marx’s categorical development of the value form soon transcends commodity aspects of money (…) If confidence in all currency were to collapse, value may take refuge in particular commodities characterised by intrinsic scarcity (…) including bullion. But this process becomes not the flight into a particular manifestation of money, but the flight *from* money in all its functionality, as part of the flight from capital” (pp. 32, 18).

6.2 Digression: On the contradictions of the Classical approach

Before closing this chapter we would like to refer again in more detail to the Classical approach of money as a “commodity with intrinsic value” and its contradictions when approaching credit money.

Conversely to the Marxian analysis, understanding of credit money within the context of the Classical system becomes a vexed issue, since it is considered that the value of every commodity is formed separately and exists in isolation, with money perceived as one among many commodities (with “intrinsic” value), which in every transaction simply activates other commodities of equal value. The point is of significant importance for Marxist economic theory, because Marx’s choice to take for his point of departure the Classical definition of value and the (Classical) schema of simple commodity circulation (albeit as the “surface” of the capitalist economy) meant transferring a part of the contradictions and misunderstandings of the Classical system into Marxist analysis and discourse. (See especially the so-called “problem of transformation” in what follows).

It is in the work of Adam Smith that we can, again, best pinpoint these contradictions of Classical Political Economy.

a) Since money is a commodity of a value corresponding to the labour time required for bringing it onto the market, each non-metallic form of money (paper money, securities) must be seen as comprising a substitute for a specific quantity of the money commodity, by means of which substitution the economy succeeds merely in reducing circulation costs: “The substitution of paper in the room of gold and silver money, replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient. Circulation comes to be carried on by a new wheel, which it costs less both to erect and to maintain than the old one” (Smith II.ii.26). “A particular banker lends among his customers his own promissory notes, to the extent, we shall suppose, of a hundred thousand pounds. As those notes serve all the purposes of money, his debtors pay him the same interest as if he had lent them so much money. This interest is the source of his gain. Though some of those notes are continually coming back upon him for payment, part of them continue to circulate for months and years together. Though he has generally in circulation, therefore, notes to the extent of a hundred thousand pounds, twenty thousand pounds in gold and silver may frequently be a sufficient provision for answering occasional demands. By this operation, therefore, twenty thousand pounds in gold and silver perform all the functions which a hundred thousand could otherwise have performed. (...) Eighty thousand pounds of gold and silver, therefore, can, in this manner, be spared from the circulation of the country; and if different operations of the same kind should, at the same time, be carried on by many different banks and bankers, the whole circulation may thus be conducted with a fifth part only of the gold and silver which would otherwise have been requisite” (Smith II.ii.29).

b) But if it is simply a question of replacing expensive gold with cheap paper securities of negligible “intrinsic value”, the gold should be withdrawn from circulation. But nothing of this kind is acceptable since, in the Classical mode of though, money is perceived exclusively as a medium for circulation (and not, at the same time, as a “hoard”). The metallic money that has been replaced by paper money and promissory notes cannot be withdrawn from circulation and hoarded. Since however the quantity of money in circulation cannot be increased either, because the quantity of money that must circulate is in each instance regulated (at its fixed level, as it was prior to the introduction of non-metallic money) by the circulation itself, we are faced with an inherent contradiction. What happens finally to the additional money generated by the credit functions of the banks, from the issue of promissory notes?

Smith tries to resolve the contradiction, asserting that the bullion that is replaced will be exported abroad as foreign exchange for the purchase of commodities manufactured in other countries.[17] But if the circulation of commodities abroad *can* be increased through utilisation of the (domestic) surplus gold, why *cannot* domestic circulation also be increased? If the additional money can increase circulation anywhere (abroad), then something similar is theoretically also possible in the country in question (domestically). It is obvious that Smith displaced, but did not resolve, the contradiction into which his theory led him (the Classical theory of value and money as a commodity).

The Classical system of thought cannot cope with this contradiction, and it is therefore not by chance that it often abandons the thesis about the "intrinsic value" of money to adhere to the quantity theory. This contradiction does not exist in the Marxist system, unless one insists on reading Marx through the prism of the Classical system of concepts, perhaps misled by the manner of presentation of his theory in the 1st part of the 1st volume of *Capital*. Because even if one combines the Classical thesis of money as a commodity possessing an intrinsic value with the position that any excess supply of money goes into hoarding, still the fact cannot be explained how in certain conjunctures a volume of credit is created which constitutes a multiple of all forms of liquid assets or reserves.

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Marx/Engels Gesamtausgabe (MEGA). 1983: *II, "Das Kapital" und Vorarbeiten. 5, Marx, Das Kapital, Erster Band, Hamburg 1867*. Berlin: Dietz Verlag.

[17] "Let us suppose, for example, that the whole circulating money of some particular country amounted, at a particular time, to one million sterling, that sum being then sufficient for circulating the whole annual produce of their land and labour. Let us suppose, too, that some time thereafter, different banks and bankers issued promissory notes, payable to the bearer, to the extent of one million, reserving in their different coffers two hundred thousand pounds for answering occasional demands. There would remain, therefore, in circulation, eight hundred thousand pounds in gold and silver, and a million of bank notes, or eighteen hundred thousand pounds of paper and money together. But the annual produce of the land and labour of the country had before required only one million to circulate and distribute it to its proper consumers, and that annual produce cannot be immediately augmented by those operations of banking. One million, therefore, will be sufficient to circulate it after them. The goods to be bought and sold being precisely the same as before, the same quantity of money will be sufficient for buying and selling them. The channel of circulation, if I may be allowed such an expression, will remain precisely the same as before. One million we have supposed sufficient to fill that channel. Whatever, therefore, is poured into it beyond this sum cannot run in it, but must overflow. One million eight hundred thousand pounds are poured into it. Eight hundred thousand pounds, therefore, must overflow, that sum being over and above what can be employed in the circulation of the country. But though this sum cannot be employed at home, it is too valuable to be allowed to lie idle. It will, therefore, be sent abroad, in order to seek that profitable employment which it cannot find at home. But the paper cannot go abroad; because at a distance from the banks which issue it, and from the country in which payment of it can be exacted by law, it will not be received in common payments. Gold and silver, therefore, to the amount of eight hundred thousand pounds will be sent abroad, and the channel of home circulation will remain filled with a million of paper, instead of the million of those metals which filled it before" (Smith, II.ii.30).

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