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ABSTRACT

This is the English language version of the entry on 'Money' ('Geld') in the 'Historisch *Kritisch* Wörterbuch des Marxismus', a comprehensive dictionary of Marxist terminology being produced as an accompaniment to the Marx-Engels-Gesamt-Arbeite (Marx-Engels collected works), a comprehensive critical edition of the works of Marx and Engels: Historisch *Kritisch* Wörterbuch des Marxismus, Band 5: Gegenöffentlichkeit–Hegemonialapparat. Hamburg: Argument-Verlag, ISBN 3-88619-435-3

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GELD

0000 = page reference or information to be supplied

A: 0000 E: Money F: Monnaie R: 0000 S: Moneda C:0000

Introduction

Money is the pivotal empirical category through which Marx arrived at his most decisive insights. His enquiry into it is synonymous with his intellectual passage to the developed analysis of capitalist society to be found in *das K apital*.

This enquiry followed the path of his encounter with the principal theoretical currents of the day. His 1844 encounter with **Mill's** English Political Economy in the *Comments on James Mill* furnished the insights into money which underpinned his exposition, in the romantic tradition inherited from **Hess,** of its role as alienated expression of human relations in the *Economic and Philosophical Manuscripts*. It served also as the scientific basis of his political critique of the utopian **Proudhon** in *The Poverty of Philosophy.* Marx's political economy developed directly through his encounter with monetary policy after the crisis of 1847-48, following which his studies of the rival **Currency** and **Banking School's** opposed views led to a thoroughgoing critique and rejection, in the 1850-53 *London Notebooks,* of the then-dominant Currency school's prescriptions for the control of banknote circulation by the Bank of England. Concluding his critique of **Ricardo**, whose quantity theory he saw as the theoretical foundation of the currency school's erroneous prescriptions, he devoted the *Grundrisse* to a theoretical study of the nature of money which led directly to category of capital.

Returning therein to the critique of the utopian monetary reformers in the persons of **Darimon** and **Gray** he located money's connection to labour in the specific production relations of capitalism. Neither alienation nor the crisis-ridden course of capitalist development could therefore be overcome without substituting an entirely different set of production relations – social revolution.

The need to present this foundation systematically and logically led to the mature treatment of *Zur Kritik der Politischen Ökonomie* and *das Kapital*. These both overturn the previous, inadequately-grounded monetary theories which he encountered during his enquiry, and reinstate the key conclusions which he absorbed from them, on a scientific basis.

This resulted in a distinct and unique logical development, which he shares with no other monetary theorist. Money, which appears to be a relation of exchange, is nevertheless only a form of appearance of relations of production. Yet these same relations of production dictate that labour – the substance of value and hence of production – cannot appear otherwise than as money. Money is neither the substance of production as in Keynesian monetary theory, nor an irrelevant veil as in general equilibrium theory. It is an organising principle of production – but only as an alienated expression of production's very basis.

As a result, the concept of money exemplifies, more than any other category, Marx's assertion that 'the method of presentation must differ in form from that of enquiry.' (C I: 102). The tension between enquiry and presentation is driven by the antithetical role of money as the form of appearance of production relations and the indispensible medium of exchange relations, and lies at the heart of the difficulties which both mainstream monetary theory, and marxist value theory, have encountered in grappling with Marx's actual views.

The absent presentation of credit money

The tension is exacerbated by the absence of a developed presentation of *credit* and hence credit money in the works which Marx prepared for publication. Those works which he did prepare, above all *Zur Kritik der Politischen Ökonomie,* and Parts 1 and 2 of Volume I of *Capital*, lay the logical

basis for a fully developed theory of money under capitalism. Nevertheless he believed such a theory presupposes capitalist society in its entirety, including *credit*, the *banking system*, the *state*, and *world trade*. His logical development required these to be introduced not as presuppositions but as results which in turn form the basis of the fully-developed concept of money. *Zur Kritik* therefore states that 'During the following analysis it is important to keep in mind that we are only concerned with those forms of money which arise directly from the exchange of commodities, but not with forms of money, such as credit money, which belong to a higher stage of production.'

The place assigned to credit in his presentation is thus after his Volume III development of the general rate of profit and the division of profit between industrial, commercial, banking and landed capital.

But although copious notes make clear his intentions as regards credit and the banking system, his presentation in the form of works prepared for publication was never completed, and *das Kapital* – as Engels himself notes – reduces in places to little more than Marx's preparatory notes, particularly where the monetary functions of credit are dealt with.

It is clear that Marx not only regarded credit as a more developed social form but considered credit money to be governed by laws quite distinct from those governing metallic, token or fiat money, a distinction which most supposedly more advanced schools fail to make clear. It is a reasonable hypothesis that this very superiority of Marx's own monetary theory, coupled to its incomplete presentation, is the reason it is so greatly underrated by protagonists and critics alike. The most coherent insight into his presentation is therefore first to trace the process of enquiry which led to it.

Money and exchange: from mediation to alienation

Marx's first insight, in the *Comments on James Mill,* concerns the role of money as *medium of exchange*. As such 'The nature of money is not, in the first instance, that property is externalised within it, but that the *mediating function* or movement, human, social activity, by means of which the products of man mutually complement each other, is *estranged* and becomes the property of a *material thing* external to man, viz: money.' (M151)

The mediator acquires power over that which it mediates, in this case relations between humans. Exchanging for all commodities, and so standing for all social relations externalised in them, '[t]his mediator is the lost, estranged essence of private property, private property alienated and external to itself; it is the alienated mediation of human production with human production, the alienated species-activity of man. All the qualities proper to the generation of this activity are transferred to the mediator. Thus man separated from this mediator becomes poorer as man in proportion as the mediator becomes richer.' (M152) An object created by humans, money acquires subjectivity and converts humans into its predicates, itself directly representing courage, honour and truth by buying that which fortifies, dignifies and testifies. But in the very process it corrupts them: it beautifies beasts and bestialises beauty.

This approach unified Marx's early philosophical, political and moral outlook. As **Nelson** notes it was the counterpart to his treatment of Feuerbach in the *German Ideology* in which Christ as an alienated manifestation of political and moral relations 'represents man to man'; money as an alienated manifestation of the relation between private producers 'represents private property to private property', and becomes a veritable god.

The approach also projected his critique of Hegel's *Philosophy of Right* into the sphere of political economy: Marx opposed Hegel's idea that the bureaucracy was a universal class standing above all private interests, showing that as mediator between them, it acquired private power over and against them, constituting a particular interest in its own right. But since it does not stand independent of classes it becomes the captive of the hegemonic class; in capitalist society, money, in the form of *revenue*, is precisely the instrument of through which the bureaucracy becomes the expression of capitalist class interests.

The analysis also grounded Marx's moral critique of a money society, developed in the *Paris*

Manuscripts, and continued through his life. 'The exchangeability of all products, activities and relations with a third, *objective* entity which can be re-exchanged for everything without *distinction* – that is, the development of exchange values (and of money relations) is identical with universal venality, corruption. Universal prostitution appears as a necessary phase in the development of the social character of personal talents, capacities, abilities, activities (G163). Money not only substitutes and corrupts but inverts virtues through the 'evaluation of a man in terms of money'(M263); a 'good' man can pay his debts because he has ruined his rivals whilst a pauper's lack of means is evidence of moral worthlessness.

Marx thus anchored his subsequent treatment of money in the idea that it is a *particular to which capitalism assigns the role of universal*, 'The particular commodity which thus represents the exchange value of all commodities, that is to say, the exchange-value of commodities regarded as a particular, exclusive commodity, constitutes *money*.' (Cr 48) Money is the universal means of payment, the universal representative of social relations, the universal standard of moral worth. In capitalism it overturns all previous universals whether god or monarch and becomes itself a means to command over others. But unlike a philosophical universal such as 'goodness' or 'pleasure', it is not a mere property which is present in objects or activities in general; it is itself a definite object, a thing which can be created, acquired, and appropriated; it therefore both transmits and confines this universal power to those individuals that possess it.

Money as the foundation of a new class society

This is the cornerstone of his derivation of exploitation and of the capitalist class – the class whose material existence comes from the ownership of this universal (G255) – and establishes why the capitalist class is a distinct new historical phenomenon. In precapitalist society money funds a particular estate, the merchants, who buy in order to sell, extracting merchant profit therefrom. It funds the banking estate, lending at interest, and usury. But, it transpires, no system of exchanges can modify that which money abstractly represents, namely value (CI chapter 5). The Lutheran and utopian socialist conceptions which view mercantile and banking profits as the product of unjust exchange, fail to grasp that they constitute transfers of value arising elsewhere and hence that this injustice can never be righted while exchange persists. In pre-capitalist society, it is true, this value arises from private exchange between non-capitalist producers, but in capitalist society it arises from an altogether different source, as the means to create new value itself becomes a commodity – labour power.

The alienation of labour power creates a definite class which reproduces itself only by surrendering its freedom to the owners of money – the working class. This in turn creates the conditions for another definite class – the capitalist class – which, as sole purchaser of labour power, acquires ownership of the whole its product. It becomes sole owner of the means of production from which the direct producers have thus become separated, obliging the working class to a new servitude, wage-slavery. It acquires a monopoly over the disposition of surplus labour because this is extracted in monetary form, and as such hegemonises all other classes and estates, overtuns their political rule, and itself guarantees the conditions for its own existence, bringing about a new social order – the specifically capitalist mode of production.

Money thus becomes the instrument of the social power of this class and the means through which it exists, rules, and structures the whole of society under its dominion. Whereas the antediluvian mercantile and banking estates could not themselves reproduce the conditions for their own existence and hence could not form the basis of a distinct society, being dependent on external non-moneyed classes such as the feudal landlords, the capitalist class concentrates in its hands the means for the reproduction of all society, including itself and the working class. Money becomes the foundation of a new social order.

Slavery and serfdom are replaced by the illusory freedom of the wage-worker. Yet alienation dictates, in a characteristic inversion, that the master and the slave alike become predicates of an alien subject, capital itself; the freedom of the capitalist is as illusory as the freedom of the

proletariat.

The critique of utopianism and the necessity of social transformation

The resultant moral, political and social critique of capitalism leads to the primary political question of Marx's life; 'can the existing relations of production…be revolutionised by a change in the instrument of circulation, in the organisation of circulation?…Can such a transformation of circulation be undertaken without touching the existing relations of production and the social relations which rest on them?' (G122) Marx's response develops from his political encounter with utopian monetary and banking reformers, **Proudhon** in the *Poverty of Philosophy* and, in the *Grundrisse*, the 'time-chitters' (**Gray, Darimon)** who sought to replace metal and paper by tokens representing the labour-time in a commodity, ensuring fair exchange and hence, they believed, social justice. It draws also on his encounter, already referred to, with the currency school and its disastrous prescriptions and with its opponents **Tooke** and the banking school.

Marx's attack on the fallacies in the reasoning of Proudhon, and – after his encounter with English banking debates – with Darimon, address most of the primary theoretical proccupations in the current debate on the theory of value.

In the first place, money is necessary to capitalism. Its mediation cannot be dispensed with because it is the actual link which associates private producers in a division of labour that is not consciously enforced either by a social agency such as the family or primitive community, nor a political agency such as the state – far less by a free association of producers. This necessity is imposed quantitatively by the *non-equality of price and value* and the attendant non-correspondence of supply to demand, the pivot of his critique of utopian socialism. Divergence of price from value is the norm, not the exception. Any accidental coincidence between supply and demand is a 'one-sided moment' in the 'real movement' (M261), a view maintained throughout, viz 'In reality supply and demand never coincide, or if they do, it is only by chance and not to be taken into account for scientific purposes; it should be considered as not having happened' (CIII:298)

Only because goods do not sell at their value, and only because supply does not equal demand, can 'the correct proportions' of production be established, as private producers discover they have allocated too little or too much of it, in and through the movement of prices, that is, the departure of price from value. Hence 'If M.Proudhon admits that the value of products is determined by labour time, he should equally admit that it is the fluctuating movement alone that makes labour time the measure of value. There is no ready constituted "proportionate relation" but only a constituting movement' (*Poverty of Philosophy* p62*).*

Money is the vehicle of this fluctuating movement. It breaks out of the boundaries of medium of exchange and acquires a function as *regulator of production*, the medium by means of which the social regulation of the allocation of labour time to the different branches of production is achieved.

But because money separates the circulation of commodities into two phases, sale and purchase, this regulatory function is achieved only through its violation. Crisis is always implicitly present in capitalist reproduction: '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 identitiy present in this case between the exchange of one's own product and the acquisition of someone else's into the two antithetical segments of sale and purchase…These two processes lack internal independence because they complement each other. Hence, if the assertion of their external independence proceeds to a certain critical point, their unity violently makes itself felt by producing – a crisis.' (CI:208) Crisis is possible and necessary precisely because goods exchange not for each other but for money; because money plays a real, not a nominal, role in capitalist society.

Marx's rejection of Say's Law: antithesis between monetary and general equilibrium theory

This critique sets Marx apart from all theories paradigmatically committed to equilibrium analysis for which, as is well-known in mainstream theory 'money is a veil' with no necessary role. To cite

from a collection of mainstream commentaries assembled by **Bridel (1997:xiii):** 'The most serious schallenge that the existence of money poses to the theorist is this: the best developed model of the economy [the Arrow-Debreu version of a Walrasian equilibrium] cannot find room for it' (**Hahn** 1982:1)**.**

The standpoint also sets Marx apart from **Ricardo** and above all from J**.B.Say** and the view that exchange can be reduced to the direct exchange of products, now known as Say's Law, against which Marx directed a never-ending stream of invective: 'Nothing can be more childish than the dogma, that because every sale is a purchase, and every purchase a sale, therefore the circulation of commodities necessarily implies an equilibrium of sales and purchases…' (CI: 208)

The significance of this radical break with Ricardo is underestimated by Marx's critics and supporters alike, both because of their narrow focus on the quantitative aspects of Marx's value theory, and as a consequence of its reduction by **Bortkiewicz** and **Sweezy** to a variant of general equilibrium. Yet this distinctive standpoint is what leads Marx to his most distinctive political conclusion: that the contradictions of capitalist society cannot be overcome by modifications in the sphere of circulation. The specific role of representing exchange-value stamps the commodity-form on money even when replaced by a symbol of itself such as coin or paper tokens, a symbol of something else such as labour time, or by a convertible monetary instrument such as credit money. Therefore, every monetary instrument can and does 'become an appreciated or depreciated token of itself' (Cr 173), ceasing to represent the quantity stamped upon it, whether a nominal metallic denomination, labour-time, or a rate of convertibility into other monetary instruments. Therefore only if the issuer of these purely ideal symbols takes real control over production, effectively abolishing private ownership in both labour-power and the means of production, can it enforce and regulate exchange at proportions other than those established behind the backs of the producers by these fluctuations of the market. From this it follows that none of the contradictions in specifically capitalist money can be superseded without social control of production.

The *Grundrisse* transforms this critique into a theoretical passage from money to capital; in the process laying the basis for the category of value, which becomes the pivotal theoretical category of Marx's analysis. The central contradiction he confronts, as we have noted, is between money as the universal representative of all commodities, and as a particular commodity among other commodities.

The functions of money and the dialectical evolution of money as capital from money as means of exchange

The contradiction between money as universal, and money as a particular commodity, is the root of numerous subsequent theoretical controversies – not least the question of whether money itself must be a commodity – most of which, a careful reading establishes, Marx addresses.

The *Grundrisse's* 'Chapter on Money' is a dialectical development of reflection-determination: money as a means of exchange leads to its role as money as measure of value and hence standard of price. Since price is a property of every commodity, money can be replaced by symbols of itself, apparently contradicting its role as a definite means of exchange. This contradiction is sublated in money as a *store of value*. As universal means of purchase and 'material representative of wealth' (G203), money becomes the goal of accumulation in capitalist society; in crisis this 'third function' tends to invalidate mere symbols and calls forth a peridic demand for means of payment either representing or contaning value directly.

As store of value money becomes the first form of appearance of capital. It is hoarded no longer, as in pre-capitalist society, as *treasure*, as a simple store of means of purchase, but as self-expanding value, as a means to expand itself.

However unlike treasure, which can function indefinitely as means of purchase while withdrawn from circulation, money can only function as self-expanding value by re-entering circulation having served as the instrument to set labour in motion. If it cannot do so, it no longer serves as

capital. The inadequacy of the non-produced instruments which generally serve as money thus manifests itself in monetary crisis, amidst universal demand for payment, for settlement of debts, for monetary accomodation; their decisive weakness is that they have ceased to function as a store of value precisely because they merely represent value and do not contain it.

As means of exchange money exists as a commodity among others. As standard of price this is negated and it takes on a purely ideal or symbolic role. The imperative for materiality is sublated in money's function as the material representative of wealth in a society in which wealth accumulates in the form of money; in crisis, it is periodically required to manifest a value which it acquires by virtue of qualities other than its purely symbolic function. To the extent that the actual instruments which society uses as money (bills of exchange, banking deposits, financial instruments) fail to satisfy this requirement they are governed by the laws of reflux and return which govern loan capital in general, and are periodically drawn into (and dramatically sharpen) the contradictions that manifest themselves in crisis.

The contradiction between the universality of money as the general abstract equivalent of all others, which must remain at all times exchangeable for (or convertible with) all other commodities, and its particularity as embodied in something definite, a definite use-value enjoying definite conditions for creation and annulment, permeates the whole of Marx's treatment including credit money.

The 'Chapter on Money' opens as a polemic with utopian bank reformers. Marx establishes that 'the exchange-value relation – of commodities as mutually equal and equivalent objectifications of labour time – comprises contradictions which find their objective expression in a *money which is distinct from* labour time' (G169). This will later lead to the crucial distinction, in *Capital* I, between the *intrinsic* measure of value, which is labour time, and its *extrinsic* measure, money. More immediately, the finding that money leads a life independent of the labour time that went into it leads directly into Marx's theoretical analysis of its actual function.

Money as means of exchange

Money as means of exchange arises from *circulation* (G199) through the division of labour. It is already implicit in every act of exchange, even those such as barter which precede generalised circulation, insofar as the commodity offered by each side in every exchange functions for the purchaser not as a means to satisfy her needs but as a means to acquire something else. However with the division of labour, the necessity arises for a means of exchange as such, a commodity whose social role is no longer the satisfaction of any particular need, but the acquisition of the means to satisfy such needs. Money thus arises both from the development both of a variety of needs and a variety of productive activities: 'A fairly developed division of labour presupposes that the needs of each person have become very many-sided and his product has become very one-sided. The *need for exchange* and the *unmediated medium of exchange* develop in inverse proportion. Hence the necessity for a *general medium of exchange*, where the specific product and the specific labour must be exchanged for *exchangeability'*. (G199)

Money is however a concrete universal, a really-existing thing which enters every actual exchange and for which every commodity is exchanged; its specific function as means of exchange arises because, unlike any other commodity, it can exchange for every other commodity. The acquisition of exchangeability itself becomes the goal of exchange 'In money the *medium of exchange* becomes a thing, the exchange value of the thing achieves an independent existence apart from the thing.' (G199-200). The use-value of money as money is thus separated off, as a distinct use, from the use-value of whatever commodity in which it is embedded, be this paper, metal or any other substrate.

This does not prevent money from being a particular commodity among other commodities, insofar as it is itself the object of exchange. 'Money – the common form into which all commodities as exchange values are transformed, i.e. the universal commodity – must exist as a *particular* commodity alongside the others, since what is required is not only that they can be measured against it in the head, but that they can be changed and exchanged for it in the actual exchange process.' (G165)

There is thus a contradiction at the heart of money both as a theoretical category and as it really exists; it is at one and the same time a particular and a universal. From this arises a controversy which has dogged subsequent discussion; is money itself necessarily a produced commodity such as gold, with value in its own right arising from its material conditions of production?

Marx's treatment of this question is unique in economics. On the one hand, it reveals him to be far from a simple metallist, in that it contains a developed analysis of symbolic money including an essential distinction between *fiat* money and credit money (cf **Lapavitsas** 1991**).** On the other, he establishes in detailed empirical, as well as theoretical analysis that in capitalist society, an indispensible function of money is to serve as store of value and that credit money is inadequate to this task. The contradiction between the functions of means of exchange, and store of value, erupts in times of crisis when capital seeks 'real value'. An adequate theory of money must establish what symbolic money symbolises.

Symbolic money: money as measure of value and standard of price

Marx arrives at symbolic money through a discussion of the contrasted functions of *means of exchange* and *measure of value*: 'Money has a dual character: it is (1) *measure*, or element in which the commodity is realized as exchange value, and (2) *means of exchange*, instrument of circulation, and in each of these aspects it acts in quite opposite directions' (G187)

Circulation already requires that commodities are prices. It requires 'not isolated acts of exchange, but a circle of exchange… a system of acts of exchange.' (G188) and this requires that each commodity is specified as an *exchange value*, as exchangeable in a given proportion for other commodities. 'The exchange value of a commodity expresses the totality of the quantitative relations in which all other commodities can be exchanged for it' (G188). This proportion, however, cannot be directly realised: 'A mediation is required to posit it as an exchange value. Money presents the exchange value of the commodity as something different from itself… they must be translated into money, expressed in money. Money becomes the general denomination of exchange values.' Exchange value expressed in money is *price*.

As price, money acquires the function of measure, as the unit in which exchange values are expressed. But as such it acquires an *ideal* function; it becomes a property of the commodity, the standard of price and it is in this way that the commodities acquire a quantitative relation to each other which acquires independence from money itself, which no longer requires actual money to be present in order to exist. 'The commodity *is* exchange-value, but it *has* a price…it is *ideally* posited as money itself, since money has a reality different from it. The price is a property of the commodity, a quality in which it is *presented* as money. It is no longer an immediate but a reflected quality of it. Alongside money, there now exists the commodity as ideally posited money.' (G190)

It is for this reason that money serves actually as an instrument for the circulation of titles, not actual circulation. Actual circulation requires only instruments of transport, and transport cannot be performed by money (G194). Since commodities are ideally expressed in money, money is not required for their movement.

Money can therefore be replaced by symbols of itself. 'Regarded as *measure* the material substance of money is essential, although…the *amount* of the portion of gold and silver which serves as *unit* are entirely irrelevant for it in this quality, and it is employed in general only as an imaginary, non-existent unit.' (G203) Hence '[Money] is required only as an imagined unit once the exchange value of an ounce of gold compared to any one commodity has been determined; its actual presence is superfluous…' (G208). It may therefore even be replaced by counterfeits. 'In so far as the price of a commodity at £1 is paid, its price of £1 is realised, it is exchanged for £1, to that extent it is of decisive importance that the £1 really contain 1/3 ounce of gold. If it were a counterfeit £1, alloyed with non-precious metals, a £1 only in appearance, then indeed the price of the commodity would not be realized…Looking at this moment of circulation in isolation, it is thus essential that the unit of money should really represent a given quantity of gold or silver. But when we take circulation as a totality, as a self-enclosed process, C—M—C, then the matter stands differently…if a fake £1

were to circulate in the place of a real one, it would render absolutely the same service in circulation as a whole as if it were genuine.' (G210)

This is implicit in the mediatory function of money. If circulation C—M—C secures, for a producer of one commodity, a given amount of another commodity, and money is the medium, then its material is irrelevant. 'The point is not to possess the price of commodities as price, but as the price of another commodity, to that extent the material of money is irrelevant.' Money becomes the *representative of exchange-value*, of the proportions in which commodities exchange for each other. 'It represents the price of one commodity as against all other commodities, or the price of all commodities as against one commodity.' (p211) As such 'its own material is irrelevant' (G211)

Therefore money as gold and silver, 'in so far as *only* its role as means of exchange and circulation is concerned, can be replaced by any other *symbol* which expresses a given quantity of its unit, and … in this way symbolic money can replace the real, because material money as mere medium of exchange is itself symbolic.' (G212)

Money as store of value: capital

In capitalist society the limitations of symbolic money emerge as the acquisition of money becomes an end in itself, that is, as money is transformed into capital. The contradiction between particular commodity and money as the universal representative of all commodities is sublated in what Marx terms the 'third function of money' (G215) arising from the M—C-C—M form of circulation in which money appears 'not only as medium, nor as measure, but as end-in-itself.'(G215). This third attribute of money 'in its complete development, presupposes the first two and constitutes their unity.' (G216)

The discussion of this question arises, significantly, from a brief evaluation of the debate in political economy on whether money itself is productive, which centres on whether, like other commodities, it steps outside of circulation. Since the spheres of circulation and production exhaust the circuit of capital, a commodity which 'steps outside of circulation' *ceteris paribus* steps into production. This includes wage-goods, whose consumption is the production of labour-power. Marx points out that other commodities step outside circulation by being consumed, by completing their circuit. Money does not; it returns to circulation in its original form. From this excursus he will later, in the *Chapter on Capital*, locate the apparent productivity of money in its command over labour-power. The excursus prefigures his mature distinction between productive labour and the unproductive labour of circulation. At this point, however, he shows that money 'steps outside circulation' because, as end-in-itself, the *acquisition of money* becomes the goal of capitalist production. Money which is acquired, and hoarded, is held back from circulation and forms a *treasure*: a store of value. It does not therefore contribute its intrinsic value to the product and does not as such enter production; it is not directly productive.

As treasure, metallic money is interconvertible with *particular* forms of itself and the use-value of its metallic form becomes a part of this function; it is used to make jewellery, silver plate, and so on. As such it possesses value distinct from its function of representing value in exchange and the contradiction between these two determinants of its purchasing power brings about an incessant transformation and re-transformation between the monetary form and the form of treasure. In this way, its material composition is necessary to its function as money insofar as it commutes without circulating between its two contradictory use-values, the particular use-value of its material being and the universal use-value of general equivalent.

Money, accumulation, and crisis

Marx's insistence on the accumulation of money as a necessary element of capitalist accumulation then becomes the decisive theoretical instrument with which he unlocks the contradictions of this process.

The role of money is the foundation of his explanation of crisis 'at the most abstract level' (Capital

I: chapter 3, *Theories of surplus Value* II: chapter 17); crisis occurs because purchase is separated from sale. This is possible only because products are not exchanged for products but for money; a seller may undertake C–M but not M–C, obtaining money but not parting with it, and forming a hoard or reserve. However his further analysis of the functions of money develops this 'possibility' into a necessity. The accumulation of money as such arises from the process of capitalist circulation and indeed from accumulation as such.

In the first place, the separation of sale and purchase gives rise to a further function of money as *means of payment*. If the act of transferring money from A to B separates in time from the act of transferring the commodity from B to A, then in the intermediate period a *debt* is formed, and 'seller and buyer become creditor and debtor' (Cr 140). Money becomes an instrument for settling debts. This greatly reduces the quantity of money required, since clearing mechanisms can be established where 'payments offset one another like negative and positive quantities: A who has to pay B may receive a payment from C at the same time, and so on.' (Cr 145) In advanced capitalist production it creates the appearance that money has disappeared and 'the commodity-owner has long become a capitalist, knows his Adam Smith and smiles superciliously at the superstition that only gold and silver constitute money or that money is after all the absolute commodity as distinct from other commodities.' But the illusion vanishes in monetary crises and 'The fact that money is the sole incarnation of wealth manifests itself in the actual devaluation and worthlessness of all physical wealth…the *summum bonum*, the sole form of wealth for which people clamour at such times, is money, hard cash, and campared with it all other commodities – just because they are use-values – appear to be useless…This sudden transformation of the credit system into a monetary system adds theoretical dismay to the actually existing panic.' (Cr 146)

The requirement for means of payment calls forth a requirement to accumulate money: reserve funds. Marx distinguishes these from hoards because they are not separated from circulation but has to be 'available at definite dates in the future when payments become due'

Accumulation, or expanded reproduction, requires the accumulation of money (C II: chapter 21) because surplus value must be stored up, saved, in sufficient quantities to purchase the additional capital required to purchase new means of production, particularly those with a long turnover time, so that 'Money is withdrawn from circulation and stored up as a hoard by the sale of commodities without subsequent purchase' (CII: 567). It is for this reason – a point universally overlooked – that Marx's discussion of expanded reproduction begins not with the conditions for the balance between the production and purchase of *products* that preoccupied the participants in the 'reproduction debate' (**Luxemburg, Bukharin, Bauer, Grossman**) but with the conditions for the formation of *money hoards* that can purchase these products. A part of the capital of every enterprise necessarily exists in the form of a reserve hoard whose role is not merely the settlement of obligations but as the basis of expansion.

The credit system

Accumulation ceaselessly strives to break through the barriers to itself imposed by this requirement and thereby transforms the *credit system* and develops it to its highest point. Credit is no longer a simple instrument of circulation but becomes a requirement of accumulation as money capital, accumulated in reserves and hoards, is mobilised and pressed into the service of industrial capital through the developed system of financial credit, bank loans, joint-stock finance and the entire system of *finance capital.*

This brings the analysis to the highest point achieved by modern capitalism; *credit money* which arises when instruments of credit themselves begin functioning as money. It becomes the special function of the banking system to convert credit into means of exchange, payment and circulation through the issue of banknotes and the system of deposits, chequing and fund transfers. On top of this system is overlaid the entire edifice which arises from the capitalisation of anticipated income streams: shares, bonds, financial instruments and *fictitious capital* in general, all of which constitute forms of credit.

However credit is governed by quite different laws from other forms of money precisely because of the requirement of reflux (cf **Fullarton** 1969:67-68). Credit is premised on repayment, and on repayment moreover in some instrument ultimately distinct from the instrument itself. The development of credit therefore directly and indissolubly ties the monetary system to the entire process of capitalist reproduction and accumulation and all the contradictions of accumulation burst forth, at the point of crisis, in the contradictions of the money form. It is therefore a central but underrated consequence of Marx's monetary theory that monetary crisis becomes first of all a *moment* of capitalist crisis in general, and secondly that periodic monetary crisis becomes inevitable and cannot be overcome by 'sound monetary management'; a 'return-into-self' of his earliest critique of utopian bank reform.

The difficulty in establishing Marx's actual theory of credit and hence a complete account of money including credit money, as **de Brunhoff** (1976:73) points out, is 'a seemingly insuperable obstacle: the texts in regard to credit were scarcely edited by Marx. The work is copious but very unfinished.' Nevertheless 'the *place* which Marx assigns to credit is clear' (*ibid*). The question to address is: does Marx's logical foundation allow for, indeed does it properly ground, a theory of fully capitalist credit money or does it, as the critics suggest, stand opposed to such a development?

The mainstream reaction

As a result of hostility, disinterest, and incomprehension towards Marx's developed theory of credit, the dominant mainstream view of Marx's monetary theory has become that of **Schumpeter** (1947: 22) who considered it 'weak' and presents Marx (1994:289) as a simple metallist. **Fritsch** (1968:120) characterises Marx's monetary theory as one of the 'theoretisch schwächsten Teile des Gesamtsystems.' Such views persists in modern evaluations; **Lavoie** (1986) and **Wolfson** (1988) argue that Marx's analysis burdens monetary analysis with the'ghost of gold' and the criticism has passed into the general body of Marxist writing among even sympathetic writers such as **Lange**; **Foley** (1982) argues that Marx identifies the value of money with the value which money receives through the formation of its price of production, an approach also suggested by Mandel (1982).

The Schumpeterian view has nevertheless largely prevailed as accepted truth even though even non-Marxists like **Bartoli (1950: 101),** who attributes to him one of the earliest exhaustive presentations of the functions of money: measure of value, standard of price, means of circulation, representative of value, store of value, and means of payment, recognise that the originality and profundity of his analysis place him among the foremost monetary theorists of economics.

Marx fared no better at the hands of critics of the mainstream, notably **Keynes** who (1977:xxxv) sought 'A final breakaway from the doctrines of J-B Say' and the Quantity Theory, whose dominance he ascribed to the influence of Ricardo. Though he was forced to recognise (1977:33) Marx's evident opposition to Say's Law, any acknowledgement of the strength and depth of Marx's actual critique of Ricardo, or his highly developed treatment of money, would have rendered Keynes's own theory unacceptable. Appropriating Marx's own terminology he designated proponents of Say's law as 'classicals' by implication including Marx, widely regarded in the academic world as an outgrowth of classical political economy. He (1997:353) reduced Marx to a minor critic of Say's law on a par with obscure eccentrics like **Douglas** and **Gesell**, and asserted, in a prediction still to be realised, that 'the future will learn more from the spirit of Gesell than from that of Marx' (ibid 355). He argued, as **Howard and King** (1992:93) note, that 'if Ricardian economics were to fall, an essential prop to the intellectual foundations of Marxism would fall with it.'

Yet it is striking that on the very question of money, Keynes' own chosen terrain of battle with orthodoxy, Marx departed sharply and categorically from Ricardo throughout his life. As early as 1851 in his *London noteboooks* he arrived at diametrically opposed policy conclusions to 'Herrn Loyd und tutti frutti von Ricardo an' and 'den Currency Kerls' (3.2.1851 letter to Engels). *Theories of Surplus Value* (cf Th 3: 131), summarises the essence of his critique: '*Ricardo's* mistake is that he is concerned only with the *magnitude of value*…[the] *qualitative* aspect of the matter which is

contained in the representation of exchange-value as money, is not elaborated by Ricardo.'

An exception to the general trend is the attention given by theorists such as **Minsky**, his associates and followers (cf **Bellofiore** 1998) to fictitious capital and the critical standpoint towards the credit system to which this gives rise.

The Marxist reaction

Marxists until the 1970s virtually ignored the specificity of money in Marx's theoretical work. Except for the German debate of the early 20th Century, **Henri Denis** in the 1950s and the debate among Japanese Marxists (**Uno**, **Sekine**) the debate on Marx's theory of money is almost entirely modern and began in the 1970s with the collapse of Bretton Woods.

Marxism's lack of attention to money was exacerbated by three circumstances. First, the *Grundrisse* itself, which presents Marx's order of enquiry, was not disseminated until the 1960s. Secondly, academic Marxism under **Bukharin's** tutelage (cf **Tarbuck**), converged on the standpoint of **Sweezy** (1942), who interpreted Marx as a general equilibrium theorist, a view adopted by the English Marxists through the influence of **Dobb** and **Meek**, and developed in successive elaborations of an equilibrium approach to the *transformation problem* by **Winternitz**, **Seton, May, Morishima** and others. As already indicated, in equilibrium money is a veil and is reduced in such presentations to a mere standard of price. In the work of the surplus approach school (cf **Sraffa**, **Pasinetti**, **Steedman)** which has developed the equilibrium interpretation of Marx to its logical conclusion, Marx's value theory becomes an extension of Ricardo's. Hoarding cannot exist by definition, and the mediatory role of money is restricted to the role of measure or *numéraire*. Even controversies and debates concerning breakdown focussed narrowly on the reproduction of the physical conditions for production, ignoring the meticulous attention paid by Marx in Volume II to the reproduction of the conditions of monetary exchange.

The result has been a widespread underestimation of, and confusion concerning, the logical development and underpinnings of Marx's monetary theory.

Money and abstract labour

Interest in Marx's theory of money has rekindled in modern times from two directions: (1) a reassessment of Marx's value theory leading to the a re-assessment of the role of money in value determination (2) a direct interest in Marx's monetary theories stimulated by the collapse of Bretton Woods and the abandonment of the convertibility of gold for the dollar.

Marx's sharp distinction between enquiry and presentation, and the incomplete preparation for publication of his account of credit money, led to two developments. The dominant tradition until recently is, as noted, an almost total neglect of the place of money in his theory of value, led by its reduction to a variant of general equilibrium theory and by a narrow focus on exploitation which confuses its quantitative independence from price with a qualitative independence from money.

However, it has turned out to be theoretically impossible to maintain either view once the category of price, qualitatively present throughout Marx's treatment of value, openly enters the quantitative determination of value in volume III. In reaction against this, both modern interpretations and modern sympathetic critiques recognise that money has a necessary part to play in Marx's value theory as such. This has extended to more critical assessments such as that by **Heinrich** who characterises classical value theory as 'pre-monetary' and treats Marx's, in distinction, as a 'monetary' value theory. As with **Arthur,** this points to the conclusion that Marx's order of presentation should be reconsidered with money being treated as a primary, not a derived category.

This general concern has led to a growing interest in the relation between money and *abstract labour* which figures in several discourses. In Italy the debate between **Coletti,** the young Sraffians and **Napoleoni** (see Bellofiore 1999) arose from the impossibility of reconciling two conflicting requirements in the Sweezy-Dobb-Morishima development of Marx's theory: in this interpretation value must be determined quantitatively as a 'first approximation' to actual prices, the exchange

ratios between commodities which would prevail, were profits equal to zero. These ratios are not, however, the actual ratios pertaining in society. But if the abstract labour embodied in a commodity is determined independent of actual exchange against money, how can its formation arise from exchange and how can money represent it?

In Germany the discussion originating with **Altvater** and **Backhaus** re-opened a debate on Marx's derivation of value itself, of which the English-speaking world is largely ignorant. **Heinrich** (1999:200) examines **Böhm-Bawerk's** influential critique of Marx's assertion that a 'Gemeinsame Eigenschaft' in exchanged commodities must exist and must be abstract labour. 'Es stellt sich hier zunächst die Frage ob der Marxsche Ausgangspunkt, das Austauschverhältnis von Ware gegen Ware, überhaupt legitim ist,' he comments. Marx's opening sentences in *Capital* suggests that the object of enquiry is not the commodity in general but the commodity under capitalist relations. However in developed capitalist society, empirically, goods do not exchange for each other but for money. Thus the relation of exchangeability between commodities C–C is 'das Resultat der Zirkulationsakte W–G und G–W'. Thus money is directly present in capitalist society not merely as an outcome of exchange but as a presupposition.

Abstract labour, from this point of view, comes into being only through the market and the exchange of commodities for money. 'So wie abstrakte Arbeit keine Natureigenschaft von Arbeit überhaupt, sondern eine gesellschaftliche Bestimming von Arbeit ist, ist auch Wertgegenständlichkeit keine dem *einzelnen* Produkt zukommende Gegenständlichkeit, sondern eine Gegenständlichkeit, die den Arbeitsprodukten nur *gemeinsam* zukommt: das "gemeinsame Dritte" besitzen die Waren nur dann, wenn sie gemeinsam auftreten, d.h. wenn sie im Tausch als Waren aufeinander bezogen werden' (Heinrich 1999:201)

Both lines of enquiry lead in the direction of a reconstruction of Marx's presentation of value theory itself, in such a way that money is introduced at an earlier stage of the analysis, as the presupposition of exchange and as itself the direct representative of abstract labour. Such discussions culminate in the Value-form school (cf also **Reuten, Arthur, Williams**). From this point of view money is the direct representative of abstract labour, and it is only in the act of realisation that abstract labour comes into being.

Money, the transformation problem, and the 'value of money'

Related but parallel developments, whose focus is on the transformation problem, re-evaluates the concept of the *value of money*, through a reconsideration of the value of capital.

The Sweezy-Dobb-Morishima approach supposes that both constant capital and variable capital are evaluated, by the capitalist, as the quantity of abstract labour in the goods which compose them. In France **Duménil** (1980), and in the USA **Foley** (1982) sought a different approach, proposing a 'New Interpretation' of Marx's value theory in which variable capital is given not by the value of the goods that this money purchases but by the value of the money itself, defined now as the labour which this money, in some sense, *represents in exchange*. The New Interpretation defines this as the ratio between money value added by the workers and the living labour time they contribute to the product. The *simultaneous single-system* approaches of **Moseley, Ramos and Rodriguez** (1995) as well as the *temporal single-system* approach of **Kliman and McGlone, Giussani, Freeman, Maldonado-Filho, Carchedi** and others extend this idea to constant capital and so define the value of money as the ratio of the money price of the gross product and the labour-time embodied in the gross product or, in the case of Freeman, the ratio of the money price of the total capital stock to the labour-time embodied in it. To make this idea precise and to connect it to Marx's thinking, **Ramos**(1994) defined a magnitude inverse to the value of money, the *Monetary expression of Labour Time* (MELT), or the labour which money represents in exchange. The value transferred to the product by constant capital is then given, not as the labour time embodied in its components, but as the labour-time represented by the money paid for it, being its money price multiplied by the value of money or divided by the MELT.

From this point of view when Marx (CIII:265) notoriously writes that 'if the cost price of a

commodity is equated with the value of the means of production used up in producing it, it is always possible to go wrong' he does not mean that he himself has gone wrong, but that anyone else who makes this equation will go wrong; that the cost price should not in fact be equated with the value of the means of production. Instead, the value transferred to the product is modified by circulation and is equal to the labour time represented by the money that is paid for this product. If Marx is read in this way, the alleged inconsistencies in his transformation procedure cease to exist.

Such a solution of the transformation problem can be obtained without reference to money (cf **Wolff, Callari and Roberts**) for the restricted case of sale at prices of production. However it is only via the intermediation of money that sense can be made of what is otherwise a purely formal result. If, as is the case, the capitalists purchase means of production not at the price of production but at a *market price* which is in general different from both value and from price of production, it becomes necessary to bring money into the analysis, since it is the actual price paid which determines the quantity of abstract labour transferred to the product. The point is that the capitalists' goal is abstract profit; they are indifferent to the particular form of their capital, which to them is *money*. This money in turn, however, is merely the representative of abstract labour. What matters, therefore, is the quantity of abstract labour that this money represents to the capitalist and it is on this question that the debate turns.

In the temporal single system approach, the abstract labour transferred to the product by constant capital and the abstract labour deducted from value added by variable capital are both given by dividing the MELT into the money advanced by the capitalist. However the quantitative determination of this magnitude is not given, as with simultaneous approaches, by supposing that the value of outputs must equal the value of inputs, an assumption Marx nowhere made. Instead, it is given empirically by the actual relation of money price of inputs to the abstract labour in circulation at the time these inputs are consumed. The value of outputs is then a result, not a presupposition. The reason is that output follows input in a *temporal sequence*, in the order M–C–P…C' –M' originally specified by Marx. C' can exert no causal influence on C because it follows it in time.

According to TSS thinkers this addresses many of the concerns raised in the Value Form debate because it sharply distinguishes logical determination from temporal determination. At the same time it preserves a distinction central to Marx's thinking which the Value Form approach risks obliterating, namely, the real distinction between labour and money. Value is no longer an unrealised 'first approximation' to price but an actual magnitude arising from production. The abstract labour in the product is not the outcome of a putative 'value' system of prices distinct from actual prices; it is determined as the sum of abstract labour transferred by the mediation of the actual price paid for inputs, added to the actual living labour performed by workers. Since however as Marx notes the product, at the time it emerges, already possesses a price distinct from its value, and since this price itself represents a magnitude of labour distinct from the labour embodied in the product, the distinction of price from value is maintained, but the price mechanism emerges as a redistribution of abstract labour between the owners of commodities. It is only when this output price is artificially constrained to equal the input price, by the imposition of an equlibrium paradigm alien to Marx, that this conclusion must be suppressed.

The relation of such debates to Marx's own thinking arises from a divergence initially highlighted by Marx in the *Poverty of Philosophy* (p73), between two determinations of the value of money which at that time he designates the 'intrinsic' and 'nominal' value of money: the intrinsic value is the labour time embodied in it through production and the nominal value is the labour time which it represents in exchange with other commodities. The distinction between these two alternative determinations of the value of money remains throughout his work.

Marx's insistence that in general price diverges from value rules out the idea that the labour time embodied in the money commodity directly measures the labour time for which it exchanges. As **Rodriguez** (1995:0000) explains: 'It is not guaranteed that the value *represented* by money coincides with the value *contained* in it. The possibility of this divergence, which constitutes the

specificity of the money form of value, is the basis for the development of the symbol of money: long before gold is replaced by currency, gold (as money) is already a symbol whose symbolic value is divorced from its actual value.' The issue which future debate then needs to resolve is how, and in quantitatively how much, labour is actually represented by money.

There is a common feature of all those approaches to the transformation problem which interpret the value of money as, in some sense, the labour time which money represents in exchange: namely, they demonstrate that Marx's reasoning can be rendered coherent with his conclusions. The significance of this finding is that, as **Kliman** (2001) argues, the allegation of 'logical inconsistency' which is standard among Marxists and non-Marxists itself is itself found to be inconsistent and false, a fact which is fundamental to the study of Marx's ideas not only in economics but in politics and social analysis generally. However, the various interpretations vary in the completeness of their ability to reproduce Marx's conclusions. Kliman argues that simultaneous interpretations fail to reproduce a series of conclusions which the temporal interpretation succeed in, namely that mechanisation itself can reduce the profit rate, that variations in living labour performed affect the profit rate, that the profit rate is invariant to distribution of profit that the profit rate is affected by luxury industries, and that inputs lacking value before production transfer no value.

The criterion of coherence with Marx's thinking is of course not identical to the criterion of coherence with observed reality. However, if Marx's thinking can be rendered coherent, it opens a new and challenging prospect for Marxism, namely, the possibility and necessity of testing, against reality, 'Marx's Marxism' – of attempting to ascertain the applicability of what Marx actually asserted, instead of re-interpretations of what he asserted which amount to theories distinct from his own.

Marx's order of presentation: value theory and the nature of credit money

The new approaches to transformation do not as such address the issue implicit in Heinrich's argument and explicit in Arthur's writings, concerning the order of presentation, and specifically whether Marx's derivation is itself flawed in introducing labour prior to money as the 'common third'. This can usefully be examined in the context of a parallel debate; whether Marx erred in opening his presentation with the assumption of commodity money, when in developed commodity money it appears that credit money has taken over many of the functions of commodity money

Marx's reasons for his distinct order of presentation are outlined towards the end of the Introduction to the *Grundrisse* 'The so-called historical presentation of development is founded, as a rule, on the fact that the latest form regards the previous ones as steps leading up to itself, and, since it is only rarely and only under quite specific conditions able to criticize itself … It would therefore be unfeasible and wrong to let the economic categories follow one another in the same sequence as that in which they were historically decisive. Their sequence is determined, rather, by their relation to one another in modern bourgeois society, which is precisely the opposite of that which seems to be their natural order or which corresponds to historical development…The order obviously has to be (1) the general, abstract determinants which obtain in more or less all forms of society, but in the above-explained sense. (2) The categories which make up the inner structure of bourgeois society.'(G107-108)

That which differentiates 'modern bourgeois society' from others is neither the existence of money nor the existence of commodities, but the fact that all wealth takes the commodity form. The commodity form, however, contains basic abstract features present in all societies where it exists: use-value, exchange value, being the product of labour. Money, however becomes a different thing under capitalism: specifically capitalist money includes *credit money* and all manner of monetary or near-monetary instruments: commercial credit, bank credit, state credit, capitalised titles to income, and fictitious capital in general. To begin with money is to begin with that which is specific to capitalism.

In the first place, therefore, were Marx to have introduced money in the derivation of value of

Capital I and *Zur Kritik* he would run the risk of making a *specific form* of money, arising from developed capitalist society only, the presupposition of the category of value which he intended to be general to all societies in which the commodity appears. Instead, he chose a route which allowed his choice of money to be *arbitrary*, in the sense that a change in the assumption about what serves as money does not affect the development of the category of value. He can thus write that gold is chosen as the money commodity 'for simplicity' which clearly indicates that the subsequent theory has no special dependency on this choice.

Secondly, however, as **Lapavitsas** notes, his subsequent enquiry into credit and fiat money reveals a real issue which non-Marxist theory has not satisfactorily addressed: whether either fiat or credit money can fully overcome the commodity base on which money actually rests in capitalist society, either generally in history (cf **Vilar, Mandel**) or today where gold remains, as **Matsumuto** and **Germer** recognise, a significant element of international reserves that has not actually been abolished despite the formal abandonment of convertibility.

Criticisms such as Schumpeter's make no sense when measured against the enormous attention Marx paid to credit and banking both empirically and theoretically. The *Grundrisse* begins, and *Zur Kritik* further develops, an extended discussion of the banking theories of his time and in particular to a closely-argued exposition of the fallacies in the Currency School (**Torrens**, **Overstone, Clay, Norman**), the precursor of Quantity Theory of Money.

The problem is, to the contrary, that Marx wishes to put credit money in its proper place in the logical development of his categories. Marx clearly considered that it would mystify the nature of the commodity if, instead of beginning from its most abstract features – use-value, exchange-value and being a product of labour – we defined it not in terms of the 'universal, abstract determinants to be found in almost every society' but in terms of anything specific to capitalist society. These objects in a 'higher stage of development' are to be explained after explaining the specific system that sustains them, without presupposing them. To put it another way, if Marx started with money, credit itself would have no explanation; it would be its own presupposition. The questions 'For *what* is credit extended? With *what* is a debt repaid?' would be meaningless.

We should observe at the outset that in Marx's analysis, the ability of anything to function as money is not in the first place determined by whether it is produced by means of labour. It centres on the particularity of money and whether it satisfies needs distinct from the need for abstract exchangeability. Money consists within itself of a contradictory combination of use-values: the general use-value of functioning as means of exchange, and the particular use-value of its material form. Commodity money can function as money because of a commutation between the form of money and the form of treasure, without the requirement of an intermediate act of purchasing the treasure, which provides for the hoarder the guarantee that at the point where the money is again to be launched into circulation, it will retain its purchasing power by virtue of the value intrinsic to the use-value with which it commutes, and which arises from a source other than its abstract capacity for purchase. The distinguishing feature of what Lapavitsas terms 'money as money' is that it must retain its value, in order that it may serve as a store of value. The question concerning all possible substitutes for gold or 'commodity money' revolves around the question 'can they function as a store of value'?

The issue as regards credit money can therefore be broken down into two distinct questions and this is how the debate appears: (1) as **de Brunhoff** asks, does Marx's analysis place credit money and metallic money in a unitary framework? That is, does the place assigned by Marx to metallic money in the development of his analysis contradict the subsequent development of credit money? (2) does the capitalist system actually require the metallic reserves which, as **Matsumoto** and **Germer** note, it certainly still retains and to which it certainly still assigns a monetary role?

Both credit and fiat money undoubtedly function, for much of the business cycle and in much of the world, not only as means of payment but as store of value, in that they form a component of reserves. Their capacity to function in this way hinges on their convertibility into other forms of money independent of circulation, and it is at the point when this convertibility is suspended by

monetary crisis that they lose the full function of money. Like the convertibility of money and treasure, the 'Convertibility' of credit money is not governed by simple exchange, by its capacity to purchase, but by the co-existence of two use-values in a single object. However, what use-values co-exist in credit money? Credit is, by definition, a guarantee of conversion into alternative monetary instruments, but *at a future time* and this is its 'use'. Moreover the question that plagues monetary theory is hence, into *what* is credit money convertible? Itself? Marx's approach is dedicated to a logical progression that removes all traces of circularity from the treatment of this question, and it seems greatly mistaken to understand this as ignorance or neglect of one of the central questions of economics.

The *Kritik* itself broaches the question in a quite systematic manner in its discussion of money as means of payment. Marx distinguishes symbols of commodity money or token money – including fiat money which he treats as a form of token money, a mere representative of state reserves – from credit money which arises when debt, which arises naturally from commerce, circulates as money. Credit money includes, and under later capitalism reduces to, bank credit and banknotes. Tokens simply represent the underlying monetary base and their purchasing power is governed by the simple quantitative ratio between the notes and the monetary base.

This distinction has led to confusion concerning Marx's relation to the *Quantity Theory of Money* of which, in his time, the most prominent representatives were the (Torrens, Norman, Clay – cf C185), opposed by the *Banking School* (**Steuart**, **Tooke, Fullarton, Gilbart**) whose views he respected and whose works he studied attentatively.

Marx and Ricardo both recognise that commodities in general exchange sometimes for more than the labour in them and sometimes less; this variation is associated with crisis; in the boom, prices rise and in the slump they fall. But Ricardo argues, following **Hume**, the variation arises from variations in the quantity of both gold and the notes representing gold, taken together. This doctrine of the currency school is the precursor of the modern quantity theory. For Marx this is almost nonsensical since in establishing a price gold serves merely as a standard, not as a medium; actual circulation is achieved by tokens, coins, paper, debts, and so on. Price fluctuations arise from variations in the demand for commodities and the changes in the quantity of gold or any other medium in the country merely reflect this.

In **Moore's** (1988) terminology this makes Marx appear an extreme horizontalist, arguing as if the money supply completely accomodates demand for the medium of circulation. However it is not so straightforward because of his approach to fiat money and his distinction, already mentioned, between fiat money and credit money. 'Paper money issued by the state and given a legal rate is an advanced form of the *token of value…Credit money* belongs to a more advanced stage of the social process of production and confirms to very different laws.' (C116) Token money – which includes legal state money – obeys strict quantitative laws; if a hundred notes are issued to represent an ounce of gold then each note will represent one-hundredth of an ounce in circulation: 'whereas the quantity of gold in circulation depends on the prices of commodities, the value of the paper in circulation, on the other hand, depends solely on its own quantity.' (C119) But credit money is governed by the demand for *payment*, separate from the circulation of commodities as such.

In this sense, the over-issue of notes will lead to inflation. As **Lapavitsas** (2000) points out this applies only to fiat and not to credit money. Nor, indeed, does it apply to commodity money. It is a source of confusion to treat Marx as a Quantity Theorist in respect of fiat money. Paper money inflation arises, for Marx, only for strict fiat money which stands as a symbol of an actually-existing reserve of money capable of serving as a store of value; in this case, the quantity of the underlying reserve which an individual note represents is given by the strict proportion between the quantity of symbols in circulation, and the size of the reserve.

None of Marx's reasoning therefore recapitulates the argument of the quantity theory and it is for this reason that he can place the demand and supply of *credit money* on an altogether different footing. Credit is issued in response to the demands of circulation and accumulation, not just at the whim of the state, and therefore in the first place, it returns when payment is due; secondly its

quantity rises in times of boom when capital seeks impetuous expansion, when prices are rising and when financial instruments appear to promise high returns; it falls in times of slump when prices are falling and when the issuers of credit seek refuge from risk, when obligations cannot be met, and when credit instruments most closely tied to accumulation begin to lose their value as the anticipated incomes fail to materialise.

A developed Marxist analysis of credit money in the modern world, implicit in Marx's writings, therefore requires, on the basis of the analytical distinctions laid out in these writings, the complete integration which Marx clearly sought between the process of accumulation and reproduction as a whole and the functioning of credit and financial capital within it, recognising their reciprocal and mutually-determining relations.

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