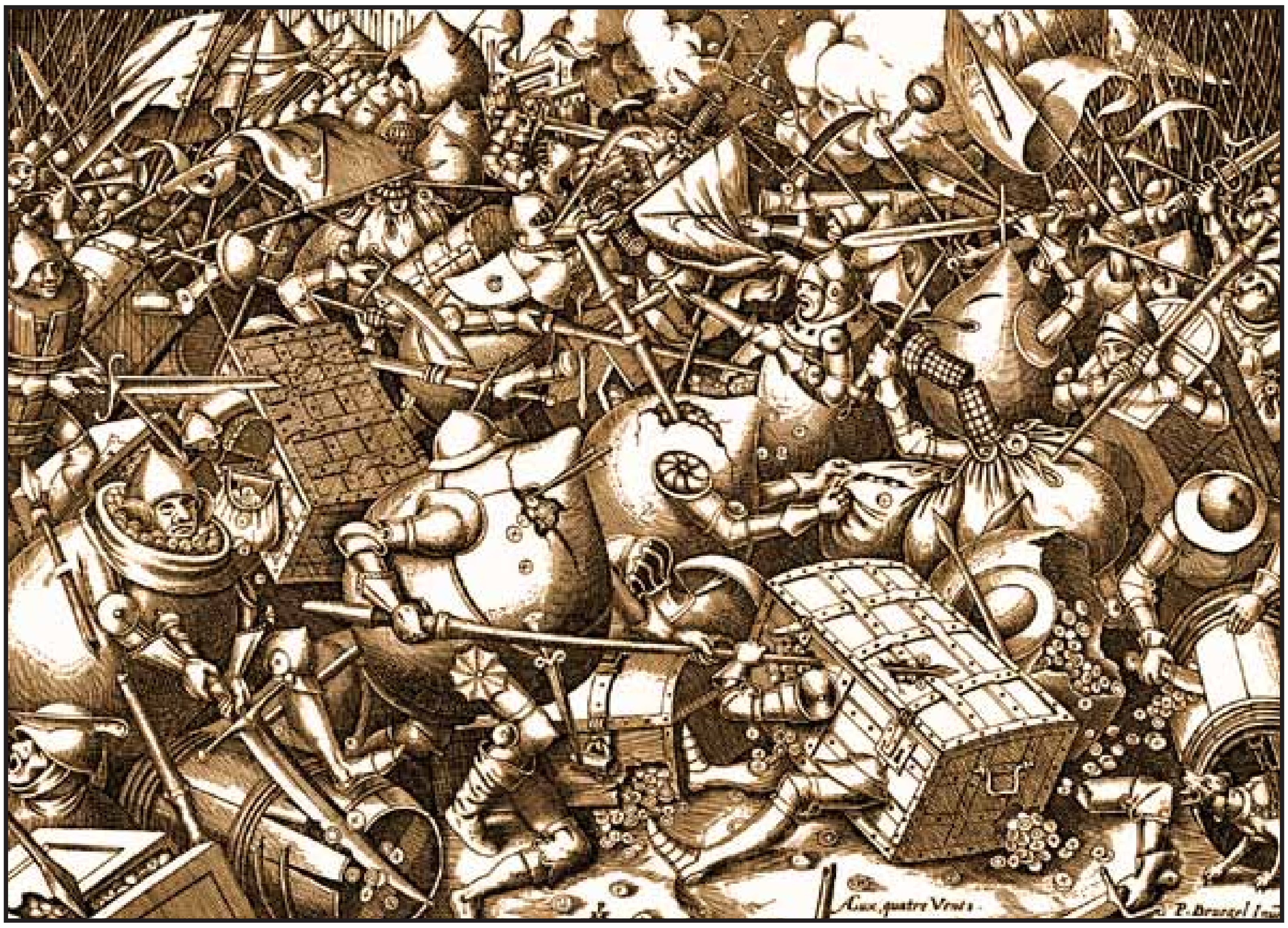
THEORY

The decline of money

If we are to understand the present crisis we need to grasp the decaying relationship between money, production and value. **Hillel Ticktin** discusses the growth of fictitious capital and impossibility of getting money to make money



Money: but can you call it capital?

The problem when looking at Marx's analysis of money is that he discusses it everywhere. Right from the beginning in the *Economic and philosophic manuscripts* (1844) there is a detailed discussion of money, though in completely different terms from what we see later. In the *Grundrisse* (1857) we have another discussion, which goes on right the way through. And, of course, in *Capital* itself (1867-83) this is continued in great detail. In other words, a huge volume of space would be needed to do justice to all that Marx writes about money. It is not as though he can be accused of repeating himself in all these works. So the most I can do here is give my own understanding on what he did write and piece together various statements as an introduction to the subject.

Let us start with the *Economic and philosophic manuscripts*, where money is examined from the point of view of power. 'Power' is a word that Marx hardly ever uses in his work, but he uses it here in relation to money. As soon as one thinks of it, it seems very obvious that what he is talking about is the way in which money, seemingly, can transform the human being from A to B - if the process can be paid for. You can pay to look like somebody else, you can pay to look lean and lovely, you can pay for scriptwriters, so people think that you are a great orator coining famous phrases (such as "military-industrial complex", which, of course, was not invented by Dwight D Eisenhower, but the president's speechwriter). So money has this amazing ability to transform the apparent form of things a notion that anticipates Marx's ideas on 'commodity fetishism'. The peculiarity of money is its seeming ability to do almost anything. In connection with this he quotes Shakespeare and Goethe - it is interesting that he links literature very closely to the issue - and in the case of Shakespeare the source is *The life of Timon of Athens*, which is supposed to be Shakespeare's most 'leftwing' work. If it is possible to say such a thing.

The power of money lies in its ability to become the driving force within the society. It is from this point of view that Marx tries to understand it: what it is, where it comes from, how it is employed. The point, of course, is the form of the commodity - as exchange-value it becomes dominant within the society. When we say 'form', we are talking about the way in which society changes the way to produce wealth. In pre-capitalist modes of production there were different forms, but in capitalism it is exchange-value in the form of the commodity.

Universal equivalent

Money is defined by Marx as the "universal equivalent". Now just think about what this means. He uses this term in the first chapter of *Capital*, as he goes through the different forms of interchange. The "universal equivalent" argument is based on the fact that the exchange-values of commodities interrelate through money. Of course, this can only apply to modern society, because before this it is quite obvious that in ancient societies or under feudalism or the Asiatic mode of production there was no commodity that could interchange with everything else, as there is under capitalism. In other words, from this point of view, money only fully comes into being with capitalism. The term 'exchange-value' can only be usefully employed in a society where it is dominant - where there is a universal equivalent.

It is not that there were no gold coins before capitalism. It is not that there were no forms of exchange or personal credit. But clearly it all existed on a lower scale and was not universal. The unique feature of capitalist money is its ability, in principle, to exchange with everything. Its final form is described by Marx as "world money", which he says comes into being in the 16th century. It certainly did not exist before.

There is a difference between the universal equivalent and the "general equivalent". The general equivalent implies there is a measure of exchange, but that it is not generalised to the whole of society and all possible commodities. To a degree one can always find exceptions even within capitalism itself, but where certain commodities are excluded from potential interchange the term might apply. So, for instance, one could imagine a Stalinist society where the means of production were nationalised but everything else was not - in which case there would be commodities, but the product of nationalised industries would be regarded differently. In such circumstances one might say that 'money' fulfilled the role of 'general equivalent'. So in China today one might argue that money functions in this way.

Another example one can take which makes very clear the nature of the universal equivalent is the Soviet Union. Some people have tried to argue that there was a general equivalent, but I think that even this is very hard to sustain. When the Soviet Union collapsed, the economists who had praised Stalin and said how wonderful the system was then declared that the USSR had never had money - which was quite correct. If you had a rouble you could exchange it for some object if you were prepared to stand in a queue. Which was more important: handing over the rouble or standing in the queue? The latter, of course. So what does it mean to have the rouble under those conditions? It could not be used as a means of planning and if, say, a member of the elite wanted a car, they would get it by direct order, similar to how they received their grocery supplies. So the rouble may have looked like money, but it was no such thing. To qualify as money it must fulfil the role of universal equivalent. It has to be able to command commodities.

If one takes the apogee of capitalism as 1914, money at that time could, in general, exchange throughout the world. Insofar as there were countries where that did not apply, it was because there was no exchange-value at all in those societies. It is the same with China today. On the one hand, China is used by the bourgeoisie and, on the other, it is regarded as a problem. Why? It is not because the Chinese are not pro-capitalist. It is because China is outside the capitalist system to the degree that practically all the main means of production are owned by the state. Countries that partially or wholly fall outside the world market must be opposed because by its nature capital has to expand through money and to the extent that money is not money there is a problem for the world market, for capitalism.

Since capitalism's apogee, one could argue that money has been in decline. One can speak of certain commodities being excluded from the world market, and in that sense money is going out of being. If one thinks about it, that is what one should expect: money comes into being, over time exhibits itself in its fullest form and then begins to go out of being, as I believe is happening now.

What lies behind exchange-value is value itself and what constitutes value is abstract labour. Without abstract labour there can be no value, no exchange-value and therefore no money. That was the situation in the Soviet Union, where there was no real money. Similarly in feudalism there was no abstract labour. So the nature of money in such societies was highly restricted. One is talking more about money coming into being rather than already existing. That becomes obvious when one considers the serf who performed services, did not have to be paid and yet could be entirely within subsistence. Insofar as there was trade, it was not based on production or value at all. So one is also talking of value coming into being.

In other words, one cannot talk about value as if it has always has existed. Not even in capitalism was there value based on abstract labour from the beginning. Quite evidently, while in the early period there was factory production in, say, the Italian city-states, what existed was mainly artisan labour. Abstract labour was very limited. It is only with the industrial revolution that abstract labour can really be said to exist. The logic is that the fullest development of money only occurs with the fullest development of capitalism - and capitalism develops to its fullest only with industrialisation. Before that period money exists only in a limited sense - it is necessary to study its role as a separate historical entity. Therefore those Marxist economists who say there can be a *general* theory of money, covering all modes of production as some sort of abstraction, are in my view talking nonsense. There can only be a theory of money in relation to capitalism: capitalist money.

Evolution

The next point relates to the evolution of money, which begins to come into being with the end of feudalism. If you start with the proposition that money is the root of all evil, then you are not saying very much. The fact is that the coming into being of the sale of labour-power, as opposed to slavery or serfdom - that is to say, forced labour - marked a tremendous step forward for humanity. Again the comparison would be with the Soviet Union, where there was a species of forced or semi-forced labour.

It is true that under capitalism labour is indirectly forced. Marx actually does refer to wage labour in such terms. But it is different, in that wage labour gives the worker a degree of freedom that does not exist under the directly forced labour of feudalism and slavery. When market fundamentalists or market 'socialists' make such statements, they have a point in relation to the past, but not in relation to the present. However, it is certainly the case that the introduction of the market and of money represented a step forward. I did not make this up, by the way: this is what Marx argues.

In the *Grundrisse* Marx spends some time talking about the different stages of independence and he sees the introduction of money as a providing a new possibility that did not exist under feudalism. Of course, we know that such independence is limited - the theory of commodity fetishism plays a crucial role in understanding its limits. Nevertheless, the provision of money, the sale of labour-power, the possibility of the movement of labour - all that was a step forward. No-one should have any problem in making this point - after all, we also said that this progressive period has now come to an end. Marx says capital raises productivity and that is the price humanity has had to pay in order to reach the abundance required for socialism. Through money it also provides a level of independence that would otherwise not have been the case and provides a springboard effectively to go beyond that, to a society where the individual is truly free.

That is the evolutionary aspect of money, which is not usually discussed, but which I think is essential to understanding its nature. Marx discusses it in terms of a measure of value, which he separates from a standard of prices. (Obviously there is a difference between price and value and Marx went into quite some detail on why that is the case.).

Circulation

The second function of money that Marx describes is as a medium of circulation which can lead very easily into finance capital.

Marx makes a distinction between the circuit C-M-C, where commodities exchange for commodities through money, and M-C-M', where in capitalism money is an end; in this form of circulation the beginning and end of the circuit is money, and not use values. Here money is invested, and commodities are manufactured and sold for a greater quantity of money. This process in fact remains part of the evolution of capitalism to the present day. Of course, in M-C-M' the aim is to make money, and this may be done via raising productivity. Today, however, money can be made without doing so, although this is hardly a sudden development. Marx says in the *Grundrisse*: "The accumulation of knowledge and of skill, of the general productive forces of the social brain, is thus absorbed into capital, as opposed to labour, and hence appears as an attribute of capital, and more specifically of *fixed capital*, in so far as it enters into the production process as a means of production proper. *Machinery* appears, then, as the most adequate form of *fixed capital*, and fixed capital, in so far as capital's relations with itself are concerned, appears as *the most adequate form of capital* as such."[1]

You will notice that Marx refers to "the most adequate form". In other words, he was not shy about using abstract words and as a materialist he did not think one could speak of a concept playing a controlling role.

Marx goes on: "In another respect, however, in so far as fixed capital is condemned to an existence within the confines of a specific use value, it does not correspond to the concept of capital, which, as value, is indifferent to every specific form of use value, and can adopt or shed any of them as equivalent incarnations. In this respect, as regards capital's external relations, it is *circulating capital* which appears as the adequate form of capital, and not fixed capital."[2]

Now Marx does not resolve that or go into a discussion of how it could be resolved. He says that the selling of commodities for money stands in contrast to simply trying to make money from money, from circulation. This is still adequate to the concept of capital, but now the surplus appears to leap freely from the sphere of exchange, not the sphere of production, and the capitalist gets their profit in circulation. The problem, of course, is that the profit must originate in production, from M-C. But here Marx is providing a basis to talk about finance capital as a separate entity: a part of capitalism that has broken away.

Accumulation

I say this in order to give the background to the discussion of finance capital which took place 20 or 30 years after Marx died. It is inherent in Marxist theory that the processes of production and circulation will probably break apart. But they will only break apart when the capitalist decides they just want to make money rather than do anything else. The aim, of course, of the whole process of accumulation is to make more and more money - when Marx originally referred to the power of money, he was really talking about the fact that the aim of a capitalist society is to make as much money as possible. Accumulation becomes an inherent drive within capitalism that cannot be reduced, removed or abolished. So if there is any problem in the production process, it is logical that capital would turn to the simple process of making money from money in an attempt to control the process of accumulation. And this is the third function of money: as a means of accumulation, of making more money. This is where the theory of credit originates.

Having said all that, the natural form of money would be a commodity which could itself be produced with labour-power and would therefore have its own value. And that, of course, is gold. Gold remained the basis of the world monetary system until the World War I, when Britain came off the gold standard. As you know, today there is no gold standard. There is no question that the rightwing market fundamentalists, starting under Reagan, have wanted the restoration of gold - books have been written about the importance of restoring gold in lieu of paper money.

The difference between the two is that paper money is issued by governments and controlled by governments. It is effectively a nationalised form of money. It is not a spontaneous form, as with gold. And it has all the attributes of a nationalised form - it is controlled by the government and the ruling class, but is subject, in the developed countries, to the electoral process. It is not surprising therefore that there should be a propaganda drive to remove money from this uncertainty.

No reason is ever given, by the way, why money has to be controlled by the governor of the central bank rather than being subject to a democratic process. Why it has to be run by a so-called technocrat, who is, like every other technocrat, a fully paid up member of the ruling class. This has been part of the attempt to ensure that the issuing of money is more closely controlled by the ruling class. In the absence of the gold standard there had to be a central bank and its board of governors appointed by the government in the form of a nationalised institution. But nationalised control stands in contradiction to the nature of capitalism itself. Fairly evidently, by controlling money, the expansion or contraction of the economy can be controlled, up to a point.

Fictitious

However, this nationalised form means that money is not really money as we understood it. One cannot say that £1 is equal to so much abstract labour. It is decided by governments and whomsoever is actually dealing with the money supply - obviously too the class struggle plays an important role. We have seen in the recent period so-called 'quantitative easing' - the massive issuing of cash - but interestingly it has not had much effect. Which, of course, indicates that one cannot just take money out of its context. The reason why it has not had much effect goes back to finance capital: the corporations and the wealthy literally have too much money; they have nowhere to invest it. So the issuing of a lot more money can make no difference.

This is connected to an argument referred to by Marx in great detail in *Capital*: how one can relate the quantity of money to the price level and to value. Ernest Mandel pointed out that on one level Marx accepts the quantity theory of money, but on another he rejects it.[3] MV=PT is the straightforward bourgeois formula for the quantity theory, where M is money supply, V is velocity of circulation, P is price level and T is transactions.

The basic idea is that one can expand M, but if V is low it will have no effect, which is actually the case today. When the velocity of money circulation is low, then one can pump in any amount of money and inflation will not result - that is standard bourgeois economics. The question is, what role does money circulation actually play in Marx's analysis? It does not act as an independent entity, despite the insistence of bourgeois economists: it is a reflection of the economy as a whole, a second-order concept. That is why the huge input of money by governments can make no difference. It has not caused inflation, as one might have expected, because the capitalists are not investing the extra money - they are not prepared to expand.

What results is a huge pile-up of money - $25.9 trillion dollars is being held by just one bank[4] under administration! What does one call such sums? It is money, but is it capital? Marx calls it "fictitious capital" - it proceeds through M-M', and, since it has not gone back to value, it has not returned to exploit the worker. So in effect you have fictitious profits too. To repeat, today there is an abundance of money, as opposed to capital.

Capital is used by the capitalist class to invest, to accumulate, to make more money, to raise productivity, but none of that is happening. The bourgeoisie is just sitting on this money - and is being charged by the banks for the privilege. The result is stagnation. Money now appears to stand over society, *against* society ●

Notes

1. K Marx *Grundrisse* Harmondsworth 1973, p694: www.marxists.org/archive/marx/works/1857/grundrisse/ch13.htm.
2. *Ibid*.
3. "This does not mean that in the case of paper money, Marx himself has become an advocate of a quantity theory of money. While there are obvious analogies between his theory of paper money and the quantity theory, the main difference is the rejection by Marx of any *mechanical automatism* between the quantity of paper money emitted, on the one hand, and the general dynamic of the economy (including on the price level), on the other" (E Mandel, Internet Archive: www.ernest-mandel.org/en/works/txt/1990/karlmarx/6.htm).
4. www.bnymellon.com/about/companyprofile.html gives the figure of $1.26 trillion under management and $25.8 trillion under custody or administration; the latter figure is shown as $25.9 trillion for the third quarter of 2011, however, at www.bnymellon.com/news/factsheet.pdf.