Reuten, Geert (1988), The money expression of value and the credit system; a value-form theoretic outline, Capital & Class no. 35, 121-141

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The money expression of value and the credit system: a value-form theoretic outline

In most of Marxist economics the theory of money is grounded in commodity money. This grounding calls for reconsideration in the light of recent debate over the Marxist theory of value and recent analysis of developments in the capitalist monetary institutions. It is shown in this paper that money, credit money and a fully developed credit system can be conceptualised at the level of abstract theory, without resort to commodity money. It is also argued that this resort at the level of abstract theory is inappropriate from the point of view of method.

● The aim of this paper is to provide a systematic account of money starting from its most abstract determination. In particular the purpose is to theorise credit money, without having recourse to commodity money. First the general theme of the paper will be introduced, in reference to recent theoretical debate and development. After that follows a brief methodological introduction and an overview of the further contents of the paper.

In orthodox economics after the middle of the 20th century, money is either absent, or it is a commodity money, or its existence is taken for granted. Even if money is conceived to be of crucial significance in a capitalist economy, its existence is not theorised from within and at the level of the foundation of economic theory. If theorised at all, then only the functions of money are theorised ('Money is defined by its functions' – Hicks, 1967: 1). In Marxist economics money is theorised at the level of the abstract foundations of the theory. More specifically it is theorised along the lines of Marx (in particular Marx, 1867). The most important characteristics of this theorisation of money are, first, the grounding of money in commodity money and the derivation of credit money from it (for a lucid exposition see de Brunhoff, 1973). Secondly, money is conceptualised prior to the conceptualisation of capital and capital accumulation (cf. Bellofiore, 1985: 72-73). Thirdly, the separate treatment of the

concepts of money and money capital (cf. Harris, 1976: 153-154). These characteristics are of course closely connected, and in fact they all derive from the conceptualisation of money at the level of the commodity (and relatedly, the way the commodity itself is introduced – cf. Reuten, 1988).

There are two issues that call for a reconsideration of the grounding of money within Marxist theory. The first is the debate in the 1970s over the Marxist theory of value. For the neo-Ricardian strand in this debate (itself situated between a Sraffian and a labour-embodied theory of value – cf. de Vroey, 1982: 39-44) there is perhaps less need for such a reconsideration. A foundation of money in commodity money seems quite consistent with it. But this is far less so with the other strand, the abstract-labour theory of value (the Rubin School). Within this approach there seem to be no grounds for privileging commodity-money to be the measure of abstract labour, rather than any other expression of value, such as credit money. Therefore, commodity money cannot consistently be theorised at the most abstract-general level of theory (but rather, for the purposes of e.g. an historical account of money, at a more concrete-particular level of theory).

The second issue calling for a reconsideration of the conceptualisation of money is the theorisation since the second half of the 1970s, of the post-war development in the capitalist monetary institutions (led by the French Marxist monetary school, stemming from de Brunhoff & Cartelier, 1974; de Brunhoff, 1976; and Aglietta, 1976; for a more recent treatment see Lipietz, 1983; in the UK the work of e.g. Ergas & Fishman, 1975; Harris, 1976; Innes, 1981; Coakley & Harris, 1982; and Evans, 1985, can be mentioned). Without any doubt all of these authors stress the major importance of credit money for the development, and many of them conceive it to be *the* capitalist money par excellence. Nevertheless, this is again not reflected in the abstract theorisation of money. The way this anomaly is usually covered, is to introduce credit money via an historical treatment of money – from commodity money to the evolution of credit money. Of course there is nothing wrong with an historical description in itself, on the contrary, but historical description cannot be a substitute for abstract theory; and historical order need not correspond to logical order.

The need for reconsideration of the foundations of the theory of money was recently stressed by Bellofiore (1985). He argues that whilst the Marxist theory of value has both a synchronic and a dyachronic level of analysis – hence it is designed to explain capitalist development as well as crisis – the theory of commodity money is constructed only at the synchronic level.

He concludes that:

> The essentiality of commodity-money in Marx derives from the fact that in his theory the introduction of money is first aimed at underlining the opposition equilibrium – crisis at a synchronic level, before taking valorization and accumulation into account. This first step conditions all further developments in *Capital*'s monetary theory. . . . An important task is to verify . . . whether the abstract labour theory of value can be reformulated without commodity-money. In either case, the link between (credit) money and accumulation must be introduced into Marxian theory. (Bellofiore, 1985: 73)

Whilst Bellofiore argues for the need of reconsideration from the point of view of a Schumpeterian reading of Marx, the reconsideration below is written from the point of view of Hegel's *Logic* (1817). In particular it is based on a form-theoretic dialectical method. Whilst such a line of argumentation is not absent from Marx's work (especially Marx, 1859; 1867[1] Appendix, and 1939, more so than in the third and fourth editions of *Capital* I, and *Capital* II and III) it has been highlighted some years ago by Backhaus (1969) (see also Eldred & Roth, 1978; Eldred & Hanlon, 1981; Eldred, Hanlon, Kleiber & Roth, 1982/85; Eldred, 1984: introduction; and Eldred, 1984a). I shall start with some remarks concerning this method insofar as it is relevant to the current paper (these remarks summarise the section on method in Reuten, 1988; for an extensive account see Reuten & Williams, 1988: part one).

Method and overview

The social phenomena around us (oppression, wealth, poverty, deflation, Thatcherism, or any other list of them) have manifold determinations. The object of social theory is to grasp these diverse phenomena as concrete, as interconnected. That is to grasp them as the 'concentration of many determinants, hence unity of the diverse' (Marx, 1903: 101; cf. Hegel, 1833: 83).

If these are interconnected, and hence if systematic theory can be applied to these phenomena, then they must have common determinants that *unite* them and nevertheless make them *different* from each other. The task of social science is to theorise this interconnection.

In the end there must be an abstract notion from which this difference in unity may be conceptualised. (The most abstract is of course Hegel's notion 'being'.) Thus the starting point of the presentation of the theory is an abstract universal notion. But this does not spring from the air. The starting point is the result of a

process of inquiry, of critical appropriation of empirical perceptions and existing theories (cf. Marx, 1867: 102; 1903: 100).

But thinking cannot conceivably make anything of such an abstract universal notion (such as 'being'), other than by thinking its abstract negation and its abstract particularisation. In both cases (negation and particularisation) opposed concepts are applied to the *same* thing or notion, and in this specific sense these opposites are contradictions. In this sense also, to think these things and notions is to articulate their *doubling* (that is, the universal doubles into the universal and its opposite universal, or into universal and particular). (E.g. at a somewhat lower level of abstraction, useful objects and activities double into use-value and value; in capitalism useful objects are both these at the same time and hence they are contradictory. The value-capital opposition is an example of particularisation.)

But contradictions can by themselves have no existence. The theory has to show how the abstract contradictions can have concrete existence (in capitalist society), that is, theory has to determine their conditions of existence. This is the way the presentation of the theory moves forward; by the transcendence of contradiction and by providing the ever more concrete *grounds* – the conditions of existence – of the earlier abstract determination.

In this forward movement the earlier abstract determination is not dissolved but transcended in the conditions of existence. Or, the ground provides the unity of the opposed moments. (Thus, e.g., the existence of money grounds more concretely the existence of value, hence the use-value-value opposition.) But at the same time it is a further, more concrete determination of the difference, a difference previously posited only in itself ('an sich', potentially, implicitly), as it now appears. So the differences that were previously not set forth as such now come into (abstract) existence. (Thus, e.g. the particularities of money can only be posited at the level of money and not at that of value.) But the ground appears at this new level itself as an abstract existence showing the contradiction that it cannot exist for itself ('für sich', actually), hence the presentation has to move on in order to ground it in its turn, so as to provide its conditions of existence (Hegel, 1817: §§120-124; 1833: 81-83). (Thus below e.g. the abstract existence of money, requires itself to be grounded in more concrete conditions of existence, i.e. the credit system.)

And so on, until the presentation claims to have reached the stage where it comprehends the existing society as actual, as actuality ('Wirklichkeit'), in the sense that its conditions of existence have now been determined such that it is indeed actual, concrete self-reproducing or endogeneous existence, which requires no external or exogeneous determinants for its systematic

reproduction (see further below).

The presentation then is one of conceptual reproduction of the concrete in successive steps (levels of abstraction); if successful, the presentation is able to grasp the concrete as mediated by the theory (that is to theoretically reconstitute the empirical 'facts', which were at the basis of the initial inquiry). Such a process of inquiry and reconstruction can of course never be posited as definitive and completed.

But that conceptual reproduction may only be possible insofar as the phenomena theorised are *necessary* to the existing society. That is, to the extent that these necessarily determine the existing society as a system. (For example, whilst money may be necessary to existing society, commodity money may be only contingent to it. If that is the case then commodity money cannot be explained as co-determining the internal *unity* of many determinants, thus not as necessary, but only as an *external* determinant.)

Therefore, levels of abstraction may further be characterised by degree of necessity versus degree of contingency of the elements theorised. It is the purpose of the theory to single out what elements of the object of inquiry may be theorised as *necessary* to the object, and what elements are (merely) *contingent*. Of course the more the presentation moves towards lower levels of abstraction, the more (historically) contingent elements have to be incorporated.

The presentation in this article pre-supposes the theorisation of value, the most abstract determinant of capitalist society; §1 below merely summarises this. In §2 the existence of value is grounded in the abstract existence of money. At this level no further concretisation (in commodity money, accounting entries or whatsoever) can be given, nor are they required at this level. It is the introduction of valorisation and accumulation of capital (§4) that further concretise the existence of money. The theorisation of valorisation and accumulation of capital – themselves the conditions of existence of value and money – are again presupposed in this article. The existence of accumulation then is first grounded in the existence of credit. From it derives the doubling of money into money of account and means of payment and the doubling of money into means of payment and money capital (§6). Next, credit is concretised in the existence of banks, credit money and ultimately Central banks (§§7-9). The last paragraph then provides an abstract determination of the interest rate consequent upon the way money capital has been theorised.

Together this conceptualisation provides the monetary conditions of existence of value, valorisation and accumulation of capital. Tendencies of accumulation and the existence of the

state and economic policy may consistently be theorised from this starting point (see Reuten & Williams, 1988). Only then, at a much lower level of abstraction, can we take into account concrete and contingent historical developments such as, e.g., the concrete complexities of financial markets. But at a lower level of abstraction also, could we go into the concrete historical analysis of the contingent guises that money may take such as – in this view – commodity money or plastic money for that matter. The existence of commodity money is not incompatible to the theory proposed here; the point is that commodity money cannot be theorised as the abstract-general existence of money. Nevertheless it is possible, as is shown below, to theorise at a fairly abstract level such notions as 'hoarding', without having recourse to commodity money.

The presentation below does not of course start from scrap. The theorisation of money has a history longer than any other subject in economics. Consequently many of the issues by themselves will be familar. But it is the order of their presentation and their particular interconnection that should render their comprehension.

The systematic order is indeed important to the argument. In order to distinguish the main argument from its further explication and location in the literature, the following arrangement of the text has been adopted: In the numbered paragraphs (§1, §2, etc.) the systematic argument is set out. Mostly these are followed by additions (§2a, §2b, etc.), which further explain the systematic argument, and locate it in the literature. In a few cases these also merely replace footnotes.

The money expression of value

§1. The value-form

The capitalist mode of production belongs to a category of modes of production with the general characteristic that units of production and units of consumption are separated. This dissociation of human activity necessarily requires a moment of association, recognising the useful objects produced, as socially useful objects, and with that the labour performed independently, as social labour. Exchange aligns production to consumption, it is the first condition of existence of this association. In the particular capitalist mode of exchange, human activity and useful objects are reduced to a unitary form, or common denominator. Value is the *suis generis* of this common denominator. Thus the particular capitalist mode of association requires human activity and useful objects to take on the value form. Without them being validated as such, they are socially non-existent. With it, useful objects double into use-value and value, whence they are con-

stituted as commodities. Thus value is a social dimension; it is established in the market and it has *no* independent existence prior to exchange (such as labour-embodied in Ricardian and neo-Ricardian-Marxist theories). Nevertheless validation is anticipated during production, hence the production process itself is value-form determined. (For a more rigorous presentation of the contents of this paragraph, see Reuten, 1988).

§2. Money as general equivalent

Value is a general-abstract social dimension the existence of which is concretised in money. Because value is a common denominator, i.e. it has to commensurate heterogeneous entities, the first condition of existence of money is that it is *measure of value*. Next, if it is to be a measure of value beyond accidental exchange, and if value is to be anticipated during production, money necessarily has to be a fiduciary *store of value*.

Thus from the point of view of value-form theory, it being measure of value is the first determination of money, store of value being its proximate condition of existence.

The second condition of existence of money as measure of value is that it can be the *medium of circulation* (medium of exchange). An entity can be measure of value, because it proves and reproves itself to be the actual medium of circulation. Money as means of circulation reinforces it being a fiduciary store of value. Because the degree to which sales and purchases synchronise is undetermined, the means of circulation has to bridge, at least pro tem, this non-synchrony as a fiduciary store.

These three determinations of money constitute it as the general equivalent.

Over and against the use-value of a particular commodity, money has no essential content – neither bullion, nor paper, nor plastic, nor accounting entries – rather its essence is that it is pure form, a one-dimensional quantity. In this sense money has no value, only an infinite number of exchange-values, one against each commodity (cf. de Vroey, 1981: 187). It is the substantial existence of value: a pure transcendental form.

§2a. As mentioned in the introduction, this conceptualisation of money diverges from most Marxist as well as Marx's (1867) grounding of money in the concept of *commodity-money*. However, in Marx (1867) there is also ample evidence of a form-theoretic line of argument. But he does not push his line of argument to its logical conclusion that the essence of money is pure quantitative form. Nevertheless, in Marx (1867) – as well as of course in many other treatises on money – we find the same three determinations (measure of value, store of value, medium

of exchange/means of circulation) though in different order. (For a good exposition of Marx on money, see de Brunhoff, 1973.)

A grounding of money in commodity money – even if credit money is given a predominant place – is all the more remarkable with authors such as e.g. Aglietta (1976) who not only have the benefit of hindsight from an era in which money has sloughed-off all necessary connection with any commodity but who also adhere to an abstract-labour theory of value. (Of course within a labour embodied theory of value, even if wrong from our point of view, commodity-money could be theorised consistently.) De Vroey (1984: 382-383) on the other hand – who works within the Aglietta type of approach – rejects a grounding of money in commodity money: 'Money in its basic determination (i.e. legal money) cannot be considered a commodity.'

§2b. Money is determined at this abstract level as fiduciary, whilst being the measure of value, a store of value and medium of circulation. That is the answer to the question what money is. Any further answer as to its concrete existence is premature. (Why would one have to press on further at this stage? Would one also, if we discuss the concept animal, say, but what is it, is it perhaps my cat Mitsy you mean to describe? In the same vein one might perhaps think of pieces of metal or cigarettes or pieces of paper or electric pulses as money. But that is beside the point – without being necessarily wrong. It is the concept money we are after. It is beside the point inasmuch as it is beside the point to think of Mitsy when it is the concept animal we are after. Nor does history help us out here. When I was four years old I had a lamb, and she certainly represented the concept animal to me. Unfortunately she is dead. Anyway my concept of animal has changed since then. Similarly we know of course that in history, gold has been money, and that perhaps it represented the concept of money at that time.)

§2c. This form-theoretic conceptualisation of money does not tell us anything about the historical emergence of money. From a systematic point of view, being measure of value is the most abstract determinant of money, even if historically some entity was (accidentally) the medium of exchange before it was generalised as the measure of value.

§3. Store of value and the possibility of hoarding

Because money is a store of value it can also be withdrawn from circulation for reasons other than non-synchrony of sales and purchases. That is, money can be hoarded.

§3a. Hoarding is introduced here consequent upon the level of abstraction where a fully integrated banking system – see §9

below – is blended out. Hoarding is not-consuming *and* not-investing. Our primary point of application for hoarding is the possibility of withdrawing money from circulation by industrial capital when commodities have been realised. It is not the same thing as saving: savings may circulate when the money is lent out (cf. Robertson, 1933). Nevertheless savings might of course be hoarded. Hoarding to the extent that it is not savings, then holds up investment. Thus the application of hoarding is a Marxist (hoarding versus investment) rather than a Keynesian one (hoarding versus lending). (See also de Brunhoff, 1973: 42-43.)

§3b. We have indicated that being a store of value is a necessary determinant of money. Hicks (1967: chapter 1) has argued that money could adopt the medium of exchange function without being a store of value. Harris has shown that in Hicks's argument, which is based on market clearing in a single day (hence at the end of the day all bank accounts are reduced to zero) a confusion as to time occurs, because 'although bank balances in his model cannot be carried forward to the next day, they do act as store of value *during* the market day' (Harris, 1981: 10). Thus Hicks in fact aims to assume a synchrony of sales and purchases, in which case money indeed does have to be a store of value for it to be the medium of exchange. But as we have indicated, even then it would still be a condition of existence of money to be the measure of value (cf. Hicks, 1967: 10). Note however that for Hicks (1967: chapter 2) money has to be store of value for it to be 'full money'.

§4. *Valorisation and accumulation of capital*

Accumulation of capital

Value is the driving force of production, hence production ideally takes on the double form of technical labour process, and abstract-labour process or valorisation process.

Valorisation is the expansion of capital (M-M′). As it is not consumption but profit which is its driving force, the logic of valorisation is that it be further expanded (M-M′-M″): first by means of an increase in control over the labour process by capital, and secondly by accumulation of capital.

§4a. This §4 summarises Reuten & Williams, 1988 (chapter 2, section 1). It is merely the abstract existence of accumulation that is posited, and not the development of accumulation. The first is a reserve of labour. This condition is not pursued in this paper. The second is the credit system (see the next section). These two conditions are on a par. (The parity of these conditions is well revealed – at a lower level of abstraction – in the order of de Brunhoff's 1976.)

§5. *Money and the expansion of the circuit of capital*

The grounding of the accumulation of capital, in particular the expansion of the circuit of capital, concretises the concept of money. In the absence of credit the validation of commodities produced, requires the actual presence of money. Accumulation and the expansion of the circuit of capital therefore further determine money quantitatively.

§5a. To say that 'in the absence of credit' validation requires the presence of money is somewhat dubious. Money already involves the fiducian (the guarantee) that is is the general value equivalent. Implicitly – but not yet set forth – it is generalised credit. Therefore there is no discrete separation between §5 here and §7 below when 'credit money' (a near tautology) is introduced. To the same extent that money-in-general is to be present to validate commodities, credit money must also be present. However, conceptually credit-in-general (§6) is prior to credit money.

§6. *Credit: money of account, means of payment and money capital*

The circulation of commodities does not necessarily require the actual presence of money. The circulation of money, equally, does not necessarily require the actual presence or even the previous production of commodities. Each of those forms of circulation involves a different form of credit, trade credit in the first case and production credit in the second case.

With *trade credit* commodities are sold and delivered but the payment is deferred by contract (bill of exchange). Payment, however, is not necessarily to settle each contract; chains of credit may arise. With trade credit, money as a means of circulation doubles into *money of account* and *means of payment*. Only when credits and debts do not balance is it necessary that money is actually present as means of payment.

With *production credit* commodities and sold and paid for, but the delivery is deferred until the commodities are produced. Or, what materially amounts to the same thing, money capital is lent out (by the buyer) against a share in the future profit (interest). So with production credit, money as means of circulation doubles into *money capital* (or finance capital) and *means of payment*. (See the top part of Figure 1.)

The important similarity of both these forms of credit is that they are based on past production and on an *accumulation* of commodity capital (in the case of trade credit) or money capital (in the case of production credit). No money circulates which is not the result of previous production and valorisation. Another

way of expressing this is to say that both these forms of credit are on an aggregate level based on a closed circuit of money (cf. however de Brunhoff, 1973: 80-81, 94n, who seems to suggest otherwise). Thus it is merely the title to capital that is *substituted* from the one holder to the other.

§6a. We can see now that credit is implicit in every act of market exchange. It is a matter of time. Depending on what is handed over first, commodity or money, it is always implicit trade or production credit.

§6b. With credit the piece of paper that is handed over as a promise, or the oral promise (in both cases a contract), adopts the role of medium of circulation within a private relationship.

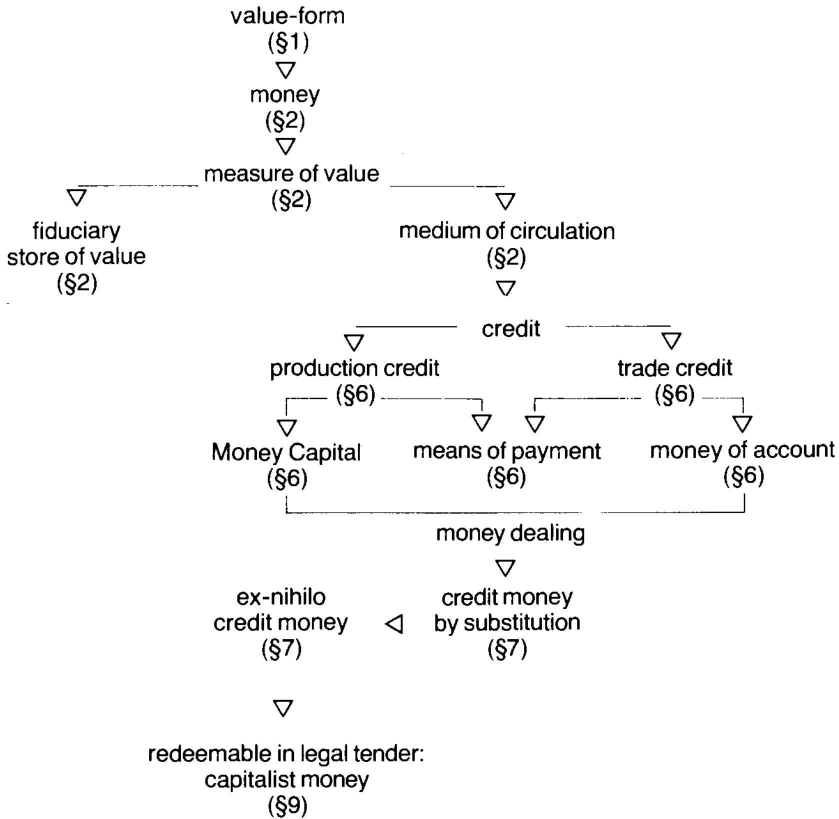
§7. Banks and the issue of credit money: private pre-validation

The non-synchrony of sales and purchases, the clearing of chains of trade credit and the bringing together of the demand for and supply of money capital, generate the activity of money dealing (or, financial intermediation) by banks. As a potentially profitable activity money dealing itself takes on the value-form, hence it is constituted as money dealing capital.

Other institutions than banks participate in this intermediation. The differentia specifica of banks is, of course, that they are not merely credit brokers, but also issue *credit money* which is accepted as medium of circulation. This activity of banks is necessary to resolve the limit to the expansion of capital, which would otherwise be imposed by a fixed quantity of money. The existence of credit money is predicated upon the doubling of the medium of circulation into money of account, means of payment and money capital. Its acceptance as medium of circulation is predicated upon it being an, at least temporary, fiduciary store of value. Whilst credit money originates in a private relationship between bank and client, it subsequently acquires a social character, by circulating as a representative of the general equivalent (Aglietta, 1976: 335).

Credit money is either issued by *substitution*, or it is issued against loans, that is created *ex-nihilo*. The crucial difference between these is that the former is an act of mere money dealing and this credit money in circulation is substituted for money which *has* validated previous production. But ex-nihilo created credit money in circulation is an *anticipation of production and realisation* in the future. The bank which advances this credit money on the basis of a loan performs a *private pre-validation* of production, whilst the actual social validation only occurs when the anticipated production is *realised* (de Brunhoff, 1976: 46; see also Aglietta, 1976: 332-335). Whilst this kind of credit is similar

Figure 1:
Scheme of the interconnection of money and the credit system



to production credit in that it is an anticipation of production, it is not based on a compensatory withdrawal of money from circulation, thus its circuit is not closed (cf. de Brunhoff, 1973: 94; de Vroey, 1984: 385). It can therefore act as a lever to the expansion of accumulation of capital.

§7a. Very often the existence of the credit system – introduced above and briefly developed below – is conceived as merely a matter of *costs*, and not as a necessary condition of existence of the expansion of capital accumulation in a developed capitalist system. This is also the way Ergas & Fishman (1975: 7) introduce the credit system. For them 'servicing the stock of the money-commodity' represents costs. And for them, as for Marx, these costs are 'reduced by the centralisation – in the government and the banks – of the tasks to which they correspond.'

> Credit in capitalist production arises from the formation of gaps between income and expenditure and of reserve funds of money in the circulation process of capital. The primary function of the credit system is to reduce this quantity of capital held in the form of money, and this it does first by redistributing surplus holdings of cash so as to finance deficits, thereby ensuring the continuity of the production process; and second, by centralising reserve holdings of cash.

At the basis of such a view is a commodity money approach. Nevertheless Ergas & Fishman appear to introduce another approach alongside it. This is reflected in a dichotomous divorce of the first four from the last three sections of their 1975 paper. It is remarkable that they introduce this other approach not from an elementary discussion of money and capital, but via a discussion of the price level and the 'Banking School'-position, for which the basic function of bank credit is to provide working capital for industry. Rather by the way they add that, 'The base of the credit system can consist of a non-commodity money, issued either as fiat money or in response to changes in the volume of net government obligations' (p. 10).

§8. The social expression of private pre-validation

In pre-validating future production of a capital by way of ex-nihilo creation of credit money, the bank of course anticipates the success of the borrowing capital. If the borrowing capital is successful in that the pre-validation is followed by production and actual *social* validation of commodities (i.e. the sale of commodities), then the credit money returns to the bank, and the credit is cancelled. (It should of course return to the bank together

with a share of the industrial profit, the interest.) A necessary condition for this is that the ex-nihilo created credit money manages in the event to close the circuit which it breaks initially, the break being the influx of credit money into the circuit. The point is that the pre-validation of the production of a capital, thus the anticipation of the expansion, has to be confirmed at some stage by the real expansion of *other* capitals. Expansion indeed can only be validated by expansion. Other capitals must accumulate, say, for the sake of argument, the value equivalent of the credit money that they received from the pre-validated capital in payment for, e.g., means of production, or, indirectly for consumer goods out of wages, and thus effectuate extra demand. In this case credit money is indeed a successful medium of circulation.

If the borrowing capital is not successful, there are three possibilities. (In any case the bank now suffers a loss in that it foregoes the principal as well as the interest agreed upon; thus in any case it affects the bank's solvency. The cases differ in the consequences it has on the bank's liquidity.) The *first* possibility is that whereas the borrowing capital fails, other capitals do nevertheless accumulate and expand. Thus the credit money that other capitals receive from the borrowing capital keeps on circulating in an expansionary way. Therefore whilst the bank's solvency position is affected, its liquidity position is not. The *second* possibility is that the credit money keeps on circulating in an inflationary way. Thus the expansion of other capitals (and the expansion of the capital circuit as a whole) is a fictitious expansion. In this case the equivalent of the bank's loss (the principal) is socialised in that it affects all holders of money (as well as creditors and debtors). Again, whilst the bank's solvency is affected, its liquidity is not. The *third* possibility is that other capitals do *not* expand at the same time. In this case other capitals withdraw the value, received directly or indirectly from the borrowing capital, from circulation. That money must now act as a store of value (unless other capitals use it to cancel their own credit with their banks). For that to be so, credit money must be a full and not merely a temporary store of value. In this case the original bank's creditors may withdraw money, the effective general equivalent, from that bank, and should the bank's liquidity be insufficient, this may provoke chain reactions, eventually the extent of bankruptcy.

Because a fragmented banking system is particularly vulnerable to this underlying threat, there is a tendency for banks to extend their domain of operation and to collaborate in inter-bank credit. Thus the Central Bank becomes the banker's bank.

§8a. From a purely monetary point of view, it could be argued that will full capacity utilisation, even one initial pre-

validation always has an inflationary effect. However, this is compensated for by a concomitant deflation when the additional (pre-validated) production is performed and realised, and when on the basis of this expansion the production is continued. This may be illustrated with a simple example. A bank provides production credit to some enterprise x. Call the aggregate of all other enterprises y. The credit is used to buy additional labour-power (with the income from which the labourer then buys consumer goods) and means of production. This drives up prices and profits of y. If this price and profit increase of y does not stimulate (extra) capital expansion of y, prices remain at the increased level. But the production of capital x (or its equivalent) would not then be realised, and money would be withdrawn from circulation. Only if the price and profit increase of y stimulates extra expansion, would the extra production of (say) enterprise x be realised. It may then cancel its credit and be left (if successful) with a profit. Next period's capital x (which now requires less credit) meets the expanded production of y, and y's prices may decrease again.

§9. Central Bank money and its issue as pseudo-social validation: the banking system as a fully developed credit system

For the ongoing expansion of capital and its validation, the expansion of money as medium of circulation is necessary. A fragmented banking system issuing credit money against debts, provides these necessary means of circulation. However, as long as credit money is not accepted as a full store of value, it cannot function as full money, so it may be stripped of its function as medium of circulation (§8).

Therefore, the reproduction of money as general value equivalent and its conditions of existence as measure of value, means of circulation and store of value (§2) is further concretised as *Central Bank money*. The Central Bank derives not only from its being the banker's bank (§8) but also from its legally enforced status granted by the state (see Williams, 1987; and Reuten & Williams, 1988: chapter 7; cf. de Brunhoff, 1976: 40-48; and Evans, 1985: 103). Within its domain Central Bank money potentially functions as full money, because it is the legally *enforced* currency. It is a store of value because it is the enforced means of payment – legal tender.

Because of this state backing, the attempt to prevent bank crises is at the discretion of the Central Bank. But in doing this the Central Bank sustains the private pre-validation of the banks. The effect is that it reinforces credit money as a fiduciary representative of the general value equivalent on a par with Central

Bank money. With it – and *ultimately* to the extent that the Central Bank guarantees that credit money is redeemable in Central Bank money – the credit system is fully developed within the banking system. (Of course this guarantee may only apply to selected credit monies, namely, to those banks that conform to the rules set by the Central Bank.) In particular, therefore, credit money develops into a full store of value, and hoarding takes the form of deposit accounts, expressed by a decrease in current accounts (credit cancelling) or an increase in deposit accounts, resulting in an increase in the bank's reserve ratio.

But with this guarantee of redeemability, the Central Bank shifts the frictions inherent in the private pre-validation by banks (§8) to the aggregate social sphere.

We have seen that, when private pre-validation by a bank, through the ex-nihilo creation of credit money, is not turned into actual production or when it is not realised in the market, the bank makes a loss. If this loss is covered by the Central Bank, through the provision of its money against a loan to the bank, the private loss (whilst remaining a private loss) is balanced by a social loss. The non-realisation is then expressed in a devaluation of the currency and inflation, that is, the private loss is socialised – equally shifted to all holders of (credit) money (cf. Evans, 1985: 103-104). So the initial rupture of the circuit by the pre-validation – which is not closed by the integration of extra production – now is closed by a decrease in the purchasing power of a unit of money. The additional money issued by the Central Bank, socially validates the private pre-validation, but because it does not operate as a realisation of private labour and the commodities produced by it, it is rather a *'pseudo-social validation'* (de Brunhoff & Cartelier, 1974; Aglietta, 1976: 350; de Brunhoff, 1976: 46-47).

With it, the condition for some money functioning as the general value equivalent, namely that it is measure of value, medium of circulation *and* store of value, is eroded. The association of private labour through the value-form (§1) then comes into conflict with its state-enforced mode of regulation. This conflict and the contradictions to which it gives rise is played out in the articulation of the accumulation tendencies and state economic policy (cf. Reuten & Williams, 1988: part four).

§9a. Not only is commodity money merely an historically *contingent* guise of money (and so should be dispensed with when theorising the abstract determination of money) it is also incompatible with the concept of a fully developed credit system as presented in §9. More specifically, uncompromising pseudo-social validation by Central banks is not possible when Central Bank money is redeemable legal tender. It is only possible when money is stripped of all connection with any commodity. On the other

hand, such uncompromising pseudo-social validation also implies that credit money gains (legal) redeemability into Central Bank money.

The Central Bank's guarantee that credit money is redeemable in Central Bank money is a condition of existence of a fully developed credit system. (In this context de Vroey (1984: 383) uses the phrase of 'all bank money being unified by central bank money'.) This condition need not be established formally. It and the particular institutional relations between banks and Central Banks, including the rules the former have to obey for this guarantee to be met, are contingent.

Indeed the redeemability of Central Bank money in yet another entity, e.g. gold, does not fit a fully developed credit system, nor therefore a fully developed monetary system, nor therefore a fully developed capitalist system. From that perspective such a system did not exist prior to the 1930s or rather – internationally – prior to the 1970s.

§9b. As we have indicated, all money is fiduciary, and this also applies to Central Bank money (cf. Hicks, 1967: 59). The Central Bank provides money with a certificate so to say – as it also did in the old days via its imprint on coins – which, for what it is worth, of course depends on fiducian (the personnified guarantor) in the Central Bank.

§10. Banks, money capital and the rate of interest

With the banking system as a fully developed credit system, credit money is constituted as the capitalist money par excellence, in that it overcomes the monetary limits to the accumulation of capital.

With respect to the accumulation of capital no sensible borderline can be drawn between money and money capital (cf. §6). The expression of both money and money capital is in bank accounts and their transfers:

1. Central Bank money typically tends to be deposited with banks, and money in circulation typically takes the form of current account transfers. Withdrawing money from circulation (i.e. hoarding) is typically expressed in deposit account increases (or, alternatively, in credit cancelling) and implies an increase in the banks' reserve ratio and a downward pressure on the interest rate, and vice versa for the expansion of money in circulation.

2. Lending and borrowing of money capital between non-banking capitals is reflected in current account transfers. Bank intermediation has the same effect: it is reflected first in substitution of current accounts for deposit accounts (by the lending capital) and next by current account increases (for borrowing

capital against a loan). Withdrawing capital from investment equally implies an increase in the bank's reserve ratio (also expressed in a disparity of lending and deposit accounts) and a downward pressure on the interest rate, and vice versa.

Whilst the interest rate is determined by the bank's reserve ratio, that ratio itself is determined by the demand for money (as well as by monetary policy – not introduced here). And the demand for money is derived again from the rate of accumulation and the rate of profit on industrial capital. Fundamentally then, the rate of interest and the amount of money in circulation are demand-determined. Ultimately banks and non-banking providers of money capital may only decide whether *to lend or not*, at any rate of interest.

§10a. Quite apart from the fact that we have not yet introduced the state, economic policy and the international monetary system, this abstract determination does of course not grasp the complexity of money and capital markets. It is also no complete theory of the determination of the interest rate. I rather want to indicate how a theory of the interest rate may be connected to the theory of money as proposed here. As Harris (1976: 145) notes, the category of interest has received little attention from Marxist economists, whilst Marx's writings on the matter 'are confused and at times appear contradictory' (p. 149). What nevertheless stands out from Harris's examination of Marx's work on the subject (Harris, 1976: 145-55), is that Marx denied the existence of a price (value) of money-capital 'around which the market rate fluctuates and which equals the market rate when supply and demand "coincide".' Thus in contrast to later neo-classical theory he rejected a 'natural' rate of interest (p. 147). Whilst §10 above is in conformity with such a view, it questions the usefulness of a borderline between money and money capital in this context (and here it is different from Harris's account, see pp. 1530155). Finally, the thesis that the rate of interest is fundamentally demand-determined is presumably in agreement with Harris's account (cf. p. 153), although he does not take it to the conclusion (§10) that ultimately suppliers may only decide whether to lend or not, at any rate of interest.

§10b. That there is no sensible borderline between money and money capital in the context referred to, is also made clear by de Vroey (1984: 387): 'We see it (money) as capital-money, the possession of which or the access to which is the preliminary condition for starting a private production initiative'. Further, the view that money creation is demand-determined is also stressed by de Vroey (p. 385) as well as by post-Keynesians such as Kaldor. Again as our discussion in §8 reveals, we also agree with de Vroey (1984: 388) as to the difference between our and the

Kaldor position in that the argument that the quantity of money is demand-determined, does not preclude the possibility of inflation to be generated via the quantity of money.

Summary

Money, credit money and a fully developed credit system can be theorised without taking resource to commodity money. Indeed to theorise commodity money at the abstract level of money in general, is to confuse a particular historically contingent expression of money with the abstract-general determination of money. This comes to the fore as an anomaly within Marxist theory, especially when recent developments in the monetary institutions are theorised.

In this paper the accumulation of capital is grounded in the credit system, as one of its major abstract conditions of existence. From the two forms of commercial credit – trade credit and production credit – money of account, means of payment and money capital have been developed. From these again we derived banks and credit money. Most important to the accumulation of capital is the unity of ex-nihilo created credit money and production credit, i.e. the private pre-validation by banks. It has been argued that the comcomitant break in the circuit of capital has to be closed by production and social validation of that production, otherwise the break takes the distorted form of inflation together with a decrease in the solvency of banks. But insolvency and eventual bankruptcy threaten this necessary pre-validation. This determines the grounding of the banking system in the existence of the Central Bank as the banker's bank. The Central bank reinforces credit money as fiduciary money. With it, the conflicts inherent in private pre-validation by banks, are necessarily shifted to the social aggregate sphere. Whilst the Central Bank in its role of preventing bankruptcy indeed provides the conditions of existence of continuous pre-validation, its lending to banks (a precaution against the failure of social validation) now takes the form of a pseudo-social validation. Generalised inflation results, and with it, money is stripped of its ability to be the measure and a store of value. Pre-validation by banks is reflected in their reserve-ratio. In a fully developed credit system, no sensible borderline can be drawn between money capital and money (in typical form they are accounts), and 'hoarding' (withdrawing money from circulation) is expressed through an increase in the bank's reserve ratio, and a downward pressure on the rate of interest. The rate of interest and the amount of money in circulation are demand-determined. Ultimately non-banking money capital and banks may only decide whether to lend or not, at any rate of interest.

The abstract of an earlier version of this article was presented at the 1987 CSE Conference. It arises from a long-term research project with Michael Williams of Brunel University. Many of the insights presented here, in particular those related to the elementary grounding of money, arose in discussion with him.

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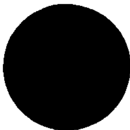

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