Chapter 31: Money Capital and Real Capital: II (Continuation)

'Loan capital' is money available to be used as interest-bearing capital. Marx now turns his attention to where this comes from. To do this, however, we need to differentiate between, on the one hand, 'the mere transformation of money into loan capital', and, on the other, 'the transformation of capital or revenue into money that is transformed into loan capital.'[1] 'It is only the latter […] which is related to the genuine accumulation of industrial capital, and only this can involve a positive accumulation of capital for loan.'[2]

1 Transformation of money into loan capital

Under what circumstances is loan capital accumulated?

Through fluctuations in the rhythm of reproduction in the industrial cycle

Marx notes that 'loan capital […] is related to productive accumulation only by standing in inverse proportion to it […].'[3]

An 'overabundance' of loan capital can arise in two different stages of the industrial cycle (as discussed in the previous chapter):

(**a**) *in the immediate post-crisis phase*. Here, 'industrial capital in the […] forms of productive capital and commodity capital has contracted […]'; 'money capital that was formerly applied to production and trade appears as unoccupied loan capital […].'[4] The surfeit of loan capital expresses the *stagnation* of industrial capital, and thus 'expresses the exact opposite of genuine accumulation.'[5]

(**b**) *the 'flourishing' (second) phase*: 'at the time when improvement sets in but commercial credit still has little need for bank credit.'[6] Here money (loan) capital is increasingly applied but interest rates remain low.[7] Now, the surplus of loan capital expresses 'the relative independence of commercial credit from bank credit, resting on the fluidity of returns, short terms of credit and operations predominantly conducted with one's own capital. […] [T]he surplus of loan capital coincides with the renewed expansion of the reproduction process: it accompanies it without causing it.'[8]

In both these cases the presence of loan capital, in quantity, and with interest rates at a low level, promotes the expansion of the reproduction process. In so doing, it 'increases the portion of the profit that is transformed into profit of enterprise [as against interest].' Even when interest rates start to rise, this is still true, for this rise does not occur 'in relation to profit.'[9]

Through the development of the credit system itself

Loan capital may also be accumulated through what Marx calls 'purely technical means': through, for example as the expansion and concentration of the banking system, leading to economy in the amount of money held in reserve for circulation, in private reserve funds, etc, freeing up money available for loan.

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[1] Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p.626.

[2] C3, p. 626.

[3] C3, p. 626.

[4] C3, p. 626.

[5] C3, p. 627.

[6] C3, p. 626.

[7] '[…] [I]t is now the industrial and commercial capitalists who set terms to the money capitalist.' C3, p. 626.

[8] C3, p. 627.

[9] C3, p. 627.

Through the undertaking of public works

In this case (of railway construction, for example), money is advanced to banks before it is actually spent.

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Marx now investigates the relationship between the quantity of money available for loan, and the amount of money actually in circulation.

The mass of loan capital, i.e. money available to be lent as capital, is not the same as the mass of money in circulation, for this, including bullion, includes the banks' reserves.

(Tangentially, Marx distinguishes here between short-term variations in the rate of interest and this occurring 'over longer periods, [which are] […] conditioned by variations in the general rate of profit'.[10] The former are determined by the supply of loan capital.)

Given a high enough development of the credit system, money available as loan capital will exist in the form of bank deposits; evidently, a large amount of loan capital may exist in this form while the amount of money in circulation remains reduced.

Marx gives an example of the relationship between money in circulation and money existing as a deposit. A retail trader deposits £100 a week in her bank. The bank uses this money to pay out a part of a manufacturer's deposit. The manufacturer uses the £100 to pay her workers. They use it to pay the retailer, who deposits it again with the bank. At the end of twenty weeks, if she did not have to draw on this money herself, she would have deposited £2,000 in the bank, using the same £100.

2 Transformation of capital or revenue into money that is transformed into loan capital

Money-lending capitalists accumulate directly in money form; accumulation by industrial capitalists takes the form of an increase in the elements of reproductive capital.

The development of loan capital is a result of 'genuine' accumulation, and the profit that forms the source of accumulation for money capitalists is a deduction from total surplus-value produced: '[l]oan capital accumulates at the expense of both the industrial and commercial capitalists [through interest].'[11] The profit that money capitalists make, which is accumulated (i.e. turned back into capital), is first transformed into money capital for loan.

But all revenue (including industrial profit), whether designed for consumption or for accumulation, becomes available as loan capital (as a bank deposit) as soon as it exists in monetary form and is not immediately spent. All that is needed is that it form a deposit. But there is a minimum limit under which revenue cannot be transformed back into productive capital.[12]

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[10] C3, p. 631. He also differentiates variations 'between interest rates in different countries', which are brought about by 'by differences in profit rates and in the development of credit'.

[11] C3, p. 634.

[12] '[…] [T]he part of the money received from the sale of commodities that represents the realised value component of the commodities, which is equal to the wear and tear of the fixed capital, is not transformed back again into the component of productive capital whose loss of value it replaces. It settles down alongside the productive capital and persists in its money form. […] Once the fixed element – buildings, machinery, etc. – has expired, and can no longer function in the production process, its value exists alongside it completely converted into money, as the sum of the money precipitated […]. This money then serves to replace the fixed capital in kind […]. This money […] gives up its hoard form and again steps actively into the reproduction process of capital mediated by circulation only after it has been transformed back into new elements of fixed capital to replace the dead ones.' Karl Marx, *Capital*, vol. 2 (Harmondsworth, 1978), p. 526.