Chapter 32: Money Capital and Real Capital: III (Conclusion)

I Money capital[1]

Marx here (edited by Engels, of course) continues directly from where he left off in the previous chapter.

All revenue (including industrial profit), as we have seen, 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. 'The massive nature of the sum of money which has to be transformed back into capital in this way is the result of the massive scale of the reproduction process; but considered for itself, as money capital for loan, it is not itself a sum of reproductive capital.'[2] What does Marx mean?

That part of the surplus-value produced destined for unproductive consumption, although it is therefore not capital, exists, because it exists in money form, for certain temporary periods, as loanable money capital; that part of the realised commodity product destined to *replace* capital also exists for a period in money form and is also available, for a temporary period, as loanable money capital.

> Neither in one form nor the other does it in itself represent accumulation, even though its volume grows with the scale of the reproduction process. But it temporarily performs the function of money for loan, i.e. of money capital. In this respect, therefore, the accumulation of money capital must always reflect a greater accumulation of capital than is actually taking place, in so far as the expansion of individual consumption, because mediated by money, appears as an accumulation of money capital, since it supplies the money form for genuine accumulation, for money that initiates new capital investments.[3]

Regarding that part of profit (surplus-value) destined to be accumulated, this too is transformable into money capital if it cannot be directly and immediately relaid out: either because the sector in question is 'saturated'[4] with capital; or because it must reach a certain volume, given the technical conditions of production, in order to be so relaid out.

It may turn out that the accumulation of loanable money may exceed spheres of investment. Then we have a 'plethora'[5] of loan capital. '[T]his […] [overaccumulation of money available for loan] proves nothing more than the barriers of *capitalist* production. The resulting credit swindling demonstrates that there is no positive obstacle to the use of this excess capital. But there is an obstacle set up by its own laws of valorisation, by the barriers within which capital can valorise itself as capital.'[6]

It is important to grasp this. Money available for loan unable to find an outlet as *productive* capital will find a use elsewhere, as the existence of speculation, bubbles and the like demonstrates. But in this form it does not necessarily contribute to, and may even positively hinder, the process of capitalist reproduction.

'A plethora of money capital as such does not necessarily signify overproduction, or even a lack of spheres of employment for capital. The accumulation of loan capital simply means that money is precipitated as loanable money.'[7] Capitalist reproduction precipitates money, and if money is precipitated and not immediately spent

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[1] Where I insert my own subheads they appear, as here, in sans serif type.

[2] Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 637.

[3] C3, pp. 637-8. Marx goes on to talk about 'some special forms of the accumulation of money capital': capital may be 'set free' if there occurs a fall in the price of the elements of production and it is not possible for the industrialist directly to expand her reproduction process; in the case of merchant's capital, capital may be released in money form if there are interruptions in business; money capital may be accumulated by industrial and commercial capitalists who simply withdraw from the reproduction process.

[4] Marx's word: C3, p. 639.

[5] Again Marx's word: C3, p. 639. Marx uses the same term when discussing the 'overaccumulation' of capital (cf. C3, p. 359).

[6] C3, p. 639.

[7] C3, p. 639.

then it is available for loan. But this does not mean it will be advanced as new productive capital; and it certainly will not be if it can find an outlet with a higher rate of return. 'This process is very different from a genuine transformation into capital; it is simply the accumulation of money in a form in which it can be transformed into capital.'[8]

But it is not just 'normal' reproduction that precipitates money. Money can be accumulated because of processes independent of reproduction. It can even occur as a result because of a *breakdown* in normal reproduction. 'The very fact that the accumulation of loan capital is augmented by […]elements […] independent of genuine accumulation […] must lead to a regular plethora of money capital at certain phases of the cycle […].'[9] The more developed the credit system, the more true this is.

Money derived from wages (and rent) is also accumulated as money capital. Workers save; but, as Marx drily notes, capitalists in reality do not.

> [A]s capitalist production and its division of labour progress, the job of genuine saving and abstinence […] is left to those who receive the minimum […], and often enough lose what they have saved, as workers do when banks collapse. For the industrial capitalist does not 'save' his capital but rather disposes of the savings of others in proportion to the size of this capital; while the money capitalist makes the savings of other people into his capital, and the credit that the reproductive capitalists give one another, and that the public give them, he makes into his own source of private enrichment.[10]

Hence,

> [t]he final illusion of the capitalist system, that capital is the offspring of a person's own work and savings, is thereby demolished. Not only does profit consist in the appropriation of other people' labour, but the capital with which this labour of others is set in motion and exploited consists of other people's property, which the money capitalist puts at the. disposal of the industrial capitalist and for which he in turn exploits him.[11]

II Credit capital

Marx now turns his attention to what he calls 'credit capital'. He notes that the same piece of money can serve many times as loan capital. How often depends on, (1) how often it is used to realise commodity values and revenue in sales and in payments; (2) on economy in payments, i.e. on the degree of development of the credit system itself; and (3) on how fast money precipitated at one point as a deposit is sent out again as a loan.

To a great degree money capital is thus necessarily fictitious: a title to value, rather than representing value itself. Money functioning in the circuit of capital forms money capital when it is exchanged for elements of productive capital or paid out when revenue is realised, but it does not here form loan capital. For its possessor it represents means of payment and circulation. It only becomes loan capital when it is deposited. Now it exists as money. But as soon as it is lent it no longer exists as money for its possessor, for it now exists as a claim to money. A given piece of money may be transformed into loan capital repeatedly (whenever it is deposited), but it only exists as money once at any given moment. All the other times it only exists as a claim on money.

> The accumulation of these claims […] arises from a genuine accumulation, i.e. from the transformation of the value of commodity capital, etc. into money; and yet the accumulation of these claims or titles as such is still different both from the genuine accumulation from which it arises and from the future accumulation (the new production process) which is mediated by the lending of money.[12]

Once money capital is lent, for the lender it is no longer money; for the borrower it is money, but for the lender it is now a claim on (future) money.

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[8] C3, p. 639.

[9] C3, p. 640.

[10] C3, p. 640.

[11] C3, p. 640.

[12] C3, p. 641.

> *Prima facie,* loan capital always exists in the form of money, later as a claim to money, since the money in which it originally existed is now in the hands of the borrower in the actual money form. For the lender, it has been transformed into a claim to money, into an ownership title. The same quantity of actual money can therefore represent-very different quantities of money capital. Mere money, whether it represents realized capital or realised revenue, becomes loan capital by the simple act of lending it out, by its transformation into a deposit, if we consider the general form in the developed credit system. The deposit is money capital for the depositor. But in the hands of the banker it may only be potential money capital, lying idle in his safe instead of in that of its owner.[13]

With the development of capitalist production, the class of money capitalists grows. On the one hand, there is an increase in the number of rentiers ('retired capitalists', Marx calls them[14]); on the other, with the development of the credit system there is an increase in the number ofbankers, money-lenders, financiers, etc. More money capital becomes available, and with it there is a growth in the volume of interest-bearing paper, government bonds, shares, etc. With this grows too the demand for available money capital, since in the case of this, unlike in that of productive capital, once *A* sells a paper claim to *B*, *A* holds the money that *B* paid, while *B* holds the claim; but this claim is a claim on capital that no longer exists as money capital, and the claim is no longer on capital as such, but on the (future) income that derives from it.

All this leads to the development and growth of the money markets. 'The bankers put the public's money capital at the disposal of this gang of dealers on a massive scale, and so the brood of gamblers multiplies.'[15]

As we have seen, the rate(s) of interest is determined in part by the rate of profit. Over the course of the industrial cycle, as the rate of profit varies, so too will the various rates of interest.

If the rate of interest rate remains high for an extended period of time (rather than a high rate of interest over the short term owing to specific periods of pressure on the money market), this will be because the rate of profit is also high; but it does *not* necessarily mean that the rate of profit of *enterprise* is high. Capitalists who use more their own capital (who pay no or less interest) will realise the higher rate of profit. But for capitalists operating with borrowed capital may find that the profit of enterprise – the profit that remains to them after interest is paid – is low, or even falling. Enterprises once started cannot really be abandoned; operations conducted with credit capital (i.e. other people's money) may enjoy a high rate of profit which is speculative and prospective, such that a high rate of interest coincides with a high rate of profit but a declining rate of profit of enterprise.

A high rate of profit can lead to a rise in demand for money capital and a consequently higher rate of interest. But it is not a rise in demand for industrial capital that causes the rate of interest to rise, but a rise in the demand for money capital. In periods of crisis, the demand for loan capital rises because everyone borrows simply to settle commitments already entered into. In these periods, profit of enterprise may evaporate. In the post-crisis period, loan capital is demanded in order to be transformed into productive (or commercial) capital. But it is not the case that a simple rise in the demand for industrial capital raises the rate of interest. The interests of money capitalists and industrial (or commercial) capitalists do not have to coincide.

III Demand for capital and the rate of interest

Marx now looks at the relationship between a rise in the demand for capital, and the rate of interest. First, he considers wages.

In the immediate post-crisis period, loan capital is demanded in order to be transformed into productive capital, into means of production and labour-power. Demand for the latter thus increases. But insofar as it is the rate of profit that determines the prevailing rate of interest, a rising demand for labour-power can never be the cause in itself of a rising rate of interest, since higher wages are never a *cause* of higher profit (even though they may be one of its results). What may happen is that the higher demand for variable capital raises the demand for money

[13] C3, p. 642.

[14] C3, p. 643.

[15] C3, p. 644.

capital, which in turn raises interest rates. Wages may even rise: an increased demand for labour-power raises the price of this commodity just as it does any other, but without raising profits. Hence the market price of labour-power rises, more workers are be employed, while *at the same time* the rate of interest rises, this last because the demand for money capital has risen.

Should, under these conditions, the money capitalist, instead of lending out money, transform herself into an industrialist, that she would have to pay *more* for labour would not on its own increase her profit but would reduce it. It may be the case that under these circumstances her rate of profit may rise, but this will not have occurred because of a rise in wages.

In short, '[i]f wages rise for whatever reason, in otherwise unfavourable conjunctures, the rise in wages causes the profit rate to fall, although the rate of interest rises to the extent that the wage rise increases the demand for money capital.'[16]

Other than increased demand for labour-power, the post-crisis recovery period also sees an increased demand for means of production, for commodities. Naturally, an increase in the demand (relative to supply) for commodities raises their price; and if an industrial (or commercial) capitalist, operating on borrowed money, has to pay more for the commodities making up the means of production, she will have to borrow more capital, and, all else being equal, pay more interest. Insofar as borrowing more capital increases the demand for loan capital then, yes, this will cause the rate of interest to rise: '[t]he rate of interest can only be affected when the total demand for loan capital grows […].'[17]

But what has happened here is not that the rise in demand in relation to supply of commodity capital has caused interest rates to rise, but that the increased demand for money capital relative to supply has caused interest rates to rise. But an increase in the demand for money capital is not an automatic outcome of an increase in demand (relative to supply) for commodities. In increase in demand relative to supply for commodities may result in the same (or less) money being laid out for a smaller physical mass of commodities (should there occur a collapse in supply, for example, as in the case of harvest failure), in which case the demand for loan capital will stay the same (or fall). Even in this case, however, in which commodity prices will rise, the demand for loan capital may still rise on the speculation that prices will rise still higher.

During the crisis phase of the industrial cycle, the demand for loan capital is principally a demand for means of payment; under these circumstances, the interest rate can skyrocket, independently of the quantity of productive and commodity capital in existence.

[16] C3, p. 646.

[17] C3, p. 647.