Capital Volume Three, Part Five: A Summary

> The monetary system is essentially Catholic, the credit system essentially Protestant. 'The Scotch hate gold.' As paper, the monetary existence of commodities has a purely social existence. It is *faith* that brings salvation. Faith in money value as the immanent spirit of commodities, faith in the mode of production and its predestined disposition, faith in the individual agents of production as mere personifications of self-valorising capital. But the credit system is no more emancipated from the monetary system as its basis than Protestantism is from the foundations of Catholicism.[1]

Given the fragmentary nature of this part of the book, it may be useful to take a step back from the text and try to set out the key ideas in Marx's (and Engels') presentation in synthetic form.

* * *

We first need to be clear as to the distinction between money, on the one hand, and capital on the other. Money as money is the independent expression of a sum of value. Capital is value whose value is augmented in magnitude, is valorised. Money as capital – capital in money form – is thus money with the capacity of valorisation. But money as capital is only capital in virtue of what makes it capital, not in virtue of being money; and although capital may take the form of money, not all money is capital. The failure of the political economists of his time to grasp this distinction evidently infuriates Marx.

Amongst the functions of money are its functions of means of purchase, and means of payment. What is the distinction between the two?

In 'direct' commodity circulation money operates as means of purchase, i.e. it has to be present at the same time and the same place as the sale. But with the development of commodity production circumstances arise in which the alienation of the commodity and the realisation of its price become separated in time. When buying and paying become separated, money functions as a means of *payment*, rather than a means of purchase. Money now acts as a measure of value through the determination of the price of the commodity to be sold; and as a notional means of purchase, in the form of a promise to pay, itself sufficient to cause the commodity to change hands. (And importantly, to the degree that money functions as means of payment rather than purchase, the quantity of money in circulation will no longer correspond to the mass of commodities in circulation, for money which represents commodities withdrawn from circulation may continue to circulate while commodities circulate before their equivalent in money appears.) In turn, the function of money as means of payment in turn prompts the development of *credit-money*, money 'not based on monetary circulation, that of metallic or government paper money, but rather on the circulation of bills of exchange.'[2]

Now, money functioning both as means of purchase and means of payment mediates the exchange of commodities, but in so doing it functions both within the sphere of revenue and within the sphere of capital. In the sphere of revenue, money mediates the exchange of those commodities consumed by workers (and by capitalists): articles of unproductive consumption, expenditure of wages and non-reinvested surplus-value; in the

---

[1] Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 727.

[2] C3, p. 525. The banknotes circulating in Marx's day were themselves a form of credit money, insofar as they were convertible into gold. This phenomenon explains the curiosity that even today circulating currency – notes and coins – is recorded in the balance sheets of Central Banks as a liability, i.e. a debt.

sphere of capital, money mediates the circulation of those commodities that enter production as articles of productive consumption, as means of production. In the first case, in the sphere of revenue, money functions as money, but not as capital; in the second, in the sphere of capital, money functions *both* as money, and as capital.

For Marx, it is fundamental that the quantity of money actually in circulation is dependent on, one, its velocity of circulation; two, the sum of the prices of the commodities in circulation; and three, on the balances of payments that need to be settled: he is thus a vehement opponent of the 'quantity' theory of money, as expressed by, for example, Ricardo (and modern day monetarists), which postulates that, given its velocity, it is the quantity of money in circulation that governs the price level. For Marx the determination is reverse: an excess of money in circulation would leave the price level unchanged, for the excess would simply be withdrawn and deposited in the banking system, increasing the offer of available money capital, thus producing a downward pressure on interest rates. But Marx also notes that the quantity of money circulating in the sphere of revenue is determined differently to that circulating in the sphere of capital. In the sphere of revenue, given the small-scale and individualised nature of the exchanges involved, money as means of purchase predominates over money as means of payment. Thus, in a period of economic expansion, in which both workers' and capitalists' unproductive consumption rises, the demand for money as means of circulation rises too. But this is not the case in the sphere of capital, where money as means of payment predominates. Here, a period of expansion is 'a period of elastic and easy credit':[3] the demand for money as medium of circulation may rise in absolute terms, but Marx argues that relative to the expansion of reproduction it may even fall. But in periods of contraction the reverse happens: wages fall and prices go down, and the demand for money in the sphere of revenue declines, yet in the sphere of capital, as sources of credit begin to dry up, and the demand for money will consequently rise.

This last point is important, and for this reason. An increase in the demand for money in the sphere of capital does not indicate a greater demand for capital *per se*, only a greater demand for capital in *money form*. Capitalists who cannot realise capital in commodity form will demand ever greater quantities of money to act as means of purchase and payment, but this represents not a demand for capital but the existence of a glut of capital in non-monetary form.

> Dearer corn, rising cotton prices, the unsaleability of sugar on account of overproduction, railway speculation and crash, the flooding of foreign markets with cotton goods, the forcible export and import trade with India […] All these things [...] led to a rise in the demand for money capital, i.e. for credit and money. The increased demand for money capital had its origins in the course of the production process itself. But, [W]hatever the cause, it was the demand for *money* capital that made the rate of interest, the value of money capital, rise. […]. What people who had bought corn at 120 shillings per quarter lacked, when the price fell to 60 shillings, was the 60 shillings too much which they had paid, and the corresponding credit for this in loans with the corn as security. [...] [T]his enhanced value of money capital [i.e. higher interest rates] corresponded directly to the fallen monetary value of real capital (commodity capital and productive capital). The value of capital in the one form rose, because the value of capital in the other form fell.[4]

This is the basis of Marx's criticism of the 1844 Bank Act, which mandated the Bank of England to restrict the quantity of banknotes in circulation – beyond a certain minimum collateralised by the public debt – to the quantity of gold in its reserves. As Marx points out, in periods of contraction, when the Bank's reserves may be expected to be depleted, the Bank is obliged therefore to reduce the number of notes in circulation. But, precisely because of the effects of economic contraction on the demand for money noted above, the demand for means of circulation may in fact rise simultaneously, leaving the Bank no option but to raise the interest rate (to protect its own reserves of banknotes), hence exacerbating the crisis.

* * *

[3] C3, p. 579.

[4] C3, pp. 550-51.

The basis of the credit system is what Marx calls 'commercial credit', 'the credit that capitalists involved in the reproduction process give one another.'[5]

For example. A manufacturer of cotton yarn (*A*) owes money to a cotton merchant (*B*). *B* owes money to a cotton importer-exporter (*C*). *B* passes a promissory note to *C*; *C* uses the note to buy yarn from *A*, and *A* passes the note to *B* to settle the debt. 'The entire transaction then simply mediates the exchange of cotton and yarn.'[6]

The settlement of these claims depends on the *reflux* of capital. *A* eventually needs to settle the note passed to *B*; this is dependent, say, on the sale of cotton goods on the part of a manufacturer of such goods (*D*), who is a customer of *A*. The manufacturer may buy cotton yarn in exchange for another promissory note, but this note must be settled at some point. If the note issued by *A* falls due before payment on the part of *D*, cash will be necessary.

The limits to commercial credit are given, one, by how much reserve capital is held by the industrialists and merchants, and, two, by the scale of cash returns. 'The longer [...] [credit] run[s] for, the greater the reserve capital needed and the greater the possibility that returns may be diminished or delayed'.[7]

Commercial credit becomes extended and speculation grows with the development of labour productivity and large-scale production, since markets expand and become further removed from the point of production. In turn, '[t]he development of the production process expands credit, while credit in turn leads to an expansion of industrial and commercial operations.'[8]

But when contraction occurs, a surplus of industrial capital, in the form of unsaleable commodity capital, obtains. Credit contracts, because, one, capital is unoccupied; two, confidence is damaged; and, three, demand for commercial credit falls. But again, a surplus of capital in non-monetary form will provoke a demand for capital in money form, but this does not indicate an increase in the demand for capital, but only for capital in money form.

Now, if 'commercial credit' is that credit extended by capitalists to other capitalists, how is the capital that forms its basis accumulated? Marx notes that 'loan capital […] is related to productive accumulation only by standing in inverse proportion to it […].'[9] Hence, commercial credit, in the sense of an 'overabundance' of loan capital is principally generated through fluctuations in the rhythm of reproduction, over the course of the industrial cycle. The presence of this overabundance of loan capital coincides with a low interest rate and promotes the expansion of the reproduction process.

Given an advanced 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. In addition, as the credit system develops, all idle money that exists in any given time is caught up in it and becomes available as loanable money capital. All that is necessary is that it form a deposit in the banking system.

However, it may turn out that the accumulation of loanable money may exceed spheres of investment. Then we have what Marx calls a 'plethora' 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.'[10] Money available for loan unable to find an outlet

[5] C3, p. 610.

[6] C3, p. 610.

[7] C3, p. 612.

[8] C3, p. 612.

[9] C3, p. 626.

[10] C3, p. 639.

as *productive* capital will find a use elsewhere, as the existence of speculation, bubbles and the like demonstrates (and see the comments on 'fictitious capital' below). Capitalist reproduction precipitates money, and if money is precipitated and not immediately spent 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.

* * *

Although money is not *per se* capital, just because it is money, it is also true that any sum of money *could* function as capital, were it to be used by its owner as such. Thus a given sum of money in the hands of its owner exists as *potential* capital. But to function as *actual* capital, capital in money form must first be applied *as* capital: up to now, we have seen that this means it needs to be transformed into means of production and labour-power, and enter the process of production. Before that happens however, money which is to function as capital may first be lent, from one individual to another. The second individual (whom Marx denotes as the 'functioning capitalist'), who may apply the money as capital, will pay a price for the use of the money to the first, its original owner. This price is of course interest, which is, in effect, the price of the use-value of money's capital function.

Money which functions in this way, which is lent out to function as capital, is what we refer to as 'interest-bearing capital'. Its full circuit is this:

$$M - M - C \ldots P \ldots C - M^{\pi} - M^{i}$$

Where M^{π} is the original sum of money, M , plus profit π ; and M^{i} is the M plus interest. Under normal conditions, $M < M^{i} < M^{\pi}$.

For the money capitalist – the original owner of the money – however, the circuit is simply this:

$$M - M^{i}$$

Marx identifies two fundamental differences between interest-bearing capital and industrial capital (including commercial capital).

First, while industrial capital enters its circuit through the purchase of the commodities – means of production and labour-power – which will enter into production, interest-bearing capital enters its circuit, not through purchasing, but through being sold, its price being the interest, payment of which under normal conditions is normally deferred until the end of its circuit.

Second, while industrial capital only really exists as capital in production, and not in circulation, interest-bearing capital not only exists as capital in circulation but is only capital (as opposed to mere money) because it *is* capital in circulation.

Now, Marx is absolutely clear that interest-bearing capital functions as a commodity: it is sold, and it has a price (interest). Like any other commodity, when it is sold what is alienated is its use-value, and the use-value of interest-bearing capital is the capital function of money, the capacity of money to produce average profit. Unlike other commodities, however, who find their use-value destroyed through consumption, the consumption of the commodity of money capital *increases* its use-value.

But what of its price, the interest? How is this determined?

Interest is a 'share' of profit; the magnitude of the share is then obviously governed by the rate and mass of profit, i.e. how much profit there is, which is governed respectively by the general average rate of profit and the mass of capital deployed, and by the proportions in which this profit is divided into that part which remains with the functioning capitalist and that part returning to the original owner of the money. This second factor is subject to a double set of determinations. On the one hand, under conditions of normal social reproduction, the interest rate must be positive, and it must also be less than the rate of average profit. Were the interest rate negative, nobody would lend money; and were the interest rate higher than the average rate of profit, nobody

would borrow any. On the other, and within these limits, the rate of interest is determined by the interplay of the demand and supply of money capital and only by the interplay of the demand and supply of money capital. This sets money capital apart within the world of commodities.

Although the market price of a 'normal' commodity is determined by demand and supply, in the case in which demand and supply coincide, the market price of a commodity coincides to its price of production (cost price plus average profit). The non-coincidence of demand and supply determines divergences from the determination of the production price. In the case of money capital, however, *there is no law for supply and demand to produce a divergence from*. There is, for Marx here, other than the upper and lower bounds, average profit on the one side and zero on the other, no 'natural' rate of interest: what appears as such is simply the rate of interest as determined by competition. Hence Marx's comment that the determination of the rate of interest is 'inherently lawless and arbitrary'.

Marx identifies the profit left over after the payment of interest (M^{π} less M^{i}) 'profit of enterprise': what accrues to the functioning capitalist after interest is paid. In reality, the existence of interest is predicated on the existence of profit, from which it is a deduction. Yet this is not how it appears. Interest appears to be a natural property of money itself, to derive solely from the ownership of capital, from, as it were, capital as capital. Profit of enterprise, on the other hand, appears to derive not from capital as capital, but rather from the application of capital in the production process. And in addition, it appears as if the magnitude of profit of enterprise is actually governed by the rate of interest.

The question then arises as to why capitalists bother to advance capital as functioning capital and not simply lend it out as interest-bearing capital. Each individual capitalist holder of (potential) money capital is faced with this choice; but total social capital is not.

> If an inappropriately large number of capitalists sought to transform their capital into money capital, the result would be a tremendous devaluation of money capital and a tremendous fall in the rate of interest; many people would immediately find themselves in the position of being unable to live on their interest and thus compelled to turn themselves back into industrial capitalists.[11]

Yet, given that, in the form of interest-bearing capital, the propensity for self-expansion appears to a function of money itself, the existence of interest gives capital the appearance of 'self-valorising value', rather than value that is valorised by *labour*. With the appearance of capitalist interest, '[t]he fetish character of capital and the representation of this capital fetish is now complete.'[12] It becomes as completely the property of money to create value, to yield interest, 'as it is the property of a pear tree to bear pears'.[13] Capital itself presupposes – owing to the ever-present possibility of its being transformed into means of production – the command over unpaid labour and the transformation of the production of commodities into the production and appropriation of surplus-value. Yet if interest, the property of the ownership of capital, expresses the transformation of value in general social form into the means of the appropriation of unpaid labour, it at the same time occludes the antithesis between capital and wage-labour, for, with the separation out of the category of interest what is antithetical now is not capital and wage-labour but interest-bearing capital and actually functioning capital.

* * *

[11] C3, p. 501.

[12] C3, p. 516. Marx goes on to describe *M – M'* as '*die begriffslose Form des Kapitals*', rendered in the text as 'the irrational form of capital'.

[13] C3, p. 516.

Marx's argument that between its upper and lower limits there is no determination of the interest rate other than through the interplay of the demand for and supply of loan capital is an uncomfortable one.[14] Before Marx, Adam Smith had posited a relationship between the rates of interest and profit, and Marx seems at pains to deny this. He would have been aware that Tooke had observed an empirical link between the level of prices and the rate of interest, and Marx knows that the rate of profit is independent of the general price level.[15] Marx thus seems motivated here to delink the determination of the rate of interest and the determination of the rate of profit. In fact, Marx observes that, over the course of the business cycle, the rate of interest and the rate of profit seem to move in divergent directions: when one is high, the other is low, and *vice versa*.[16]

Yet his position as argued in this part (compiled by Engels from Marx's notes, we should remember, and never written for publication) is unsatisfactory, *and contradicts the approach Marx takes with regard to the equalisation of profit rates across sectors including the profit rate of commercial capital*: '[w]hether capital is invested industrially in the sphere of production, or commercially in that of circulation, it yields the same annual average profit in proportion to its size.'[17] Why then should banking capital not enter into profit rate equalisation also, if, at this abstract level, it is only really another application of capital in search of a return?

Marx has insisted that interest-bearing capital functions as a commodity: it is sold, and it has a price. What would its 'price of production' be? We saw earlier in the volume that the price of production of a commodity is its cost price plus average profit. What would the cost price of interest-bearing capital be? In addition to the capital laid out on wages and constant capital (fixed and variable), a bank pays interest on deposits and charges interest on loans. The difference between the two is the money the bank makes. Were this difference, after accounting for capital laid out, higher than the general average rate of profit, then we should expect capital, in function of its mobility, to flow into the banking sector, for here it could earn a return greater than it would elsewhere. But this would increase the supply of loan capital relative to its demand, and push the interest rate down, moving the rate of profit of capital in the banking sector closer to the general average. Should the rate of profit in the banking sector stand lower than the general average rate, then capital would flow out, reducing the supply of loan capital, pushing the interest rate up. Abstracted from other forces acting on supply and demand, this would then account for a relationship between the average rate of profit and the rate of interest: not that the rate of profit regulates the rate of interest directly, but that the equalisation of banking profit and the average rate does.[18] Even though Marx never says this explicitly, I would argue that this proposition is far more consonant with the rest of his argument in the volume, than the rather bald proposition advanced in this part.

* * *

[14] Here, and in the nest two paragraphs, I closely follow the argument presented by Anwar Shaikh in his *Capitalism: Competition, Conflict, Crises* (Oxford, 2016), pp. 475-9.

[15] If all prices rise equally, costs rise as much as output rises, and the rate of profit is unaffected.

[16] Although Marx does suggest, assuming a constant ratio between interest and total profit, '[i]n this sense one can say that interest is governed by profit, and more precisely by the general rate of profit. [...] *[T]he average rate of profit should be considered as ultimately determining the maximum limit of the interest.*' C3, pp. 481-2. 'Since we have seen that the level of the profit rate stands in inverse proportion to the development of capitalist production, it follows that the higher or lower rate of interest in a country stands in the same inverse proportion to the level of industrial development, particularly in so far as the variation in the rate of interest expresses an actual variation in the profit rate. We shall see later on that this need by no means always be the case.'

[17] C3, p. 459. It is therefore 'no longer necessary to make a distinction between industrial and commercial profit.'

[18] And, as Shaikh argues, this explains the link between the interest rate and the general price level (as observed first by Tooke, and subsequently many others): if overall prices rise, bank costs rise, but, unlike 'normal' commodity output, the interest rate does not. In these conditions, banking profit would fall, prompting capital to exit the sector, pushing the rate up.

There is a further aspect to the mystifying effect of interest-bearing capital. On the one hand, were it really a natural property of money to generate a certain percentage income, then, on the other, it would also appear as if any given income, any revenue stream, arose as the income on a capital value. This act of what Marx calls 'capitalisation' – the conversion, either in fact or appearance, of a revenue into the income on a capital value – is the basis on which he grounds his concept of 'fictitious capital'.

Imagine that the government sells a security, as a way to borrow money, and then spends the money raised. The owner of the security is left with, one, the security itself, in effect a promissory note issued by the state; two, the claim, which the note represents, on the state's tax revenue to a certain proportion of taxation, effectively a flow of income; and, three, the right to sell the security. Assuming the rate of return is equivalent to the prevailing rate of interest, for the buyer of the security what she has done is the same as investing money through the financial system, through which it (or most of it) will the be advanced as interest-bearing capital. But here, if we interpret the flow of income from the security as a return on a capital value, the capital value, having been spent, is *fictitious*: it no longer exists.

Through 'capitalisation', any regular income stream may be conceived of as the return on a (real or imaginary) capital value: an annual income of €100, with a prevailing rate of interest of 5% , can be taken as the return on a capital value of €2,000.

In the case of the government security the capital value generating the income flow is fictitious because it no longer exists. In the case of equity (shares), which represent real capital, invested and functioning, the capital value of the equity security in question is still fictitious, for 'the capital does not exist twice over, once as the capital value of the ownership titles, the shares, and then again as the capital actually invested or to be invested in the enterprises in question. It exists only in the latter form, and the share is nothing but an ownership title, *pro rata,* to the surplus-value which this capital is to realise [...]',[19] and which, of course, it may in the end not realise.

Securities of all kinds, insofar as they are tradable, are commodities: their market value is determined, other than by the interaction of demand and supply, by the income they generate; and, in addition, their market value will move in the opposite direction to the prevailing rate of interest. If the interest rate stands at 2 per cent per annum, equity bought for €1,000 which yields €50 a year represents, ignoring capital gains, a rate of return of 5 per cent, and, should interest rates not change, may be sold on at a price of (up to) €2,500. Should the rate of interest rise to 5 per cent per annum, however, the equity's price will fall again to €1,000, its original value. Should interest rates rise to 10 percent, the equity will not trade above €500, for €500 invested in more conventional ways will also yield a per annum return €50 at a rate of interest of 10 per cent. The value of a security 'is always [...] the capitalised yield, i.e. the yield as reckoned on an illusory capital at the existing rate of interest.'[20] Hence, in a period of economic contraction, or monetary crisis, the price of securities will fall, first, because interest rates rise, and, second, because they are put up for sale in greater than normal quantities.

What these securities represent is 'accumulated claims, legal titles, to future production.'[21] Either their capital value does not represent capital at all (in the case of state debt, for example), or it is determined independently of the real capital value they represent. Insofar as interest-bearing capital exists in this form, its accumulation represents the accumulation of the market price of these claims, i.e. of their *illusory* capital value. And, of course, 'the moment these promissory notes become unsaleable, the illusion of this capital disappears.'[22]

What of the reserves held by the bank? Insofar as the reserves consist of securities and promissory notes of different kinds that part of banking capital is purely fictitious, consisting of claims on future payment and drafts on future revenues. The *money* value of this part of banking capital is determined in ways different to those that determine the value of the actual capital they represent and expresses itself in the form of constantly changing fictitious money capital.

---

[19] C3, p. 597.

[20] C3, p. 598.

[21] C3, p. 599.

[22] C3, pp. 595-6 (italicisation added).

But in addition to this, fictitious banking capital really represents not the capital of the bank, but that of its *depositors*. But deposits do not sit in the bank's safes; rather they are lent out as interest-bearing capital. A claim on future income exists in two forms: as the income itself, and the claim. This latter can then in turn be *traded*. In this way, '[w]ith the development of interest-bearing capital and the credit system, all capital seems to be duplicated, and at some points triplicated, by the various ways in which the same capital, or even the same claim, appears in various hands in different guises.'[23] But the great bulk of 'money capital' is fictitious: '[w]ith the exception of the reserve fund, deposits are never more than credits with the banker, and never exist as real deposits. In so far as they are used in clearing-house transactions, they function as capital for the bankers, after these latter have lent them out. The bankers pay one another reciprocal drafts on these non-existent deposits by balancing these credits against each other.'[24]

In addition to all this, Marx notes that the same piece of money can serve many times as loan capital. How often exactly depends on, one, how often it is used to realise commodity values and revenue in sales and in payments; two, on economy in payments, i.e. on the degree of development of the credit system itself; and three, on how fast money precipitated at one point as a deposit is sent out again as a loan. Thus to a great degree money capital is 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.

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', as Marx calls them[25]); on the other, there is an increase in the number of bankers, money-lenders, financiers, etc. More money capital becomes available, and with it there is a growth in the volume of interest-bearing securities, government bonds, shares, etc. 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.'[26]

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 readily 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

[23] C3, p. 601.

[24] C3, p. 601.

[25] C3, p. 643.

[26] C3, p. 644.

capitalists and industrial (or commercial) capitalists do not have to coincide. 'The credit system, which has its focal point in the allegedly national banks and the big money-lenders and usurers that surround them, is one enormous centralisation and gives this class of parasites a fabulous power not only to decimate the industrial capitalists periodically but also to interfere in actual production in the most dangerous manner – and this crew know nothing of production and have nothing at all to do with it.'[27]

* * *

Insofar as the credit system develops, capital itself takes on an increasingly social form:

> [a]ll particular forms of capital, arising from its investment in particular spheres of production or circulation, are obliterated [...]. It exists in the undifferentiated, self-identical form of independent value, of money.[...] Here capital really does emerge [...] as *the common capital of the class* [...]. Money capital on the money market [...] really does possess the form in which it is distributed as a common element among [...] the capitalist class, quite irrespective of its particular application [...]. On top of this, with the development of large-scale industry money capital emerges more and more, in so far as it appears on the market; as not represented by the individual capitalist [...], but rather as a concentrated and organized mass, placed under the control of the bankers as representatives of the social capital in a quite different manner to real production. The result is that, as far as the form of demand goes, capital for loan is faced with the entire weight of a class, while, as far as supply goes, it itself appears *en masse* as loan capital.[28]

In its fully developed form, the banking system ('by its organisation and centralisation, [...] the most artificial and elaborate product brought into existence by the capitalist mode of production'[29]) 'presupposes the monopoly possession of the social means of production [...] on the part of private individuals[...]',[30] and as such is both a result of the immanently social character of capital and the mechanism through which this social character finds its expression.

There is an obvious dialectic at work here, which expresses itself in three different forms.

First, the credit system 'abolishes the private character of capital and thus inherently bears within it, though only inherently, the abolition of capital itself.'[31] On the other hand, however, precisely *because*, in this way, 'the distribution of capital is removed from the hands of the private capitalists and usurers and becomes a special business, a social function[,] [b]anking and credit [...] thereby also become the most powerful means for driving capitalist production beyond its own barriers and one of the most effective vehicles for crises and swindling.'[32]

Second. Interest-bearing capital (along with merchant's capital) arise as the *first* ('pre-capitalist') forms of capital. But at the same time, interest-bearing capital, in its manifestation in the developed credit system, appears as capital *par excellence*. 'In interest-bearing capital [...] the self-reproducing character of capital, self-valorising value, the production of surplus-value, appears as a purely occult quality.'[33]

Third. We have had cause to examine the phenomenon of 'fictitious capital' – claims on future income, which themselves become tradable and multiply themselves, to the point at which 'everything in this credit system appears in duplicate and triplicate, and is transformed into a mere phantom of the mind'.[34] Yet at the same time '[i]t must never be forgotten […] that money in the form of precious metal remains the foundation from which

---

[27] C3, pp. 678-9.

[28] C3, pp. 490-1.

[29] C3, p. 742.

[30] C3, p. 742.

[31] C3, p. 568.

[32] C3, p. 742.

[33] C3, p 744.

[34] C3, p. 603.

the credit system can *never* break free, by the very nature of the case.'[35] Marx has already explained how this operates.

> [A]s soon as credit is shaken, and this is a regular and necessary phase in the cycle of modern industry, all real wealth is supposed to be actually and suddenly transformed into money, into gold and silver – a crazy demand, but one that necessarily grows out of the system itself. And the gold and silver that is supposed to satisfy these immense claims amounts in all to a few millions in the vaults of the bank.[36]

Once the chain of claims that form the mass of fictitious capital begins to break down, and it does so when it becomes no longer possible to realise the surplus labour embodied in commodity capital, then paper claims no longer serve in place of hard cash. The demand for money, metal money, as means of payment, outstrips its supply. Hence monetary crisis.[37]

* * *

This part of the volume includes a commentary on the movement of interest rates and the availability of loanable money capital which forms the most developed account in *Capital* of what used to be called the 'business cycle' (and which is now more commonly referred to as the fixed investment cycle).

Marx had long been interested in describing and accounting for the cycle; in the *Grundrisse*, for example, he noted that, with the 'introduction of fixed capital',

> the turnover time of capital [...] is now determined [...] by the *reproduction time* required for the fixed capital [...]. [...] [T]*he number of turnovers necessary for the reproduction of the original capital, is distributed over a longer or shorter period of years*. [...] According to Babbage, the average reproduction of machinery in England takes 5 years; hence, the real, probably 10 years. There can be no doubt at all that the cycle through which industry has been passing in *plus ou moins* ten-year periods since the large-scale development of fixed capital, is linked with the *total reproduction phase of capital* determined in this way. We shall find other determining factors too, but this is one of them.[38]

At around about the same time (i.e. in 1858), Marx wrote to Engels (whom he would often consult in relation to 'technical' questions related to factory production):

> Can you tell me how often machinery has to be replaced in, say, your factory? Babbage maintains that in Manchester the bulk of machinery is renovated on average every 5 years. This seems to me somewhat startling and not quite trustworthy. The average period for the replacement of machinery is *one* important factor in explaining the multi-year cycle which has been a feature of industrial development ever since the consolidation of big industry.[39]

Engels replied to the effect that, based on the amount of money set aside for depreciation, he reckoned a turnover period of around 13 and a half years, or maybe a little less,[40] to which Marx replied

> The figure of 13 years corresponds closely enough to the theory, since it establishes a *unit* for one epoch of industrial reproduction which *plus ou moins* coincides with the period in which major crises recur [...]. For me

---

[35] C3, p. 741.

[36] C3, pp. 707-8.

[37] That 'money in the form of precious metal remains the foundation from which the credit system can *never* break free' does not contradict the fiat-currency world we live in today. Money, because it is money, can be exchanged for anything, including gold, as it still is when monetary panic strikes.

[38] *Karl Marx Frederick Engels Collected Works* (hereafter *CW*) vol. 29, p. 105.

[39] *CW* vol. 40, p. 278.

[40] *CW* vol. 40, pp. 279-81.

> the important thing is to discover, in the immediate material postulates of big industry, *one* factor that determines cycles.[41]

Nevertheless, it was clear to Marx that there was more involved to the question than this, and he continued to work on it. In 1873 he wrote to Engels thus:

> I have been telling [Samuel] Moore about a problem with which I have been racking my brains for some time now. [...] The problem is this: you know about those graphs in which the movements of prices, discount rates, etc., etc., over the year, etc., are shown in rising and falling zigzags. I have variously attempted to analyse crises by calculating these ups and downs as irregular curves and I believed (and still believe it would be possible if the material were sufficiently studied) that I might be able to determine mathematically the principal laws governing crises. As I said, Moore thinks it cannot be done at present and I have resolved to give it up for the time being.[42]

Marx's description in this volume[43] is reproduced synthetically in the table on the following page. We only need to note here that Marx was clear that what he was describing was a genuinely *cyclical* phenomenon (rather than the operation of contingencies) – '[t]his industrial cycle is such that the same circuit must periodically reproduce itself, once the first impulse has been given'[44] – and his conclusion that '[b]y and large […] the movement of loan capital, as expressed in the rate of interest, runs in the opposite direction to that of industrial capital.'[45]

[41] *CW* vol. 40, p. 282.

[42] *CW* vol. 44, p. 504.

[43] C3, pp. 619ff.

[44] C3, p. 620.

[45] C3, p. 620.

phase		loan capital	production process	commodity prices	rate of interest	industrial capital	commercial credit	fixed capital
1	**immediate post crisis**	'lies idle on a massive scale' 'demand for loanable money capital therefore declines'	'has undergone a contraction'	'stand at their lowest point'	low	state of 'contraction and paralysis'		
2	**'flourishing'**	'relative abundance'			'still low, even if it has risen above its minimum'	'actual expansion'	'undergoes a very great expansion'	'great expansion of fixed capital in all forms'
3	**'overexertion'**				'rises to its average level'			
4	**crisis**	'absolute lack'	'paralysed'		'maximum'	'surplus of unoccupied industrial capital'		