

The Anti-Samuelson

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VOLUME TWO

Microeconomics:

BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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Chapter 10: Money (S's Chapter 15)

This chapter in S is intended as a link between the income analysis of Chapters 10-14 and the anticyclical measures of the Fed in the subsequent chapters. It repeats and embellishes previous material on price and money amidst a selection of statistics with no theoretical bridge to the text. In order to provide an introduction to what is rather difficult theoretical material we have decided to begin with S's remarks on inflation.

INFLATION

Although S has not defined price for us (all we know is that "everything has a price"—43), he nonetheless proceeds to measure it and tell us how it has changed over the years in the U.S. Then we are told that "some definitions will be useful. By *inflation* we mean a time [? !] of generally rising prices for goods and factors of production—rising prices for bread, cars, haircuts; rising wages, rents, etc. By *deflation* we mean a time when most prices and costs are falling" (270). Even though we just "discovered" that inflation represents "generally rising prices," S suddenly shifts to "changes in relative prices"; "Unforeseen inflation tends to favor debtors and profit receivers at the expense of creditors and fixed-income receivers" (*ibid.*). But when it comes to a concrete historical analysis of inflation, S sacrifices this differentiated view in favor of a good guys–bad guys description:

Nothing good can be said for a rapid rise of prices such as took place in Germany in 1920-1923 and more recently in China and Hungary. Production and even [!] the social order are then disorganized. The total wealth of large groups of the population is wiped out as money becomes worthless. Debtors ruthlessly pursue creditors in order to pay off their obligations in valueless money. Speculators profiteer [273].

S contradicts himself here. First we are told that "nothing good" can be said about the matter, and then we are informed that large groups were wiped out. Thus small groups who benefited from this operation must have found the whole business "good." An economist with a semiofficial position in Germany, who was the author of a standard history of that inflation, wrote:

There is no doubt that the paper inflation would not have assumed such vast proportions if it had not been favoured in many ways from the people who drew a large profit from it. It is clear from the discussions held in 1922 and 1923 in the "Economic Council of the Reich" that representatives of those classes used their influence on the Government to impede the reform of the public finances and to sabotage all proposals for the stabilization of the German exchange, which they accepted only when, at last, an economic catastrophe threatened Germany and it was evident that the consequences of the inflation would rebound against their authors. . . . It may be said that on the whole the inflation generally favoured the entrepreneurs and the owners of the material means of productions, especially strengthening the positions of industrial capitalists; that it caused a lowering of the real wages; that it decimated or destroyed altogether the old middle class of investors. . . .¹

Let us look at some of the methods used to exploit the proletariat. The income tax then constituted one-third of Germany's state budget; of this, 90 percent was paid by the working class. The workers' income taxes were deducted from their wages, while the capitalists did not pay taxes for more than a year after the taxable income was "earned." And because the inflation from 1921 to 1923 was so severe they paid their taxes in relatively worthless money. Thus

the capitalists were supposed to pay \$70 million in taxes in the first quarter of 1923, (from 1921 income); by this time that sum was worth only \$1.333 million. Moreover, the capitalists did not immediately hand over the taxes deducted from the workers' wages: they held them for two weeks, during which time they used the money to buy means of production, and sold their newly produced commodities at their reproduction price, which, because of the inflation, was of course higher than the production price. Handing over the money to the state in depreciated form, they kept the difference.

Next we come to the effect of inflation on total production. S asserts that "an increase in prices is usually associated with high employment. In mild inflation . . . output is near capacity. Private investment is brisk. . . . In deflation . . . the growing unemployment of labor and capital causes the community's total well-being to be less . . ." (272). On an empirical level, contemporary stagflation of course, gives the lie to this. S, however, fails to provide the missing theoretical links. "Mild" inflation is often accompanied by, or rather accompanies, "well-lubricated wheels of industry" precisely because wages rise more slowly than other commodity prices, thereby allowing capitalists to realize superprofits by buying labor power below its value; as a result there is in the short run increased capital formation and also increased or relatively higher employment.

S would have us believe that the contemporary preference for inflation over deflation is the result of some sort of marginal-utility calculus poll that found inflation to be "the lesser of the two evils" because the "losses to fixed income groups are usually less than the gains to the rest of the community" (272). To the extent that inflation is planned, it is done so for and by capital.

It would however be erroneous to believe that things are much better under conditions of stagflation than deflation-depression, for the enormity of contemporary underutilization of industrial capacity must be put into perspective: given utilization of between 70 and 75 percent, and a GNP of, say, at least 600 or 700 billion dollars in terms of 1929

purchasing power, the total value of output represented by underutilization exceeds that of total GNP at the end of the boom of the 1920s (1929 GNP-103 billion dollars). It is necessary to place this development in a theoretical context. Permanent underutilization (only the Korean and Vietnam wars were able to nudge the percentage even to 90) means permanent capital overproduction; it is no longer only during the periodic crisis and depression phases that capital is idled and depreciated: since World War II the conditions of surplus-value expansion have been so altered that a large part of the total social product is maneuvered into investment and government consumption and there made idle, which from the point of view of capital expansion is tantamount to capital destruction.

This development is closely related to "planned" inflation. To begin with, a significant part of capitalized surplus value is neatly tucked away under the rubric "rapid early depreciation allowances"; the ability to do this rests upon the monopoly situation of the largest capitals. Since prices must compensate for these "costs," the consumers bear the brunt. For nonmilitary capital this means that the monopolies, independent of the state, have the power to bring about depreciation of money and redistribution of income. (It must be noted, however, that an increase in monopoly prices need not necessarily lead to inflation in the sense of "flooding the conduits with paper." To begin with, monopoly pricing refers to wholesale prices—that is, transactions among capitalists [either within Department I or between I and II]; such commodity exchange is not normally carried on with paper money but rather by increasing bank money in the form of deposits [increased credit]. This in part explains the large increase in commercial bank deposits. There is also a limit to this credit-deposit creation. Deposits can be created to the extent that moneyless, reciprocal liquidation of claims takes place, in which transactions money functions as means of payment and claims compensate one another. But deposit inflation is also possible when deposits exceed the needs of moneyless transactions; if loan capital as money capital exceeds the needs of the

turnover of total capital, then a part of it can no longer function as industrial capital. But loan capital is interest-bearing capital: if its *mas* is increased without a corresponding increase in the mass of surplus value, then the portion of surplus value going to the industrial capitalist [entrepreneurial profit] decreases relative to the portion appropriated by the money capitalists, or the share appropriated by each lender is diminished [equaling a declining rate of interest]. In the former case there is of course a limit to the drop in the rate of entrepreneurial profit below which industrial capital will not employ any more loan capital; similarly, in the latter case, there is an interest rate limit below which the money capitalists will *not* lend. A resolution of the conflict between loan and real capital as expressed in the inflation of the former is sought in the annulment of part of the deposits or in the equal devaluation of all deposits.)²

On the other hand, rising monopoly prices do not necessarily result in an increased supply in retail business; for if wage increases do not correspond to the increase in monopoly prices, then the volume of retail sales remains the same, while the physical volume decreases; thus inflation takes place without an increase in the money supply. An analogous process takes place in the state-military-industrial sphere.

As far as practical pricing is concerned, S informs us that there are three possibilities. (1) stable prices, with money and real wages rising; (2) rising prices, with real wages lagging behind money wages; (3) falling prices, with stable money wages and rising real wages. The third possibility is immediately ruled out on the grounds that we do not live in an "ideal frictionless society" (274); in the appendix to Chapter 18, S implies that this "friction" is in reality monopoly: "If business generally can set its prices so as to keep labor's share of total NNP at about the same fraction of three-fourths, then the resulting pattern of prices is determined" (7th ed, p. 332). Perhaps we are given a historical taste of what S has in mind with the notion that "most vigorous periods of healthy capitalist development without

political unrest came during periods of stable or gently rising prices. Capitalism itself developed during the centuries when Spanish New World gold was raising prices" (274). This is how M. Dobb describes the time:

To the extent that money-wages failed to rise as the commodity price-level rose, all employers and owners of capital were abnormally enriched at the expense of the standard of life of the labouring class; the price revolution generated that "profit inflation" of which Lord Keynes has spoken as being responsible for those "golden years" when "modern Capitalism was born" and as "the fountain and origin of British Foreign Investment." . . . In France and Britain real wages continued to fall throughout the sixteenth century and remained throughout the seventeenth century below the level at which they had stood in 1500. . . . Real wages in 1600 in England were less than a half what they had been a century before.³

Are these the halcyon days the American worker is destined to bring about through wage moderation and profit inflation? As this last historical example shows, it is confusing and misleading to "define" inflation as a general rise in the price level, as is commonly done by bourgeois economists. The rise in prices set off by the discovery of gold in gold-currency economies is clearly an anarchic process characteristic of capitalist commodity production and exchange. The inflation that "plagues" capitalism today is not to the same *degree* an anarchic process, inasmuch as various manipulations can lead through the sphere of circulation to a subsequent redistribution of income between bourgeoisie and proletariat. On the other hand, the historical process of the sixteenth and seventeenth centuries depended on more than the discovery of gold. If that had been the only factor, then all commodity prices would have been affected equally and no class changes would have resulted. However, because of the stage of capital accumulation of those affected, the effects in different countries differed. In Britain and France a reserve army of unemployed had already developed which depressed wages; in Spain "the process of primitive accumulation in this still-feudal country had not begun"; various other historically con-

ditioned factors (the expulsion of Moors, colonization, pestilence) also made the labor market "tight," and thus by 1620, wages were higher than they had been in 1500.⁴

This excursion into the past makes clear that inflation unlike, for example, Marx's theory of money, is not an abstract theory. Insofar as inflation is a differentiated and "class-conscious" process, it is in large measure determined by concrete and, viewed from the level of abstraction, say, in *Capital*, historically accidental phenomena. Unless the term inflation is to become a formal classification bereft of all meaning, it appears necessary to deny that inflation has anything to do with (1) a decrease in the value of gold, (2) an increase in the value of commodities, or (3) a deviation of market prices from value as determined by supply and demand; for as a concept existing on a level much closer to concrete reality than, say, value, inflation must be explained in terms of concrete phenomena, and it "just so happens" that today none of these three factors has anything to do with rising prices: (1) productivity in the gold industry has not advanced faster than that in other industries; (2) productivity in the bulk of commodity-producing industries has not decreased absolutely; and (3) the gap between supply and effective demand that characterized World War II and the postwar periods has been closed by the usual overproduction. Now we know some of the things inflation is *not*.

The distinguishing characteristic of inflation is not so much the flooding of the conduits with paper money as the depreciation of that paper vis-à-vis gold. This is not to say that flooding does not also take place; in wartime, for example, "civilian production" drops: "the excess purchasing power can be used to bid up the prices of goods and not to obtain additional goods. Under these conditions, consumers can only pay more for goods; they cannot get more goods."⁵ But wars can also be financed without increasing the supply of paper money; the state can tax away the "excess" effective demand; this is in fact what happened during World War II in the U.S.: taxes increased faster than money depreciated.

If all this is true, *then our attention should be fixed on the*

phenomenon of paper money depreciation relative to gold. Thus we must develop a theory of paper money, which in turn presupposes the development of a theory of money. S fails to do this.

CRITIQUE OF S'S THEORY OF MONEY

To begin with, S is prepared to go back to an era predating commodity production, a time free of the contradictions inherent in the creation and appropriation of surplus value, and when commodities themselves disappear in favor of "goods"; we are told in effect that there is little if any difference between the exchanges conducted by "the first two ape men" and those using money; for although the latter "at first glance . . . seems to complicate rather than simplify matters," "actually the reverse is the case: the two transactions [viz.: commodity-money-commodity] are simpler than one" (275). Not content with his performance thus far, S makes the "obscuring layer of money" even denser: "The essence of money, its intrinsic nature, is typified by paper currency. *Money, as money rather than a commodity, is wanted not for its own sake but for the things it will buy: We do not wish to use up money directly, but rather to use it by getting rid of it; even when we choose to use it by holding it, its value comes from the fact that we can spend it later on*" (276). This passage is an excellent example of the "essence, the intrinsic nature" of S's approach. There is no such thing as "money as money rather than a commodity": the point is that both are forms of value, forms that value and surplus value must assume in the never-ending process of value self-expansion called successful capitalism. The "essence" of money cannot be "typified" by gold, paper, or any other use value, because the essence of money is a social relation.

"Money is an artificial, social convention" (276). Only the use-value form of money, whether it be shells, gold, silver, or paper, is a social convention; money itself as an abstract embodiment of social labor cannot possibly be a social convention, because it is a social relation which developed over

the heads and behind the backs of man: nobody ever sat down and said: "Let's produce a value." This is why "the public neither knows nor cares—and need not know or care" (276) what natural body money acquires. "Paradox: money is accepted because it is accepted" (276). Nonsense. Money is "accepted" because it is the only "acceptable" way of exchanging commodities (including labor power) in capitalism. The point is not which natural form of money is in use, not that at a given time (e.g., Germany in 1923) the system of exchange may break down, but rather that in every "naturally" functioning capitalist economy money as the universal equivalent must exist and the members of that society must "use" money, whether they know what the "essence" of money is or not.

Although S likes to talk about "modern" students and money as the "modern medium of exchange," his theory of money is in fact very old. In fact, it goes back two hundred years, to Hume, whose theory Marx criticized in his *Contribution to the Critique of Political Economy*. (Hume dealt with gold and silver; Ricardo was primarily concerned with paper; but as Marx points out, although Ricardo and his contemporaries claimed to derive the laws of circulation of paper money from those governing gold and silver, they in fact derived the laws of gold money from the phenomenon of paper-money circulation. Thus, from our point of view it is irrelevant that Hume talks about the precious metals since he confused them with paper. What is of paramount importance here is that Hume is more or less the father of the "crude" quantity theory of money for which S has nothing but contempt.)

Both the quantity equation of exchange and the crude quantity theory contain a rational kernel. But the entire discussion in this part of Chapter 15, as well as S's ruminations in the following chapters, suffers from a fundamental defect: this attempt at theory construction here is an attempt to have money supply play a causal role which, owing to the requirements of the circulation process, it cannot play. The roots of this error lie in the material and social process of simple circulation, and since S makes no

attempt at serious analysis of this process, it is understandable that he should fall victim to the fetishism produced there.

Let us go into this matter a little more deeply. Contrary to what S says, money is not a mere technical device to facilitate barter, because commodity exchange is not barter, and money arises out of the contradictory requirements of commodity exchange. Commodity exchange is a process both private and social—private, because it appropriates use values to satisfy individual needs, and social, because it proves the social character of the labor of independent producers. Money is required to provide a form in which these contradictory aspects of commodity exchange can exist side by side. In other words, in commodity exchange two producers cannot simply directly exchange their products with each other, for this, the appropriation of use values, is only one of its contradictory elements. The realization of value must be present as well. Another way of saying this is as follows: Commodities cannot remain unchanged while passing through the circulation process (exchange considered as a process of transferring commodities from hands in which they are non-use-values to hands in which they become use-values). For if they did remain the same, they would only show their use-value, as is the case with bartered products. In order to show their value, commodities must undergo a change of form in circulation. The outcome of commodities seeking a value-form in which to express their value is the differentiation of commodities into commodities and money, and thereby the splitting of the circulation process into two antithetical phases—purchase (appropriation of use value) and sale (realization of value)—which exist side by side (every purchase is a sale and every sale a purchase). The producer can no longer simply “trade” his product for that of another producer (barter); now he must *sell in order to buy*, and his commodity must first be *transformed* into money and then *transformed* into another commodity. This change of form can be schematically represented as C-M-C.

In Chapter III of *Capital*, Marx makes the following comments:

The comprehension of this change of form is, as a rule, very imperfect. The cause of this imperfection is, apart from indistinct notions of value itself, that every change of form in a commodity results from the exchange of two commodities, an ordinary one and the money-commodity. If we keep in view the material fact alone that a commodity has been exchanged for gold, we overlook the very thing that we ought to observe—namely, what has happened to the form of the commodity. We overlook the facts that gold, when a mere commodity, is not money, and that when other commodities express their prices in gold, this gold is but the money-form of those commodities themselves.⁶

This gives material and social basis to the confusion of commodity exchange with barter. But we were looking for the basis of another error of S, one which perhaps contradicts his reducing commodity exchange to barter; namely, his attempt to assign a causal role to money which it cannot play. This is a complex and manysided error; it involves the assertion of impossible causal connections between money and spending, prices, investment, employment, and production. The error therefore cannot be explained solely by looking at the sphere of simple circulation. But the reason for the error, at least with regard to the connection between money and spending, can be seen as lurking there, in the following way:

The change of form, C-M-C, by which the circulation of the material products of labor is brought about, requires that a given value in the shape of a commodity shall begin the process, and shall, also in the shape of a commodity, end it. The movement of the commodity is therefore a circuit. On the other hand, the form of this movement precludes a circuit from being made by the money. The result is not the return of the money. . . . The movement directly imparted to money by the circulation of commodities takes the form of a constant motion away from its starting point, of a course from the hands of one

commodity-owner into those of another. This course constitutes its currency (*cours de la monnaie*). The currency of money is the constant and monotonous repetition of the same process That this one-sided character of the money's motion arises out of the two-sided character of the commodities motion, is a circumstance that is veiled over. The very nature of the circulation of commodities begets the opposite appearance. The first metamorphosis of a commodity is visibly, not only the money's movement, but also that of the commodity itself; in the second metamorphosis, on the contrary, the movement appears to us as the movement of the money alone. In the first phase of its circulation the commodity changes place with the money. Thereupon the commodity, under its aspect of a useful object, falls out of circulation into consumption. In its stead we have its value-shape—the money. It then goes through the second phase of its circulation, not under its own natural shape, but under the shape of money. The continuity of the movement is therefore kept up by the money alone, and the same movement that as regards the commodity consists of two processes of an antithetical character, is, when considered as the movement of the money, always one and the same process, a continued change of places with ever fresh commodities. Hence the result brought about by the circulation of commodities, namely, the replacing of one commodity by another, takes the appearance of having been effected not by means of the change of form of commodities, but rather by the money acting as a medium of circulation, by an action that circulates commodities, to all appearance motionless in themselves, and transfers them from hands in which they are non-use-values, to hands in which they are use-values; and that in a direction constantly opposed to the direction of the money. The latter is continually withdrawing commodities from circulation and stepping into their places, and in this way continually moving further and further from its starting-point. Hence although the movement of the money is merely the expression of the circulation of commodities, yet the contrary appears to be the actual fact, and the circulation of commodities seems to be the result of the movement of the money.⁷

According to Hume,

Gold and silver are . . . worthless things, but within the process of circulation they receive a fictitious magnitude of value

as representatives of the commodities. They are through the process transformed not into money, but into value. Thus their value is determined by the proportion between their own mass and the mass of the commodities, inasmuch as both masses must coincide. Whereas therefore Hume has gold and silver enter into the world of commodities as non-commodities, he transforms them on the contrary, as soon as they appear in the form determinateness of the coin, into mere commodities which are exchanged through simple barter with other commodities.⁸

There are several sources for this notion in Hume. First, Hume confuses money as ideal reckoner (measure of value) and money as means of circulation. He does not understand that a change in the value of gold as measure of value causes the commodity prices to change and for that reason also the mass of circulating money. In other words, he does not see that a decrease in the value of gold leads to a rise of commodity prices and increase in the means of circulation given a constant velocity; instead he sees only the dependency of prices on quantity of money.

The confusion of these two functions of money had the further untoward consequence that, because money as means of circulation can exist in the form of a less valuable material which only represents the value of the full-value gold, it was also assumed that money is per se merely a symbol. This is the basis for having money enter into circulation without value. The end result of the Humean condition is of course the disappearance of the contradictions inherent in the commodity; since Hume does not see the abstract form of money in the exchange of commodities themselves as resulting from the impossibility of resolving the contradiction between use value and value *within* the individual commodity itself—that is, the doubling of the commodity into commodity and money—he does not understand that it is a complete perversion of commodity reality to imagine one camp of commodities and one of money marching off to meet and be matched up in some arbitrary proportions. This is at bottom Say's (or Mill's) metaphysical law of equilibrium: all crises of overproduction are from the start ruled out because in fact commodities are no longer

being exchanged—on the contrary, we have retreated to barter: every sale is a purchase: in the Humean version every commodity must get sold too.

Thus one fundamental confusion still permeates modern-day bourgeois economics: that between the functions of money as measure of value and means of circulation. Because paper can replace gold in the latter function, it is supposed that the measure of value itself need not have any value, that it may be purely “conventional.” S apparently sees no relation among the various functions of money he *lists* (283); we are told for example that money is a “unit of account in which we express prices.” It is here that the second fundamental confusion enters: that between money as measure of value and money as standard of price. Once gold has become the measure of value and exchange value has become price, commodities in their prices are compared and measured as certain quantum of gold; thus once commodities are no longer exchange values measured by their labor-time, but rather relate to one another as specified quantities of gold, the weight measure of gold becomes the standard of price. But it must be remembered that money as measure of value and as standard of price has an entirely different form determination: as the former, gold is objectified labor-time, as the latter, a certain weight of metal.

The weight system is arbitrary (though it must be fixed and unchanging) and is subject to human will; the value measurement is not. By confusing the two, bourgeois economists have fallen victim to the delusion that a given quantity of gold can be set in a fixed relation to the exchange values of commodities. By failing to see the transformation of the measure of value into the standard of price, they believe that quantities of gold are set in relation directly to values and not to other quantities of gold: that is to say, they are not aware of the quality of the measure that previously transformed the values into prices.

This leads us to another problem: S talks of money as a unit of account expressing price (283). He sees money as a technical device that improved upon the barter system but



did not essentially change anything: just as barter is more complicated than monetary exchange but can still be effected if need be, so money also presumably makes it "easier" to compare commodities, though in the absence of this kind of thermometer we could still get by. In other words, we are only interested in measuring prices, not in the necessary *expression* of value as a social relation. One might almost say that there is no difference here between value and price: but this is only true for the vulgar economists of Marx's day: today price has supplanted value. Thus in this version the immediate comparison of the commodities among themselves without the intervention of money is a possibility. But is it?

MARX'S THEORY OF VALUE AND MONEY

For S, as we recall, commodities are use values, mere products.

Marx, in *Capital*, remarks that Aristotle recognized that exchange presupposes equality, which in turn presupposes commensurability; since Aristotle believed this commensurability to be inherently impossible, money was introduced as an external expedient. Marx sees the societal roots of Aristotle's exchange conception in the factual absence of abstract human labor: slave society excluded this.⁹

What is S's excuse? He has none, and therefore we will have to furnish an answer to the question of why commodity production contains within itself the seeds of money, why labor-time cannot be expressed immediately.

In order to answer this question and to provide a correct understanding of paper money, it will be necessary to develop Marx's theory of value.

All commodity-producing societies are characterized by the atomistic structural relations between the various producers: the total labor of the society is not precalculated and then distributed among the various branches of production in accordance with the needs of the members of that society. In other words, the producers are private producers carrying on their activities independently of one

another. In the absence of social planning, these producers can only be connected with one another through the objectified results of their labor. But one would be wrong to say that they relate to one another on the basis of the use values they produce. For such a society does not produce only use values: in fact, every producer must, while producing a use-value for someone else, produce a non-use-value for himself (if it were a use-value for himself he would use it). But what is this strange non-use-value that he simultaneously produces for himself? Inherent in the use-value itself is the specific type of skill or labor activity required to produce such a thing. The producer is therefore not interested in this aspect insofar as his non-use-value is concerned. What sort of labor produced the non-use-value?

So far we know that the specific or concrete labor of a private producer brought forth a useful object. We also know that when two producers exchange their useful objects, they are interested in the useful aspects of the things they are getting, but not at all in this feature of the things they are producing and exchanging. We also know that as a result of the planlessness of this society, producers do not relate to one another on the basis of their activities but only on the basis of the results of those activities. But as Aristotle pointed out, exchange cannot take place on the basis of incommensurability. The equality and commensurability is established by the human labor expended on the exchanged commodities. Here we do not refer to labor as concrete, for this would make the labor activities as incommensurable as the use-values, but as general human labor, the mere expenditure of labor, but in the *form* it assumes in a social structure in which there is no conscious social planning. Labor does not assume this form in every society, but it must assume it in this type of society so as to establish the commensurability necessary for exchange.

However, even this is not enough; for although *we* know that in fact society is based on labor, such a society cannot be directly based on labor, or more precisely, it cannot appear so to the members of that society, because they cannot regulate these activities directly. Production relations must

form on the basis of the results of the activity. But what are these things that producers must, so to speak, manipulate in order to relate to one another? They are not the use-values. Neither are they "general human labor," because that is not a thing. We must now recall that other "thing"—the non-use-value that every producer produces for himself while producing use-values. These non-use-values represent the "thing"-form of the general human labor; the non-use-values are the means by which commensurability is established. But what is being measured? The expenditure of human labor. How do we measure that? Through time. The qualitative equality of labor in this society—or its consubstantiality—provides the basis for exchange; its objectification in things provides the necessary thing-form for exchange. The non-use-values represent the time in which general human labor was expended.

Therefore exchange can only take place on the basis of the equating of the non-use-values as representatives of general human labor-time. Thus when five chairs are exchanged for one bed, what is being exchanged is the equal non-use-value of each—that is, the equality of general labor-time spent on them. This means that Jones exchanges x units of non-use-value contained in his bed for five chairs; and Gray exchanges x units of non-use-value contained in his five chairs for the bed. The producers do not directly equate their non-use-values: obviously, for they are qualitatively and quantitatively equal, and that would not make sense in an exchange. What they do is to exchange their non-use-value for the use-value produced by the other. Thus, they *express* their non-use-value in the use-value of the other producer.

But now something very interesting has taken place. We originally said that commodity producers are private producers and independent of one another as producers. But obviously *some* sort of connection must exist among them, unless they are all mythical Robinson Crusoes. The point is, what kind of connection? And since we already know that all societies are based on labor, the question can now be formulated more precisely: In this society, what *form*

does this connection of labors assume? Our answer is, the form of things—but not just things: these “things” are things and yet some “thing” else too, namely non-use-values. In fact we can say that in such a society the social connection—sociality per se—is expressed in these strange non-use-values.

What has happened is that our private and independent producers have discovered that they are connected after all—but only in an indirect and “thing-ified” way. Thus these producers do three contradictory “things” simultaneously: they produce use-values and non-use-values; they work in a concrete and in a general manner, abstracted from any particular labor; and they produce privately and socially. We saw this when the units of abstract labor of the bed were exchanged (previously they were equated) for five chairs. By exchanging in non-use-value for a use-value the producers committed a social act.

In the individual commodity the use-value and the non-use value were easy enough to keep separate. But in exchange this is no longer so. The producer of the beds says that his x -units of non-use value are worth five chairs; here the use-value and non-use-value, instead of being kept apart, are reflected in each other. This is not only not strange, it is also necessary, for the commodity is two-in-one; in order to prove itself as such in society—that is, in order for it to be a non-use-value to its producer and a use-value to its recipient—it itself must, so to speak, double itself, and this it does by creating a new form in which its own non-use-value can appear: namely, in the use-value of the other commodity.

The non-use-value is, of course, the “famous” and now “obsolete” value (just as obsolete as the business cycle). But the non-use-value as labor-time cannot express itself in itself; it can only express itself in the use-value of the commodity for which it is exchanged. In this way, the use value of the one commodity becomes the *value-form* of the other commodity (i.e., the form the commodity value must assume, if it is to appear at all). In principle we have just explained the origin of money and the reason why labor-

time cannot be expressed directly. Let us look at it more closely.

The value of the commodity as expressed in the use-value of another commodity is called its exchange-value; although value as labor-time is an objective magnitude, it cannot be expressed directly. Once one particular commodity has been transformed into the use-value in which all other values are expressed—in other words, once it has become the universal value-form—it is called money. Thus, we can say that the value of one bed is one ounce of gold. At some point, the state gives the gold-weight measures different names, so that one ounce might be called a dollar, or a franc, etc. In the essentials, nothing has happened: we are still expressing value in use-value.

Now we have discovered what money is. It is the universal value form. This means that when we exchange five chairs for a bed, we no longer say that the bed is worth five chairs, but rather that it is worth one ounce of gold. Now in all these three commodities there are, say, x units of value; each was produced in ten hours of general-abstract labor-time. The price of the bed is one ounce of gold. However, money is sociality, whereas the commodity was produced by a private producer. The whole point of commodity-production is that the two are not by "nature" equal but are *equated*—and sometimes through very violent and painful processes. If the gold producers become twice as productive, that is produce one ounce in five hours, then the value of one bed becomes two ounces of gold. If, on the other hand, other bed producers become twice as productive while Jones continues to plod along as usual, Jones' labor will not count as ten hours but only as five. When the time for exchange comes around, Jones will learn the difference between social and private labor the hard way. He may have worked ten hours, but the price represents only five. Thus we see that price is not always equal to value, because labor is not directly social in this society, but rather must be *socialized*.

This leads us to the question why products cannot be measured directly in labor-time:

That in commodity production social labor is performed only as *social labor of private producers*—this fundamental contradiction expresses itself in the derivative contradiction that the exchange of activities and products must be mediated by a product that is simultaneously particular and universal.¹⁰

Or as Marx himself says:

Because price does not equal value, the value-determining element—labor-time—cannot be the element in which the prices are expressed, because the labor-time would have to express itself as the determining element and non-determining element, as the equal and non-equal of itself. Because labor-time as measure of value exists only ideally, it cannot serve as the material of the comparison of the prices.¹¹

Labor-time cannot itself immediately be money . . . precisely because it in fact exists only in particular products (as object): as universal object it can exist only symbolically, indeed precisely in a particular commodity which is posited as money. Labor-time does not exist as a universal object of exchange, independent and separated (detached) from the natural particularities of the commodities. It would have to exist as such in order to fulfill directly the conditions of money.¹²

Let us now proceed to Marx's theory of money, or precisely to his development of the other functions of money. So far we know money as a measure of value and a standard of price. Since the distinction between money as measure of value and standard of price is not easy to comprehend, we present an explanation to supplement the earlier discussion.

Once gold becomes money as measure of value, the various commodity values can be compared and measured among themselves as certain quantities of gold. At this point a technical necessity arises to relate them to fixed quantities of gold as a measuring *unit*. Once this unit is subdivided, it becomes a standard—and since value measured in money is price, it becomes a price standard. But before gold ever became money it already had such a standard—in metal weights. We now can express prices in

ounces of gold. But Hegel knew that a measure is an arbitrary, conventional standard.¹³

Therefore the measuring unit, its subdivision, and its designation (e.g., one dollar is the name given to .888671 grams of gold) can and must be determined by the state: can, because it is arbitrary; must, because it requires constancy, and in bourgeois society the state represents society as a collective compulsive force.

But measure of value and standard of price are two entirely different functions.

Measure of Value

- 1) social embodiment of human labor
- 2) transforms commodity values into prices—i.e., ideal quantities of gold
- 3) measures commodity values against its own value
- 4) its own value must be changeable since it is a commodity

Standard of Price

- 1) fixed weight of metal
- 2) measures quantities of gold
- 3) measures quantities of gold against a quantity of gold
- 4) must be unchanging

Since money as a measure of value can function ideally—that is, one need not have gold in one's hand to determine commodity prices—and since the subdivisions of the standard are given names such as dollar, pound, etc., the notion arose that these are not names for certain quantities of gold, but merely arbitrary points of comparison expressing no value; from here the conclusion was drawn

that a specified quantity of gold—which we know to have a variable value—could be *set* in relation to commodity values; this fails to take into account that money as standard of price merely compares quantities of gold and does not measure the value of a given quantity of gold against the weight of another, and it also fails to consider that this standard presupposes money as measure of value which previously established the qualitative sameness of the commodities.

Gold is standardizable in its material form, which is not true, say, of cows, wheat, etc.; it can be easily subdivided and put together again in its physical state; it has high specific weight, thus allowing for the representation of a relatively large amount of labor-time. This favors its mobility and transportability; it is immune to most acids and to air; its use as jewelry makes it a form of hoard; being soft, it is not suitable for industrial uses and therefore its use-value will not deprive it of its function within the sphere of circulation; it can be melted down and can move between the sphere of circulation and the sphere of consumption.

But these are all *ideal* processes; money can act in these functions without any actual circulation of commodities. As we all know, commodities do in fact change hands. We might say that commodity A is exchanged for money, and then this money is exchanged for commodity B. S would say that money has acted as a medium of exchange, while in fact all it has done is mediate the exchange of the two commodities: the money is not wanted for itself, but only for what it can buy.

Thus in this process of circulation S sees only barter: one commodity exchanged for another, as soon as we “peel off the obscuring layer of money” (55). But is this really so? As we know, money is not some sort of external thing, but is generated by the commodities themselves: it is the general form of the value of commodities. This means that the value of commodity A takes the form of money before it reassumes the commodity form in B.

But where did the money come from? Obviously from a prior form change of another commodity. Thus while



commodity A is being exchanged for money, the money is reassuming the commodity form, or rather the value is reassuming the commodity form which it already possessed prior to its transformation into money. Thus what for A is the transformation of commodity into money (C-M), is M-C for the possessor of the money. Although the process of circulation is in reality one gigantic process of form changes, it does not *appear* that way: it appears as a mess of isolated and unconnected individual acts of exchange.

But here, as opposed to barter, the money does not fall out of the process: whereas in barter the commodities definitively leave the sphere of "circulation" (we abstract here from resale), "circulation constantly sweats out money"; thus because someone has sold a commodity, that person is in no way obligated to reappear on the market as a buyer. This is the telling blow to the theory of the metaphysical equilibrium of buying and selling: and at the same time it is the elementary form, or abstract possibility, of crisis. And of course it is no coincidence that S would like us all to believe that commodity circulation is really barter, so that there is no reason to believe that crisis is inherent in capitalism.

We posed the question where the money comes from. If we are talking of gold-money, it comes from the ground. But when it is exchanged by the gold producer for, say, coal or shovels or clothes, it is being exchanged not as money but merely as another commodity. But once the gold has become monetized, this is no longer true. It is of the utmost importance that these two processes not be confused; for, as we established above, commodities have prices and money has value prior to entering into the process of circulation. The failure to understand this results in depicting the commodities as entering the circulation process "priceless" and money as "worthless"; it results in a vicious circle of presuppositions that underlie the quantity theory of money (crude or refined):

If we consider M in C-M not as metamorphosis of another commodity, then we take the act of exchange out of the circula-

tion process. Outside of the latter however the form C-M disappears, and merely two different C, say iron and gold, confront each other, the exchange of which is no particular act of circulation, but rather one of barter. Gold is a commodity like every other commodity at the source of its production. Its relative value and that of the iron . . . is represented here in the quantities, in which they exchange for each other. But in the process of circulation this operation is presupposed, in the commodity prices its own value is already given. There can therefore be nothing more erroneous than the notion that *within the circulation process* gold and the commodity enter into the relation of barter, and that therefore their relative value is ascertained through their exchange as simple commodities. . . . However the quantity of gold for which the commodity is exchanged within the circulation process is not determined by the exchange, but rather the exchange is determined by the price of the commodity, i.e., by its exchange-value estimated in gold.¹⁵

In this constant form change of C-M-C the independent representation of exchange-value is only a “fleeting moment”; for another commodity soon appears to replace the money. Moreover, at any one time a certain quantity of gold constantly remains in circulation. Given these two conditions it is theoretically possible for objects which have little or no value (which in any case do not have the value of gold) to be placed into circulation by the makeshift of society—the state—to represent the gold symbolically.

If this theory should not prove persuasive, we can look at the actual practice. And here we find two examples. If a gold coin is involved in ten transactions per day, then it has in fact performed the duty of a gold coin with ten times the weight that performs only one such operation. In other words, the coin assumes an ideal existence in circulation apart from its real existence—although it is only the real existence that appears at every single operation.

Our second practical example is that of a coin which has been worn down or intentionally clipped: it remains within circulation as long as no one notices, a mere symbol of itself. In this case of gold as means of circulation and gold as standard of price diverge, and the gold is no longer the real equivalent of the commodities whose prices it realizes. Since gold is a cost of circulation, i.e., it has no use-value

other than that of money, it makes dollars and sense to replace it as means of circulation with some material that has as little value as possible and will therefore cause the smallest possible circulation cost.

As long as the state circulates paper money representing the quantity of gold that should be circulating, everything is okay, except for the theory of paper-money à la S, which asserts that paper-money is the essence of money. In fact, paper-money turns all the laws of monetary circulation upside-down.

It is essential to remember that paper replaces gold only as a means of circulation—not as the measure of value. The value of paper money is not determined directly through the commodities, but rather circuitously through gold. The sum of the prices of the commodities determines the value of the paper money; but this price sum presupposes the value of gold money. To ignore this is to fall into the quantity theory of money with its vicious circle of presuppositions and its identification of price and value.

What happens if the amount of paper-money issued exceeds the amount of circulating gold? If a million ounces of gold were circulating, and paper with a face value corresponding to this has been in circulation (for the sake of simplicity one ounce of gold equals 1 dollar), and if now 9 million more paper dollars were issued, then these 10 million paper dollars would still be the representative of 1 million ounces of gold. Since the same dollar now would represent only 1/10 as much gold as before, all commodity prices would rise ten-fold, and then ten times as much paper would in fact be needed (given constant velocity). All that has happened is that the name of the standard of price has been changed; the rise of prices is only the mode in which the circulation process forces the paper to be the symbol of the gold necessary for circulation of the commodities.

MONEY AS MEANS OF PAYMENT AND CREDIT

Before continuing the discussion of paper money and inflation let us look at another function of money important

in connection with credit. With the development of "market production" the length of time required to produce a commodity often varies; in any case the various lengths of time need not coincide. Thus A may sell his commodity, a plow, to B, before the latter's harvest has been reaped. Since B has not yet realized the money form of the value of the commodity he produces, he cannot pay immediately. Or it may happen that someone may "buy" a commodity before he can receive the commodity (whereby under these primitive conditions he can do this only if he has previously sold a commodity—i.e., realized its value in money—without subsequently having bought another commodity). Thus the commodity will change hands without the "help" of money. Money may be said to function here ideally as means of buying—i.e., the promise to pay causes the commodity to change hands. When the money is in fact later handed over, it is no longer functioning as means of circulation, because the commodity has already been transferred; instead of mediating the transaction, the money concludes the transaction. Whereas in the previous function of money as means of circulation the exchange-value really never attains an independent existence inasmuch as the commodities and money are constantly changing places, here it does: Money here becomes *means of payment*.

This new relation in its elementary of abstract form embodies the credit relation of debtor-creditor. Here we have another latent aspect of crisis: for as long as claims compensate one another, money need function only as a measure of value; but once the time comes for "the bills to be paid," money ceases to be a mere mediator, a representative of commodity, but rather becomes the incarnation of social labor. At this point—which may be a crisis period—the shallowness of S's remarks on money stands revealed; for no one wants money now for what it can buy because nobody is buying anything in the crisis: the debtors have already "bought" without paying; they are not buying now, but paying debts; and the creditors have no intention of expanding production at such a time—they merely want

the money equivalent of the commodities they had "sold" previously. This would seem to indicate that money did after all have some non-"conventional" value in capitalism.

Hoarding.

Here it is also possible to see the outlines of capitalism in an abstract *form*, since producers will sell without buying—in fact, that they will do this quite often until they have *accumulated* a *hoard*. Here one buys in order to sell, that is, the acquisition of money becomes a goal in itself: M-C-M replaces C-M-C as the motive force. Of course, not even capitalists are such fetishists that they would really execute a M-C-M; the second M must, as we know, be larger than the first (or at least that is the purpose of retention).

In S's "list" of money functions the hoarding of money ("safe way of holding wealth," "precaution"—283) is somehow oriented at future consumption. His wisdom here seems very strange. Money, we are told, provides safety "against the ups and downs inherent in stocks, land, homes, and bonds. When all these are going down in price, the canny hoarder of money is the most successful speculator in the community" (283). The only ups and downs inherent in lands and homes come from earthquakes. (A parenthetical remark added by S negates his previous praise of money: rising prices make the money holder "suffer.") In his final summation, he informs us that all the functions of money are "worth paying for. And we each do incur a cost in holding a coin, a bill, or a demand deposit—namely, the *sacrificed interest and profit yield* that might be obtained from purchase of earning assets" (283). Well, that's very nice that someone is willing to pay \$100 so that he can "make" \$200—but he in the end can pay the 100 only if he can make the 200; but S has still not told us how 100 is transformed into 200.

PAPER MONEY AND INFLATION REVISITED

We couple paper with inflation because there is little sense in speaking of inflation as being related to a rise in prices resulting from a change in the value of gold. Marx

states that as long as paper money receives its denomination from gold (or, in his time, silver), convertibility into gold remains the practical measure of value of every paper money, that convertibility is an economic law for the paper money, whether this convertibility is politically possible or not. Marx then lists three possible reasons for the depreciation of paper money (that is, the drop of its real value below its nominal value): loss of faith in the government, excessive issue of paper money (i.e., in relation to the gold it is supposed to represent), or a particular demand for gold which would create a privilege for gold for export against paper money.¹⁶

It is clear that these three factors can arise independently of one another; it is also clear that the inflation, or more accurately the depreciation will take on different forms according to the circumstances involved. In the case of too much paper, the result is higher prices. If it is the gold "privilege" (which can arise for instance under an unfavorable balance of payments), then the depreciation appears as a lower exchange rate of the currency vis-à-vis other national currencies.

These results can also influence each other. Thus a rise in prices can bring about a special need for gold and lead to a lowering of the exchange rate; similarly, a lowering of the exchange rate can lead to rising prices.

But these factors are not the causes of inflation. What then are they? According to Varga, the contemporary inflation has been brought about by the "contradictory movement of the real and nominal national wealth and national income," in other words by the militarization of the capitalist economies in the post-World War II period. But he adds:

Present-day methods of financing wars, and peace-time military expenditure make it possible to cover the enormous state budget deficit without a large issue of additional paper money. At present it is not a direct issue of paper money that corresponds to the inflated post-war sum of prices but the increase in deposits, used in the wholesale commodity circulation turnover instead of paper money, and the issue of war loans and other substitutes for paper money.¹⁷

This explanation is consistent with those of other Marxists to determine the nature of inflation.

We have thus discovered some concrete mechanisms by which inflation serves its goals. The massive use of paper money, or more accurately the complete replacement of gold by paper in internal circulation, formally gives the capitalist state elbow room for maneuvering with respect to its traditional role as enemy of the working class. Monopoly pricing on the other hand gives the monopoly capitalists the possibility to seize extra booty from "consumers" via higher prices, and from smaller capitalists via a redistribution of surplus value. Taxation on the other hand enables the state to withdraw part of the workers wages and redistribute it to the needs of the state as national and international protector of capital.

But as was pointed out, inflation in the sense of the reducing of the purchasing power of paper money (and it is not yet clear what this means until we examine the question of gold more closely) is also possible without an increase in the supply of paper money.

It must be stressed, however, that the redistribution of income from labor to capital and/or unproductive government utilization of capital made possible by inflation is not the basic enemy of the working people in capitalist countries. Although it is an obvious tool of class oppression it is merely a supplement to the basic exploitation embodied in surplus value.

Excursus on Inflation and the So-called Wage-Price Spiral The myth of the wage-price spiral is based on the assertion that the laborer gets the full value he produces; that therefore a rise in wages conditions a rise in prices; and that in the end all remains the same—so why increase wages?

As we know, the wage is the value and/or price of labor power: labor itself has no value; it only creates value. And we also know it was Adam Smith's erroneous notion that the value of a commodity was made up of wages, profit, and rent. But the value of a commodity is derived solely from living labor and frozen labor transferred from the means of production. The worker's wage is a cost item to

the capitalist; but the whole "value-added" is not, for the capitalist gets the surplus-value free of charge. Thus if wages increase, the value of the commodity remains the same, as long as the surplus value decreases by the same amount. Capitalists producing means of subsistence will get more "play," those producing or pandering to the "needs" of the bourgeoisie will get correspondingly less. The general rate of profit will fall.

As Marx illustrates in Chapter 11 of the third volume of *Capital*, since the value of the commodities is not affected by a general rise of wages, the price of production of commodities produced with a capital of average organic composition (i.e., a capital whose relation between c and v is equal to the average of the total social capital) would also not change, although its rate of profit would drop. Now in order that the average rate of profit be reestablished (this is not to be understood mechanically as taking place overnight) for all capitals, the prices of production of capitals with above- and below-average organic composition would have to change; those capitals with above-average composition—i.e., with relatively less labor—would result in lower prices of production; those with relatively more labor would result in higher prices of production.

The explanation for this is as follows: Since the capitals with lower organic composition are as it were hit harder by the wage increases, their rate of profit would drop below the new average if they continued selling at the old production price. Conversely, for capitals with higher compositions, being relatively less affected by the wage increases, continued sales at the old price of production would result in above-average rates of profit.

Now all this presupposes free flow of capital between branches. Has monopoly capital changed this mechanism? Monopoly results in a redistribution of surplus-value: it does not produce more value and cannot therefore redistribute more value than already exists. Thus in our case, it is likely that those branches with the highest organic composition would also be the most heavily monopolized. This would mean that they could keep their prices of production

above the level portrayed above: they would not lower their prices and therefore their rates of profit would not average out but would remain higher (they were already, but they would probably rise even more). Through their monopoly they could stop the free flow of capital, and therefore the averaging-out of the rate of profit.

For the other capitalists there are two possibilities. Either they pay monopoly prices to the first capitalists, and therefore do with an abnormally low rate of profit (even below their previously below-average rate), which would lead to bankruptcy and further concentration of capital, or they would pass off some or all of their added costs to consumers. This latter case, inflation, we have discussed above. It is tantamount to a lowering of real wages. But the general principle remains as Marx formulated it: the rise in wages brought about the price rise only because the capitalists were powerful enough to negate the wage increase by increasing prices and thus maintaining the ratio between wages and surplus-value.

