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The Anti-Samuelson

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BASIC PROBLEMS OF THE CAPITALIST ECONOMY

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Chapter 11: Banks and Credit (S's Chapter 16)

We small bourgeois artisans, we who work on the nickel cash registers of the small store-owners with the honest crowbar, are devoured by the large entrepreneurs behind whom the banks stand. What is a skeleton key compared to a stock? What is the burglary of a bank compared to the founding of a bank? What is the murder of a man compared to the hiring of a man?—Mackie Messer, in Bertold Brecht, Die Dreigroschenoper

The objective function this chapter is to surround capital credit operations with a mystique to convince the reader that the Fed is omnipotent and that We the People need no longer fear that our economy can get out of hand. It is our purpose to demystify this sphere, to show the rational kernel and limits of these manipulations.

THE MODERN BANKING SYSTEM

In this section, S intends to serve up some "superficial but useful history" much in the manner of Chapter 5 on "business organization" (294). First we are "informed" that the "primary economic function of commercial banks is to hold demand deposits and to honor checks drawn upon them—in short to provide us, the economy, with the largest component of the money supply. A second important function . . . is to lend money to local merchants, homeowners, farmers, and industrialists" (292).

From this we might get the impression that all that is happening in these banks is that money or titles to money



keep being transferred about, that we are dealing with a society of hoarders, and more particularly with a society made up exclusively of a sphere of circulation. What possible sense is there in talking about shifting and holding all this paper if do not have any idea how all this is connected with social production?

From the bourgeoisie's point of view it makes a good deal of sense. As Marx notes (in the first chapter of the second volume of *Capital*), the circulation of capital as money capital is the most abstract, most onesided form of the circulation of capital. For here we have money capital buying means of production and labor power, applying them in production, selling the finished commodities, and realizing surplus value: M-C . . . P . . . C'-M'. But here the beginning and the end is the money capital, with production a mere necessary intermediary (which is the abstract expression of capitalism as surplus-value production); on the other hand the source of surplus value is extinguished in the process, and thus this aspect of the circulation of capital makes it the most fetishistic.

Now from the viewpoint of bank capital, production is an isolated act of the capitalists' advancing money capital. Thus the magic powers formerly attributed to money are now transferred to, or at least shared by, credit. The credit form becomes isolated from material production; it loses its social content and becomes magic.¹

The bank function of supplying money is also not very clear. Money of course means demand deposits in commercial banks. But what sort of money is this? R. S. Sayers contributes the following on the matter:

Banks are institutions whose debts... are commonly accepted in final settlement of other people's debts... The cheque itself cannot reasonably be described as money; but the deposit that can be so transferred does serve as money, "money" being the word we apply to anything ordinarily used in settlement of debts... The word "debts" is here used in the broad sense of any obligation fixed in terms of money...

Very neat! First we get money defined in terms of debts and then debts in terms of money. Then to confuse the



matter further, we get this: "When a child buys an icecream from the ice-cream van in the street, the child incurs a debt which has to be settled by the immediate payment of six-pence." . . .²

Here Sayers has neatly transformed money as means of circulation into money as means of payment, and thereby confused the logical derivation of debt from the latter. Credit relations are inextricably bound up with money as means of payment.

At this point we can summarize the main functions as follows: (1) the mediation of loan capital between industrial capitalists and money capitalists; (2) the transformation of income into loan capital; (3) the creation of means of payment and means of circulation which become loan capital. Marx generalizes:

. . . The banking business consists in concentrating the loanable capital in its hand in great masses so that instead of the individual money lender the bankers as the representatives of all money lenders confront the industrial and commercial capitalists. They become the general administrators of money capital. On the other hand they concentrate the borrowers vis a vis all the lenders inasmuch as they borrow for the whole commercial world.³

Banking represents a capitalist division of labor. Instead of individual capitalists each taking care of the technical details—keeping reserves, cashing checks, etc.—this is done jointly for many capitals by the bank and in this—socialized—way the capital that must be "wasted," i.e., used unproductively in this sphere, is minimized. Thus, instead of each capital taking care of the purely technical movements that money goes through in the circulation process of industrial capital, a part of the total social capital is set aside to take care of nothing but these operations.⁴

Further, S tells us that "Banking is a business much like any other. . . . A bank provides certain services for its customers and in return receives payments from them in one form or another. It tries to earn a profit for its stock owners" (294).

Banking is much like any other business only if you ap-



proach it as S does: i.e., through its ledgers. You do certain things for some people and they pay you, and then in the end you see whether you got more than you gave. This is what was meant above by saying that S approaches capitalism via M-D...P...C'-M'. All he sees is the top surface: the money difference between cost and revenue.

Unfortunately banking is not like any other "business"; for banking produces nothing: it is, as just mentioned, exclusively taken up with mediating the form changes in the sphere of circulation; it expedites money along its merry way from capital to capital. All the "costs" here are those of circulation: instead of each individual capitalist having to put aside part of his capital for the unproductive tasks of accounting, etc., one segment of social capital is set aside (not consciously: like everything else in capitalism, this division of labor also arose spontaneously). Bank profits result from the difference between the interest they pay out and the interest they receive on loans. Interest is a part of surplus value created in the factories, mines, and farms of society. Banking is as much a cost of circulation as printing dollar bills: as such its "productivity" consists in taking up as little of productive social capital as possible. To equate it with productive capital is pure mystification.

The subtlest dose of apologetics is proffered with this little gem: "Unlike England and Canada, where a few large banks with hundreds of branches are dominant, the US has tended to rely upon many independent, relatively small, localized units' (291). What is the nature of "the old American distrust of 'big finance' " (292 n. 2)?

As usual, S is operating in a socio-historical vacuum. We just have these innocuous banks rendering "services." Does their role ever change? No answer.

Monopoly capitalism is based on the concentration of capital: those capitalists who have accumulated the most capital can raise the productivity of their workers most, thus driving their competitors to the wall, which results in the latter's being eaten up by the former (this is called the centralization of capital). This process is accompanied by



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the monopolization of the sphere of banking, and the merging of the two results in the rule of finance capital.

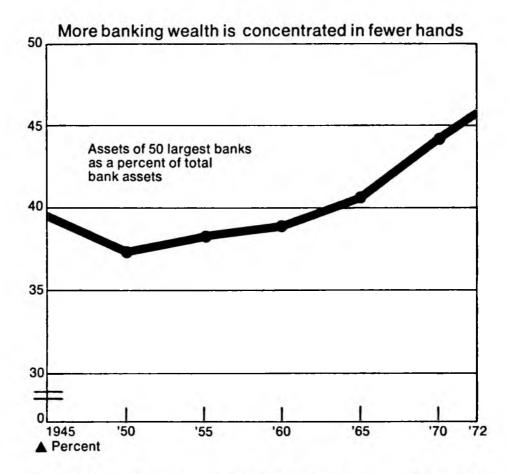
Based on S's remarks on industrial concentration we can expect him to deny similar trends within "banking." Although here too there is "something" to S's delineation of the differences between the banking structure in the U.S. and, say, Canada or the U.K., S neglects several essential points. First of all, in absolute size the U.S. banks are clearly the international leaders. Thus at the end of 1972, the three largest U.S. banks were also the three largest in the capitalist world; their deposits (in billions of dollars) ran as follows: Bank of America—35.428; First National City—27.750; Chase Manhattan—24.998. The largest British Bank (National Westminster) ranked sixth, with deposits of 18.889 billion, whereas the largest Canadian Bank (Royal Bank of Canada) ranked seventeenth, with deposits of 14.284 billion.

These absolute magnitudes do not accurately reflect the imperialistic power and national capitals of the various banks; thus, for instance, the Bank of America cannot compete with the two other U.S. banks with respect to international loans.

Secondly, although it is true that the U.S. has erected some legal obstacles to nationwide branch offices—in contrast to European practice—this prohibition has had no effect on large commercial loans, since only the large banks are in a position to mediate this capital. In this respect the existence of so many small ("independent") banks is statistically misleading. And finally, there is a trend—in large part brought about by foreign bank competition in the U.S.—to eliminate these last legal restrictions so that the near future will probably see many mergers, etc.6

Similarly, if we look at the development of the banking structure during this century, we note a very definite trend toward centralization of finance capital. Thus in 1912, that is, prior to the birth of the Fed and the end of "anarchy of unstable private banking" (292), thirty-four banks controlled one-eighth of all banking resources. In 1960, the





fifty and ten largest commercial banks accounted for 38.9 percent and 21.5 percent respectively of total bank assets; by 1971, these respective shares had risen to 48.5 percent and 26.6 percent.8 In 1967, the three above-mentioned U.S. banks alone accounted for one-eighth of total commercial bank deposits.9 Another measure we may point to is the tight control over the world's largest pool of investable funds"; here ten banks control about 40 percent, and four (Morgan Guaranty, Bankers Trust, First National City, and Chase Manhattan) about one-quarter of these funds. This led Wright Patman, the then chairman of the House Committee on Banking and Currency, to state that these data "show that the American economy of today is in the greatest danger of being dominated by a handful of corporations in a single industry as it has been since the great money trusts of the early 1900's."10 These bank trust departments have come to control very large blocks of the total outstanding shares of the largest U.S. corporations. When we further take into consideration that many of the largest banks are not separate entities, but rather united into finance capital groups, the degree of centralization becomes ever more apparent.

In other words, we are dealing with finance capital groupings whose "resources" rival the Fed in magnitude—and yet they receive no mention from S.

INTRODUCTION TO CREDIT

In the previous chapter S claimed that "by controlling the behavior of money and credit, the government and its Federal Reserve System can hope to affect the balance of saving and investment expenditure" (277). On the one hand, such a "balance" is not fundamental, and on the other, we must now examine the validity of the claim that capitalism can "manage" its money.

Karl Kautsky has provided a clear view of the limits of circulation-sphere "rationality" which will be a useful introduction to our discussion of credit. Kautsky notes that money can enter circulation only through the purchase of commodities, not through banks issuing money. He asks ironically whether the bank could not perhaps give people money so that they can buy commodities.

Unfortunately no one has yet come up with this sort of social regulation of circulation. Now as ever it is still the individuals who through their purchases bring about circulation, either with their own or with borrowed money. The only change lies in the fact that a part of their own money is deposited in the bank and must first be given out by it, on the other hand that it is primarily the banks that serve their credit needs. And only through credit and loans to individuals—physical or legal persons—does the bank put money into circulation. . . .

Because of their vast mechanism . . . banks are in a better position to handle the granting of credits than isolated money capitalists. But the circulation process of the commodities is only a part of the production process, is determined by the latter's needs and results, and as long as the private ownership of the means of production determines the total process, there can be no social regulation of even a part of that process.¹¹



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Kautsky has touched upon a fundamental relation by referring to the sphere of circulation; yet he too remains on the surface insofar as he fails to spell out the real significance of the control over money and credit. We know that money is not a primary phenomenon, but rather a peculiar reflection of the uses to which labor is put in capitalist society. This does not mean, however, that monetary movements are totally dependent on, that they stand in a one-to-one relationship to, the "real" material results of labor. On the contrary: Marx takes great pains to show how monetary phenomena assume an autonomous existence which in part is responsible for lending superficial credence to the fetishistic belief in the primacy of money.

To what extent does this autonomous existence entail an independent power to influence the process of surplusvalue creation and accumulation? A major Marxist study of state-monopoly capitalism suggests that because the results of profit production appear in money "through manipulations with money and money-capital, the fundamental categories of property and income of the capitalist mode of production can be influenced, and consequently also the distribution of social total-labor." This, of course, involves a tautology. The individual capitalist is tendentially the absolute ruler within his factory or group of factories (tendentially because the workers oppose this authority): his capital is his castle; he can directly control the labor activities of "his" workers. However, that does not obtain when he wants something from workers not directly subject to his capital. Here he must enter into exchange and wheel and deal with money and commodities. In other words, labor as social labor appears as value; as long as labor is private (i.e., within the control of one capitalist) it appears as what it is: capitalists and workers within one unit are involved in the creation of use-values. On the social plane, however, labor can be "commanded" only indirectly by the purchase of commodities.

Therefore by "definition" all social exchange of labor must be mediated by money. The state is no exception: to the extent that it acts socially, it too must have recourse to the



indirect road of money. In this sense money is not only the suitable mechanism for such control but the only mechanism.

The state can of course also directly command labor; but to the extent that it does, private capital has ceased to exist, profit is no longer the immediate goal, but rather the improvement of conditions of profitability for the remaining total capital.

CREDIT

Before we can study a phenomenon as concrete as "deposit creation" it will be necessary to establish the prerequisites of credit in general—a task which S unfortunately does not tackle.

In the previous chapter the abstract possibility of credit relations was discovered during the discussion of money as a means of payment. But that discussion was abstract precisely because it dealt with the sphere of commodity circulation. What does credit mean in the capitalist mode of production?

Once capitalism develops, every sum of money has the potential of being transformed into capital; this means that it is transformed from a given value into a value that can expand itself by allowing the capitalist to extract surplusvalue from his workers. For example, a worker's \$100, when lent to a capitalist and exchanged for means of production and labor power, can help the capitalist expand this sum into \$200:

Therewith it obtains, aside from the use-value which it possesses as money, an additional use-value, namely that of functioning as capital. Its use-value consists here precisely in the profit which it, once it is transformed into capital, produces. In this quality as latent capital, as means of producing profit, it becomes a commodity, but a commodity sui generis. Or what is the same, capital as capital becomes a commodity.¹³

It might be expected that Marx's renewed interest in



use-value will lead to strange results; for it was another peculiar use-value, labor-power, that lies at the base of surplus-value. And, indeed, the transaction between the lender and the borrower turns out to be extraordinary, for here there is no form change of the value (C-M-C or M-C-M); neither does the lender get a commodity for the money he gives the borrower, nor, if his sum of value happens to be in commodity form, does he sell it for money. Lending in fact is the way in which money is alienated not as money and not as commodity, but rather as capital. The lender gives the borrower the *power* of producing an even greater sum of money. The lender is then paid back the original sum plus a fraction of the expanded sum, which in fact was the use-value of that which he lent.

But fetishism runs rampant here, inasmuch as no change of value-form appears in this transaction: all we have is M-M'; i.e., a sum of money is given away in return for an even bigger sum. The return of this sum apparently no longer depends on an economic process but rather seems to be an arbitrary legal agreement. Such a semblance is given ideological stability by the fact that loans can be made to people who will not use the money to expand the value but merely to buy use-values. Nevertheless, these people must also in the end fork over the principal plus delta x, regardless of where this extra amount comes from (even if it is another loan).

The name of the increment that has to be paid back is called interest; and as bourgeois economists never tire of telling us, it is the price of money, or alternatively, the price of capital. But this is an irrational expression (on a par, however, with the price of labor) since money-capital thus becomes a commodity with a double value: a value and also a price different from this value, although price is the money form of value. Thus although price is the value of a commodity, in contradistinction to its use-value, here we have a price qualitively different from value. The problem here is that the value of money or commodity as capital is not determined by its value as money or commodity, but rather by the surplus-value it produces for its owner; and in this sense the interest expresses the self-expansion

of the money-capital, and therefore it constitutes the price paid the lender.

There is one other important aspect that evolves from this relation. Interest is a part of surplus value, or more concretely, of profit. In this sense a quantitative division is made between the two, and the difference becomes the entrepreneurial profit (the profit made by the user of the borrowed capital). But the lender and the borrower, or the money and industrial capitalist, are not merely legally different individuals; they also fulfill different roles in the reproduction process because lender and borrower subject the same capital to two entirely different processes—one lends it, the other employs it productively.

In this way, the quantitative division has given rise to a new qualitative division. The fact that a part of total profit has been transformed into interest automatically transforms the remaining portion into entrepreneurial profit, whether or not any particular individual capitalist borrows. This in turn means that as soon as the average rate of profit has been established, entrepreneurial profit appears to be determined not by the wages paid to the workers (for this has already been "calculated" before the surplus-value is distributed among various capitalists), but rather by the rate of interest. The industrial capitalist thereby seems to "earn" his profit just as much by labor as does the worker his wage. Thus the industrial capitalist can tell the workers that they are allied against the real hogs—the money capitalists who take profits (interest) without doing any work. Interest then expresses the means of production as capital, as means of appropriating surplus-labor.

But with the stabilization of money and industrial capitalism, the reference to the "suitability" of money manipulation by the capitalist state becomes easier to understand. For in the "money market," the specific qualitative applications of capital, as they are manifested in competition, disappear: here money-capital appears as the common capital of the class of capitalists as a whole unrelated to any and every particular employment, ready to be disseminated to every production need. With the development of large-scale industry, money capital appears as a concentrated,



organized mass which "quite otherwise than the real production is placed under the control of the bankers representing the societal capital." ¹⁴

Marx is saying here that in this centralized form money-capital can be distributed in accordance with the "production needs" of each sphere. But what does he mean by "needs"? Certainly not the needs of the workers. "Needs" here refers to the needs of surplus-value production and accumulation. It means that vast industrial undertakings can be initiated without regard to the capital owned by the manipulators in that sphere. The bankers do not have the power to redistribute more surplus-value than has already been produced. But they do have the power to redistribute it in such a fashion that the largest amount of surplus-value will be produced in the next round.

This new-found strength also shows the contradiction in capital insofar as it indicates that the privateness of capital is running into conflict with its inherent sociality. The power of the "collective" money-capital grew out of the powerlessness of the individual capitals to carry on production on the scale dictated by the demands of competition.

The question arises whether with the transfer of this centralization and the control thereof from the banks to the state, a similar augmentation of power takes place. It is within this framework that the basic functions of the Federal Reserve System must be viewed.

How does commercial credit operate? A coal-mining capitalist, for example, may receive a bill of exchange from his customer, an iron-producing capitalist, for already delivered coal, because the latter cannot yet pay since he has not yet realized the value of the iron he has sold. These bills of exchange can continue to circulate until they are paid in cash, and then retired. Now two aspects are of importance here: first, this process has nothing to do with lending unemployed capital; rather, it is a method to hasten the value-form metamorphoses of capital from the commodity to the money form and from money to commodity form; secondly, all these obligations become mutual: a general entanglement of debts develops. Now the clearing of these debts depends on the fluidity of the return



flows, that is, whether the reproduction process is running smoothly. Here we are involved with credits within Department I (producers of means of production) and/or between Department I and Department II (producers of means of consumption).

But once the fluidity turns into stagnation as a result of flooded markets and falling prices, the above-mentioned nexus of mutual debts asserts itself. In fact, there develops an excess of productive capital and of commodity capital that cannot be employed or sold. Thus credit contracts because capital is unemployed, and capital cannot continue its metamorphosis.

The amount of money in society has not changed, nor was it the determining factor. As we saw, as long as things were going well credit was enough: there was no critical shortage of money. But as Marx points out, money as means of payment (the abstract form or possibility of credit) contains an "unmediated contradiction": as long as claims compensate one another, money functions merely ideally as a measure of value; but when the moment of truth arrives and hard cash must be forked over, money becomes the absolute commodity, and no substitute will do. At this point capitalists want to borrow money as means of payment to pay off their debts: everyone must pay and no one wants to buy. So who would be willing to make loans at a time when the fluidity of the reproduction process has touched bottom?

Aside from this commercial credit there is also bank credit, i.e., credit that banks can "grant" on the basis of "unemployed" capital deposited with them by capitalists, or of income deposited by any class. The former represents accumulated surplus-value that is not immediately employable either because this particular capitalist's investment sphere is sated or because the amount of capital necessary for his prospective investment has not yet been reached. Capital can also be released if the production process has been interrupted. The depositing of income (mainly by the bourgeoisie but also by the working class) merely expresses the fact that in capitalism every sum of money can take the form of interest-bearing and loan capital. In any event, the



accumulation of money capital obviously can exceed the real accumulation of capital.

What exactly is this "deposit creation"? S's presentation, aside from not having bothered to establish the theoretical framework which first makes all this material about banks and loans comprehensible, under the guise of "avoid[ing] ambiguity" by (8th ed., p. 281) complicated matters supposes that new deposits stem from the government's having printed money. Now this may well be the case—but it is clearly not the base on which the essence of credit can be explained. If paper money were just hurled into circulation by the state without any regard to the actual needs of circulation, the market would soon react by raising prices correspondingly. Unless a differential effect on class-income redistribution took place (which S of course does not mention), such a procedure cannot help the U.S. out of its periodic recessions. Secondly, S is not at all specific as to what is done with the money that is borrowed, although we just know that this will have serious effects.

Let us return to the fount of bourgeois economics—Adam Smith. He wisely noted that if the borrower uses his money on consumption, "he acts the part of a prodigal, and dissipated in the maintenance of the idle, what was destined for the support of the industrious. He can, in this case, neither restore the capital nor pay the interest, without either alienating or encroaching upon some other source of revenue. . . ."15

But what generally happens in such transactions between lender and borrower? (Smith here is speaking of loans for productive ends—to buy means of production, not to pay debts):

By means of the loan, the lender, as it were, assigns to the borrower his right to a certain portion of the annual produce of the land and labour of the country. . . . The quantity of stock, therefore, or, as it is commonly expressed, of money which can be lent at interest in any country, is not regulated by the value of the money . . . which serves as the instrument of the different loans made in that country, but by the value of that part of



the annual produce which . . . is destined not only for replacing a capital, but such a capital as the owner does not care to be at the trouble of employing himself. . . . The money is, as it were, but the deed of assignment, which conveys from one hand to another those capitals which . . . may be greater in almost any proportion, than the amount of the money which serves as the instrument of their conveyance: the same pieces of money successively serving for many different loans, as well as for many different purchases. A, for example, lends to W a thousand pounds, with which W immediately purchases of B a thousand pounds worth of goods. B, having no occasion for the money himself, lends the identical pieces to X, with which X immediately purchases of C another thousand pounds worth of goods. C in the same manner, and for the same reason, lends them to Y, who again purchases goods with them of D. In this manner the same pieces, either of coin or of paper, may, in the course of a few days, serve as the instrument of three different loans, and of three different purchases, each of which is, in value, equal to the whole amount of those pieces And . . . the same pieces of money . . . may likewise successively serve as the instrument of repayment. 16

Now, as Marx points out, if A had lent the money to B, and B to C directly, without the mediation of purchases, the same money would have represented not three capitals but only one capital value:

How many capitals it really represents depends on how often it functions as the value-form of different commodity-capitals. The same thing that A. Smith says about loans in general is valid for deposits, which are after all only a particular name for the loans which the public makes to the bankers. The same pieces of money can serve as instruments for any number of deposits whatsoever.¹⁷

Thus, the possibility of large amounts of deposits on the basis of a relatively small amount of means of circulation is given as long as each unit of money executes multiple transactions and as long as the reflux of the money to the bank in the form of renewed deposits is guaranteed by some mechanism. For example, a supermarket may deposit \$10,000 a week in the bank; with this money the bank can



pay out a part of another deposit of the local dress manufacturer, who pays his workers' wages with this money; the workers buy their means of subsistence from the supermarket, which redeposits it in the bank.

The deposits have a twofold function: (1) they are lent out at interest, and are therefore not in the bank but merely credited to the depositors; (2) they serve to compensate the mutual credits and debits of the depositors, who pay each other by writing checks against their accounts (this mechanism is not essentially affected if the accounts happen to be in different banks).

With respect to credit creation, we must distinguish between credit and money capital. If a bank grants a capitalist credit and the latter offers nothing in return but his "good name," then it has given him money-capital. If, however, the capitalist in exchange must pledge stocks or securities, he may possibly have to put up greater value than he is getting from the bank. Since securities already are capital, what he wants from the bank is money, not capital. The same is obviously true if he has the bank discount bills of exchange he is holding.

The creation of new buying power is "semblance" only from the standpoint of the individual relation between the bank and the client. This disappears, however, as soon as we look at the phenomenon from the standpoint of capitalist society as a whole. Now let us assume that the bank grants credit to capitalist X without the latter's having had to pledge any values. The credit takes the form of an account which the bank opens for X. Now X, no prodigal, wants to buy some means of production. So he writes out a check against his account to capitalist Y who produces the machines and materials X needs. If Y demands that the bank pay out the value of the commodity he has sold to X in cash, then the fiction of the *new* buying power is evident. If instead Y opens an account (or merely has it added to an already existing account), that is, if deposits the check, then the bank creating the deposit in the first place becomes a debtor of Y for this sum either directly if the account is in the same bank, or of his bank. The imaginary account which the bank had opened for X has thus been transformed into a real account of Y.

In this manner the credit system can influence the velocity of circulation, since there is no need to wait until a sale is actually made; rather, the money can be deposited in the bank, lent out again to effect a transaction, and so forth.

This is considered a mark of "progress" in that it permits the extension of production beyond narrow "personal" limits. But this expansion also proves to be the downfall in the event of crisis, when it becomes manifest that the credit system has allowed an increase of production beyond the needs of the consumers as solvent demanders.

Thus credit is one of the clearest manifestations of the contradictions inherent in capitalist relations, expressing private relations of capitalist commodity producers which at the same time must attain a certain sociality.

SUMMARY OF CREDIT

Credit is a sphere in which rational kernels abound. There is good materialistic reason for this. As Marx observed, credit contains within it a further, that is, more concrete, expression of the contradictory nature of capitalism: credit can accelerate and intensify the exploitation of living labor, but at the same time it inevitably and periodically leads to overproduction, a situation in which the use-value production exceeds the "needs" of value and surplus-value production, which can be resolved only by a destruction or depreciation of capital itself (this is the rational kernel of the frequently dogmatic Marxist assertion on the contradiction between the forces and relations of production).

Since this contradiction is inherent in the credit relation, bourgeois credit theorists, not aware of this connection, come on as mixtures of "swindler and prophet." We must keep this in mind as a guide in our further exposition.

At this point, let us summarize the results of our discussion of credit. Credit becomes necessary to mediate the equalization of the rates of profit among capitalists. With-



out the possibility of the flow of capital from one branch to another in the search for the highest rate of profit, the driving force of capitalism would disappear. Once capital has assumed its money form, it is in a position to reappear as any particular use-value, namely any particular means of production (productive capital) capable of extracting surplus value from labor. Thus we might say that credit is immanent in the concept of capital itself. This should not seem strange inasmuch as the abstract possibility of credit already existed in the sphere of simple commodity circulation in money as means of payment.

Aside from this necessity of profit-rate equalization, there is the following consideration: surplus value can arise only in the sphere of production; however, each productive phase is separated by a circulation time; if each capitalist had to wait until he realized his commodity capital in order to begin his cycle all over again, he would "waste" the entire circulation time, during which his capital in the form of means of production would lie "idle" and thus be factually depreciated as capital. One way of avoiding such a situation is via commercial credit, whereby the customer, who has already realized his commodity capital, advances the necessary capital to his supplier, who can then carry on his production without interruption.

A third factor is involved in the development of credit: the increasing socialization of production, in the sense that enterprises are begun which exceed the capital capacity of any individual capitalist. To undertake this capital investment, the capitalist must obtain control over other people's capital. Even though this pooling of capital represents a socialization, the profits continue to remain private. The only difference here is that the lenders, the money capitalists, receive a portion of the surplus value "produced" by the industrial capitalist. The important point here is that the industrial capitalist, aside from retaining the lion's share of the surplus value, also reinvests it, that is, accumulates it. This means concentration of capital on the basis of the economic control and utilization of the capital belonging to others.

It is only one step from this lending mechanism to the formation of joint-stock companies or corporations that issue stock. In the previous case, one capitalist lent money-capital, and at the end of a stipulated period got back his principal plus interest. In the joint-stock corporation, a capitalist buys a share and thereby permanently channels a certain amount of capital into the productive concern; this capital in money form is transformed into productive capital and, as far as that money-capitalist is concerned, it is gone. He has received title to a certain portion of the yearly profit produced in that company. In order to get back his principal, he must seek a buyer on the market, whereby the ups and downs of the market may bring him either gains or losses, but in any event are no longer directly dependent on the productive operations of the corporation.

The joint-stock corporation is thus a necessity of capitalism; at the same time it is a powerful lever for the further centralization of capital. The point here is that this centralization takes place, at least on the surface, in the form of fictitious capital. (Fictitious capital is formed through the capitalization of the yield; thus an "investment" that yields \$10 a year when the average interest rate equals 5 percent is said to represent a capital of \$200.) The fictitious capital formed on the basis of shares in productive concerns is divorced from the actual production of surplus value; yet this corresponds to a relatively low level of fetishism when compared to similar calculations performed for investments in, say, government securities. Here the original capital no longer exists: it has been spent on B-52s or White House luxuries; furthermore, it was never borrowed with the intention of being spent as capital, nor was it in fact so used: it was employed unproductively. These securities yield returns because the state in the last analysis still has the power to tax, and as long as the state appears to remain in control of this respect (provided the economy is producing something that can be taxed), people will continue to buy these bonds.

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