Why is there finance? Insights from Marx's monetary theory

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Abstract

Not withstanding his great influence on progressive thought and practice in other areas, Marx's monetary theory has had relatively little impact. In the countless books in the Marxian tradition on economic crises finance and money have minor roles. The lack of influence of Marx's theory of money is largely explained by a belief that his views were either wrong or an anachronism because of their emphasis on commodity money. However, commodity money is an essential element in the labor theory of value. When placed in the context of the circulation of capital, commodity money is a powerful tool to explain the role of money itself and the nature of financial capital.

Introduction

Not withstanding his great influence on progressive thought and practice in other areas, Marx's monetary theory has had relatively little impact. In the countless books in the Marxian tradition on economic crises finance and money have minor roles compared to discussions of profitability, underconsumption and "disproportionality".[1] In part this results from a preoccupation with the debate over whether there is a tendency for profit rates to fall, over what time period and under what conditions. Deeper than this is a suspicion among Marxists that money and finance involve superficial and derivative phenomena that in themselves are of limited theoretical power.

Closely related to the tendency to dismiss money and finance as of little importance in themselves is a suspicion, conviction for some, that Marx's treatment of the

[1] Exceptions are Lapavitsas (1991, 2003), Lapavitsas and Itoh (1999) and Toporowski (2000, 2005), with the latter author from a broader political economy interest not limited to Marx. The essays in Moseley (2005b) provide a useful rejuvenation of Marx's monetary writings, but do not link it to other economic phenomenon.

monetary aspect of capitalism was either wrong, or right but historically specific.[2] This suspicion frequently derives from the view that Marx's monetary analysis suffers from fatal weaknesses resulting from his treatment of money itself. Despite attempts to show the contrary (Williams 2000), there can be no reasonable doubt that Marx believed that the underlying regulator of the monetary system was a money commodity.[3] He concluded that in theory and practice the link of fiat and other forms of money into a produced commodity (gold, for example) was an essential feature and an on-going necessity of capitalist reproduction.

The tendency to minimize, ignore or dismiss Marx's analysis of money and finance is unfortunate. If one makes the analytical leap to commodity money, the power of Marx's approach to monetary phenomenon is proves phenomenal. The purpose of this essay is to establish the validity of that assertion and propose Marx as the greatest monetary theorist. If one accepts his general theory of capitalist reproduction, then that judgment is obvious.

Finance in the Circuit of Capital

The power of the monetary theory of Marx comes from its explicit consideration of money under capitalism. It treats money in the circulation and reproduction of capital, as part of the *circuit of capital*. An attempt to understand money outside the circuit of capital yields few insights and makes most of Marx's conclusions incomprehensible, the most important being the role of commodity money. Exchanges of commodities apparently take two forms, selling in order to buy, and buying in order to sell. Using a slightly altered form of Marx's notation, these two forms can be represented as follows, with M standing for money and C for commodities,

$C \rightarrow M \rightarrow C$, selling with the purpose of a subsequent purchase; and

$M \rightarrow C \rightarrow M'$, and $M' > M$, buying with the purpose of a subsequent sale.

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[2] See the essays in Moseley (2005a), and Moseley's correct assessment of a near-consensus that commodity money is theoretically invalid and unnecessary (Moseley 2005b).

[3] Unless one thinks Marx was ignorant of basic monetary relationships, there is no other credible interpretation of the following quotation except commodity money: "Prices are thus high or low not because more or less money is in circulation, but there is more or less money in circulation because prices are high or low. This is one of the principal economic laws." (Marx 1970a: 105-106).

These appear to be different types of exchange activities. The first is the exchange of equal values, and the second involves gaining a larger amount of value at the end than at the beginning. In practice the first is subsumed within the second, and the second is the simplest form of the circuit of capital. It is a circuit of expanding value, producing Marx's definition of capital, self-expanding value. This definition reveals capital as a social relation. Marx's definition dispenses with the confusion in neoclassical theory between capital as an object (e.g., machinery) and as a form taken by money (fictitious capital).

Capital expands by purchasing and exploiting labor power, which is the source of new value. Capitalists buy labor power at its value and combine the labor power with material inputs. The combination, which is the re-union of workers with the means of production from which they were historically separated, results in new commodities of greater value than the labor and material inputs. The circuit of capital includes the entire system of production, circulation and distribution. It represents capital as a whole, the equivalent of the aggregate closed economy model in mainstream macroeconomics. For simplicity I exclude commodities that are only bought by capitalists, and also assume that all profit is used to expand production (converted into money capital). The basic circuit is money capital converted into commodity capital for the production process, that creates new commodities, and these must be converted into money capital again, M→C…P…C'→M'. In Figure 1 this is expanded to show the exchanges in detail.

The reproduction of society in a capitalist system is driven by the reproduction of capital. As shown in the flow chart, capitalists advance their capital in the form of money (M) to exchange for the ingredients of production, constant capital for materials and machinery (CC), and variable capital for labor power (VC). The variable capital is the income of workers (wages and salaries). These ingredients are combined in the production to create a new set of commodities, which must be sold in order that the circuit can continue. There appear to be two moments of exchange, but this appearance is an illusion because the two are part of a single moment. The new commodities (C') are the same as those sold in the exchange, means of production (M→CC) and the articles of consumption that workers must buy to sustain themselves (M→VC). The advance of money capital (M→C) is simultaneously the realization of commodity capital (C'→M').

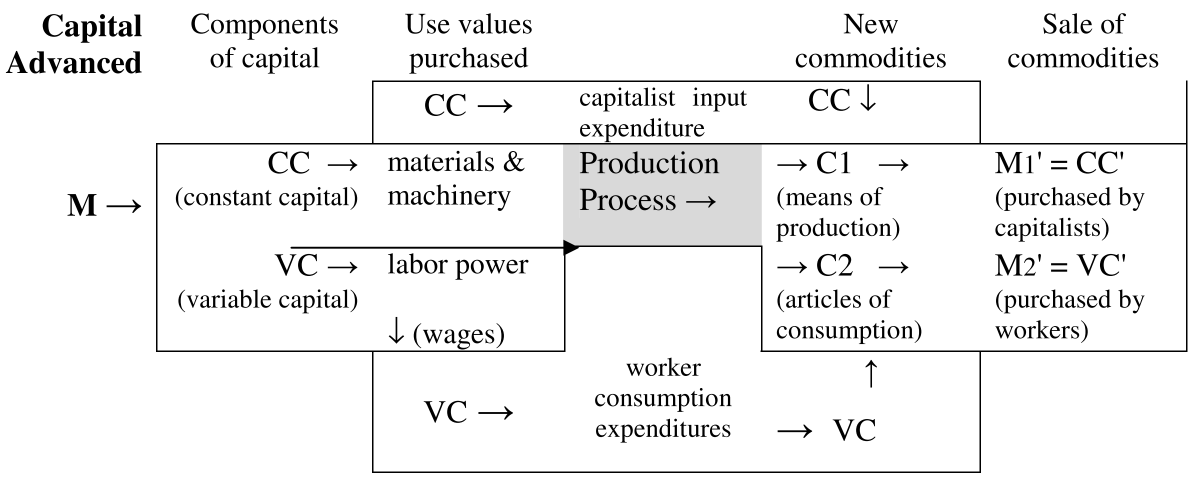
What appears as the purchasing initiative of "consumers", M→C, is derivative from the advance of capital.

Figure 1: Circuit of Capital

A. Simplified form

(Money capital) M →	(Productive capital) C →	Production	(Commodity capital) C' →	(Money capital) M'

B. Elaborated



Capital expands through the conversion of money capital into additional productive capital. Profit is the phenomenal form of surplus value and sets the limit to expansion for capital as whole (in the aggregate).[4] While the essence of capital is an aggregate class relationship between those who own the means of production and those who do not (capital and labor), it takes the form of many superficially independent enterprises. Capital as a whole and capital in many parts interact in contradictory manifestations. The division of society into the two great classes creates the fundamental conflict between capital and labor over the conditions of work. That division also creates many capitals and the competition among them (Weeks 2011: Chapter 8).

[4] In principle surplus value sets the limit to expansion. However, surplus value is distributed in many forms that do not directly convert into productive capital, including rent, interest, state revenue and the many forms of unproductive labor in the private sector.

This division of capital into many competing parts allows for the dynamism of the capitalist system through the redistribution of capital itself. To distinguish between the simple, quantitative expansion of capital, and the much more complex process of redistribution, Marx used the terms concentration and centralization. The concentration of capital refers to the quantitative expansion of individual enterprises and capital as a whole. Concentration is the conversion of surplus value into capital by capitalist enterprises. Centralization refers to the process by which capital is redistributed among those enterprises. This redistribution involves the contraction and disappearance of some enterprises, and the expansion of others beyond the limit set by the profits they realize in the exchange (C'→M'). The surplus value realized as profit in less efficient enterprises is transferred to the more efficient enterprises, and enterprises combine through mergers, and acquisitions, as well as some collapsing in bankruptcy.

The redistribution of capital among its parts is the process of capitalist competition.[5] This redistribution requires a mechanism by which individual capitals can obtain a claim on value greater than their realized profits, so that some expand while others contract. The mechanism is credit money, which is an abstraction from fiat money. Money itself is the abstract from of all commodities, the general equivalent. The introduction of credit requires that the circuit of capital be further elaborated, done in Figure 2. For capital as whole, the moment, M*→ M, M* = M, has no purpose, because it is conversion of money into money with no change in quantity.[6] Its purpose lies in the interaction among capitals. Credit money serves as the mechanism for the centralization of capital. Its institutional form is banking and finance, financial capital.

[5] For an elaboration of the role of competition in the circuit of capital, see Weeks (2011, Chapter 8).

[6] Some might object that M and M* are not equal because associated with (M*→ M) is the payment of interest. Whether interest is included at this point or in the subsequent division of surplus value into its famous "trinity" is an unimportant detail (profit of enterprise, interest and rent), because interest payments merely deepen the mystery: why would a capitalist pay a price by any name for something of equal value? To quote from *Capital*:

> Interest, signifying the price of capital, is from the outset quite an irrational expression. The commodity in question has a double value, first a value, and then a price different from its value, while price represents the expression of value in money. (Marx 1971a: 334)

Figure 2: Circuit of Capital elaborated to include finance

(Credit capital) M* →	(Money capital) M →	(Productive capital) C →	production	(Commodity capital) C' →	(Money capital) M'

Note: M* = M, M = C, C' = M', C' > C, and M' > M.

The analysis of this section can be summarized as follows. Capital exists because of the separation of producers from the means by which they can produce, which creates the conditions for the division of capital into many parts, and the competition among those parts. The dynamism of capitalism is realized through the redistribution of capital among its parts, shifting capital from inefficient to efficient enterprises. This creates the basis for financial capital. Financial capital exists because of the need for capital to redistribute itself. This analysis presupposes the existence of money, which is treated in the next section.

Commodity Money and the Circuit of Capital

Why is there finance, implies the prior question, why is there money? "Money" is a disarmingly simple word used to encapsulate an extraordinarily complex social relationship. Because of its social nature, money is specific to each mode of production. In capitalist society money functions as far more than a medium of exchange, its principle role in other forms of society. In capitalist society money is also a store of value and a means of payment for canceling debts.

Marx's treatment of money is frequently dismissed because it "assumed" a money commodity (gold), or "convertible" money. Because convertibility seems no longer to play a role in capitalist economies, most writers judge the analysis an anachronism. This view incorrectly interprets the monetary theory of Marx. He did not assume that money was a commodity, nor is it correct to suggest that he "believed" this to be the case, because the conclusion derives from analysis not belief in the sense of a construction of the mind.

The concept of "convertibility" is itself a source of confusion. The usual meaning of the term when applied to discussions of a money commodity is the vulgar[7] idea of an actual exchange of fiat money for a precious commodity, usually gold. Direct convertibility in the literal sense is trivial. It could occur even if fiat money had no underlying basis in a money commodity. The central issue in monetary theory is the relationship between the value of commodities arising in production and their nominal values in exchange. In a monetary theory in which money has no value, this link is provided by a hypothesized "supply of money" over which the "monetary authorities" exert sufficient control for the quantity to be treated in practice as fixed. Even within this analytical framework there might arise circumstances in which capitalists would seek to convert fiat money into a commodity such as gold. This might occur if the "monetary authorities" were to indulge in excessive expansion of the so-called monetary base, resulting in rapid inflation. Such an outcome would reflect loss of "confidence" in a currency and not necessarily imply a determining influence of a money commodity.

The importance of a money commodity lies in its continuously underlying function linking the value of all other commodities to nominal prices, not its role in moments of monetary instability. During such moments the rush to conversion is consistent with any monetary theory. The Achilles Heel of all theories of valueless money is setting a limit to the supply of money. To put the problem another way, the fundamental flaw in the theory is the inability to establish a definitive link between the money base and the means of exchange. If money has no value, the quantity of the means of circulation determines nominal prices. The monetary authorities can control the monetary base, for the simple reason that in almost all countries this is defined by law. However, no serious theorist argues that the monetary authorities determine the means of circulation. The key element in the theory of valueless money is to demonstrate the link between the monetary base and the means of circulation. Neither in theory nor practice can this be done. As a

[7] I use the word "vulgar" in the way Marx did, to mean a concept or analysis at the level of appearances. He sometimes used the word "exoteric" to mean the same thing, as the opposite of esoteric. An exoteric analysis is at the level of appearances and is "vulgar", while an esoteric analysis treats the underlying relationships that determine what we observe.

result, theories based on valueless money have little explanatory power.[8]

Over 150 years ago Marx recognized this theoretical and practical problem. As part of the labor theory of value he derived commodity money as the underlying basis of the monetary system in a capitalist society. He demonstrated that commodity money resolves the difficulty that the general equivalent simultaneously provides the anchor for absolute prices, a store of value, and a means of canceling debts. This analysis represented and continues to be a radical break with all other treatments of money. The development of theories of money, beginning with David Hume in the eighteenth century is a history of reducing the functions of money to facilitating of exchange.[9] The recognition of the central role of commodity money in capitalist society makes Marx's monetary theory unique and earns him the distinction of being the greatest monetary theorist. Marx's theory of commodity money is inseparable from his theory of value, and the labor theory of value is inseparable from commodity money. To be analytically consistent, one accepts both or neither.

When analytically separated from the circuit of capital and from capital as finance, money appears to have no value because it is reduced to its role as medium of exchange. In the neoclassical quantity theory of money, it is analytical essential that money has no value, because absolute prices derive from the quantity of valueless money. By analogy, commodity money is an essential feature of Marx's theory of money. Commodity money provides the basis for a general theory of capitalist finance that explains by money appears to be without value.

Money without intrinsic value presupposes a dichotomy in economic relations between a "real" system consisting of quantities and relative prices, and a parallel "nominal" system that is nothing more than these quantities transformed into monetary units. In this dichotomy money is a mere "veil" partially obscuring the "real" system.[10] This approach implies that an exchange involves the following

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[8] The essence of the problem is that anything people agree to accept can serve as means of exchanging commodities, and some of these have no link to the monetary base. See Weeks (2011: Chapters 5 and 5; 1989: Chapter 4; and forthcoming)

[9] Two important exceptions were Stueart (1767) and Tooke (1844), both of whom concluded that valueless money was inadequate to satisfy all the functions of a general equivalent.

[10] The most explicit and vulgar version of this doctrine is found in the work of Pigou, in whose most famous book the dichotomy is explicit in the title, The Veil of Money (Pigou 1941).

thought process: 1) the ten dollar bill I hold has no value itself; 2) its exchange for five gallons of gasoline is purely formal; because 3) the real exchange is between my working time and the gasoline, and the ten dollar note is no more than a convenient intermediary. Exchange is isolated from the general circulation of commodities and the function of money rendered trivial.[11] Nothing more than a veil over exchange, money has no function. Having no function, there is no justification of its existence. As strange as it may seem to those unfamiliar with mainstream economics, this is the absurd conclusion reached in neoclassical economics: in their world of rational economic "agents" they cannot account for the existence of money (see Weeks forthcoming).[12]

By his explanation of the "equivalent form of value" in the first chapter of the first volume of *Capital*, Marx demonstrated that capitalism creates the contradictory illusion that money is merely a veil over exchange. I begin as Marx did, with the pretense of barter and initially two commodities, A and B. When the commodities are exchanged, for the seller of A the value of A is expressed as a quantity of B, and the reverse holds for the value of B. Commodity B cannot express its own value, nor can A. Each commodity's value appears as a quantity of another commodity. This is the equivalent form of value.[13] When the social division of labor allows for many commodities, one of them emerges as the commodity that serves as the equivalent form for all others. It is the general equivalent commodity. The general equivalent is money by definition, the representation of or abstraction from all other commodities.

Those who read the first volume frequently overlook the next step in this

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[11] "But if [exchange] is separated from *the* process [of circulation], the phase C-M [commodities for money] disappears and there remain only two commodities which confront each other, for instance iron and gold, whose exchange is not a distinct part of the cycle but is direct barter." (Marx 1970a*:* 90)

[12] A possible explanation for why "rational agents" would use money is that it reduces the transactions costs that would be incurred if each buyer had to seek a matching seller (and vice-versa). This explanation implies imperfect information, inefficient markets and non-optimal prices. Therefore it undermines the ideological justification of a capitalist system.

[13] "The body of the commodity that serves as the equivalent, figures as the materialization of human labor in the abstract, and is at the same time the product of some specifically useful concrete labor. The concrete labor becomes, therefore, *the* medium for expressing abstract human labor." (Marx 1970b: 64).

analysis of the general equivalent. The general equivalent is an abstraction from the specific nature of every other commodity, from their use value. When represented by the general equivalent commodity, all other commodities lose their concrete character. Similarly, in its function as money, the general equivalent commodity becomes an abstraction from itself. People come to view the general equivalent not as a quantity of gold or silver, but the abstract representation of other commodities. The use value of the general equivalent becomes its claim on other commodities, and it seems to have no other.

At this point the abstract asserts its dominance over the concrete. The reason that gold (for example) emerged as the general equivalent is that it exchanged for other commodities as one useful object for another. When it becomes the general equivalent, its intrinsically useful properties are treated as trivial and derivative from its role as the representative of abstract labor. Through a social process of capitalist exchange, valuable ornaments become money, and people come to believe the opposite, that money is made into an ornament.

How and why the general equivalent emerges from all other commodities is the key to understanding why money is a commodity. The convenience of those who exchange is not an important explanation. While it is obvious that a general equivalent has functional advantages in exchanges, the explanation lies elsewhere, in the other functions of money. Exchange of commodities implies the accumulation of stocks of value, assigned various names in economic analysis, hoards, saving and wealth, for example. The purpose of these stocks is to store value in a form that represents commodities in general, representations of value.

This argument may appear circular: a general equivalent emerges because exchange implies the accumulation of the general equivalent. It is not circular because exchange masquerades as the simple circulation of commodities (C→M→C), but in practice is part of the circuit of capital. It appears that capitalism arises out of the generalization of commodity exchange, implying that monetized exchange pre-dates capitalism. The opposite is the case: commodity exchange becomes general as a result of the development of capitalism (Weeks 2011: Chapter 3). The general circulation of commodities as capital generates a general equivalent, in process in which useful objects are produced for the sole purpose of selling them, for their exchange value. If stocks of value are held in anything other than the general equivalent commodity, they must be sold before they can be money capital. When held as the general equivalent, stocks of value are money capital, capital that can initiate its self expansion.

Commodity exchange produces a general equivalent that is the representation of value in the abstract. What seems contrary to natural laws, the hoarding of human working potential, is achieved in capitalist society by holding money idle. The form taken by stocks of value has two important requirements. The first is that it should hold its value when other commodities lose theirs, when they depreciate in value. The most common reason for the depreciation of commodities is lack of effective demand, when commodities go unsold or sell at depressed prices. Stocks of the general equivalent commodity solve this problem. When producers desperately seek to convert commodities into money, the holder of the general equivalent commodity has already done so, and the general equivalent appreciates as the others depreciate.

Second, the form taken by stocks of value should protect the holder against the opposite of commodity depreciation, the general appreciation of commodities when representations of the money commodity decline in purchasing power, inflation. The general equivalent commodity serves this purpose through its own appreciation as part of the inflation process. For individual capitalists, the money commodity is complete solution to the depreciation of representations of itself only if the inflation process affects all commodity prices proportionately. As nominal prices rise, changes in relative prices create the possibility that holding the general equivalent results in some capitalists losing and others gaining. It is for this reason, the non-neutrality of fiat money,[14] that in actual economies capitalists hold combinations of assets. This practice of maintaining complex "portfolios" of assets gives the impression that the money commodity is merely

[14] Neoclassical monetary analysis uses the term "neutrality of money" to mean the alleged property of fiat money that its increase or decrease has no impact on relative prices or any "real" variable. This property holds under very restrictive assumptions for which there is no empirical analogue (Weeks 1989: Chapter 4).

one component of this "hedging" process among many. Even more, it can give the impression that no money commodity exists.

For capital as a whole the gains and losses from relative price changes cancel out. Therefore, in the aggregate in the short term the money commodity adequately serves capital as a stock of value. Over extended time periods the unit value of stocks of the money commodity may decline as the result of increases in productivity in its production. If the productivity increase for the money commodity is faster than the average for all other commodities, the value of stocks of the money commodity will depreciate relatively to all other commodities. This is the simplest form of inflation, but there is no theoretical reason to expect productivity in the production of the money commodity to be greater than average productivity. If production of the money commodity is characterized by a Ricardian process of diminishing returns at the external margin, an appreciation of the money commodity would result.[15]

A further important role of commodity money in the circuit of capital arises from finance capital, money acting as means of payment. The circuit of capital is a process reproduction governed by what Marx called the "general law of capitalist accumulation" (Marx 1970b: Chapter XXV). The "general law" is the process by which the changes in the production process result in the reduction of the living labor in commodities.[16] The subsequent circulation of the re-valued commodities brings a fall in their exchange values, towards the new and lower value.[17] This fall in the exchange value of commodities during the circuit of capital has profound implications.[18] It is the source of a short term tendency for the aggregate rate of

[15] In this case Marx's analysis of absolute and differential rent might be relevant (Marx 1971: Part VI).

[16] The general law is sometimes called the law of the expelling of living labor from the production process. It is the process by which the accumulation of capital replenishes the reserve army.

[17] "The *comparison* of value in one period with the value or the same commodities in a later period is no scholastic illusion…but rather forms the fundamental principle of the circulation process of capital." (Marx 1968: 495).

[18] "[S]ince the circulation process of capital is not completed in one day, but extends over a fairly long period until the capital returns to it original form, since this period coincides with the period within which market prices equalize with [prices of production], great upheavals and changes take place in the productivity of labor and therefore also in

profit to fall, which is the cause of all serious crises (Weeks 2011: Chapters 9 and 10).[19]

Here I focus on the implications for commodity money of the fall in exchange values during the circuit of capital. Industrial capital borrows from finance capital to re-initiate the production process (M*→M, see Figure 1). Industrial capital uses this credit money to purchase fixed and circulating means of production, and to pay wages and salaries. The borrowed funds will be repaid from the revenue generated by the sale of the new commodities which the purchased inputs will produce.

The form of money that served as the means of purchase for the fixed and circulating capital, credit, will not in general be satisfactory for the canceling of the debt created by that credit.[20] When accumulation proceeds uninterrupted, the debts may be refinanced with the same terms, or with similar credit instruments. When instability is anticipated, a form of payment closer to the money commodity is required, closer in the sense of less abstract.

The financial derivatives that featured as infamously in the economic crisis of 2007-2009 represented an extreme extension of the abstraction from value in commodity form. The general equivalent commodity is the first form of that abstraction, in which the intrinsic use value of the money commodity is obscured by its use as the representation of all other commodities. Fiat money, paper notes and coins, are the next form, pure representations of value that are without value themselves. These pure representations, along with formally guaranteed debt obligations of the state, become the legalized "monetary base" upon which

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the *real value* of commodities." (Marx 1968: 445). In the original. Marx wrote "cost prices" where I have inserted "prices of production". Cost price does not include profit, so it is obvious that he meant "prices of production".

[19] The potential for a short term fall in the profit rate results from the fall in the exchange value of existing fixed means of production, whose full value cannot be realized due to what Marx called their "moral depreciation". Marx wrote, '[C]ompetition compels the replacement of the old instruments of labor by new ones before the expiration of their material life, especially when decisive changes occur. Such premature renewals of factory equipment on a rather large social scale are mainly enforced by catastrophes or crises.' (Marx 1967: 174).

[20] 'Insofar as actual payments have to be made, money does not serve as a circulating medium, but as the individual incarnation of social labor, as the independent form of existence of exchange value, as the universal commodity' (Marx 1970b: 137).

financial institutions can create the next form of abstraction,[21] credit in its many forms. Subsequent abstractions proliferate as the agents of capitalism generate them and the state fails to prohibit them.

The money commodity is so far down the chain of abstractions that the proliferation makes it appear that it does not exist. Its existence and its regulating role are as real, and as hidden, as the value of commodities. The values of commodities determine the relative prices at which they exchange, while the money commodity determines absolute prices, with both roles hidden by the nature of capitalist circulation.

The abstraction process that goes from the money commodity to "collateralized debt obligations" and other esoteric financial forms begins to break down in periods of instability. The possibility of instability comes from the interaction of production and exchange, what is produced must be sold before it can be used.[22] The cause lies in the contradiction between the forces and relations of production.[23] At the heart of this contradiction is the disjuncture between the utilization and the replacement of fixed capital.[24] This disjuncture unsettles the financial obligations acquitted to purchase that fixed capital. Instability turns to crisis as the canceling of debts is forced upon capital, generating the depreciation of fictitious forms of capital.[25]

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[21] The monetary base can also include other assets that be ignored in this discussion.

[22] "The *possibility of* crisis, which became apparent in the *simple metamorphosis* of the commodity, is once more demonstrated, and further developed, by the disjunction between the (direct) process of production and the process of circulation. As soon as these processes do not merge smoothly into one another but become independent of one another, the crisis is there." (Marx 1968: 507).

[23] "The contradiction, to put it in a very general way, consists in that the capitalist mode of production involves a tendency towards absolute development of the productive forces, regardless of the social conditions under which capitalist production takes place, while, on the other hand, its aim is to preserve the value of the existing capital and promote its self-expansion to the highest limit (i.e., to promote an ever more rapid growth of this value)." *Capital* III, p. 294.

[24] "Whereas the development of fixed capital extends the length of this [material] life on the one hand, it is shortened on the other by the continuous revolution in the means of production, which likewise incessantly gains momentum with the development of the capitalist mode of production." (Marx 1967: 188).

[25] "In a system of production, where the entire continuity of the reproduction process rests upon credit, a crisis must obviously occur — a tremendous rush for means of payment — when credit suddenly ceases and only cash payments have validity" (Marx 1971a: 490).

Money and Capital

In almost urbanized societies, ancient or modern, some form of money has existed. In capitalist society money takes on a sinister and destructive life of its own. Other forms of society had money in the narrow sense of a general equivalent in exchange. Where exchange did not reach, neither did money. In capitalist society money becomes a true and complete general equivalent. The relations of capital penetrate all aspects of society, and the products of human labor and those bestowed by nature become commodities.

The simple forms of money that characterized non-capitalist societies are pushed aside by forms appropriate to the circulation of capital. Commodity money is not one of those simple forms discarded because it is not adequate for the needs of capital. The opposite occurs. Capital renders all things into commodities, and the process of abstraction becomes increasingly complex and even bizarre. That complexity makes the function of commodity money more important than in other societies. In non-capitalist societies wealth could be held in many concrete forms because it was not capital. It could not be a general claim on the resources of society because those resources were not all commodities.

Inherent in the holding of wealth in capitalist society is a contradiction absent from non-capitalists societies: wealth must be easily rendered into money capital, and insolated from its own depreciation. This renders the forms of wealth characteristic of pre-capitalism, such as land, awkward and limited because of their illiquidity. While capital cannot dispense with the world of use values and generate profit from circulation, it can and does create abstract representations of material wealth and trade in those abstractions as if they were wealth itself. The global financial crisis of 2007-2009 was the catastrophic manifestation of the dysfunctional nature of those abstractions. Capital can and does abstract form the concrete, but it cannot insolate those abstractions from the contradictions between the abstract and the concrete, between use value and exchange value, between the forces and relations of production.

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