Notes on Marx's *Capital*, Volume 3, Part Five: The Division of Profit into Interest and Profit of Enterprise

Chapter 21: Interest-Bearing Capital

- In capitalist production, money takes on an additional use values apart from its use as money, that of capital.
- A holder of potential capital (money) might give this to another person (a capitalist) to use as capital, to valorize. After, the capitalist will give the initial lender back the money and some portion of the profit made, that portion is called "**interest**." Example: X gives Y $100, Y invests and turns $100 into $120, Y gives X back $105 and keeps $15. The $5 given back to X on top of the initial capital is the interest.
- Page 460 to 461, a clear comment about "justice" arising from economic conditions.
- Since Y can not function as capitalist without X first lending money, X functions themselves as a capitalist, in an extremely limited way.
- The movement for this interest-bearing capital is thus M-M-C-M'-M'. (pg 461)
- Money, as capital, is being exchanged, and so capital itself is functioning as a commodity.
- "*It is not in the process of circulation that capital exists as capital in its real movement but only in the process of production, the process of exploiting labour-power.*" (pg 464)
- Interest-bearing capital is the unique point in which capital itself functions as a commodity, that it takes the form of capital to be exchanged, etc. It is not "commodity capital" or "capital embodied in the commodity form" but the unique commodity "capital."
- When an exchange happens, money or commodity may be given away, but value never is. (pg 466)

- Money lent by the capitalist is returned to them in the money form and valorized. While real production and circulation happened to allow this, that is obscured from the vision of the capitalist and so the money appears to have simply valorized itself apart from production. This appearance of capital as valorizing without mediation (other than time) is the "irrational form of the real capital movement." (pg 470)
- "*This lending is thus the appropriate form for its alienation as capital, instead of as money or commodity. This in no way implies that lending cannot also be a form for transactions that have nothing to do with the capitalist reproduction process at all.*" (pg 471)
- When a commodity is exchanged, its value is not alienated by the seller. Instead, its value merely changes form. What is alienated is its use-value. The specific use-value of that commodity is given away to someone else. When capital is functioning as a commodity, what is alienated is likewise not its value but its use-value. Only, the use-value of money is to produce more money (capital to produce more capital) (equivalent to the average rate of profit) and so it is this capacity of money which is alienated. "*The profit is this use-value.*" (pg 473)
- "*Capital manifests itself as capital by its valorization; the extent of this valorization expresses the quantitative extent to which it is realized as capital*." (pg 476)
- "*On the basis of capitalist production, the difference between money spent as money and money advanced as capital is simply a difference of application. Money or a commodity is already potential capital in itself, just as labour-power is potential capital.*" (pg 477)

Chapter 22: Division of Profit. Rate of Interest. 'Natural' Rate of Interest

- The rate of interest depends on the rate of profit and the proportion in which the entire profit is split between the borrower and lender.
- With interest rate constant, higher profit rate means higher total profits not given up to pay interest, and vice versa.
- "*Since we have seen that the level of the profit rate stands in inverse proportion to the development of capitalist production, it follows that the higher or lower rate of interest in a country stands in the same inverse proportion to the level of industrial development, particularly in so far as the variation in the rate of interest expresses an actual variation in the profit rate*." (pg 481)
- Interest rates may also fluctuate separately from the general profit rate, due to wealthier countries developing groups of people who are able to have savings and live off of interest, which naturally leads to more lenders.
- The credit system also pushes down on the interest rate as it develops.
- The average rate of interest is found by comparing interest rates across various industries and time periods.
- The interest rate can not be derived from a natural or general law because it is merely a quantitative division of capital and not a qualitative one. The relationship between capital and labor-power can be clearly defined because those two are independent variables. Rent and profit are also two qualitatively distinct things whose relationship can be clearly determined. Interest, on the other hand, results from a purely quantitative division of surplus value. As a result, it is at the mercy of custom, legal tradition, the desires of the respective parties, etc. (pg 485-486)

- "*On the money market it is only lenders and borrowers who face one another. The commodity has the same form, money. All particular forms of capital, arising from tis investment in particular spheres of production or circulation, are obliterated here. It exists in the undifferentiated, self-identical form of independent value, of money. Competition between particular spheres now ceases; they are all thrown together as borrowers of money, and capital confronts them all in a form still indifferent to the specific manner and mode of its application. Here capital really does emerge, in the pressure of its demand and supply, as* ***the common capital of the class****, whereas industrial capital appears like this only in the movement and competition between the particular spheres.*" (pg 490 to 491).

Chapter 23: Interest and Profit of Enterprise

- "*It is in fact only the division of capitalists into money capitalists and industrial capitalists that transforms a part of the profit into interest and creates the category of interest at all; and it is only the competition between these two kinds of capitalists that creates the rate of interest.*" (pg 493)
- Someone using their own capital receives the whole profit, p. Someone borrowing capital and paying interest on it receives the whole profit minus interest, p - i. The lower the rate of interest, the closer p - i is to p and the more the difference between the capital owner and the capital borrower is eliminated.
- "*We have seen how the specific and characteristic product of capital is surplus-value, and at a further remove profit.*" (pg 496)
- The capitalist working with borrowed capital does not receive the whole profit though, and so it is only that portion of the profit which returns to him that appears as the true functioning of his capital. The capital paid back as interest does not appear as profit to him.
- This profit derived by the borrower can be called "profit of enterprise." If gross profit is equal to average profit, the profit of enterprise is determined only by the rate of interest.
- The division between the interest for the money capitalist (lender) and profit of enterprise for the functioning capitalist is not a subjective one, but a real, qualitative one. The money capitalist really does function only as property outside activity and the functioning capitalist really does function only as capital in the production process. (pg 497 to 498)

- This division becomes standardized and generalized to the point that even the individual capitalist finds the profit derived from their capital split into interest (for their idle capital) and profit of enterprise (for their active capital).
- This whole arrangement emerges largely because most industrial capitalists work with both their own and borrowed capital.
- "*Historically, however, interest-bearing capital exists as a ready-made form handed down, and hence interest as a ready-made subordinate form of the surplus-value produced by capital, long before the capitalist mode of production and the conceptions of capital and profit corresponding to it come into existence.*" (pg 499)
- The fact that capital lent out receives back interest even when used for individual consumption shows just how independent the interest form of capital truly is.
- "*From the qualitative point of view, interest is the surplus-value supplied by capital as simple ownership, which capital yields in itself, even if its owner remains outside the reproduction process; surplus-value therefore yielded in separation from its process.*" (pg 500)
- The capitalist making interest does not confront wage-labour but actually confronts the productive capitalist. "*Interest-bearing capital is capital as property as against capital as function. But if capital does not function, it does not exploit workers and does not come into opposition with labour.*" (pg 503)
- "*On the basis of capitalist production, the capitalist directs both the production process and the circulation process. The exploitation of productive labour takes effort, whether he does this himself or has it done in his name by others. In opposition to interest, therefore, his profit on enterprise presents itself to him as independent of his property in capital and*

rather as the result of his functions as non-owner, as a worker. He inevitably gets the idea into his head, therefore, that his profit of enterprise - very far from forming any antithesis with wage-labour and being only the unpaid labour of others - is rather itself a wage, 'wages of superintendence of labour', a higher wage than that of the ordinary wage-labourer, (1) because it is complex labour, and (2) because he himself pays the wages." (pg 504) Just talking that shit!

- "the production process, when separated from capital, is simply the labour process in general." (pg 505)
- The capitalist does the work of supervision and management themselves until they can hire someone else as a full time manager, in which case the role of superintendence gains its purest form.
- The work of supervision is always necessary in cooperative modes of production, but it takes on a specific character when the worker as producer is opposed to the means of producing the products of work. This system of supervision reaches its peak in the slave economy but is just as necessary to capitalism.
- The existence of supervisors becomes itself a justification for the conditions that created them. Capitalism creates managers who compel wage-labourers to work, and then the ideologues of capitalism come out and say "See, you need capitalist managers to make you work, otherwise nothing will get done." Marx shows how this exact type of thinking was used to justify slavery, on pages 509 and 510.

Chapter 24: Interest-Bearing Capital as the Superficial Form of the Capital Relation

- Interest-bearing capital represents the most superficial and fetishized form that capital takes. Even in commercial capital, we find capital blatantly as the result of a relation (M-C-M') even if it is only one of exchange. In Interest-bearing capital, we don't even find that. M-M' implies that money makes more money. Valorization no longer appears as the product of a relationship but of a thing.
- "*Money is in fact the very form in which the distinctions between commodities as different use-values are obliterated, and hence also the distinctions between industrial capitals, which consists of those commodities and the conditions of their production; it is the form in which value - and here capital - exists as autonomous exchange-value.*" (pg 517)

Chapter 25: Credit and Fictitious Capital

- Bills of exchange = promises to pay
- These bills of exchange, circulating themselves, function as money even without being transformed into metallic or government-backed money.
- As the system of lending and borrowing develops, it eventually reaches a point where middlemen are introduced and then take on an increasingly important role.
- "*A bank represents on the one hand the centralization of money capital, of the lenders, and on the other hand the centralization of the borrowers. It makes its profit in general by borrowing at lower rates than those at which it lends.*" (pg 528)
- Different sources for the loan capital held by banks are listed from pages 528 to 529.
- Advances given to capitalists by banks encouraged speculation, turning what was supposed to be a safety-net into an incentive to take on risk. Some capitalists went into business for the advances themselves, and soon there were more banknotes and bills of exchange in circulation than there was actual money to back it up. This, and rough agricultural seasons, led to crises in England in the mid-1800s.

Chapter 26: Accumulation of Money Capital, and its Influence on the Rate of Interest

- "*The first thing to note is a vulgar conception of capital as 'commodities used in production'. In so far as these commodities figure as capital, they express their value as capital, as distinct from their value as commodities, in the profit that is made from their productive or commercial use. And the rate of profit necessarily has always something to do with the market price of the commodities bought and the demand and supply for them, even if it is determined by quite different factors.*" (pg 548)
- One of the issues in the 1847-8 crisis was that the values of commodity capital and productive capital had fallen (due to overproduction, weak harvests, etc), which led to a higher demand for money by those capitalists dealing in those industries. Capitalists who had seen the value of their products fall drastically were in need of loans and money to keep afloat, and so the limited supply of money capital became increasingly valuable (supply vs. demand). As Marx states on page 550, "*The increased demand for money capital had its origins in the course of the production process itself. But whatever the cause, it was the demand for money capital that made the rate of interest, the value of money capital, rise.*"
- "*Only for a usurer enamoured of his high rate of interest is it a logical absurdity that a thing can ultimately destroy its own cause. The greatness of the Romans was the cause of their conquests, and it was their conquests that destroyed their greatness. Wealth is the cause of luxury, and luxury has a destructive effect on wealth.*" (pg 552)
- Because every loan the bank gives out appears the same initially from the perspective of the banker, there is the illusion that every loan is an advance, ie, represents capital for all

parties. Engels, in page 558, says that, "*It is this idea, transferred from the banker's office to political economy, that has led to the confusing controversy as to whether what the banker makes available to his clients in cash is capital or mere money, means of circulation, 'currency'. In order to decide this basically simple question, we have to put ourselves in the position of the bank's client. The question is what he requires and obtains*." He gives many examples in the paragraphs that follow.

Chapter 27: The Role of Credit in Capitalist Production

- This is an incredibly potent and enlightening chapter. I am tempted to quote the entire thing.
- The credit system necessarily develops as the general rate of profit comes into effect as a tool to both institute and sustain it. It reduces circulation costs by replacing precious medals with symbols (paper money is what Marx mentions, but there are more today), allowing circulation to happen both faster (by paying with credit) and slower (in speculation and contracts on the future).
- Credit allows the formation of joint-stock companies, which allows expansion in the scale of production for capitalists and the replacement of certain government programs by the companies themselves.
- The functioning capitalist is transformed into a manager, who uses capital owned by others, and the capital owner is transformed into a mere owner, who does not put his capital to work himself. This separation of the owners of capital from production has a revolutionary character, lending itself to the replacement of the capitalists all together.
- Capital becomes truly social, not individual, here. "*This is the abolition of capital as private property within the confines of the capitalist mode of production itself.*" (pg 567) And "*This is the abolition of the capitalist mode of production within the capitalist mode of production itself, and hence a self-abolishing contradiction, which presents itself prima facie as a mere point of transition to a new form of production.*" (pg 569) This contradiction takes a contradictory form of appearance as well, as monopolies clash with the state.

- "*Since profit here simply assumes the form of interest, enterprises that merely yield an interest are possible, and this is one of the reasons that hold up the fall in the general rate of profit, since these enterprises, where the constant capital stands in such a tremendous ratio to the variable, do not necessarily go into the equalization of the general rate of profit.*" (pg 568)
- The joint-stock system "*is an abolition of capitalist private industry on the basis of the capitalist system itself, and which destroys private industry to the same degree that it spreads and takes over new spheres of production*" (pg 570)
- Credit offers the individual capitalist power over the property of others, and by gaining access to social capital, they gain access to social labour.
- "*Expropriation now extends from the immediate producers to the small and medium capitalist themselves. Expropriation is the starting-point of the capitalist mode of production, whose goal is to carry it through to completion, and even in the last instance to expropriate all individuals from the means of production - which, with the development of social production cease to be means and products of private production, and can only remain means of production in the hands of the associated producers, as their social property, just as they are their social product. But within the capitalist system itself, this expropritation takes the antithetical form of the appropriation of social property by a few; and credit gives these few ever more the character of simple adventurers. Since ownership now exists in the form of shares, its movement and transfer becomes simply the result of stock-exchange dealings… In the joint-stock system, there is already a conflict with the old form, in which the means of social production appear as individual property. But the transformation into the form of shares still remains trapped within the capitalist*

barriers; instead of overcoming the opposition between the character of wealth as something social, and private wealth, this transformation only develops this opposition in a new form." (pg 571)

- IMPORTANT: Page 571. Worker co-ops may in form represent a new system, but they necessarily, in content, reproduce all the issues of the current system.
- Credit allows the elastic characters of capital and the market to be stretched to their limits.
- Credit has a dual character: It brings capital and the power of those who wield it to ever greater heights, but it also functions as a transitional stage into a non-capitalist mode of production.

Chapter 28: Means of Circulation and Capital. The Views of Tooke and Fullarton

- Tooke tries to distinguish currency from capital but really is only capable of distinguishing the money form of revenue and the money form of capital, since currency appears in both.
- "*Only so far as money is laid out as money capital, at the beginning of the reproduction process, does capital value exist in its pure form. For the commodity produced contains not only capital but also surplus-value; it is not just inherently capital but capital that has already become such, capital together with the source of revenue incorporated in it. What the retail trader parts with in exchange for money that flows back to him, i.e. his commodity, is thus for him capital plus profit, capital plus revenue. Moreover, since the circulating money flows back to the retailer, it restores the money form of his capital.*" (pg 576)
- "*In periods of expanding credit the velocity of currency increases faster than the prices of commodities, whereas in periods of contracting credit the velocity of currency declines faster than the prices of commodities.*" (pg 580)
- "In periods of crisis, the opposite is the case." (ibid) Expenditure on revenue contracts, prices and wage fall, the number of workers is restricted, turnover declines. The need for money for transferring capital grows as credit declines.
- In times of prosperity, the demand for means of circulation between consumers and dealers is dominant, while in periods of depression it is the demand for means of circulation between capitalists that is dominant. Stagnation causes the first to decline while the second increases.

Chapter 29: Banking Capital's Component Parts

- "*Banking capital consists of (1) cash, in the form of gold or notes; (2) securities. These latter may again be divided into two parts: commercial paper, current bills of exchange that fall due on specified dates, their discounting being the specific business of the banker; and the public securities such as government bonds, treasury bills and stocks of all kinds, in short interest-bearing paper, which is essentially different from bills of exchange.*" (pg 594)
- Banker's capital can also be divided into that belonging to the banker and that loaned to him (deposited with him). This is a less important distinction though, in daily affairs.
- Ownership titles (bonds, shares, etc) trade on the market as commodities and gain prices for themselves independent of the value of the commodity which they are meant to represent.
- If we assume all else constant (no change in valorization rate, etc), then the prices of securities rise and fall in inverse proportion to the rate of interest.
- The depreciation of securities in times of crisis can be a powerful tool for centralization (of money wealth). (pg 599)
- As long as depreciation of titles, etc, is not representative of an actual depreciation in commodities and means of production, etc, the economy is no more poor for losing that imaginary value.
- A large part of the reserve held by a bank is in the form of bills of exchange, shares, etc, which have no value to themselves and thus represent a purely fictitious capital value.

Chapter 30: Money Capital and Real Capital: I

- "*Accumulation of capital in the form of the national debt, as we have shown, means nothing more than the growth of a class of state creditors with a preferential claim to certain sums from the overall proceeds of taxation.*" (pg 607)
- The distortions of the credit system show themselves fully once debts are accumulated as if they were capital. Paper (now, digital) duplicates, meant to represent a capital which has already been spent, function for their owner like commodities which can realize a value, and therefore they function like capital.
- Ownership titles (shares) are really a claim on a certain portion of the surplus-value, they do not represent the actual capital value or the ownership of the actual capital. You can not trade in your shares for a section of the factory, etc.
- The accumulation of these securities only represents real accumulation if the securities are a one-to-one representative of the real capital (commodity and productive), but the securities trade by themselves and gain capital values which are illusory and independent.
- Marx says on page 609 that, in a developed stock market, gambling takes the place of brute force and labour as the "original source of capital ownership."
- Commercial credit is the credit capitalists give one another (for the sake of reproduction).
- As capitalist production grows, markets expand so that they are further and further removed from the point of production (in space and time), meaning credit must likewise grow to accommodate this distance, and speculation must come to increasingly dominate transactions. (pg 612)
- As markets grow, credit becomes essential for the maintenance and growth of production, and vice versa. There is a reciprocal relationship between production and credit here.

- Pure commercial credit functions to facilitate the movement and transformation of commodities through the regular circuit of reproduction, ie, the selling, buying, and producing of real commodities. This ignores banker's credit.
- As long as reproduction continues at a steady rate, this credit climbs at the same rate, but any stagnation (overproduction, falling prices, delayed returns, etc) causes real capital to exist as a surplus, unused or unusable, and credit contracts as a result. Credit was dependent on reproduction (which has slowed), was given out on confidence that it would be repaid (that confidence has vanished or diminished), and was in high demand (it is not lower in demand).
- "*The ultimate reason for all real crises always remains the poverty and restricted consumption of the masses, in the face of the drive of capitalist production to develop the productive forces as if only the absolute consumption capacity of society set a limit to them.*" (pg 615)
- The advances given by industrialists and merchants to each other, along with the money they are advanced by banks and lenders, allows business to continue without a reserve fund or even actual returns for the commodities produced.
- "*On the other hand, however, this is so much complicated by simple bill-jobbing, and by dealing in commodities with no other purpose than that of fabricating bills of exchange, that the appearance of very solid business with brisk returns can merrily persist even when returns have in actual fact long since been made only at the cost of swindled money-lenders and swindled producers. This is why business always seems almost exaggeratedly healthy immediately before a collapse. . . Business is always thoroughly*

sound, and the campaign in fullest swing, until the sudden intervention of the collapse." (pg 615-16)

- "*Not every increase in money capital for loan is an index of genuine capital accumulation or an expansion of the reproduction process*." (pg 616)
- Credit allows for production to expand beyond what is possible for the available means of payment and the development of a whole group of firms who function solely on credit, and so when a crisis comes and means of payment are needed, they are nowhere to be found.
- "*Ignorant and confused banking laws… may intensify the monetary crisis. But no bank legislation can abolish crises themselves.*" (pg 621)
- "*In a system of production where the entire interconnection of the reproduction process rests on credit, a crisis must evidently break out if credit is suddenly withdrawn and only cash payment is accepted, in the form of a violent scramble for means of payment. At first glance, therefore, the entire crisis presents itself as simply a credit and monetary crisis. And in fact all it does involve is simply the convertibility of vills of exchange into money. The majority of these bills represent actual purchases and sales, the ultimate basis of the entire crisis being the expansion of these far beyond the social need. On top of this, however, a tremendous number of these bills represent purely fraudulent deals, which now come to light and explode; as well as unsuccessful speculations conducted with borrowed capital, and the finally commodity capitals that are either devalued or unsaleable, or returns that are never going to come in. It is clear that this entire artificial system of forced expansion of the reproduction process cannot be cured by now allowing one bank, e.g. the Bank of England, to give all the swindlers the capital they lack in*

paper money and to buy all the depreciated commodities at their old nominal values. Moreover, everything here appears upside down, since in this paper world the real price and its real elements are nowhere to be seen, but simply bullion, metal coin, notes, bills and securities. This distortion is particularly evident in centres such as London, where the monetary business of an entire country is concentrated; here the whole process becomes incomprehensible. It is somewhat less so in the centres of production." (pg 621-22) This is extremely useful for understanding the 2008 "Financial Crisis" in the US, and the current period of "recovery" following the stock market crash in 2020.

- A crisis which starts in one country will often spread to others, namely their trading partners. If one country is the center for credit, giving out loans to many other countries, then it is at great risk of not receiving returns and therefore entering a crisis, but this also means that the stream of capital from that country is gone and those countries depending on it are left without that source of credit.
- Excessive importing (or over-producing in one country is mirrored by excessive exporting (or over-trading) in another.
- Commodity capital loses its capacity as potential money capital in times of crisis and stagnation.
- The same is true of fictitious capital, interest-bearing paper. (pg 625)

Chapter 31: Money Capital and Real Capital: II (Continuation)

- We must distinguish between the transformation of money into loan capital and the transformation of capital or revenue into money that is transformed into loan capital. Only the latter is related to genuine accumulation of industrial capital and can involve a positive accumulation of capital for loan.
- The pile-up or over-abundance of loan capital is related to productive accumulation inversely. At the beginning of the business cycle, industrial capital is relatively stagnant, and so there is a lower demand for loan capital. When real accumulation starts to take place, but industrial/commercial capitalists are not yet in need of bank credit, loan capital grows at a steady rate but only with a very low interest rate because of the relative independence of those capitalists (ie, low demand). In the first phase, loan capital exists in surplus because real accumulation is absent. In the second phase, loan capital accompanies the growth of real accumulation without causing it.
- Loan capital can be accumulated without genuine accumulation via bank centralization, private individuals' reserve funds, etc.
- "*It is truly amazing how all the categories of political economy take on a new meaning and form in this credit gibberish of the money market.*" (pg 628)
- All else equal, the rate of interest depends on the supply of loanable capital, which exists in the form of money. But this loanable capital is independent from the actual quantity of money in circulation. Therefore, loans outstanding and the amount of deposits in/owed to banks may exceed the money supply greatly. This depends on the number of purchases/payments performed by the same money, and the number of times it returns to the banks as deposit.

- It is usual for the minimum of one business cycle to still exceed the maximum of the business cycle which preceded it.
- Money that is the result of production (ie, the result of commodities produced containing a surplus value and transformed into money capital through sale) can take on the form of loan capital. This represents the actual accomplishments of production and is therefore reflective of and inseparable from genuine accumulation.
- "*It is true of all revenue, whether designed for consumption or for accumulation, that as soon as it exists in any kind of monetary form it is a position of value of the commodity capital that is transformed into money, and is therefore the expression and result of genuine accumulation, though not productive capital itself.*" (pg 636)

<u>Chapter 32: Money Capital and Real Capital: III (Conclusion)</u>

- Money capital accumulates not only on the basis of genuine accumulation but also on the basis of revenue. It is true that the money realized by the sale of commodity capital is all money, but only a portion of this is reinvested as variable and constant capital. The rest, however, does enter the banks, etc, and takes the form of loan capital.
- "*In this respect, therefore, the accumulation of money capital must always reflect a greater accumulation of capital that is actually taking place, in so far as the expansion of individual consumption, because mediated by money, appears as an accumulation of money capital, since it supplies the money form for genuine accumulation, for money that initiates new capital investments.*" (pg 638)
- All else equal, the amount of profit capitalized/accumulated will depend on the amount of profit total, and on the expansion of reproduction itself. If this profit can not find anywhere to be invested as capital and exists in overabundance, then the barriers it faces are those of capitalist production itself. "Credit swindling" allows this excess capital to find a use by working around the barriers which normally allow capital to be valorized.
- "*A plethora of money capital as such does not necessarily signify overproduction, or even a lack of spheres of employment for capital.*" (pg 639)
- "*The accumulation of loan capital simply means that money is precipitated as loanable money. This process is very different from a genuine transformation into capital; it is simply the accumulation of money in a form in which it can be transformed into capital*." (ibid)
- The job of hoarding capital is outsourced from the capitalists themselves, and a whole type of capitalist emerges who speculates and gambles with other peoples' money.

Workers place their money in the bank, and the bank turns around and gives this money to capitalists in the form of an investment. When the bank collapses, it is the worker and not the capitalist who has truly lost their account.

- "*The final illusion of the capitalist system, that capital is the offspring of a person's own work and savings, is thereby demolished. Not only does profit consist in the appropriation of other people's labour, but the capital with which this labour of others is set in motion and exploited consists of other people's property, which the money capitalist puts at the disposal of the industrial capitalist and for which he in turn exploits him.*" (pg 640)
- Interest is determined by total profits and not by profit of enterprise, and it can also be paid out of the borrowed capital itself for quite some time when profits are lackluster.
- The demand for money capital and the rise of interest rates may result (1) from the need to make payments and settle accounts during a crisis, or (2) from a rise in industrial/commercial capital during a period of economic growth, but these are not the same thing and must be distinguished.
- Higher wages never cause higher profits, but higher profits are often the cause of higher wages. Likewise, higher demand for labour power can never in itself cause a higher interest rate, but the corresponding higher demand for money capital might.
- In times of pressure, the demand for money capital is a demand for means of payment (to settle accounts) and not purchase (to buy new commodities, etc). The interest rate rises during this time, regardless of the availability of real capital. The resulting issues for big capitalists due to this interest rate hike are not the result of a lack of means of payment in total, but just on their end, and neither is it a result of a lack of capital, but of capital convertible into the money form in which it is needed (unsaleable commodities, etc).

- "***It is the foundation of capitalist production that money confronts commodities as an autonomous form of value, or that exchange-value must obtain an autonomous form in money, and this is possible only if one particular commodity becomes the material in whose value all other commodities are measured, this thereby becoming the universal commodity, the commodity par excellence, in contrast to all other commodities.*** *This must show itself in two ways, particularly in developed capitalist countries, which replace money to a large extent either by credit operations or by credit money. In times of pressure, when credit contracts or dries up altogether, money suddenly confronts commodities absolutely as the only means of payment and the true existence of value. Hence the general devaluation of commodities and the difficulty or even impossibility of transforming them into money, i.e. into their own purely fantastic form. Secondly, however, credit money is itself only money in so far as it absolutely represents real money to the sum of its nominal value. With the drain of gold, its convertibility into money becomes problematic, i.e. its identity with actual gold. . .* ***A devaluation of credit money… would destroy all the existing relationships… As long as the social character of labour appears as the monetary existence of the commodity and hence as a thing outside actual production, monetary crises, independent of real crises or as an intensification of them, are unavoidable.*** *It is evident on the other hand that, as long as a bank's credit is not undermined, it can alleviate the panic in such cases by increasing its credit money, whereas it increases this panic by contracting credit. The entire history of modern industry shows that metal would be required only to settle international trade and its temporary imbalances, if production at home were organized. The suspension of cash payments by the so-called national banks, which is restored to as the sole expedient*

in all extreme cases, shows ***that even now no metal money is needed at home.***” (pg 648-49) Emphasis my own.

- The demand and supply of loan capital would be identical with the demand and supply of capital in general only if industrial capitalists were the only ones giving and receiving loans and if the only thing they loaned was real capital.

Chapter 33: The Means of Circulation under the Credit System

- Credit is the greatest regulator of the velocity of currency.
- In chapter 3 of volume 1, it was shown how the quantity of money circulating depended on both the price of all commodities in the economy and the number of transactions. Here, we learn that bank notes also follow this law.
- Clearinghouses and other establishments which allow capitalists to exchange money directly from their accounts without need for actual cash on hand reduce the need for actual means of circulation in the economy.
- As long as notes are backed by metal money, that metal money works as a limit on the amount of new notes which can be issued.
- Note circulation is not only independent of the will of the central bank but also of the gold reserve in the bank's (state's) vault. (pg 658)
- "*As long as the state of business is such that the returns on advances made come in regularly, so that credit remains unimpaired, the expansion and contraction of circulation is governed simply by the needs of the industrialists and merchants.*" Engels (pg 660)
- The gold supply, generally speaking, only grows or shrinks at a very slow rate. Therefore, the actual circulating medium, notes, grows or shrinks in quantity rather independent of it.
- In times of crisis, money is most needed, but precisely because of this, everyone begins to hoard it. (pg 661)
- "*The absolute quantity of circulation has a determining effect on the rate of interest only in periods of pressure.*" (pg 663)

- The credit system grows so far above the monetary system that in times of crisis there can (and is) a "sudden collapse" of the former into the latter. (pg 670)
- As credit crashes back down into money, paper money crashes back down into the metal money backing it, and a drain of gold, though not necessarily causing the crisis, can exacerbate it. (The latter half of this, of course, only applies to those economies which have a gold-backed currency.)
- The banks keep the minimum amount of money on hand, and so when a crisis hits, they are only left with metal money (or whatever they have in reserve).
- "*The amount of bills in circulation, therefore, just like the amount of banknotes, is determined solely by the needs of commerce… The scale on which these bills circulate has no influence on the volume of note circulation and is influenced by the latter solely in times of tight money, when the quantity of bills increases and their quality deteriorates. Finally, at the moment of crisis, the bill circulation completely collapses; no one has any use for promises to pay, each wanting only to accept cash payment; only the banknote still keeps its ability to circulate, at least up till now in England, since the Bank of England is backed by the entire wealth of the nation.*" (pg 674)
- The Bank (central bank of a nation) may issue notes not backed by a metal reserve in its vault. These notes represent means of circulation as well as (fictitious) capital. (pg 675)
- "*the banks create credit and capital, (1) by issuing their own banknotes; (2) by writing drafts on Longdon running for up to twenty-one days, which will however be paid to them in cash immediately… (3) by reissuing bills of exchange, whose creditworthiness is created first and foremost by the bank*" (pg 676)
- Central banks hold the power to set the market average interest rate.

Chapter 34: The Currency Principle and the English Bank Legislation of 1844

- Ricardo made the argument that money (assumed to be metallic) always stands in a necessary proportion with commodities, in which the value of the actual metallic base of the money is in proportion with the value of the commodities. Therefore, if the gold supply rises relative to commodities, the value of gold/money falls, and the value of commodities rise. In the opposite case, the opposite happens. This general principle assumed that all gold was money (including gold not in coin or bullion) and also has no way of explaining crises in which commodity prices fall without a change in gold happening. This was taken as a general law by the "currency school," dubbed the "currency principle," and was even supposed to be forced into action with a developed credit system, one in which gold was no longer the basis of all money. Historical data showed just how uncorrelated the two things really were and how unfit the "currency principle" was for explaining modern economics.
- The Bank Act of 1844 was meant to put this principle into practice. It tried to keep the money supply at an even level (with commodities) by splitting the Bank of England into two departments, one of which carried out transactions, and one which held a reserve. Any time there was a transaction, the bank would compensate by taking in a deposit or destroying some existing funds. The result was that when crisis broke out, there was a shortage of money. The Act was suspended.
- John Stuart Mill believed that if notes (paper money) ended up in the hands of workers instead of gold (as pay for wages), they would lead to an increase in the demand for commodities and thus a rise in prices. This is bizarre, as it doesn't explain why notes would necessarily constitute more "demand" than gold.

Chapter 35: Precious Metal and Rate of Exchange

- The precious metal (gold) reserve is constantly in flux, as precious metals leave and enter the country, imports and exports fluctuate, its ability to function as world money is hurt or helped, etc, and these movements are slightly different in countries which produce their own precious metals as opposed to those with no such mines.
- Contrary to what one might think, the drain of gold is not often associated with crisis directly but is a precursor to it. The drain of gold often stops and reverses shortly before a crisis. (pg 702-03)
- After the crisis, all things equal, the general distribution of precious metals between the different countries will return to its normal proportions, which are determined by the relative role played by each nation in the world market. In the country which is the "focal point of the world money market," England in the time of Marx, America now, it is usual to see a growth in the gold reserves right after a crisis, followed by a drain.
- Precious metals are typically imported most when interest rates are low at the beginning of a business cycle (after a crisis) and to combat a drain (just before a crisis).
- The problems which come from the import or export of precious metals really originate in the fact that the precious metals are functioning as capital. (bottom of 705)
- "The central bank is the pivot of the credit system. And the metal reserve is in turn the pivot of the bank." (pg 706) The first half is still true, and the second half needs slight changes.
- Gold and silver are not distinguished from other forms of wealth by the magnitude of their own value but by their functioning as autonomous embodiments of the social wealth, ie, money.

- Wealth proves to be social when qualitatively different use values are exchanged, and this only happens by way of money in capitalism. Money therefore embodies social wealth, gives it the form of a thing.
- "*This social existence that it has thus appears as something beyond, as a thing, object or commodity outside and alongside the real elements of social wealth. Credit, being similarly a social form of wealth, displaces money and usurps its position. It is confidence in the social character of production that makes the money form of products appear as something merely evanescent and ideal, as a mere notion. But as soon as credit is shaken, and this is a regular and necessary phase in the cycle of modern industry, all real wealth is supposed to be actually and suddenly transformed into money… a crazy demand, but one that necessarily grows out of the system itself.*" (pg 707-08)
- "*in the capitalist system production for direct use-value, for the producer's own use, is most completely abolished, so that* ***wealth exists only as a social process expressed as the entwinement of production and circulation***" (pg 708) Emphasis mine.
- "***with the development of the credit system, capitalist production constantly strives to overcome this metallic barrier****, which is both a material and an imaginary barrier to wealth and its movement, while time and again breaking its head on it.*" (ibid)
- All commodities, securities, etc, are supposed to be turned back into money when the crisis breaks out.
- The international movement of the money (metals) is the rate of exchange. The more outstanding payments one country has to the other, the less its currency is valued in comparison. Vice versa, etc.
- Manipulation of the interest rate is one way central banks try to fight these deficits.

- The export of capital, in any form, does not necessarily have an effect on the exchange rate, etc, because it is expected to return. It is capital after all!
- Exports, especially in capital, can ultimately raise the demand in the foreign country for domestic goods. Thus, an export can increase imports, affecting the exchange rate in the exact opposite way you would assume at first glance.
- "loan capital has a different movement from industrial capital" (pg 720)
- Commodity prices can be lowered for a number of reasons; falling demand, rising supply with stagnant demand, or a fall in value.
- "*Low money prices for commodities and a low rate of interest do not necessarily go together. If this were the case, the interest rate would be lowest in the poorest countries, where the money prices of products are lowest, and highest in the riches countries, where the money prices of agricultural products are highest.*" (pg 722)
- The interest rate may rise with increased demand for loan capital, or fall with decreased demand for loan capital, but at all times this is determined by the needs of the market and the exchange rate, not by the simple existence of a certain number of commodities.
- The foreign exchange rates can alter as a result of the temporary balance of payments, the devaluation of money in one country, and the fluctuations in the money commodity (in those countries which use commodity backed currencies such as gold or silver).
- Interesting comparison between the monetary system as Catholic and the credit system as Protestant on page 727.
- "*As paper, the monetary existence of commodities has a purely social existence.*" (ibid)

Chapter 36: Pre-Capitalist Relations

- Interest-bearing (or in archaic terms, usurer's) capital emerges alongside merchant's capital as forms of capital which long precede the capitalist mode of production. They exist in various socio-economic formations. It only requires commodities and money in their various functions to emerge.
- Usurer's capital develops alongside merchant's capital, especially money-dealing capital.
- In ancient Rome, manufacture was relatively lower than in the rest of the world, yet merchant's capital, usurer's capital, and money-dealing capital were the highest in that region.
- Hoard formation emerges with money, but the hoarder only becomes important when he becomes the money-lender.
- The merchant and the lender stand in the same relationship then as they do now, and slavery formed a basis for valorizaiton.
- Before the capitalist mode of production, usurer's capital functions for loans to big magnates and to small peasants. These forms still exist under capitalism, but they no longer solely define interest-bearing capital.
- "*wherever pre-capitalist conditions permit small autonomous individual producers, the peasant class must form their great majority.*" (pg 729)
- Usury ruins large landowners and small peasants and concentrates money capital. Historically, in the case of Rome, it ruined the small peasants and artisans so thoroughly that the slave economy was fully established with almost no middle classes.
- Usury undermines and destroys ancient feudal wealth and property. It forces apart the worker and the conditions of labor.

- "*In capitalist production, usury can no longer divorce the conditions of production from the producer, since they are already divorced.*" (pg 731)
- Usury does not change the mode of production. It merely impoverishes the one it is in. This is why it was so hated in the ancient world. (ibid)
- "*Usurer's capital has capital's mode of exploitation without its mode of production.*" (pg 732)
- The hoarder wants money as money, not capital, but in taking up schemes for interest, etc, they give rise to capital nonetheless.
- "*The peasant only needs one of his cows to die and he is immediately unable to repeat his reproduction on the old scale. He falls prey to usury, and once in that position he never recovers his freedom.*" (pg 734)
- In the modern day, usury can accompany capital, and it arises often from the function of money as means of payment.
- "*The credit system develops as a reaction against usury… It means neither more nor less than the subordination of interest-bearing capital to the conditions and requirements of the capitalist mode of production.*" (735)
- Usury continues and in fact is less regulated.
- Interest-bearing capital is distinguished from usurer's capital not by its general function or nature but by the fact that the borrower is now presumed to be a capitalist.
- "*The more a dominant class is able to absorb the best people from the dominated classes, the more solid and dangerous is its rule.*" (pg 736)
- Modern banking robs the usurer of the monopoly on money capital by introducing all money to the money market.

- Footnote 24 on page 740 is important, as it shows that Marx and Engels were committed to understanding the thinkers of each epoch as of their own epoch, ie, only taking them in context and as products of their environment. At the bottom of page 739, Marx talks about the "theoretical accompaniment" of a social phenomena, and this of course holds the same essential meaning. Being determines thought, etc.
- It isn't just the money capital of idle capitalists in the banking system, it is also the reserves of industrialists and merchants, temporarily in the money form or set aside for accumulation.
- "*It must never be forgotten, however, firstly that money in the form of precious metal remains the foundation from which the credit system can never break free, by the very nature of the case.*" (pg 741) Marx himself, a product of his time!
- "*the banking system, by its organization and centralization, is the most artificial and elaborate product brought into existence by the capitalist mode of production. Hence the tremendous power an institution such as the Bank of England has over trade and industry… We have seen that the average profit of the individual capitalist, or of any particular capital, is determined not by the surplus labour that this capital appropriates first-hand, but rather by the total surplus labour that the total capital appropriates, from which each particular capital simply draws its dividends as a proportional part of the total capital. This social character of capital is mediated and completely realized only by the full development of the credit and banking system… It thereby abolishes the private character of capital and thus inherently bears within it, though only inherently, the abolition of capital itself… Banking and credit, however, thereby also become the most*

powerful means for driving capitalist production beyond its own barriers and one of the most effective vehicles for crises and swindling." (pg 742)

- The banking system substitutes credit for money and thus exposes that the latter is merely a social relation.
- Because merchant's capital goes through a clear and visible mediation while interest-bearing capital seems to self-valorize in an almost occult, magical way, the latter is often considered the basic and supreme form of capital by bourgeois intellectuals.
- Usury helps to form the preconditions for industrial capital by separating the worker from the conditions of labor and centralizing money, but it is ultimately a conservative force and best fit to parasitism in a feudal society.