

Chapter 25: Credit and Fictitious Capital

Marx states his intention to deal only with ‘commercial and bank credit’, and not to deal with the credit system in detail, nor the ‘instruments this creates (credit money, etc.)’, nor ‘the development of state credit’.¹

He notes that in volume 1 (chapter 3) he had showed ‘how the function of money as means of payment develops out of simple commodity circulation, so that a relationship of creditor and debtor is formed.’² Let us remind ourselves of his argument.

In ‘direct’ commodity circulation money fulfils the function of means of purchase, i.e. it has to be present at the same time and the same place as the sale. But this is not essential for commodity exchange. With the development of commodity production arise circumstances in which the alienation of the commodity and the realisation of its price become separated in time: maybe, one type of commodity requires a longer, another shorter, time for its production; maybe one is sold locally, another far away; maybe, when the same people repeatedly carry out the same transactions, the synchronisation of money and commodity becomes unnecessarily bothersome; in other circumstances, the use of certain commodities is sold for a definite time period only (housing, for example): only after the expiry of the lease does the buyer receive the use-value of the commodity (and one of the more important commodities which is not paid for until after it has been fully delivered is labour-power).

When buying and paying become separated, money functions as a means of *payment*, rather than a means of purchase. Money now acts as a measure of value through the determination of the price of the commodity to be sold; and as a notional means of purchase, in the form of a promise to pay, itself sufficient to cause the commodity to change hands.³

The function of money as means of payment prompts the development of *credit-money*, certificates of debts owed for already purchased commodities which circulate to pass on those debts to others.

¹ Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 525. The title of the chapter is something of a misnomer: Marx does not really begin to talk about ‘fictitious capital’ until chapter 29. Here, alongside some brief formal comments on the credit system, what he offers us is, at considerable length, detailed description of the operation of this system from contemporary sources. This material need not detain us.

Nevertheless, given the dramatic differences between the operation of the financial markets in Marx’s time and our own, the following account, from Antony Brewer’s otherwise generally unhelpful *Guide to Marx’s Capital* (Cambridge, 1984), pp. 17-18, may be useful.

‘The monetary system, both in Britain and in much of the rest of the world, was based on gold. Privately owned banks issued notes, which were simply promises to pay a given sum on demand. [...] The Bank of England was then privately owned and stood at the centre of the monetary system, thanks to its longstanding position as the government’s banker. Its notes circulated throughout the country, and were convertible into gold. [...] Transactions between capitalist firms were largely carried out through ‘bills of exchange’, a system that is much less used now. When Marx talks of the ‘credit system’ it is this that he has in mind. When A sold goods to B, he might give credit by writing a ‘bill’, a demand for payment on a specified future date, which B would ‘accept’ by signing it. Instead of waiting for his money, A might pass the bill to someone else to whom he owed money (so that bills circulated to a degree in place of money), or he might sell the bill to a bank. By taking over the bill, the bank would be lending money until the bill was paid, and would deduct interest; this was called ‘discounting’ a bill. Firms often arranged for their bills to be paid by a London bank, and the bills often ended up in London banks too, so bills could often be settled by cancelling them off against each other in London with no actual money changing hands. This is why Marx often speaks of the credit system as a way of economising on the use of money. Bills have since been almost entirely superseded by the transfer of bank deposits by cheque, a system that Marx hardly mentions.’

² C3, p. 525.

³ When account is taken of money as means of payment, it becomes clear that the quantity of money in circulation no longer corresponds to the mass of commodities in circulation: money which represents commodities withdrawn from circulation may continue to circulate, while commodities circulate before their equivalent in money appears.

Hence, with the development of capitalist production (i.e. production for the sake of *circulation*), and with it trade, money comes increasingly to function as means of payment: commodities are not bought with money as such but with 'promises to pay'. Until their expiry these promises (essentially bills of exchange) circulate as means of payment and function as actual money, even though to the degree that the bills cancel each other out as debts and claims they are never actually transformed into 'real' money. These circulating bills form the basis of *credit money*, money 'not based on monetary circulation, that of metallic or government paper money, but rather on the circulation of bills of exchange.'⁴

Marx turns now to the development of 'the money trade'. Earlier (in chapter 19), Marx discussed the role of money-dealing capital; we saw 'how the maintenance of a reserve fund for businessmen, the technical operations of receiving and paying out money, international payments, and hence the bullion trade as well, are concentrated in the hands of money-dealers.'⁵ Alongside these functions, money-dealing capitalists take on that of the management of interest-bearing capital.

The borrowing and lending of money becomes [the money-dealing capitalists'] [...] special business. They appear as middlemen between the real lender of money capital and its borrower. To put it in general terms, the business of banking consists from this aspect in concentrating money capital for loan in large masses in the bank's hands, so that, instead of the individual lender of money, it is the bankers as representatives of all lenders of money who confront the industrial and commercial capitalists. [...] A bank represents on the one hand the centralisation 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.⁶

Where does the money capital that accrues to the banks come from? Marx identifies three sources.

- 1 Money capital held by industrial and merchant capitalists' reserve funds, and the money capital they receive as payment; this money capital is thus transformed into money capital for loan.⁷
- 2 Deposits made by money capitalists; and, with the development of the banking system ('particularly once they pay interest on deposits') 'the money savings and the temporarily unoccupied money of all social classes [...].'⁸ In this way, '[s]mall sums which are capable of functioning as money capital by themselves are combined into great masses and thus form a monetary power.'⁸
- 3 Revenues which are consumed gradually.

⁴ C3, p. 525.

⁵ C3, p. 528.

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⁷ 'In this way the reserve fund of the business community is restricted to the necessary minimum, by being concentrated as a social fund, and one part of the money capital, which would otherwise be dormant in reserve, is loaned out and functions as interest-bearing capital.' C3, p. 528.

⁸ C3, pp. 528-9. But: 'This collection of small amounts, as a particular function of the banking system, must be distinguished from the banks' function as middlemen between actual money capitalists and borrowers.'