

## Chapter 27: The Role of Credit in Capitalist Production

Marx summarises where we are in our discussion of the credit system so far.

- 1 The development of the credit system is necessary ‘to bring about the equalisation of the profit rate or the movement of this equalisation, on which the whole of capitalist production depends.’<sup>1</sup>

Marx says two things here. First, that the credit system is necessary for the movement towards the equalisation of the rate of profit (examined in chapter 10); and, second, that this latter is fundamental to the operation of capitalist production. Put another way: the basis of the whole capitalist system depends for its operation on the existence of the credit system: without the latter, the capitalist system could not function. These are big claims; we cannot yet examine them in detail, but we should bear them in mind as we proceed.

- 2 The development of the credit system brings about an economisation of circulation costs.
  - a A ‘major cost of circulation is money itself, in so far as it is itself value.’<sup>2</sup> Economisation occurs in three ways.
    - i By dispensing with money altogether in a wide range of transactions.
    - ii By accelerating the circulation of the circulating medium, by, one, reducing the amount of money necessary for the realisation of a given number of commodity exchanges (a function of ‘the technique of banking’), and, two, by accelerating the velocity of commodity metamorphosis.
    - iii The use of paper money in place of gold.
  - b By accelerating, through credit, the phases of commodity metamorphosis, and then in turn accelerating the metamorphosis of *capital*. In this way the credit system accelerates the reproduction process in general.<sup>3</sup>

The ‘[c]ontraction of the reserve fund, [...] can be viewed in two ways: on the one hand as a reduction in the circulating medium, on the other hand as a restriction of the part of capital that must always be in existence in the money form.’<sup>4</sup>

- 3 The development of the credit system promotes the formation of joint-stock companies. This leads to the following:
  - a A great rise in the scale of production, and operations that would have been impossible for individual capitals.
  - b Capital, anyway based on a social mode of production, and anyway requiring a social concentration of means of production and labour-power, now assumes the form of ‘social capital’: ‘its enterprises appear as social enterprises as opposed to private ones. This is the abolition of capital as private property within the confines of the capitalist mode of production itself.’<sup>5</sup>
  - c The transformation of the functioning capitalist into a manager and of the owner of capital into a

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<sup>1</sup> Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 566.

<sup>2</sup> C3, p. 566.

<sup>3</sup> ‘On the other hand, credit also enables the acts of buying and selling to take a longer time, and hence serves as a basis for speculation.’ C3, p. 567.

<sup>4</sup> C3, p. 567.

<sup>5</sup> C3, p. 567.

money capitalist. What now accrues to the functioning capitalist takes the form of a wage; profit now takes the form of interest – ‘as a mere reward for capital ownership, which is now as completely separated from its function in the actual production process as this function, in the person of the manager, is from capital ownership.’<sup>6</sup>

But in this development of the capitalist mode of production we see the creation of the basis for its own supersession.

This result of capitalist production in its highest development is a necessary point of transition towards the transformation of capital back into the property of the producers, though no longer as the private property of individual producers, but rather as their property as associated producers, as directly social property. It is furthermore a point of transition towards the transformation of all functions formerly bound up with capital ownership in the reproduction process into simple functions of the associated producers, into social functions.<sup>7</sup>

- 4 The existence of credit gives the individual capitalist control over others’ capital, control over *social* capital. ‘The actual capital that someone possesses, or is taken to possess by public opinion, now becomes simply the basis for a superstructure of credit.’<sup>8</sup>

The transformation of the ownership of capital into the form of shares contradicts capitalist production relations, in which the means of *social* production appear as *individual* property. ‘But [...] [this] transformation [...] still remains trapped within [...] 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.’<sup>9</sup>

Again, this development contains the seeds of a new form of production.

The cooperative factories run by workers themselves are, within the old form, the first examples of the emergence of a new form, even though they naturally reproduce in all cases, in their present organisation, all the defects of the existing system, and must reproduce them. But the opposition between capital and labour is abolished here, even if at first only in the form that the workers in association become their own capitalist, i.e. they use the means of production to valorise their own labour. These factories show how, at a certain stage of development of the material forces of production, and of the social forms of production corresponding to them, a new mode of production develops and is formed naturally out of the old. Without the factory system that arises from the capitalist mode of production, cooperative factories could not develop. Nor could they do so without the credit system that develops from the same mode of production. This credit system, since it forms the principal basis for the gradual transformation of capitalist private enterprises into capitalist joint stock companies, presents in the same way the means for the gradual extension of cooperative enterprises on a more or less national scale. Capitalist joint-stock companies as much as cooperative factories should be viewed as transition forms from the capitalist mode of production to the associated one, simply that in the one

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<sup>6</sup> C3, pp. 567-8. Marx’s next remark, however, is impenetrable (at least to me): ‘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 equalisation of the general rate of profit.’

<sup>7</sup> C3, p. 568. ‘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. It presents itself as such a contradiction even in appearance. It gives rise to monopoly in certain spheres and hence provokes state intervention. It reproduces a new financial aristocracy, a new kind of parasite in the guise of company promoters, speculators and merely nominal directors; an entire system of swindling and cheating with respect to the promotion of companies, issue of shares and share dealings. It is private production unchecked by private ownership.’ C3, p. 569.

<sup>8</sup> C3, p. 570.

<sup>9</sup> C3, p. 571.

case the opposition is abolished in a negative way, and in the other in a positive way.<sup>10</sup>

Finally. That the credit system ‘appears as the principal lever of overproduction and excessive speculation in commerce’, this ‘only goes to show how the valorisation of capital founded on the antithetical character of capitalist production *permits actual free development only up to a certain point*, which is constantly broken through by the credit system.’<sup>11</sup>

The credit system [...] accelerates the material development of the productive forces and the creation of the world market, which it is the historical task of the capitalist mode of production to bring to a certain level of development, as material foundations for the new form of production. At the same time, credit accelerates the violent outbreaks of this contradiction, crises, and with these the elements of dissolution of the old mode of production. The credit system has a dual character immanent in it: on the one hand it develops the motive of capitalist production, enrichment by the exploitation of others’ labour, into the purest and most colossal system of gambling and swindling, and restricts ever more the already small number of the exploiters of social wealth; on the other hand however it constitutes the form of transition towards a new mode of production. It is this dual character that gives the principal spokesmen for credit, from Law through to Isaac Pereire, their nicely mixed character of swindler and prophet.<sup>12</sup>

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<sup>10</sup> C3, pp. 571-2

<sup>11</sup> C3, p. 572 (italicisation added).

<sup>12</sup> C3, pp. 572-3.