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

Marx now returns to, as Engels puts it, 'the [...] "confusion" about what was money on the money market and what was *capital*.'[1] The two positions he deals with are these:

Tooke (*Inquiry into the Currency Principle*):

> The business of bankers [...] may be divided into two branches [...] [:] transactions between dealers and dealers, and between dealers and consumers. One branch of the bankers' business is to collect *capital* from those who have not immediate employment for it, and to distribute or transfer it to those who have. The other branch is to receive deposits of the *incomes* of their customers, and to pay out the amount, as it is wanted for expenditure by the latter in the objects of their consumption [...] the former being a circulation of *capital,* the latter of *currency*. [The first is] the concentration of capital on the one hand and the distribution of it on the other [; the latter] 'administering the circulation for local purposes of the district'.[2]

Fullarton (*On the Regulation of Currencies*):

> A demand for capital on loan and a demand for additional circulation are quite distinct things, and not often found associated. [...] It is a great error, indeed, to imagine that the demand for pecuniary accommodation [i.e. for the loan of capital] is identical with a demand for additional means of circulation, or even that the two are frequently associated. Each demand originates in circumstances peculiarly affecting itself, and very distinct from each other. It is when everything looks prosperous, when wages are high, prices on the rise, and factories busy, that an additional supply of *currency* is usually required to perform the additional functions inseparable from the necessity of making larger and more numerous payments; whereas it is chiefly in a more advanced stage of the commercial cycle, when difficulties begin to present themselves, when markets are overstocked, and returns delayed, that interest rises, and a pressure comes upon the Bank for advances of *capital.* It is true that there is no medium through which the Bank is accustomed to advance capital except that of its promissory notes; and that to refuse the notes, therefore, is to refuse the accommodation. But the accommodation once granted, everything adjusts itself in conformity with the necessities of the market; the loan remains, and the currency, if not wanted, finds its way back to the issuer. Accordingly, a very slight examination of the Parliamentary Returns may convince anyone, that the securities in the hands of the Bank of England fluctuate more frequently in an opposite direction to its circulation than in concert with it, and that the example, therefore, of that great establishment furnishes no exception to the doctrine so strongly pressed by the country bankers, to the effect that no bank can enlarge its circulation, if that circulation be already adequate to the purposes to which a banknote currency is commonly applied; but that every addition

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[1] Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 95.

[2] Cited at C3, p. 574, n. 89. Thomas Tooke was a prominent opponent of the Currency School, who Marx commented favourably had been 'compelled [...] to recognise that the direct correlation between prices and the quantity of currency presupposed by this theory is purely imaginary, that increases or decreases in the amount of currency when the value of precious metals remains constant are always the consequence, never the cause, of price variations, that altogether the circulation of money is merely a secondary movement and that, in addition to serving as medium of circulation, money performs various other functions in the real process of production.' Karl Marx, 'A Contribution to a Critique of Political Economy', *Marx Engels Collected Works* vol. 29, p. 415. When Tooke died Marx commented to Engels that he had been 'the last English economist *of any value*.' 'Marx to Engels, 5 March 1858', *Collected Works*, vol. 40, p. 325.

In this volume, Marx compares Tooke's view with that of J G Kinnear (*The Crisis and the Currency*), who, says Marx (C3, p. 574, n. 89), 'comes much closer to the correct conception [of the distinction between money as capital and money as means of circulation]'. Kinnear: 'Money ... is employed to perform two operations essentially distinct .... As a medium of exchange between dealers and dealers, it is the instrument by which transfers of capital are effected; that is, the exchange of a certain amount of capital in money for an equal amount of capital in commodities. But money employed in the payment of wages and in purchase and sale between dealers and consumers is not capital, but income; that portion of the incomes of the community, which is devoted to daily expenditure. It circulates in constant daily use, and is that alone which can, with strict propriety, be termed currency. Advances of capital depend entirely on the will of the Bank and other possessors of capital, for borrowers are always to be found; but the amount of the currency depends on the wants of the community, among whom the money circulates, for the purposes of daily expenditure.' (Ellipses in original citation.)

> to its advances, after that limit is passed, must be made from its capital, and supplied by the sale of some of its securities in reserve, or by abstinence from further investment in such securities.[3]

As we proceed, we need to bear in mind the following. What determines the quantity of circulating medium necessary, as we have seen, is, first, the volume of commodity exchanges, and, second, the circulating medium's velocity. Demand for money as means of circulation is not the same as, or reducible to, the demand for money as capital. And, as Marx has repeatedly stated, money is money, and capital is capital; money capital is capital not in virtue of being money, but in virtue of being capital, value that is valorised.

### I Money as capital, and money as means of circulation[4]

Marx begins the discussion with the distinction between money as *capital*, and money as means of circulation.

'The means of circulation circulates [...] as [...] money, insofar as it mediates the *expenditure of revenue,* i.e. commerce between individual consumers and retail traders [...]'; in other words mediates the realisation of commodity product in the field of unproductive consumption, 'even though it constantly *replaces capital*.'[5] Money is capital, on the other hand, 'insofar as [...] [it] mediates the *transfer of capital,* whether as means of purchase (means of circulation) or means of payment [...].'[6] The distinction therefore lies not in the function of money (means of purchase or means of payment), but in whether the money 'does not just replace capital for one party, the seller, but is also spent and advanced as capital by the other party, the buyer. The distinction is in fact one between the *money form of revenue* and the *money form of capital,* not between currency [i.e. means of circulation] and capital [...].'

### II The functional characteristics of money

Money functions as both means of payment and means of circulation in both actions of realising *revenue* and transferring *capital*.

> The particular character of money – whether it functions as the money form of revenue or of capital – does not [...] affect its character as a means of circulation. [...] If the money appears as the money form of revenue, however, it functions more as a means of circulation in the strict sense (coin, means of purchase), on account of the fragmentation of these purchases and sales, and because the majority of revenue spenders, the workers, can buy relatively little on credit; while in the world of trade and commerce, where the circulating medium is the money form of capital, money functions principally as means of payment, partly on account of concentration and partly on account of the prevailing credit system. But the distinction between money as means of payment and money as means of purchase (circulating medium) is a distinction within money itself, not a distinction between money and capital.[7]

### III The overall quantity of money in circulation

How much money is in circulation is determined by 'the velocity of circulation, i.e. the number of times the same function of means of purchase and payment is repeated by the same piece of money in a given period of time; the mass of simultaneous sales and purchases, or payments; the sum of the prices of the commodities circulating; and finally the balances of payments that have to be settled at the same time.'[8] *Whether the money that*

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[3] Cited at C3, pp. 580-1, n. 90.

[4] Where I insert my own subheads they appear, as here, in sans serif type.

[5] C3, p. 575.

[6] C3, p. 575.

[7] C3, p. 577.

[8] C3, p. 578.

*operates in this manner is capital or revenues has nothing to do with the matter*. 'Its quantity is determined simply by its function as means of purchase and payment.'[9]

### IV The relative proportions of the circulating medium in its two functions

The two spheres of circulation – revenue and capital – are connected: the amount of revenue to be spent expresses the volume of consumption; the amount of capital circulating in production and trade represents the scale and speed of reproduction. 'Nevertheless, the same factors have different effects, and even work in opposite directions, on the quantity of money circulating in the two functions or spheres [...].'[10]

Take a period of prosperity, of acceleration of social reproduction. Wages may even rise. The capitalists' revenues will also rise. Consumption increases. Commodity prices rise. As a result of all this, the quantity of money in circulation grows.[11] The part of social revenue which consists in wages is advanced by the industrial capitalist as variable capital, and always in money form; the industrial capitalist needs more money for this in times of prosperity. But the money paid to workers as wages is spent in the retail trade and returns to the banks in the form of the retail traders' deposits; in periods of prosperity this reflux of money takes place smoothly for the industrial capitalists – in short, what the capitalist pays out, she gets back.[12] '[I]n periods of prosperity the mass of the circulating medium that serves for the expenditure of revenue experiences a decisive growth.'[13]

With regard to the means of circulation necessary for transfers of capital between capitalists, this period of prosperity will be 'a period of elastic and easy credit'.[14] Given that the velocity of circulation between capitalist and capitalist is directly regulated by credit, although the amount of the circulating medium required to settle payments and make cash purchases may expand in absolute terms, it always decreases relatively compared with the expansion of reproduction. 'A larger mass of payments, on the one hand, is settled without any intervention of money; on the other hand, given the vigour of the process, there is a quicker movement of the same quantities of money, as both means of purchase and payment. The same amount of money mediates the reflux of a greater number of individual capitals.'[15]

The monetary refluxes result from the transformation of commodity capital into money: $M - C - M'$.

> Credit makes the reflux in the money form independent of the point in time of the actual reflux, whether we are dealing with the industrial capitalist or the merchant. Each of these sells on credit; his commodity is alienated before it is transformed back into money for him, i.e. flows back to him in the money form. On the other hand he buys on credit, and thus the value of his commodity has been transformed back for him either into productive capital or into commodity capital even before this value is actually transformed into money,

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[9] C3, p. 578.

[10] C3, p. 578.

[11] '[A]t least within certain limits, since the greater velocity of circulation places its own barriers on the growth in the quantity of the circulating medium.' C3, p. 578.

[12] Although if the amount of variable capital that needs to be paid out as wages is increasing from one production period to the next, and this returns to the capitalist as the workers spend their wages, there occurs a shortfall in the consumer goods sector ('Department II'), as that part of the commodity product equivalent to that part of Department II's surplus product to be accumulated in the capital goods sector ('Department I') – as opposed to that part of Department II's surplus product to be unproductively consumed – is not realised until the production period subsequent to that in which the product is produced. I discuss this problem in my notes on *Capital* volume 2, chapter 21 (http://readingmarx.wordpress.com/2011/12/06/391/), pp. 10-11. Credit, in some form, will be necessary to bridge this gap.

[13] C3, p. 579.

[14] C3, p. 579.

[15] C3, p. 579.

> before the commodity's price falls due and is paid. In such times of prosperity, the reflux takes place smoothly and easily.[16]

This situation persists for a period after the end of the period of prosperity properly speaking, owing to the credit already given, since the credit refluxes stand in for real ones. But: '[t]he banks begin to scent danger as soon as their clients deposit more bills of exchange with them than money.'[17] As the reduced scale of reproduction takes hold, the circulation of revenue contracts, prices fall, and with them wages; the number of workers falls. In the field of the transfer of capital, 'the need for monetary accommodation grows with the decline in credit'.[18] Hence, the amount of currency required for the circulation of revenue falls, while that necessary for the transfer of capital rises.

### V Demand for capital, and demand for capital in money form

In the period of prosperity, when the quantity of the circulating medium needs to grow, there is a growing demand for it. But a manufacturer who demands more capital in *money* form does so because she needs to spend more capital in the money *form*, not because she has a greater demand for capital *per se*: '[t]he demand relates only to the technical form in which he puts his capital into circulation.'[19]

But, although Fullarton is right over Tooke in distinguishing the demand for money capital and the demand for money as means of circulation, he is wrong to argue that it is the greater demand for loans that marks out the period of stagnation from that of prosperity; rather, the distinction is between 'the ease with which this demand is satisfied in the time of prosperity and the difficulty of satisfying it once stagnation has set in.'[20] What distinguishes the period of stagnation is the difficulty in meeting the demand that exists: the problem is not one of demand, but of *supply*.

> It is in fact precisely the tremendous development of the credit system during the period of prosperity, and also therefore the enormous rise in the demand for loan capital and the readiness with which this is made available in such periods, that leads to the shortage of credit in the period of stagnation. Thus it is not a difference in the demand for loans that distinguishes the two periods.[21]

In the period of prosperity what predominates is the demand for means of circulation between consumers and dealers; in the period of depression the demand for means of circulation between capitalists. In the period of stagnation the former falls while the latter increases.

If the demand for monetary accommodation (loans) occurs because of an unfavourable national balance of payments then it mediates an outflow of gold. The Bank of England exchanges notes against gold in its own Issue Department, and the gold is exported. (And there is of course no consequence here with regard to domestic monetary circulation.) Now, it is true that this gold represents capital for both the Bank and for the gold dealer who exports it, but the demand for it does not arise as a demand for *capital* but rather 'as the absolute form of money capital [...] [when] the foreign markets are flooded with unrealisable English commodity capital. What is demanded is not capital as *capital* but rather capital as *money,* in the form in which money is a commodity

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[16] C3, pp. 579-80.

[17] C3, p. 580. By accepting – 'discounting' – a bill, a bank is effectively lending money for the period until the payment is made. In this process, the bank naturally deducts interest from the bill's face value. But why do people want to discount bills? 'The ordinary businessman discounts his bills to anticipate the money form of his capital and in this way keep the reproduction process going; not to expand his business or spend additional capital, but rather to balance the credit he gives with the credit he takes. If he does want to expand his business on credit, it is little use to him to get bills of exchange discounted, as this simply converts money capital that he already has from one form to another; he would rather take out a fixed loan for a longer period.' C3, p. 555; this is important, as we shall see.

[18] C3, p. 580.

[19] C3, p. 582.

[20] C3, p. 582.

[21] C3, p. 582.

on the general world market; and this is its original form as precious metal.'[22] The reason that there is a demand for money capital is not that there is a lack of capital as such, but a lack of capital in the form of money: if capital exists in the form of commodity capital, the demand for money capital will rise in function of the difficulty of the realisation of these commodities.

Marx quotes Fullarton again. '"Whether that capital" (the purchase price for the millions of quarters of foreign wheat imported into the home country after a harvest failure) "is transmitted in merchandise or in specie, is a point which in no way affects the nature of the transaction". [...]'[23]

Marx comments that the *form* of the capital 'has a very definite effect on whether there is a drain of gold or not. Capital is converted into the form of precious metal because it cannot be converted at all into the form of commodities, or not without a very major loss.'[24] Marx approvingly quotes Fullarton, who shows that drains of gold take place in most cases after a period of excitement and speculation, as 'the signal of a collapse already commenced ... an indication of overstocked markets, of a cessation of the foreign demand for our productions, of delayed returns, and, as the necessary sequel of all these, of commercial discredit, manufactories shut up, artisans starving, and a general stagnation of industry and enterprise'.[25]

Marx now asks: how can a bank (the Bank of England, for example) that issues banknotes increase the amount of monetary accommodation (loans advanced against securities) it provides without increasing its note issue?

Imagine that the bank pays notes to *A* against securities, and *A* uses these notes to pay *B* for a bill of exchange that falls due, and that *B* deposits the notes again with the bank. The notes no longer circulate, but the loan remains: the bank is a creditor to *A* and at the same time a debtor to *B* for the sum of value expressed in these notes, while *B* has at her disposal a corresponding part of the bank's capital.

Or imagine that *A* pays notes *B*, and that *B* (or *C*, a person who *B* again pays these notes) uses the notes to pay bills due to the bank. Again, the bank is paid with its own notes.

In both cases there is an expansion of credit but not of the quantity of money in circulation.

But in what sense then is the bank's advance to *A* either an advance of *capital* or merely an advance of means of payment? Let us consider three cases.[26]

**1** *A* receives the sum advanced by the bank on her personal credit, without giving any security for it. The sum functions not only as an advance of means of payment, but also as new capital, which *A* can use as

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[22] C3, p. 584.

[23] C3, p. 584.

[24] C3, p. 584.

[25] C3, p. 585 (Marx's ellipsis). 'This is also of course the best refutation of the Currency people's contention that "a full circulation drives out bullion and a low circulation attracts it".'

Marx's next remark is something of a digression, but it is still an interesting one. '[...] [A]lthough it is generally in periods of prosperity that the Bank of England has a strong gold reserve, this is always formed in the slack and stagnant period that follows the storm. All this wisdom about the drain of gold, then, amounts to saying that the demand for *international* means of circulation and payment is different from the demand for *domestic* means of circulation and payment [...]. Moreover, I [...] already [...] [showed] earlier [at the end of chapter 3, volume 1] that the movement of the hoard that is set aside as a reserve fund for international payments has in and of itself nothing to do with the movement of money as means of circulation. However, there is a certain complication involved here, in so far as the different functions of the hoard which I developed from the nature of money – its function as a reserve fund of means of payment, for payments that fall due at home; as a reserve fund of circulating medium; finally as a reserve fund for world money – are all imposed upon a single reserve fund. From which it follows that in certain circumstances a drain of gold from the Bank domestically may be combined with a drain abroad. A still further complication arises from the additional function that is quite arbitrarily laid on this hoard, namely to serve as a guarantee for the convertibility of banknotes, in countries where the credit system and credit money are developed. On top of all this, finally, we have (1) the concentration of the national reserve fund in a single principal bank, and (2) its reduction to the minimum possible.' C3, pp. 585-6.

[26] This section of the chapter is an addition by Engels.

additional capital, valorising it until it has to be repaid.

**2** *A* offers the bank securities (government bonds or stocks, say) as collateral and receives, for example, a cash advance of up to two-thirds their value. *A* receives means of payment, but no additional capital. *A*'s securities continue to function as 'reserve capital': there has been a mutual transfer of capital between *A* and the bank, such that *A*, although having received the means of payment, has not received any *extra* capital. For the bank, the operation represents a temporary tying-up of money capital in the form of a loan, a transformation of money capital from one form to another.

**3** *A* discounts a bill of exchange at the bank and receives cash (the price of the bill less the discount). What *A* has done is sell a non-liquid form of money capital (the bill) in exchange for a sum of value in liquid form. The bill now belongs to the bank. There is here no advance, rather a simple purchase and sale. *A* has nothing to repay to the bank, while the bank is reimbursed when the bill falls due. *A* has transformed one form of her money capital into another.

Only in the first case is there a genuine capital advance; in the second and third cases, all that there occurs is a transformation of *existing* capital into means of payment, a transformation of form of already existing capital.

We are assuming here that a bank will advance money which will then sooner rather than later return to it. The quantity of money in circulation will rise, even if temporarily. But this need not necessarily be the case. If, instead of advancing money, a bank opens a credit account for *A*, *A*, as its debtor, becomes an 'imaginary depositor'. She can pay her creditors with cheques drawn on this account; the recipients of the cheques pay them again to their own bankers, who exchange them in clearing houses against cheques drawn on them. There is no intervention of money; the entire process consists of one in which the bank settles its own debt with a cheque drawn on itself, its actual compensation being its claim against *A*.

From the point of view of the bank when money advanced is capital from the point of view of the borrower what is advanced is capital in money form.

> In so far as [...] [the] demand for monetary accommodation is a demand for capital, it is simply a demand for money capital [...]. Or finally it might be a question of interest-bearing securities, government bonds, stocks, etc. that have to be sold if gold or notes are to be obtained. These securities, however, if they are in government bonds, are capital only for the person who has bought them, to whom they represent his purchase price, the capital he has invested in them. They are not capital in themselves, but simply creditor's claims; if they are in mortgages, they are simply claims on future payments of ground-rent; and if they are stocks of some other kind, they are simply property titles which give the holder a claim to future surplus-value. None of these things are genuine capital, they do not constitute any component of capital and are also in themselves not values. By similar transactions, money that belongs to the bank can be transformed into deposits, so that the bank becomes a claimant for this money instead of its owner, and holds it under a different title. Important as this is for the bank itself, it in no way affects the amount of capital stored in the country, or even the money capital. Capital figures here simply as money capital and, if it is not present in the actual money form, as a mere title to capital.[27]

The importance of this lies in the distinction between the demand for *banking* capital (money as means of payment) and that for actual capital, which is in the case just discussed present in excess in the form of means of production and products.

Thus

> [...] the amount of securities held by the bank as collateral [can] increase[...], and the growing demand for monetary accommodation can be satisfied by the bank, at the same time as the total quantity of means of circulation remains the same or declines. [...] [The] total quantity is kept in check in two ways: (1) by a drain of gold; (2) by the demand for money simply as means of payment, where the notes issued flow back immediately or where the transaction takes place by way of book credit, without any mediation of notes. In

[27] C3, pp. 589-90.

> the latter case, payments are effected simply by a credit transaction, the settlement of these payments being the sole object of the exercise. It is money's peculiar property that where it functions simply in settlement of payments (and in times of crisis an advance is obtained in order to pay, not to buy; to settle past transactions, not to start new ones), its actual circulation is simply a vanishing magnitude, even when this settlement does not take place entirely by credit operations, without any intervention of money; i.e. that when there is a great demand for monetary accommodation, a tremendous mass of these transactions can take place without any expansion in the circulation.[28]

Thus, even though the circulation of notes as means of purchase declines in times of stagnation, their circulation as means of payment can increase while at the same time the total sum of notes functioning as means of purchase and of payment in circulation may remain stable or even decline. Fullarton and Tooke do not see circulation of banknotes as means of payment when these notes immediately flow back to the bank that issued them as circulation.

Hence in periods of a breakdown in credit – 'i.e. when there is a complete breakdown of credit, when not only are commodities and securities unsalable, but it has also become impossible to get bills of exchange discounted, and nothing counts any more except money payment, or as the merchant says: cash'[29] – circulation as means of payment increases to a higher degree than circulation as means of purchase declines, and therefore the total circulation grows, even though the quantity of money functioning as means of purchase declines.

In such periods, 'money reverts from its merely ideal form into the material and also absolute form of value *vis-à-vis* commodities.'[30] But in the circumstances of such a demand for gold there is no opposition between the demand for *money* as means of payment and the demand for *capital*, but rather between *capital* in its money form and in its commodity form: it is not the case that here (outside of extraordinary circumstances – a rise in grain prices, a cotton famine, etc.) there is a lack of capital. Quite the opposite: there is a glut of *commodity* capital, but not capital in money form.

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[28] C3, pp. 590-1.

[29] C3, p. 591.

[30] C3, p. 592.