The Rationality and Irrationality of Money

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Money is the supreme social fact of modern society. For good and for ill, money is both the symbol and the substance of wealth and power. The movements of money constrain and undermine national governments and daily determine the fate of billions of people. The privileges of the few and the want of the many are determined by their respective possession and their lack of money. Yet where are we to find the social theory of money? How does money acquire its social power? By what social laws is the exercise of that power determined? Is money a beneficent or a malignant force? It would seem that the anonymity of the power of money has rendered it invisible to social theory.

The theology of money: the classical tradition

So-called "primitive" societies attach mystical powers to gifts and tokens. But this is as nothing compared to the fantastic powers attributed to money in our own society. While the former have been exhaustively analysed by anthropologists, social scientists have very largely been content to leave the powers of money unexplained. In the true traditions of a Christian "civilisation", faith is sufficient ground for attesting that a supernatural power that has created global devastation is, nevertheless, a force for good. The cult of money is truly Dr Pangloss's revenge.

We might expect to find an explanation of the social powers of money in the works of the theologians of the cult — the economists. However, surprising as it may seem, the economists have almost nothing to tell us on this matter. For the economists money is simply an instrument, a rational means through which the "hidden hand" realises its beneficent mission. Economists since Adam Smith have progressively elaborated their systematic models which establish the instrumental rationality of money within the capitalist economic system, insulated from the reality of a world within which money is not merely a means, but has become the central end of social existence.

The dominant conception of money dates back at least to Aristotle, who explained the emergence of money in terms of the inconvenience of barter, defining the primary function of money as its role as *means of exchange*, but recognising also its derivative functions as the *measure of value* and, at least implicitly, also as a *store of value*. Various theories since Aristotle have differed mainly in the hierarchical relationship they establish between the different functions of money, setting those who follow Aristotle in seeing the function of means of exchange as being primary against those who have attributed primacy to other functions, most notably the function of store of value. This has by no means been a purely academic debate, for the different views have profound political and policy implications: If the primary function of money is as means of exchange, an increase in the quantity of money will lead only to rising prices. If the primary function of money is as a store of value, an increase in the quantity of money will lead to falling interest rates and increasing economic activity. The orthodox view of money is therefore connected with the quantity theory of money and monetary conservatism. Unorthodox views of money are connected with the various heresies that have littered the pages of monetary history: mercantilism, bullionism, free credit, bimetalism, Keynesianism.

These different views of money have been intimately connected with different views of the relation between money and the state in the regulation of the social reproduction of the system of social labour. Money and the state represent complementary forms of social regulation, but the critical question is, what should be the relation between them? Should state regulation be confined within the limits of money? Or should the rule of money be confined within limits dictated by the state?

These are theoretical questions that have been debated since the dawn of capitalism. The debate between the two positions has ebbed and flowed, and there has even been some theoretical advance in the rigour and sophistication within which the two positions have been formulated, but the debate has never been resolved. The balance between the two positions alters over time in a more or less regular cyclical process. At the peak of the cycle one or the other position is in the ascendant, the alternative being regarded as an untenable heresy which is propounded by cranks and extremists. In periods of transition there is much talk of a ‘third way’, which offers an appropriate balance between the two extremes, and the pendulum begins to swing back.

This is a debate that takes place within theory, but the balance of theoretical forces is not determined by any intellectual considerations but by the development of the class struggle, above all by the extent to which the state is politically compelled to moderate the claims of capital in order to accommodate the aspirations of the mass of the population. This is not to say that the intellectuals engaged in the debate are the self-conscious lackeys of the capitalist (or even the working) class. There will always be true believers on both sides of the debate, but the weight of conviction (and publication and academic appointment) will fall on the side that conforms most closely to the demands of political realism because it conforms to the realm of immediate political possibility. To be a Hayekian in the 1960s was to plough as lonely a furrow as to be a Keynesian in the 1980s. To propose a ‘third way’ in the 1980s was to make yourself as much the object of ridicule as it is to endorse ‘monetarism’ today. Although the debate is renewed every decade, the terms, and the limitations, of the debate have not changed for the past two centuries. To identify these terms and limitations it is worth going back to the beginning of the modern debate.

Adam Smith and the modern theory of money

Adam Smith, following his friend David Hume, laid the foundations of modern economics by reasserting the Aristotelian orthodoxy against the mercantilist heresy, which saw the primary function of money in its role as store of value and favoured state policies oriented to the accumulation of a monetary hoard. Smith was concerned to demolish the mercantilist myth that money was an end, that the accumulation of wealth could be identified with the accumulation of money, and to establish instead the instrumental rationality of money as a mere means to the superior end of enhancing the material prosperity of the nation. For Smith "it is not for its own sake that men desire money, but for the sake of what they can purchase with it" (WN, I, 385), so that the accumulation of money, far from contributing to the prosperity of the nation, constitutes a drain on the national revenue. According to Smith, the mercantilist prejudice arose as a sophistical argument devised by the merchants to further their own self-interest by falsely identifying it with the national interest. The system of monopoly that hoisted their profits restrained trade and so limited the development of the productive forces of society.

There are two dimensions to Smith's critique of mercantilism. On the one hand, Smith argued that money had no value in itself: money is just a commodity like any other. The value of money lies in the fact that it is the product of labour and in the fact that, like any other desirable commodity, its possession bestows the power of command over labour. On the other hand, for Smith this implies that the possession and accumulation of money is irrational. The accumulation of money involves the expenditure of a considerable amount of labour in order to acquire a reserve of the money commodity, but the power of command over labour, that is the only reason for acquiring money, can only be realised by disbursing the money that has been acquired. The only purpose of acquiring money is to spend it. Money is therefore only the mediating term in relations of exchange between individual actors, its rationality is purely instrumental.

Smith's argument rested on a proposition that has marked all subsequent economic theory, but that is fundamentally erroneous. This is his assertion that "consumption is the sole end and purpose of all production", a maxim that he claimed "is so perfectly self-evident that it would be absurd to attempt to prove it" (WN, II, p.155). Thus the instrumentality of money is simply asserted. Yet the belief that money is an end is not simply a mercantilist prejudice, it is of the very essence of the reality of capitalist society. If money were desired only as a means to the acquisition of consumption goods the appetite of the capitalist for profit would be limited by his consumption needs. Yet the very dynamism of capitalist accumulation, on which the justification of the capitalist system rests, depends precisely on the insatiability of the appetite of the capitalist for money not as a means, but as an end in itself, as the means to, and expression of, social power. The great merit of the mercantile system was that it recognised this uncomfortable fact. Smith can only smuggle in his "self-evident" maxim by presenting an evaluative proposition as though it were an empirical one. Indeed it is self-evident that economic activity should be subordinated to the consumption needs of society. Yet it is just as self-evident that this proposition is violated not simply by the mercantile system, but by the existence of capitalism itself, with the deleterious consequences of which Smith was well aware.

However, if money is not an end in itself, but is merely a means of exchanging one thing for another, the powers attributed to money are not inherent in money, but derive from its function as means of exchange. The rationality of money is the rationality of the system of exchange whose development it facilitates. Money is the means by which the hidden hand of the market achieves its ends.

Smith regarded the development of the market as the result of the propensity in human nature 'to truck, barter and exchange one thing for another' (WN, 1, p.12), a propensity rooted in the faculty of reason. The virtue of exchange was that it made it possible for each producer to specialise according to his or her talents and so stimulated the advance of the division of labour, of productivity, and so of economic prosperity. As far as the individual economic actor was concerned each could make free judgements of the gains to be made from any particular exchange, gains rooted in the increased productivity permitted by specialisation, and so could decide whether or not to exchange accordingly. So long as the market is free, and property and the person are secure, each individual exchange that takes place will contribute to an increase in individual and social prosperity. On the other hand, any political or institutional barriers to the freedom of exchange will prevent advantageous exchanges from taking place and so will reduce the national wealth, even if they work to the advantage of particular individuals. These are the general principles according to which economists have justified the rule of the market ever since the days of Smith. The general conclusion is that free competition allows the individual to be the best judge of his or her own economic interests and provides the opportunity to each to act accordingly. Since every agent is free to decide whether or not to make an exchange, and will choose not to do so if he or she judges the exchange disadvantageous, nobody can suffer loss as a result of exchange. Since both parties gain from each and every exchange, the system of exchange must work to the benefit of all.

Smith established the self-evident rationality of exchange on the basis of a parable concerning barter in a simple hunter-gatherer society. If Smith's little parable is to have any relevance to a capitalist society it is necessary to establish that the introduction of money and of capital does not affect the results of the analysis, so that a capitalist society can be understood on the basis of this simple model of a barter economy. This Smith achieved, firstly, by arguing that money is simply an instrument of accounting and exchange that has no substantive economic significance. Smith's argument again has provided the essential framework within which economists have discussed money ever since. The form of his argument is equally paradigmatic: he devised a homely parable within which the instrumental rationality of money is established as self-evident, and rests his case on the extension of the argument by analogy to the capitalist system.

With the development of exchange the inherent limitations of barter meant that "this power of exchanging must frequently have been very much clogged and embarrassed in its operations... In order to avoid the inconveniency of such situations, every prudent man in every period of society, after the first establishment of the division of labour, must naturally have endeavoured to manage his affairs in such a manner as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or another, such as he imagined few people would be likely to refuse in exchange for the produce of their own industry" (WN, 1, p.20). We can all appreciate the inconvenience of barter, so the rationality of money is clear to all of us. Money simply provides a means of exchange that enables the barter economy to work more efficiently. We can now sell our bows and arrows for money, and use the money to buy venison, rather than having to find a venison-owner who happens to need a new bow and arrow. The introduction of money makes no difference to our simple barter model.

But what happens if we cannot find a buyer for our product? Perhaps nobody wants a bow and arrow? Then we have simply misjudged the needs of others, and misread the market. We will have to find some other specialisation that meets others' needs. Perhaps somebody else is better than us at making bows and arrows, so that we have to demand less venison in return? Then our reduced reward simply corresponds to our own incompetence and if we are dissatisfied we should improve our skills, find a new vocation, or hunt our own venison. We cannot blame the market for our own failings. But perhaps we are highly skilled, and our bows and arrows are much needed, but nobody has any money to buy them? This surely would indicate a failure of the market economy to meet human needs? It would indeed, but in Smith's ideal world it could not happen. This becomes clear once we examine the implications of Smith's conception of money as serving merely as means of exchange.

For Adam Smith there is no reason for wanting to hold money in itself since "it is not for its own sake that men desire money, but for the sake of what they can purchase with it" (WN, I, p.385). This proposition rests on Smith's "self-evident" but absurd claim that "consumption is the sole end and purpose of all production".

The implication of this "self-evident" maxim, which was drawn out by Smith's French populariser J-B. Say, is that the money economy continues to work just like a barter economy. Since nobody has any reason to hold money, but merely seeks money in order to purchase some other commodity, then every sale will be matched by a corresponding purchase as the seller immediately disposes of the money acquired in the sale by buying some other commodity. Thus the introduction of money cannot introduce any barriers to exchange, it simply avoids the inconvenience of barter. If a seller is unable to find a buyer it can only be because he or she is asking too high a price. The commodity is not sold simply because the buyer chooses not to sell it at a price which reflects the evaluation of its worth by potential buyers. So long as buyers and sellers are prepared to adjust their prices in response to changing market conditions, reflecting changes in the conditions of production and in the needs of consumers, the action of supply and demand ensures that full employment will be maintained. The operation of the market ensures that the system is self-regulating.

Smith, as later economists, was well aware that money did not always function as effectively as he might have hoped. However the limitations of money are in no way inherent in money itself as a social phenomenon. They arise from human venality and human ignorance that prevents us from living up to the standards set by this apotheosis of rationality. Thus for Smith, it is the greed of the merchants, the ignorance of the labouring classes, and the indolence of the landed class that gives rise to the abuses that make money into an end of state policy that restricts the growth of the wealth of the nation.

The classical theory of the market describes a world of freedom of choice and equality of opportunity, marred only by the attempts of the rich and powerful to abuse their command of the power of the state to secure their own gain. Money is the rational instrument by which the hidden hand of the market asserts itself, and so provides the adequate means of social regulation of economic activity. The proper role of the state is to preserve the freedom and security of property and to defend the integrity of the currency on which the smooth functioning of the market depends.

Money and manufacture: money, capital and the state

We should not forget that Smith wrote as a radical critic of the *ancien régime*, the target of his attack being the apparently monolithic configuration of the absolutist state that united the power of the sovereign, the privilege of the landed aristocracy and the wealth of the great merchants. Smith was the model of a disinterested intellectual, although in his work he appealed to the interests of an emerging class, represented by tenant farmers, small merchants, manufacturers and artisans, which was developing a consciousness of its own independent interest, in opposition to the system of privilege and monopoly that Smith condemned. However, Smith had no expectation that his views would have any political impact because he believed that the weight of vested interest that he confronted was so strong while the class to which he appealed had insufficient understanding of its own interest.

Yet Smith had overestimated the strength of the system. While it may have appeared invincible in the metropolitan heartland, it was a global system and it was on the periphery that its fate was sealed. Ironically, the turning point was the rebellion of the American colonists in 1776, the year that Smith's *Wealth of Nations* was published, followed by the French Revolution thirteen years later. These two revolutions in turn precipitated the disintegration of the established political order in England. It was trade and money that had eroded the old order, and money and trade were the pillars on which the new order was constructed. This dramatic political reconfiguration had equally dramatic intellectual consequences. Within two decades, Smith's theories had been transformed from a radical critique of an old regime that had confined money and trade within the limits of political power into the defence of a new regime that sought to confine political power within the limits of money and trade, the apostle of the new system being the stockbroker, David Ricardo.

The collapse of the old regime and the freeing of trade and banking from political restraint was associated with a succession of economic booms, but each boom was soon followed by a destructive slump. Moreover, while merchants and bankers profited in the booms, it tended to be the workers and the manufacturers who were the principal victims of the slumps. These fluctuations, therefore, precipitated conflict between the manufacturing and banking interests, each appealing to the state to regulate the issue of money in accordance with the interests of its own estate, which, of course, each represented as the general interest. It should not be surprising to find, therefore, that the theory of money was once again the focus of the class struggle in social theory. The outcome of this struggle over the theory of money defined the contours of modern social theory, yet it is another blind spot in social theory's consciousness of its own foundations.

The currency issue was the central focus of the class struggle in social theory throughout the first half of the nineteenth century. The key issue in this phase of the struggle was that of the relation between money, capital and the state and the struggle focused on the question of control of the quantity of money. The bankers accumulated great fortunes by lending money at interest and by speculating in commercial and financial ventures. The manufacturers depended directly and indirectly on the bankers to provide them with the credit they needed to carry on their business, particularly when they were buying and selling on distant markets. When trade was flourishing, the bankers would make credit freely available and manufacture could expand in the wake of, and even in anticipation of, the expansion of demand. The growth of manufacture led to a growing demand for hands, so that both waged workers and independent artisans could prosper. At such times it appeared that all the promise of Smith's vision was being realised. However, such booms were never sustained for long. At a certain point there would be a series of commercial and financial failures, as a result of which stocks of unsold goods would accumulate.

Just at the point at which the resumption of normal trade called for an easing of the terms of credit to enable manufactures to maintain production and their buyers to buy their products, the bankers would turn on the screws, restrict the supply of money and raise the rate of interest. To the manufacturers it was evident that their misfortune was the direct result of the bankers' abuse of their monopolistic control of money and the solution was for the banks to provide enough money to meet the legitimate needs of trade. The currency reformers therefore came forward with various schemes that would ensure that money was always put at the service of production and of trade. Such schemes ranged from demands for free banking, through bimetalism and land banks to labour currencies. What all of these schemes had in common was that their viability depended on the state taking control, directly or indirectly, of the issue of money in order to ensure that the quantity of money was regulated in accordance with the general interest of society. Against such schemes, liberal orthodoxy came to be represented by the currency theorists, who argued that it was precisely money, not the state, that embodied the general interest of society, so that the economic activity of society and of the state should equally be subordinated to the constraints imposed by the natural limitation of the supply of money. Just what was this natural limitation was a rather more complicated question, the simplest answer (politically at least) being that it was the supply of gold, so the 1844 Bank Act in England supposedly restricted the issue of the currency in accordance with the reserves of gold held at the Bank. This meant that the terms of credit throughout the economy were determined neither by the political decisions of government nor by the self-interested decisions of bankers but in accordance with the inflow and outflow of bullion to and from the reserves.

The currency theorists won the battle hands down. However, although their opponents are remembered nowadays only as monetary cranks, the battle was not won in social theory but by the outcome of the class struggle in the real world as both manufacture and banking came to be subordinated to the expanded reproduction of capital, the manufacturers settled their differences with their bankers and new lines of class division emerged, between the employers and their employees. In England the victory of the currency theorists was associated not only with the 1844 Bank Act, but also with the repeal of the Corn Laws, the passage of the Factory Acts and the defeat of Chartism, which were followed by the mid-Victorian boom. More equivocal victories were achieved in Continental Europe and the United States with the political settlements following the revolutions of 1848, the American Civil War and the Franco-Prussian War, which similarly laid the foundations for the relatively sustained growth of prosperity of the turn of the century. Divisions within the capitalist class were no longer between its financial and industrial wings but were increasingly drawn along national lines, with manufacturers seeking to articulate a common interest with 'their' workers not on the line of opposition to the bankers but on a national basis. The power of the state was not to be directed to the control of money but to the aggrandisement of national capital by traditional mercantilist means. The wheel had come full circle.

The critique of money and the challenge of the working class

The liberal theory of money emerged triumphant within the realm of economic theory as an expression of the triumph of capital over its concrete forms of existence, as finance and manufacture were subordinated to the expanded reproduction of capital. The political opposition to liberal orthodoxy no longer came from dissident elements within the capitalist camp, but increasingly from those whose labour-power was commanded by the power of capital. The various schemes of utopian co-operativism began as schemes to contest the power of bankers, but soon developed into schemes to contest the power of capital. It was not the bankers who were extorting profit from the honest manufacturer by imposing unnatural rates of interest for their loans; it was the manufacturer who was exploiting his labourers by paying them less than the value of their labour. The labour theory of value, which had been developed within economic theory to articulate the interests of the manufacturers against the parasitic commercial, landowning and banking interests, was now given a radical twist, expressing the interests of labour in opposition to capital as a whole.

The focus of this new radicalism was, of course, the theory of money. All of the evils to which modern society was subject were evils that derived from the unfettered tyranny of money. The early utopians took many of their ideas from currency cranks and from romantic conservative critics of capitalism, but they soon came to develop specifically socialist perspectives which drew on the experience of the workers who were being herded into the new factories, schemes which drew on the contrast between the co-operation that was a feature of socialised production and the anarchy that was the distinguishing characteristic of the market, their proposed solutions moving on from currency reform to schemes for the centralised regulation of production and trade. This critique came to focus on the relation between money and the state in the regulation of social production, so its realisation required access to political power. Thus it was closely associated with the democratic political struggles that reached their peak in the 1840s. It was through these struggles, and particularly through the defeat of Chartism and then of the revolutions of 1848, that the class character of the opposition to capitalism became more clearly defined.

At this stage in the development of the class struggle, of course, a clarification of the lines of class division implied the marginalisation of the industrial working class, which even in England still comprised only a minority of the population. Moreover, most of the working class was unorganised, so the social base of the radical critique of capitalism developed in the 1840s was not so much the factory operatives as the skilled workers seeking to defend the integrity of their trades, many of whose skills were being displaced by the advance of the factory system. The defeat of Chartism and of the Revolutions of 1848, therefore, marked the end of this phase of the class struggle in social theory and the apparently definitive triumph of the capitalist class, which could turn its attention to extending the intellectual and material rule of capital across the face of the globe.

However, the struggles of the 1840s left a theoretical legacy in revealing the need for a critique of money that saw money not just as a means by which the bankers exploited the manufacturers, but as an articulation of the social power of capital. This critique had been developed in the 1840s in fragmentary form, particularly by the Owenites in England, the Proudhonists in France and the True Socialists in Germany. The three rather different versions of the critique were synthesised and advanced by Dr Karl Marx, of Trier, and his friend Dr Friedrich Engels, a Manchester cotton manufacturer. Marx, in particular, devoted most of his life to developing the critique of money and of liberal monetary theory, which he eventually published in his *Critique of Political Economy*, a text which he rewrote half a dozen times but never completed. I will just draw out the main points of this critique.

The focus of Marx's critique was Smith's simple model of a barter economy within which independent petty producers exchange their own products and in which money is a pure instrument, with no substantive effects. Marx argued that Smith's account ignores the social relations within which production takes place and which are the presupposition of any individual act of exchange. Even Smith's simple model rests on the existence of particular social relations that limit the freedom of choice of those involved in the system of exchange, even before they enter any particular exchange relations. Once committed to the division of labour, the petty producers are already committed to producing not for their own needs, but for the needs of others, expressed to them through the market in the form of the money that they obtain in exchange for their product. They can command the labour of others in order to meet their own needs and satisfy their own desires only to the extent that they can sell their products on the market in order to secure the money to buy their own means of consumption and the raw materials and tools required for further production. They no longer have any choice about whether or not to engage in exchange, but merely as to the terms on which they exchange their products. The propensity to "truck, barter and exchange" is no longer a natural propensity, but one imposed by the social relations of production. Money is now a social power that defines both the opportunities and the limits that confront every member of a commodity-producing society. Before I have sold my product, I can dream of unlimited possibilities. Once I confront the harsh reality of the market, I may find myself fearing for my very survival.

The specialist in making bows and arrows cannot eat those bows and arrows if they cannot be sold. While conditions are favourable, the market appears to the bow and arrow maker as a munificent opportunity. But if conditions change for the worse, the market appears as a coercive force, appearing in the form of the pressing need for money. Thus money is no longer simply a means of exchange, it has become a social power which regulates social production, rewarding those who can meet its demands, but penalising those who do not live up to its standards. Production is no longer oriented to need, but to money, and so is regulated according to the imperatives of the market imposed by money.

With the development of the market, not merely as the forum in which occasional surpluses are exchanged, but as the framework within which the interdependence of producers within a division of labour is regulated, the market becomes not merely a convenience, but a system of social relations. Producers can only survive by submitting themselves regularly to the judgement of the market, which evaluates the social worth of their labours. The market thus becomes both a material and a moral force, imposing its own morality through its system of punishment and reward. It is this morality that is expressed through the social power of money, which is the form in which the social evaluation of the market is expressed and in which its rewards are distributed.

In a capitalist society exchange no longer relates petty producers to one another. Rather it expresses the social relations of production within and between the capitalist class and the working class. But the division of labour between capitalists and workers cannot be assimilated to the division of labour between different talents. What distinguishes capitalist and worker is not a distinction of talent but a distinction of means. Those petty producers who are successful may be able to accumulate money wealth beyond their immediate consumption needs, but those who fail have a pressing demand for money to subsist. Smith regards this polarisation as a reflection of the moral differentiation of humanity between the frugal and hard working, who are able to save, and the idle and dissolute, who fall into dependence. However, the success of one and the failure of the other is not an expression of a moral distinction, it is inscribed in the monetary regulation of their co-operation: success and failure may not be due to any fault or virtue of either party, nor to any circumstance that either could have foreseen. But, having failed, the loser falls under the sway of the more fortunate, mortgaging their possessions, falling into debt, and, losing their own means of production, being forced to work for someone who has the money to provide for their subsistence in exchange for the application of their labour power. Money, from being the means of exchange and an immobile store of value, has imperceptibly turned into capital: value in motion, money with the miraculous power of expanding its own value.

As capital, money provides not only command over the products of the labour of others, it provides command over their labour, or, more precisely, their labour-power. The exchange economy is no longer based on free and equal petty producers, it is based on a fundamental inequality, on a class division between those who have nothing left to sell but their labour-power and those who have the money to command that labour-power. Since the latter have no interest in buying labour-power unless they can profit by it, the price paid for labour-power must be less than the price the capitalist anticipates receiving for its product, the difference constituting the profit of the capitalist, a profit which constantly provides him with the means to expand the capital at his disposal. A growing capital enables the capitalist to enlarge the scale of production, to revolutionise the methods of production, to increase his profit, and to drive out all the inefficient petty producers who remain. The capitalist has no choice in this, for the need constantly to expand his capital and to transform the methods of production is imposed on him by the forces of competition. Thus the system is marked by a growth of capital, on the one side, and a growth of the working class on the other.

None of this development is the result of free choice, it represents the working out of the logic of the market economy as money becomes capital, a logic imposed on capitalist and worker alike through the pressure of competition expressed in the power of money. Those who enter exchange do not do so of their own free will; they are compelled to exchange in order to survive, as capitalist or as worker. Once the fateful decision is made to enter the market economy, a decision that is not, as Smith shows, necessarily an irrational one (though, as Marx showed, it is most often initiated by the forcible expropriation of the mass of the population), the logic of the market and the power of money takes over. The market is no longer simply a means and money simply an instrument of exchange. The market and money become the means by which particular social relations are reproduced and develop. Thus the rationality of the market cannot be divorced from the rationality of those social relations.

Once money exists as capital, as we have seen, it ceases to be primarily a means of exchange, and the circulation of money is dominated by its circulation as capital. While in Smith's model there appears no reason to hold money in an idle hoard, since money is acquired only to secure the means of consumption, this ceases to be the case once money serves as capital. The capitalist is seeking not means of consumption, but opportunities for profit so as to enlarge his capital. His aim is to accumulate an ever-greater hoard of money wealth, and he throws his money into circulation only in order to enlarge that hoard. If for any reason the opportunities for profit are closed off, the capitalist will not throw his money into circulation, but will accumulate it in an idle hoard, so interrupting circulation and precipitating a crisis as stocks of goods are unsold and the circulation of capital further restricted. Thus, with the rise of capital, a commercial crisis ceases to be an impossibility and becomes the normal reaction to any threat to prospects of profitable investment: Say's law of markets ceases to hold. With the rise of capital the circulation of money is not subordinated to the requirements of exchange, rather the possibility of exchange is subordinated to the demands of the expansion of money as capital. The rise of capital is the culmination of the inversion from money being a rational means to satisfying social needs to the satisfaction of social need being subordinated to the power of money. The rule of the market, the power of money, is the power of money as capital. Far from being the beneficent means to the realisation of human ends, money is an autonomous social power, the expression, and means of realisation, of the subordination of all human needs to the needs of capital, to the capitalist thirst for profit.

Marx’s critique of political economy showed that the evils of capitalism are inseparable from its benefits. The polarisation of wealth and poverty, overabundance and want, overwork and unemployment, boom and slump, freedom and tyranny are all inherent in the contradictory dynamics of capital accumulation expressed in the subordination of social production to the power of money. In particular, and this was the principal political focus of Marx’s critique, it showed that the schemes of the various currency reformers, foremost amongst whom were the Proudhonists, could not overcome the contradictions of capitalism but would only displace them into the political sphere. The contradictions of capitalism could only be overcome by overthrowing capitalism and, in particular, the subordination of social labour to the rule of capital in the form of money.

Money and the state in the world economy today

I will not follow the twists and turns of liberal monetary theory over the past two centuries, which have added technical sophistication but nothing of substance to Smith’s account, nor will I discuss the neutralisation of the implications of the ‘Keynesian Revolution’ by the ‘neo-classical synthesis’ (for a detailed discussion see Simon Clarke, *Keynesianism, Monetarism and the Crisis of the State*, Cheltenham, Edward Elgar, 1988), but Marx’s critique of liberal monetary theory is as valid today as it was when it was first written. Although capitalism long left the gold standard behind, and the dollar has lost its pre-eminence, the state today is as effectively confined within the limits of capital by the movements of world money as it has ever been. The renewed integration of the world capitalist economy in the past fifty years, after its fragmentation through revolutions, wars and depression in the first half of the twentieth century, has led to the close integration of all but a handful of national economies into the circulation of global capital, and so confined their governments within limits set by that circulation.

On the one hand, governments are subject to political and electoral pressures to maintain the growth of incomes and employment, which can only be achieved by fostering the expansion of the activity of capital on the national territory. This implies in turn the provision of a secure and favourable social, labour, legal, fiscal and monetary environment for capitalist activity on that territory and the freedom of capital, whether in the form of money or commodities, to cross the national frontiers. On the other hand, the state's own activity is directly subordinated to the expanded reproduction of capital, since its income and expenditure are only moments within that reproduction. These latter pressures are imposed on the state economically in the form of the requirement that it finance its expenditure by means that are, or at least are perceived as being, relatively non-inflationary, and politically through the reluctance of the majority of the employed population to pay increased taxes.

These constraints on national governments are by no means absolute. They are determined by and they express the accumulation of capital and the development of the class struggle on a global scale. In the middle of the last century, post-war reconstruction was boosted by the Korean War and the boom was sustained through the 1950s by the liberalisation of international trade and payments as national government sought to benefit from the boom by securing the closer integration of their national economies into the circulation of global capital. In this period global capital presented national governments with opportunities rather than constraints. As the momentum of the post-war boom began to falter and class struggle intensified in the metropolitan capitalist centres, the emphasis in the 1960s at the national level moved towards Keynesian interventionism, increasing state expenditure in the attempt to maintain full-employment. Although such measures tended to stimulate inflation, while having a limited impact on the real economy, individual states retained a considerable degree of latitude during the late 1960s and early 1970s, because the global economic climate, stimulated by US expenditure on the Vietnam war, was inflationary. The aftermath of the 1974 oil price shock marked the turning point of the class struggle on a global scale. National governments sought to reverse the gains made by labour in the post-war decades, reinforcing the attempts of capital to confine labour within the limits of the valorisation of capital by pursuing deflationary policies. Moreover, where capital had confronted the organised working class through the immediate post-war decades, from the 1970s it increasingly sought to by-pass the organised working class, fragmenting the labour force by transferring production facilities and employing unorganised workers. As a result, the balance of political, financial and fiscal pressures on the state shifted quite radically in favour of a reduction of state expenditure and an increasingly strict subordination of state intervention to the power of capital in its money form.

Accumulation on a world scale was sustained through the last two decades of the century not by government expenditure and military escapades but by the mobilisation of the reserve army of labour on a global scale and the inflation of private credit, which stimulated the increasingly speculative over-accumulation of capital towards the end of the century. The collapse of a succession of speculative bubbles at the end of the century generalised and intensified the deflationary pressures in the world economy, imposing renewed pressure on individual capitals to reduce wages and intensify labour, while further restricting the freedom of manoeuvre of national governments that sought to restore the conditions of accumulation within their national economies. Capital and the state continued to seek to resolve their crises at the expense of the working class, removing restrictions on the freedom of capital to fragment the labour force, intensify labour and reduce wages in the name of a more ‘flexible’ labour market.

Through the 1960s to the 1980s the organised working class had largely sought to use its existing strength in the vain attempt to retain its relatively privileged position in national and global labour markets. However, such a narrow strategy merely weakened and divided the organised working class at national and international levels. As Marx had anticipated in the *Communist Manifesto,* this experience brought home to the leadership of the labour movement the need to adopt broader organising strategies, to bring the unorganised into the national and international labour movements to build the basis on which the working class could pursue solidaristic rather than exclusionary strategies in the face of capital. Of course, this rebuilding of the labour movement is a long-drawn-out and uneven process, but every small step forward, however partial and localised, contributes to the strengthening of organised labour on a global scale and so to the capacity of labour to constitute itself as the subject, and not merely the object, of social regulation.