The concept of finance capital has a peculiar history in Marxist thought. Marx himself did not use the term, but bequeathed a mass of not very coherent writings on the process of circulation of different kinds of money capital. The implied definition of finance capital is of a particular kind of circulation process of capital which centres on the credit system. Later writers have tended to abandon this process viewpoint and treat the concept in terms of a particular configuration of factional alliances within the bourgeoisie—a power bloc which wields immense influence over the processes of accumulation in general. Yet, apart from Hilferding’s basic work on the subject and the influential replication of some of his ideas in Lenin’s seminal essay on imperialism, the concept has remained quite unanalysed. It has passed into the folklore of Marxian theory with hardly a flutter of debate.

From this privileged domain, the concept is periodically resurrected by Marxists whenever it is deemed polemically or scientifically appropriate. The use of the concept by this or that writer frequently draws critical commentary, of course, and occasionally bitter debates erupt over questions such as: do bankers control corporations or do corporations control banks? The debates typically centre, however, on the manner in which a power bloc called ‘finance capital’ is constituted and the relative importance of this power bloc vis-à-vis other power blocs. The rationale for constituting such a power bloc in the first place, the social necessity of its existence, is not generally questioned.

The aim of this chapter is to contrast the process view of finance capital with the power bloc view, and to show how an exploration of the former, with particular emphasis upon its internal contradictions, helps identify the countervailing forces that simultaneously create and undermine the formation of coherent power blocs within the bourgeoisie. At the same time I shall also argue that the proper understanding of the processes has a certain

1 See the debate between Fitch and Openheimer (1970) and Sweezy (1971) and its various echoes in Herman (1973; 1979) and Kotz (1978).
priority in Marxian theory because it yields us much deeper insights into the dynamics of accumulation and crisis formation than can any amount of delving into the mechanical intricacies of power bloc formation. The chapter therefore concludes with a ‘second-cut’ theory of crises which strives to integrate an understanding of the contradictions inherent in finance capital as a process with the understanding of the problems of disequilibrium in production laid out in chapters 6 and 7.

1 THE CREDIT SYSTEM ACCORDING TO MARX

In chapter 9 we considered in detail the various technical functions and benefits the credit system confers upon the circulation of capital. Taken as an integrated whole, the credit system may be viewed as a kind of central nervous system through which the overall circulation of capital is coordinated. It permits the reallocation of money capital to and from activities, firms, sectors, regions and countries. It promotes the dovetailing of diverse activities, a burgeoning division of labour and a reduction in turnover times. It facilitates the equalization of the rate of profit and arbitrates between the forces making for centralization and decentralization of capital. It helps co-ordinate the relations between flows of fixed and circulating capital. The interest rate discounts present uses against future requirements while forms of fictitious capital link current money capital flows with the anticipation of future fruits of labour.

Interest-bearing capital can perform all these roles because money represents general social power. When concentrated in the hands of the capitalists — a concentration that reflects the appropriation of surplus value — money therefore comes to express the power of capitalist property outside of and external to any specific process of commodity production. Money capital, when mobilized through the credit system, can operate as the common capital of the capitalist class (Capital, vol. 3, p. 368).

Properly organized and managed, the money capital amassed through the credit system has the potential to fine-tune the engine of accumulation through sophisticated co-ordination of investment decisions across an economy. Indifferent to any specific employment, this money capital can be used to impose the will of the capitalist class as a collectivity upon individual capitalists. To the degree that individual capitalists, acting in their own self-interest and seeking to maximize their profits in a competitive environment, adopt technologies and make decisions that are inconsistent with balanced accumulation, so does the credit system offer up the hope of controlling such errant behaviour. The deep contradiction between individual behaviours and class requirements, which, we argued in chapter 7, exercises such a powerful de-stabilizing influence over the path of accumula-
tion, appears controllable, perhaps even reconcilable. Stability can be imposed upon an otherwise anarchistic and unco-ordinated capitalism through the proper organization and management of the credit system. Or so it seems.

The immense potential power that resides within the credit system deserves further illustration. Consider, first, the relation between production and consumption (see chapters 3 and 6). A proper allocation of credit can ensure a quantitative balance between them. The gap between purchases and sales—the basis for Marx’s rejection of Say’s Law—can be bridged, and production can be harmonized with consumption to ensure balanced accumulation. Any increase in the flow of credit to housing construction, for example, is of little avail today without a parallel increase in the flow of mortgage finance to facilitate housing purchases. Credit can be used to accelerate production and consumption simultaneously. Flows of fixed and circulating capital can also be co-ordinated over time via seemingly simple adjustments within the credit system. All links in the realization process of capital bar one can be brought under the control of the credit system. The single exception is of the greatest importance. While inputs can be acquired and outputs disposed of with the aid of credit, there is no substitute for the actual transformation of nature through the concrete production of use values. The latter can be subjected to overall class control only to the degree that financier and industrialist become one (an idea that both Lenin and Hilferding later take up).

Consider, secondly, those ‘antagonistic’ relations of distribution that act as a barrier to the production and realization of surplus value as a continuous process. Cannot the distributional shares of wages, rents, interest, taxes and profit of enterprise be modified by way of the credit system? Wages can certainly be whittled away by credit-fuelled inflation, and workers’ savings can likewise be mobilized as capital through the credit system, perhaps to be devalued at time of crisis (Capital, vol. 3, p. 508). And then there are the various ‘secondary forms of exploitation’—mortgages and consumer credit, for example—whereby workers real incomes can be modified (p. 609). Furthermore, the buying and selling of titles to future revenues of any sort integrates other aspects of distribution (the appropriation of rents, taxes and profit of enterprise) into the general system of circulation of money capital. The credit system also facilitates the centralization of capital, and allows capital to break free from the fetters of the family firm and to operate as corporate capital; the distributional arrangements within the capitalist class can thereby be altered and the degree of centralization—decentralization (see chapter 5) managed. If there is a perfect set of distributional arrangements for ensuring balanced accumulation, then banking and credit provide potential means for converging upon such an equilibrium point.

On the surface, at least, the credit system contains the potential to straddle antagonisms between production and consumption, between production and
realization, between present uses and future labour, between production and distribution. It also provides means to arbitrate between the individual and class interests of capitalists and so to contain the forces making for crises. Armed with such a potentially powerful weapon, the capitalist class has every incentive to perfect it. And there is indeed abundant evidence that each successive crisis of capitalism has pushed the credit system into new configurations in the course of its resolution (the radical transformation of financial structure in the United States in the 1930s provides a splendid example). All of which confirms the basic message conveyed in chapter 9: that capitalism could not for long survive in the absence of a credit system, which daily grows more sophisticated in the co-ordinations it permits.

So how is it that crises still occur? Marx's answer is that credit 'suspends the barriers to the realization of capital only by raising them to their most general form' (Grundrisse, p. 623). What he means is that the use of credit tends to make matters worse in the long run because it can deal only with problems that arise in exchange and never with those in production. And there are, besides, a whole host of circumstances in which credit can generate erroneous price signals to producers and so aggravate the tendencies towards disproportionality and over-accumulation. Let us examine some of these circumstances.

First, the equalization of the rate of profit the credit system facilitates perfects competition and accelerates rather than diminishes the striving to gain relative surplus value through technological change. It also ensures that commodities trade at prices of production rather than according to values. Since the accelerating pace of technological change and the erroneous production signals given by prices of production lie behind the tendency for over-accumulation in the first place, it follows that in this respect credit exacerbates rather than diminishes the tendency towards disequilibrium.

Secondly, the credit system confers a certain independent power upon the financiers and sets them apart as representatives of 'capital in general'. A 'class' of bankers and other middlemen inserts itself between savers (many of whom belong to a 'class' of moneyed capitalists) and the 'industrial class of capitalists' (Grundrisse, p. 852). The managers of joint stock companies also congeal into a separate class of managers of other people's money (Capital, vol. 3, pp. 386–90). The growth of the credit system spawns new factions or 'classes' (Marx often uses that term to describe them) within the bourgeoisie. The different classes of moneyed capitalist, financiers and managers are supposedly responsible for the deployment of interest-bearing capital as the common capital of the capitalist class as a whole. They should, presumably, allocate money capital to facilitate accumulation in general. Yet, as individuals, they are bound by competition to act in their own immediate self- or factional interest.

Advantageously positioned as they are, the bankers and other 'gentlemen
of high finance' can set about exploiting the credit system 'as if it were their own private capital' and thereby can appropriate 'a good deal of the real accumulation' at the expense of industrial capital (Capital, vol. 3, p. 478). The 'enormous centralization' possible via the credit system gives to 'this class of parasites the fabulous power, not only to periodically despoil industrial capitalists, but also to interfere in actual production in a most dangerous manner' (p. 545). The concentration of the external social power of money in the hands of a financial oligarchy is not, apparently, an unmixed blessing.

Because the power vested in the common capital of the class is open to individual appropriation and exploitation, the credit system becomes the locus of intense factional struggles and personal power plays within the bourgeoisie. The outcome of such power struggles is plainly important. Yet Marx pays singularly little attention to this aspect of affairs. It is almost as if he regards it as a self-evident conflict on the surface of bourgeois society, a conflict that conceals a much deeper set of underlying relations between the circulation of interest-bearing money as capital and the processes of production of surplus value. In this chapter I hope to show that the theory of finance capital as a process, as opposed to a particular set of institutional arrangements or a catalogue of who is dominating whom within the bourgeoisie, reveals a great deal about the contradictory dynamics of accumulation that would otherwise remain hidden.

The third barrier that prevents the credit system from functioning as a fine-tuner of accumulation arises because money capital is not particularly discriminating as to where it comes from or where it flows to. The savings of all social classes, for example, are lumped together so that everyone assumes the role of saver no matter what his or her social position. Workers' savings blend with those of moneyed capitalists in ways that often render them indistinguishable. The money power assembled via the credit system has an extraordinarily broad social base. Any shift in the propensity to save on the part of any class in society can alter the balance of power between financiers and other classes, particularly industrial capitalists.

Money capital is equally indiscriminate as to its uses since it typically flows to appropriate revenues of no matter what sort. While this permits the circulation of interest-bearing capital to integrate and perhaps even discipline government, consumer and producer debt, speculation in stocks and shares, commodity futures and land rent, there is nothing to prevent speculative investment in the appropriation of revenues from getting entirely out of hand. Worse still, an accumulation of claims can appear as an accumulation of money capital and the claims can continue to circulate even though they may have no basis in actual production. Speculation in titles to totally unproductive land, for example, can fuel a fictitious accumulation process if these titles can be used as collateral for other sales and purchases. A spectacular example occurred in the United States in the 1830s, when land titles held by individu-
als and banks effectively acted as money—the paper boom came to a jarring halt when President Jackson insisted that all payments towards purchase of federal lands be made in specie. Circumstances frequently arise, then, in which, ‘all capital seems to double itself, and sometimes treble itself, by the various modes in which the same capital, or perhaps even the same claim on a debt, appears in different forms in different hands’ (*Capital*, vol. 3, p. 470).

What started out by appearing as a sane device for expressing the collective interests of the capitalist class, as a means for overcoming the ‘immanent fetters and barriers to production’ and so raising the ‘material foundations’ of capitalism to new levels of perfection, ‘becomes the main lever for over-production and over-speculation.’ The ‘insane forms’ of fictitious capital come to the fore and allow the ‘height of distortion’ to take place within the credit system. What began by appearing as a neat solution to capitalism’s contradictions becomes, instead, the locus of a problem to be overcome.

The credit system permits, Marx concludes, ‘an enormous expansion of the scale of production and or enterprises’, the replacement of the individual capitalist by ‘social’ and ‘associated’ forms of capital (joint stock companies, corporations, etc.), the separation of management from ownership, the creation of monopolies that call forth state interference, and the rise of a ‘new financial aristocracy’. It thereby ‘accelerates the material development of the productive forces’ and establishes the world market. But it also accelerates crisis formation and brings the ‘elements of disintegration’ of capitalism to the fore. Marx calls this the ‘abolition of the capitalist mode of production within the capitalist mode of production itself, and hence a self-dissolving contradiction (*Capital*, vol. 3, pp. 438–41).

Marx did not elaborate much on these ideas but history has, and so have a number of subsequent Marxist commentators. So we must consider how Marx’s ideas have been interpreted, fleshed out and adapted to fit the realities of twentieth-century financial operations. In so doing, however, we should bear in mind that Marx nowhere fully explains exactly what he means by the high-sounding, very abstract and somewhat elusive phrase, ‘a self-dissolving contradiction’. The aim, then, is to come up with an interpretation of that phrase and see how well it reflects the dilemmas of the use of credit under capitalism.

**II FINANCE CAPITAL ACCORDING TO LENIN AND HILFERDING**

‘The twentieth century,’ Lenin wrote, ‘marks the turning point from the old capitalism to the new, from the domination of capital in general to the domination of finance capital.’ The banks, he argued, could concentrate the social power of money in their hands, operate as ‘a single collective capitalist’, and so ‘subordinate to their will’ not only all commercial and industrial
operations but even whole governments. To the degree that industrialists seek monopoly power — largely through the centralization of capitals — industrial and banking capital tend to coalesce. 'Finance capital' is defined, then, as 'the bank capital of a few very big monopolist banks, merged with the capital of the monopolist associations of industrialists.'

A controlling 'financial oligarchy' arises on the basis of finance capital. It systematically transforms the capitalist mode of production and projects the internal contradictions of capitalism upon the world stage in a new way. 'It is beyond doubt,' Lenin writes, that 'capitalism's transition to the stage of monopoly capitalism, to finance capital, is connected with the intensification of the struggle for the partitioning of the world.' Imperialism, he continues, 'is capitalism at that stage of development at which the dominance of monopolies and finance capital is established; in which the export of capital has acquired pronounced importance; in which the division of the world among the international trusts has begun, in which the division of all territories of the globe among the biggest capitalist powers has been completed.' The inherent contradictions of capitalism are now expressed in terms of an ever more dramatic uneven development of capitalism and a radical re-structuring of class relations. A dominant financial oligarchy backed by 'financially powerful states' buys labour peace in the 'core' countries by encouraging the formation of a 'labour aristocracy', while the rest of the world is driven deeper and deeper into states of dependency, subservience and rebellion. Competition within the financial oligarchy and between the financially powerful states is heightened rather than diminished. The end result: inter-imperialist rivalries and wars. Thus does Lenin, beginning with the concept of finance capital, arrive at a stunning analysis of twentieth-century imperialism.

Yet the theoretical content of Lenin's argument is by no means clear. He nowhere elaborates on the concept of finance capital, and the exact manner in which it transforms the internal contradictions of capitalism into inter-imperialist rivalries remains obscure. He drew many of his ideas, somewhat eclectically, from the rather disparate frameworks of thought proposed by Hobson, Bukharin and Hilferding. Only the latter gives a very firm theoretical grounding to the concept of finance capital within a Marxian framework. While Lenin was strongly critical of Hilferding's political line, he appears to

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2 Lenin (1970 edn, vol. 1, p. 703); the subsequent quotes are all from *Imperialism, the Highest Stage of Capitalism*.

3 Hobson (1965 edn), Hilferding (1970 edn) and Bukharin (1972a). Bukharin's work was published after that of Lenin's but was presumably influential since Lenin wrote a preface to it at least a year before he published his own work on the subject. Lenin's extensive background reading, as manifest in his notebooks, is documented by Churchward (1959), and the contribution of Hobson has been critically examined by Arrighi (1978).
accept with but one reservation the basic conception of finance capital that Hilferding advances. The single reservation concerns Hilferding's 'mistaken' views on money. Lenin leaves us in the dark as to the nature of that mistake. We will shortly see how crucial an error it was. But first we must consider Hilferding's contribution.

Hilferding faithfully replicates Marx in the overall format of his argument. He begins by examining the various forms of money before proceeding to show— as we did in the previous chapter— how and why credit is essential to the perpetuation of capital accumulation. Initially, the banks merely mediate money flows, but the progress of accumulation puts increasing quantities of money capital in the hands of the banks which then have no choice but to 'fix an ever-growing part of their capitals in industry' and to integrate their activities with those of industrial capital. Since industrialists derive competitive advantages (particularly with respect to scale of operation) from access to bank capital, they must increasingly look to external sources of loan capital. Finance capital, says Hilferding (with Lenin's approval), signifies the unification of capital. The previously separate spheres of industrial, commercial and bank capital are now placed jointly under the direction of high finance, in which captains of industry and the banks are united in intimate personal union. This association has as its basis the abolition of free competition of individual capitalists by the big monopolistic associations. This naturally has as a consequence a change in the relationship of the capitalist class to state power. (Hilferding, 1970 edn, p. 409)

Hilferding dwells at length, again with Lenin's approval, upon the institutional manifestations of this unity — the creation of monopolies, trusts, cartels, stock exchange operations and so on. He points out that speculation in property titles — fictitious forms of capital — necessarily plays a crucial role. The rise of a financial oligarchy changes the dimensions of class struggle in important ways. Hilferding assumes that the state becomes an agent of finance capital and that finance capital operates as national capital on the world stage. He then develops a particular interpretation of imperialism and its contradictions. The chain of argument is as follows.

The rise of finance capital (itself a necessary step to perpetuate capitalism) calls forth state interference just as Marx envisaged. State policies, forged in response to the requirements of finance capital, make the export of capital rather than commodities a primary concern. Relations between states (competition, protection, domination and dependency) transform the internal contradictions of capitalism into conflict-ridden uneven development on the world stage. The contradictions are now expressed in terms of an imbalance

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of forces between monopolistic and non-monopolistic sectors, between the financial oligarchy and 'the rest' as well as between nation states. They originate in the basic processes of capitalist development.

Here Hilferding (1970 edn, ch. 17) appeals to a particular version of Marx's crisis theory. Variations in the value composition of capital, he argues, distort price signals and generate imbalances between departments (producing means of production and wage goods), between production and consumption, between fixed and circulating capital, etc. Cartels and monopolies can control the pace of technological change as well as prices, but this simply exacerbates price distortions between monopolistic and non-monopolistic sectors - 'the dislocations in the regulation of prices, which eventually lead to disproportionalities and to contradictions between the conditions of surplus value production and realization, are not modified by the cartels but only made more acute' (Hilferding, 1970 edn, p. 401). Cartels, in short, cannot abolish crises. The credit system, even though under the total domination of a financial oligarchy, likewise fails because the interest rate must, in the final analysis, be explained by the dynamics of production of surplus value rather than the other way round. Any attempt to fashion credit moneys to stabilize this inherently unstable system will ultimately result in a financial crisis. Hilferding then invokes, without further explanation, Marx's view that in the course of a crisis the system necessarily returns to its 'monetary basis', casting off the numerous fictitious capitals acquired during the phase of prosperity (1970 edn, p. 372). Protectionism, imperialism and relations between states as well as between monopolistic and non-monopolistic sectors are treated as particular expressions, modified by the oligarchic character of finance capital, of these basic tendencies towards crisis formation.

Lenin differs from Hilferding in two respects. First, while he seems to accept the identification of finance with national capital in the case of the main imperialist powers, he often switches to a supra-national conception of finance capital - a position similar to that of Hobson - when it comes to analysing the general condition of world capitalism. Lenin's formulation is, in this respect, more ambiguous than Hilferding's. Secondly, he refers to Hilferding's mistake with respect to the theory of money. Lenin does not enlighten us as to the nature or implications of this mistake. De Brunhoff has recently confronted it directly. It is very important and warrants discussion.

Hilferding, de Brunhoff argues (1971, pp. 81–93), follows Marx in format only. His view of finance capital as a unity of banking and industrial capital leads him to construct a 'financial theory of monetary phenomena', where

Churchward (1959, p. 78) indicates that Lenin even questioned Hilferding's basic concept of finance capital, writing in his notebooks, 'Isn't finance capital = bank capital sufficient?' The difference between Hobson and Hilferding is stressed by Arrighi (1978).
Marx built a 'monetary theory of finance'. The difference is important. Marx built his theory of money out of an analysis of commodity production and exchange without reference to the circulation of capital. In so doing, he first identified the contradiction between money as a measure of value and money as a medium of circulation in order to lay the basis for understanding how that contradiction is heightened when money circulates as capital. This contradiction disappears almost entirely from Hilferding's work. Monetary phenomena are reduced to 'pure organs of capitalist financing', completely under the control of finance capital. Hilferding depicts finance capital as both hegemonic and controlling, whereas Marx portrays it as necessarily caught in its own web of internal contradictions. The central contradiction for Marx lay between what he called the financial system (credit) and its monetary basis. Hilferding quotes Marx's view that a return to the monetary basis is essential during crises, but he fails to explain why or how. This is the topic we now take up.

III THE CONTRADICTION BETWEEN THE FINANCIAL SYSTEM AND ITS MONETARY BASIS

Marx frequently asserts that, in the course of a crisis, capitalism is forced to abandon the fictions of finance and to return to the world of hard cash, to the eternal verities of the monetary basis. He jokingly characterizes the monetary system as 'essentially a Catholic institution, the credit system essentially Protestant' because the latter is powered by faith in 'money value as the immanent spirit of commodities, faith in the mode of production and its predestined order, faith in the individual agents of production as mere personifications of self-expanding capital.' But, he goes on to point out, 'the credit system does not emancipate itself from the basis of the monetary system any more than Protestantism has emancipated itself from the foundations of Catholicism' (Capital, vol. 3, p. 592). Though credit frequently 'crowds out money and usurps its place', the central bank always remains 'the pivot of the credit system' and 'the metal reserve, in turn, is the pivot of the bank' (pp. 572–3). Put another way, 'money - in the form of precious metal - remains the foundation from which the credit system, by its very nature, can never detach itself' (p. 606).

It is vital to understand what Marx meant by all of this. At first sight his ideas appear somewhat dated because he explicitly appeals to the precious metals as the 'pivot' of the monetary system - a peculiarly nineteenth-century notion. But if we enquire into the logic of Marx's argument we can identify a very important principle which applies to capitalism in general.

The inevitability of the contradiction between the financial system, and its monetary basis can be traced back directly to the dual functions of money as a
measure of value and as a medium of circulation. When money functions as a
measure of value it must truly represent the values it helps to circulate. Money
here 'is in reality nothing but a particular expression of the social character of
labour and its products' – an external, socially accepted measure of the value
embodied in commodities. The reason for pinning that measure to a specific
metal – such as gold – is to ensure that the measuring rod, when it takes on
material form, is as precise and unambiguous as possible. The contradiction
in so doing, of course, is that the product of a concrete, specific labour process
– gold, for example is treated as the material representation of abstract
labour. When money functions as a medium of circulation, on the other hand,
it must divorce itself from the 'true' representation of value, permit market
prices to deviate from values and prove itself the flexible lubricant of an
exchange process that is unpredictable and perpetually changing. Paper
moneys and credit moneys can operate unrestrainedly and creatively in this
respect.

Under simple commodity production and exchange, these two aspects of
money exist in an uneasy and antagonistic relation to each other. Indeed, the
circulation of capital, as we noted in chapter 1, arises in part to bridge the gap
between the 'inherent' value of gold and the 'reflected' value of money
as measured against the value of the commodities which that money
circulates.

A study of the processes of circulation of capital indicates, however, that
capitalism must evolve a sophisticated credit system and create fictitious
forms of capital if it is to survive. The 'fictitious' aspects of money – credit and
paper 'moneys' – are pushed to extremes, and their links to the actualities of
social labour become ever more tenuous. If social labour is firmly represented
by the money commodity (gold), then we can argue that the separation
between money in this latter sense and finance is exacerbated by the circula-
tion of capital. This is what Marx meant by the concept of a contradiction
between the financial system and its monetary basis. Let us explore the nature
of this contradiction a little more explicitly.

Consider, for example, what happens when credit money and 'fictitious
forms of value' usurp the place of the money commodity. If the pace of credit
creation keeps pace with the socially necessary labour performed in society,
then the effects of credit are beneficial rather than harmful with respect to the
circulation of capital. But there is little to prevent credit creation from getting
entirely out of hand, while, on the other hand, the problem of over-
accumulation lurks perpetually in the background. If the fictitious values turn
out not to be backed by the products of social labour, or if, for whatever
reason, faith in the credit system is shaken, then capital must find some way to
re-establish its footing in the world of socially necessary labour. There are
two ways it can do this. It can either attach all of its operations firmly to the
money commodity (gold) as the ultimate measure of value, or it can seek out
some other way to establish a direct link with material processes of actual commodity production. Both solutions have defects.

In the first case, all values must be converted into the money commodity as a test of the value they represent. This was the general situation with which Marx was familiar – 'as soon as credit is shaken... all the real wealth is to be actually transformed into money, into gold and silver – a mad demand, which, however, grows necessarily out of the system itself.' The sudden surge of demand for liquidity and convertibility into gold far exceeds the available gold and silver, which ‘amounts to but a few millions in the vaults of the Bank’ (Capital, vol. 3, p. 574). The result:

It is a basic principle of capitalist production that money, as an independent form of value, stands in opposition to commodities. In times of squeeze, when credit contracts or ceases entirely, money suddenly stands out as the only means of payment and true existence of value in absolute opposition to all other commodities. Therefore, the value of commodities is sacrificed for the purpose of safeguarding the fantastic and independent existence of this value in money. For a few millions in money, many millions in commodities must therefore be sacrificed. This is inevitable under capitalist production and constitutes one of its beauties. (Capital, vol. 3, p. 516)

All of this assumes, however, that paper moneys are freely convertible into the precious metals. Marx did not consider the case of inconvertible paper moneys backed by the power of the state. Under such circumstances – which have become the rule in the twentieth century – things look very different. We have to determine whether we are dealing with fundamental differences or simply with a change in the form of appearance of the conflict between financial and monetary systems. We can approach an answer to that question step by step.

Under conditions of inconvertibility into gold, the burden of disciplining the credit system and fictitious capital falls upon the central bank. By raising the rate of interest, the central bank can ‘put on the screw, as the saying goes’, increase the cost of converting credit moneys into central bank money, and so cool off speculative fevers and keep the creation of fictitious capital in check (Capital, vol. 3, p. 543). By judicious management and manipulation of the interest rate and reserve requirements, a powerful monetary authority can hope to avoid the devaluation of commodities at the same time as it preserves the quality of its own money as a ‘true’ reflection of the value of social labour. This implies that the supply of central bank money should match the growth in value productivity in the economy as a whole. This kind of policy stance on the part of a central monetary authority has become the rule since the 1930s, when the blind defence of money as a measure of value entailed such a massive devaluation of commodities that the very survival of capitalism was at stake.
Marx would argue that such a policy stance is founded upon an illusion. In the first place, the central bank cannot totally isolate itself from world trade and sever its links with some sort of international money system: its autonomy is limited by its foreign exchange position. The national money may end up being devalued in relation to other national moneys if the central bank actively flouts the rules of the international money system. And at the international level within the hierarchy of moneys, the 'notion of money as a measure of value refuses to die' (see above, p. 250). The relation between national and international moneys constrains the power of any central bank. If there is no clear definition of world money — as has been the case since 1973 — the international monetary system itself falls into crisis.

Marx's second objection is that, even in the absence of any international monetary restraints, the power of the central bank, being strictly circumscribed, is totally insufficient to guard against crisis formation. There is, we have argued (chapter 7), a chronic tendency to produce surpluses of capital—states of overaccumulation. We now have to consider the additional circumstance that fictitious capitals must necessarily be created ahead of real accumulation, which means that 'the accumulation of money-capital must always reflect a greater accumulation of capital than actually exists' (Capital, vol. 3, p. 505). This is in no way problematic all the time the real expansion of commodity values keeps pace with the prior creation of fictitious capital. But as soon as overaccumulation becomes evident, the realization of the fictitious values as well as values in commodity form is threatened. The demand for money at such a point is strictly a demand for liquidity. A return to the monetary basis at such a moment will surely destroy fictitious capitals and devalue commodities. The only feasible defence by a central bank against such a condition is to print state-backed money to buy up the surpluses and so realize the values of the fictitious capitals. Marx explicitly rules out such a solution (Capital, vol. 3, p. 490) because he assumes a money system backed by gold — the limited gold reserves prevent the central bank from stepping in and buying 'up all the depreciated commodities at their old nominal values'.

But if the national money is not convertible into gold, then a central bank could indeed print money in order to defend against overaccumulation and devaluation. In so doing, however, it devalues its own money. The tendency towards overaccumulation is converted, in short, into a tendency towards rampant inflation. Marx did not consider such a possibility or examine its implications. But his failure to do so in no way undermines the general structure of his argument. Defending the nominal value of commodities that embody socially unnecessary labour time is as irrational as defending money as a pure measure of value through blind adherence to a gold standard. Rampant inflation is just as hard to live with as the devaluation of commodities.

What Marx's theory tells us, however, is that the contradiction between the
financial system and its monetary base ultimately boils down to a contradiction between 'capital in its money form and capital in its commodity form' (Capital, vol. 3, p. 460). Under conditions of overaccumulation, the capitalist class appears to have a choice between devaluing money or commodities, between inflation or depression. In the event that monetary policy is dedicated to avoiding both, it will merely end up incurring both (as the current state of capitalism illustrates).

The power of finance capital is evidently very limited. Marx argued explicitly, for example, that 'no kind of bank legislation can eliminate a crisis', though 'mistaken bank legislation . . . can intensify [it]' (Capital, vol. 3, p. 490). This conclusion applies to the whole range of possible monetary policies. 'As long as the social character of labour appears as the money-existence of commodities, and thus as a thing external to actual production, money crises - independent of or as an intensification of actual crises - are inevitable' (p. 517).

The contradictions between the financial system and its monetary basis heighten and become ever more awesome as capitalism progresses. These are the contradictions Hilferding misses entirely because of his mistaken interpretation of Marx's theory of money. The mistake is costly. And while Lenin recognizes the mistake, he does not rectify it but prefers instead to use Hilferding's definition of finance capital as a vehicle to show how the internal contradictions of capitalism are projected onto the world stage.

Yet, buried within those tortured chapters on banking and finance in the third volume of Capital lies a powerful interpretation of the internal contradictions within the finance form of capitalism itself. When connected with the basic theory of money laid out in the first volume of Capital, we can begin to comprehend how accumulation for accumulation’s sake and the circulation of capital split asunder the functions of money as medium of circulation and as measure of value and erect on this basis a deeply antagonistic relation between the world of money as a measure of the value of social labour and the intricate and complex world of financial operations based on credit. Marx did not fully analyse all possible dimensions to this antagonism - the potentiality for devaluation through inflation or the manner in which the antagonism can be expressed as inter-imperialist rivalries and international competition, for example. But his deep insights still have to be appreciated for what they are, and Marxian theory extended on this basis.

IV THE INTEREST RATE AND ACCUMULATION

The rate of interest on high-quality (central bank) money plays a vital role in regulating the relations between the financial system and its monetary base. This resurrects the question: what fixes the rate of interest in general? The
answer arrived at in chapter 9 was the forces that determine the supply and demand for interest-bearing money capital. The forces must now be identified.

On the demand side, a distinction must first be made between the demand for money as a means of payment and as a means of purchase. Both relate to the circulation of capital as a whole but occupy quite different moments of that process. The demand for money to launch new production is very different in its signification from the demand for money to realize values already produced. The latter is particularly prevalent at times of overaccumulation, whereas the former is typical of a state of heightened competition for relative surplus value. The two demands are not independent of each other, of course, and some kind of time-lagged relationship exists between them. A demand for investment credit now will likely lead to a demand for marketing credit later.

Capitalists are not the only economic agents who demand money either as means of purchase or as means of payment. All manner of demands emanate from the circulation of revenues. Workers and bourgeoisie alike seek consumer credit and mortgage finance (means of purchase), and also seek to monetize certain assets they hold prior to any actual exchange (means of payment). The aggregate demand for interest-bearing money comes from both the circulation of capital and the circulation of revenues. But the two forms of circulation are not independent of each other. An expansion of consumer credit can perform the same function (mediated through the market) as giving credit to capitalists for inventories of unsold goods on hand. Credit is needed to lubricate the circulation of capital and revenues and to balance the relation between them. Capital generates revenues, which must ultimately circulate back to capital if the system is to be reproduced smoothly. The underlying unity between realization through production and realization in exchange must be preserved.

The demand for money as capital is not, therefore, the sole determinant of the rate of interest, but is part of a very much more complex package of demands made upon the credit system and its monetary base. The disaggregations are important. They indicate the diverse points of origin of demand as well as the diversity of uses to which money can be put. They highlight the difficulty of gauging the 'correct' (from the standpoint of accumulation) allocation of interest-bearing money to the various activities of production, circulation, exchange, landlordism, administration, consumption, etc. They indicate the possibility – but only the possibility – of failures emanating from gaps in the total circulation process of capital. They demonstrate more concretely how the 'height of distortion' and all manner of 'insane forms' can erupt within the credit system to destroy the delicate balance that must always prevail between production and realization through exchange. Above all, they sensitize us to the fact that a demand for credit can signify quite
different states within the dynamic of accumulation, ranging all the way from overaccumulation to untoward blockages in the circulation of revenues.

The supply of interest-bearing money is subject to equally complex determinations. This supply, Marx argues, is partly the product of accumulation, partly the result of 'circumstances which accompany [accumulation] but are quite different from it', and partly the result of seemingly quite independent events (Capital, vol. 3, p. 507):

(1) Part of the surplus value produced through accumulation can be held as money surpluses by industrialists, merchants, financiers, landlords and the state, while workers can also save out of variable capital. Rather than leave these surpluses idle, economic agents may strive to throw them into circulation as interest-bearing capital.

(2) Overaccumulation produces surpluses of idle money (and therefore a low rate of interest) because of dearth of opportunity to employ money as capital in general.

(3) The capacity of the banking system to mobilize money through the variety of techniques already described in chapter 9 can spark an accumulation of loan capital 'quite independently of the actual accumulation' (Capital, vol. 3, p. 495).

(4) Debts and fictitious capital can begin to circulate as loan capital to the degree that everyone has faith in the health of the economy — psychological states of expectation are, in the short run at least, important to that process which converts privately contracted debts into the social form of money.

(5) Distributional arrangements and the relative power of the factions involved can also have a dramatic effect upon the quantity of money accumulated in a form ready for use as interest-bearing money. Landlords may squeeze a peasantry; the state may appropriate from all classes through taxation; a strong financial oligarchy may use its power to assemble vast money resources under its command; and so on.

(6) An unusual fluctuation in the money supply (expansion or contraction of gold flow or printing of state moneys) can, in the short run, augment or diminish the total quantity of money available for conversion into interest-bearing money until the effects are absorbed by price adjustments.

The jumbled heterogeneity of forces that affect supply and demand for interest-bearing money guarantees considerable instability in the rate of interest. Short-term fluctuations need not concern us — such as the price of any commodity, the interest rate oscillates daily as supply and demand equilibrate each other in the market. The long-run underlying rate of interest is what matters. And there are two possible mechanisms that might give some sem-
blance of order and coherence to the otherwise jumbled forces affecting supply and demand.

Consider, first, the possibility that the rate of interest is dominated by 'the struggle between moneyed and industrial capitalists' over the division of surplus value and the 'price' of capital before it 'enters into the production process' (Theories of Surplus Value, pt 2, p. 509). Signs of such a struggle abound in capitalist society. Marx by no means denies its importance: the point is to establish exactly what it signifies. Is the underlying rate of interest basically a reflection of the power relation between industrialists and financiers? To suppose so would be to relegate all other facets of interest rate determination (around the circulation of revenues, for example) to a peripheral and purely secondary role. Marx was, in general, not averse to putting the direct relations of production in the forefront of affairs. I shall argue, however, that the constant guerilla warfare between industrialists and financiers plays a similar kind of role to the struggle between capital and labour over the wage rate (see chapter 2): in the final analysis it is but a part of a whole complex of social processes that must serve to keep the interest rate close to an equilibrium position defined in relation to sustained accumulation. An imbalance in the power relation between industry and finance will force departure from equilibrium and so threaten accumulation. From this it follows that the survival of capitalism depends upon the achievement of some kind of proper balance of power between industrial and financial interests. This is an important conclusion, because it suggests that the power of finance capital (however that power bloc is institutionalized and defined) is necessarily a constrained power, and can never be unlimited or totally hegemonic.

This still leaves us in the dark as to what fixes the underlying rate of interest. The only option is to conceive of an equilibrium rate of interest in relation to accumulation. Such an equilibrium can be defined in terms of the relation between the circulation of interest-bearing money on the one hand and the activities of production and consumption (realization) on the other. It operates at the point where the circulation of revenues and capital necessarily intersect. Precisely because the credit system is a centralized co-ordinator, the interest rate has to move in a way that helps to sustain both the production and realization of surplus value on a sustained basis.

So why bother with such an elaborate enumeration of the forces that affect the demand and supply of interest-bearing money? The answer is simple enough. The material activities that structure demand and supply, and which, hence, fix the actual rate of interest, are so diverse that the equilibrium rate of interest will be achieved only by accident. The potential for disequilibrium is ever present. And if we inspect the forces that regulate supply and demand for interest-bearing money we can see how the inner logic of capitalism is disruptive of equilibrium in the interest rate and so leads the economy away
from stable balanced growth, down the path of crisis formation. This is, I believe, the point that Marx wanted to bring us to. In order to illustrate that idea, I shall try to reconstruct his representation of the accumulation cycle and show how interest rate movements play a crucial role in translating the contradictory dynamics of accumulation into specific forms of monetary and financial crises.

V THE ACCUMULATION CYCLE

It is often said that Marx had no theory of the business cycle. This is only partially true. He traced cyclical impulses in the relation between accumulation, industrial reserve army formation and the wage rate; he laid the groundwork for analysing explosive oscillations in output and exchanges between the various departments of production; he built a synthetic model of the general temporal rhythm of overaccumulation and devaluation (see chapter 6 and 7). His studies of fixed capital circulation (chapter 8) also reveal cycles of innovation, expansion, renewal and devaluation. The problem is to blend these partial insights into a unified representation of temporal dynamics. Otherwise it seems as if capitalism is beset by potentially divergent cyclical impulses which course through the economy in confusing ways.

Interest rate fluctuations lie at the heart of cyclical movements and impose some semblance of order upon the latter. Marx denies that they are a primum agens. They are a central mediating link through which the inner contradictions of capitalism are expressed. His investigation of the forces that fix the rate of interest establishes that point exactly. But we have also seen how the interest rate can be affected by all manner of arbitrary and capricious features. For this reason Marx tries to abstract from the day-to-day dynamics of the industrial cycle and its monetary and financial accompaniments (Capital, vol. 3, p. 358). He moves instead to construct a highly simplified representation of the cyclical course of accumulation in general. The intent is to capture the interactions between accumulation, technological change, fixed capital formation, employment and unemployment together with wage rates, consumer demand, the formation of fictitious capital, the surge of credit moneys and the ultimate return to the monetary basis during crises of overaccumulation–devaluation. Marx’s representation can be reconstructed from a careful reading of volume 3 of Capital (chs 26–35). The accumulation process passes through various phases of stagnation, recovery, credit-based expansion, speculative fever and crash.

See Smith (1937 edn), Wilson (1938) and Sherman (1967).
1 Stagnation

The phase of stagnation in the wake of a crash is characterized by a severe curtailment of production and low rates of profit. Prices are forced downwards as producers dispose of surplus inventories at less than their prices of production. Unemployment is widespread and wages typically adjust downwards. Effective demand is weak because of diminished disposable incomes (wages as well as the revenues of the bourgeoisie). The demand for money as a medium of circulation is at a low ebb (the volume of commodity exchanges is down). Faith in the credit system has been severely shaken, while the demand for loan capital is much reduced because of pessimistic expectations as to future revenues. Money is used primarily to measure values and strip away extraneous fictitious capital from the economy. The actual turnover time of commodities is drastically shortened since credit is not available to extend it. Yet the rate of interest is low; the plethora of loanable money capital produced out of overaccumulation is now in evidence. This surplus of money capital is relative to the opportunities to employ that money safely and securely.

The phase of stagnation is typically one of 'gentle' technological adjustment (in the broad Marxian sense, which includes organizational and institutional change) as opposed to the violent shake-out that accompanies crises. The adjustments gradually bring production technologies and price of production ratios into line with those consistent with balanced accumulation. The stage is then set for subsequent expansion.

2 Recovery

A variety of opportunities arises during the phase of stagnation. Falling wages and interest rates leave a larger share of surplus value to profit of enterprise, which may partially compensate for lower prices. Devalued capital (commodities, fixed capital, buildings, etc.) can be picked up for a song, so reducing outlays on constant capital and lowering the value composition of capital. Producers who have weathered the storm are usually blessed with a strong liquidity position – they can pay their bills with hard cash. Low interest rates and surpluses of labour power make conditions optimal for financing long-term fixed capital formation.

Modest expansion begins once most of the surplus inventories have been disposed of. This permits prices to rise, and, with wages remaining low, the larger share of surplus value going to profit of enterprise now takes hold. The profit rate revives and sparks the return of business confidence. A cautious expansion of production may begin based on the strong liquidity position of businesses that have survived – they use their own funds to finance expansion.
The low rate of interest may, with the return of some faith in the system, lead to the financing of certain long-term fixed capital investments (perhaps through the agency of the state). A concentration on this kind of investment expands employment in Department 1 and, because of the long production period involved, creates an effective demand without initially ‘furnishing any element of supply’ (Capital, vol. 3, p. 315). This effective demand is felt in the consumer goods sector (Department 2). The tendency towards explosive oscillations between the two sectors is gently set in motion.

The economic power of industrial capitalists tends to be strong relative to the bankers and financiers because the former have sufficient cash reserves to finance their own expansion and to extend commercial credit to each other so as to assure the continuity of production in the face of disparate turnover times, etc. Loan capital from the banks is not required for this purpose. The absorption of that loan capital through any large-scale fixed capital formation is more than matched by a gradual expansion in the supply of free money capital through increased savings on the part of all classes, increased flows of money to be converted into loan capital by the banks, etc. The interest rate therefore remains low.

The quantity of fictitious capital increases but new promotions are usually associated, at this stage, with direct investment in means of production, and the commercial credit extended is closely tied to actual commodities in circulation. This is the kind of fictitious capital creation that is both necessary and unproblematic because it is usually followed by a subsequent expansion in accumulation. It poses no threat, therefore, to the preservation of a sound monetary basis.

Competition is relatively relaxed during this phase. The auto-financing by business generates gradual and uneven concentration, and wide variations in actual rates of profit may coexist because the circuit of productive capital is what counts. The power of the credit system to force an equalization of the rate of profit is not strongly in evidence at this time.

The circulation of revenues picks up, as does the demand for money as a medium of circulation. Effective demand for final consumption goods strengthens, and the consumer goods sector begins to take on a leading role in the dynamic of accumulation.

3 Credit-based expansion

Faith in the economic system has by now recovered. The expansion of employment, rising wages and increased revenues for the bourgeoisie, presage a growing effective demand for final consumption goods. The increased circulation of revenues creates optimistic expectations with respect to future revenues of all types (land rents, taxes, mortgages, etc., as well as profit of enterprise).
But the piecemeal expansion of the preceding phase now reveals a whole host of imbalances in productive capacity and consequent bottlenecks in the inputs and outputs of the productive apparatus as a whole. All trace of surplus productive capacity now disappears. New investments appear necessary to create new supply, particularly of the elements of constant capital—raw materials, partially manufactured inputs and machinery. Attention switches back to investment in Department 1 as prices of constant capital rise in response to shortages in their supply.

At the same time, the capacity of industrial capitalists to finance their own investments and to extend credit to each other is exhausted as they reach the limits of their cash reserves. They are forced to turn to the banks and financiers who strengthen their power vis-à-vis industrial capital as a consequence. The credit system comes into its own as the general co-ordinator of commodity production and exchange. The demand for money capital and for medium of circulation expands. This demand calls forth its own supply since faith in the system is now sufficiently strong to allow even debt claims to circulate as a form of money capital. The quantity of fictitious capital moves steadily ahead of the actual accumulation, and the gap between the monetary basis as a real measure of values and the various forms of paper moneys in circulation begins to widen.

But the growing power of the credit system in relation to industry also tends to force an equalization in the rate of profit (the connection between profit of enterprise and the interest rate is now very strong). Competition for loanable funds becomes more acute, and the interest rate begins to rise. Industrialists are pushed into a competitive struggle for relative surplus value at a time when labour shortages emerge. Wages tend to move above the value of labour power. Strong technological adjustments are called for. We witness a ‘great expansion of fixed capital in all forms and the opening up of new enterprises on a vast and far-reaching scale’. This requires yet more loan capital and puts industry ever more firmly at the service of money capital. But profit of enterprise is only one form of future revenue to attract loan capital: industrialists must compete for funds against land speculators, stock-jobbers, dealers in government debt, etc. ‘Those roving cavaliers of credit who work on a money-credit basis begin to appear for the first time in considerable numbers’ (Capital, vol. 3, p. 488).

4 Speculative fever

Credit-based expansion generates price rises if only because the total quantity of circulating medium now far outstrips the product of social labour. In addition, unemployment almost disappears and wage rates begin to soar—the condition of labour, Marx observes, is always at its best on the eve of a crisis. The effective demand for wage goods remains strong but high wages
are now beginning to cut into accumulation at the same time as rising interest rates also cut into profit of enterprise. Caught in a 'profit squeeze', industrialists look desperately for ways to innovate their way out of their difficulties. In this they are aided and abetted by a credit system that is by now fuelling both production and realization. But this it can do only at the price of creating vast quantities of fictitious capital, of making room for 'the most colossal form of gambling and swindling'.

Beneath this speculative fever deep disturbances from equilibrium are evident. Disproportionalities between departments, between production and distribution and between the quantity of credit money in circulation and real output of values are growing. The value composition of capital is rising rapidly. The labour power is not there to permit the continued expansion of accumulation through production of surplus value, while the actual rate of exploitation is falling. Only the accumulation of fictitious capital can paper over the cracks. It is only a matter of time before the speculative bubble bursts.

5 The crash

The onset of a crisis is usually triggered by a spectacular failure which shakes confidence in fictitious forms of capital. The ensuing panic immediately focuses attention upon the quality of various credit moneys. The return to the 'Catholicism' of the monetary basis sets in with a vengeance. A chronic shortage of money of the right sort — closely tied to the money commodity — emerges at the very moment when producers and merchants are scrambling to meet their obligations. The rate of interest climbs to "a point of extreme usury" (Capital, vol. 3, p. 360). The extended chain of payments is broken and the circulation of capital lies momentarily broken into a thousand disconnected pieces. At first sight the crisis appears to be 'merely a credit and money crisis', because it is only a question of 'the convertibility of bills of exchange into money' (p. 490). The demand for liquidity rises rapidly:

On the eve of the crisis, the bourgeois, with the self-sufficiency that springs from intoxicating prosperity, declares money to be a vain imagination. Commodities alone are money. But now the cry is everywhere: money alone is a commodity! As pants the hart after fresh water, so pants his soul after money, the only wealth. (Capital, vol. 1, p. 138)

The disruption in the circulation of commodity capital makes money as a measure of value the only secure form of wealth. The search to establish the real basis of values destroys capital in commodity form:

As soon as a stoppage takes place, as a result of delayed returns, glutted markets, or fallen prices, a superabundance of industrial capital becomes available but in a form in which it cannot perform its functions.
Huge quantities of commodity capital but unsaleable. Huge quantities of fixed capital, but largely idle due to stagnant reproduction. Factories are closed, raw materials accumulate, finished products flood the market as commodities. (Capital, vol. 3, p. 483)

Masses of labourers are thrown out of work, the wage rate drops precipitously, and the circulation of revenues suffers a chronic disruption in reaction to the breakdowns in the circulation of capital. Effective demand for consumer goods founders and prices collapse. 'For a few millions in money, many millions in commodities must therefore be sacrificed.'

The devaluation of capital, and of the labourer, proceed apace. Capitalists seek to stay alive by cannibalizing upon each other. The labourer is likewise sacrificed on the altar of the underlying irrationality of capitalism. Crisis, as the irrational rationalizer of the economic system, cuts a grim swathe across the economic landscape of capitalist society.

VI THE POLITICS OF MONEY MANAGEMENT

The 'stripped-down' account of the accumulation cycle reveals a tightly interwoven texture of interactions between employment and accumulation, between technological change, the rate of reinvestment and the state of competition, between production and realization in the different departments, between the circulation of capital and the circulation of revenues, between the supply of and demand for interest-bearing money, between the relative power of industrial capitalists and financiers, between capital and labour, between money as a medium of circulation and a measure of social labour, and, finally, between money and commodities as expressions of capital. The intent is to show how the various contradictions of capitalism interlock and build upon each other in dynamic sequence to produce the initial surge of accumulation and its final denouement: savage devaluation of both capital and labour.

The actual historical course of accumulation is, however, a much more complicated affair. It is affected, in the first instance, by a whole gamut of seemingly extraneous circumstances—wars, revolutions, harvest failures, droughts, etc. Secondly, there are innumerable nuances within the structure of internal contradictions themselves. The degree of organization of the working class can substantially modify wage rate adjustments and the pace of reinvestment.

Kalecki's (1971) early writings on the business cycle during the 1930s drew heavily upon Marx while arriving at results that were close to Keynes. The whole question of modelling the dynamics of Marxian aggregates was posed anew in the 1960s and has been a continuing focus of interest for the mathematically inclined ever since. See Sherman (1967), Weisskopf (1978) and the highly mathematical presentations of Morishima (1973).
and direction of technological change over the course of the cycle. The unification of industrial and banking capital modifies the power relation between them, while excessive centralization or decentralization of capital can also impart special twists to the accumulation process. Complications of this sort make every cycle unique. Marx evidently seeks to abstract from such conjunctural features, and in this we shall follow him.

There is, however, one matter that does deserve special consideration. This is the role of monetary and fiscal policy in relation to the cycle. It is difficult to take up this issue without a full analysis of the capitalist state. But a skeletal investigation of the problem here will help us understand why certain aspects of the state apparatus, such as the central bank, are necessarily outside of democratic control. It will also help us understand, albeit in a very general way, the circumstances that permit the devaluation of capital to be transformed into the destruction of money through inflation.

The simplest way to regulate the quality of money in society is to tie it to some universally accepted money commodity such as gold. The disadvantage is that the value of social labour is tied to the condition of concrete labour in gold production. If the latter changes, then so does the general expression of social labour as a price. Marx was not unduly bothered by this problem. He considered that the occasional surges in the supply of gold (after the 'gold rush' of 1849, for example) would administer a temporary shock and then be absorbed by price adjustments (Capital, vol. 1, p. 98).

The state becomes involved in regulation of money as soon as coins, tokens, paper and credit moneys are introduced as means to circulate commodities. The state finds itself drawn willy-nilly into the politics of money management and may even take up an activist stance of some sort. By the eighteenth century, for example, the main nations engaged in capitalist commerce were consciously pursuing strategies of devaluation and revaluation of their respective currencies in their perpetual jockeyings for commercial and political advantage. Mercantilist doctrines reflected such practices. The rise of a full-fledged credit system and the creation of fictitious forms of capital with legal backing posed the capitalist state with even more far-reaching problems.

Eventually, as we saw in chapter 9, the task of securing high-quality money devolves upon a central bank of some sort. Because the central bank has the power to set the conditions under which other moneys are convertible into its own money, it can, within certain limits, regulate the market rate of interest (Capital, vol. 3, p. 542). It cannot behave arbitrarily. It is constrained by its foreign exchange position, gold reserves and other links with some kind of

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*De Brunhoff (1978) is one of the best presentations with respect to integrating questions of money and finance with the functioning of the capitalist state.

*Some background is given in De Brunhoff (1978, 1979), while Vilar (1976) constructs a fascinating history.
supra-national money on the world stage. We must also invoke Marx's rule that 'the power of the central bankers begins where that of the private discounters stops'. This means that the central bank can respond only to money market pressures emanating from within the heart of the system of production and realization of surplus value. How it responds is nevertheless important, because decisions made by the central bank (or foisted upon it by legislation) have a very important role in dampening or exacerbating cyclical oscillations. Stringent money policies at times of overaccumulation can intensify devaluation. The crisis often appears, in the first instance, as a money crisis, forced upon society by an unyielding and obdurate central bank.

When the central bank ties its money tightly to a gold standard, it has very little room for manoeuvre. A limited gold reserve forces it to raise interest rates to a point of extreme usury at a time when all capitalists seek refuge in high-quality money. When convertibility into gold is permanently (as opposed to temporarily) suspended, the quantity of central bank money and the rate of interest on that money can become policy instruments. The 'art' of central banking is to use these policy instruments to try to stabilise the inherently unstable course of accumulation. At the same time the severance of central bank money from gold gives rise to the formal possibility of sustained inflation. We now take up that possibility in greater detail.

VII INFLATION AS A FORM OF DEVALUATION

Phases and instances of inflation abound in the history of capitalism. Any general interpretation of such phenomena has to be embedded in a complete theory of price determination. And it is clear that prices may rise or fall for a whole host of different reasons. If we abstract from the various random shocks to which any economic system is heir – the bad harvests, the wars and rumours of war, etc. – as well as from the perpetual market price oscillations that accompany the equilibration of demand and supply in the market, we can identify a variety of forces that affect movements in the underlying prices of production of the various commodities.

The competitive struggle to acquire relative surplus value should increase the physical and value productivity of labour and so cheapen commodities (Capital, vol. 1, pp. 319–20). The expansion of production upon more fertile lands, the opening up of new sources of raw materials, the searching out of cheaper and more malleable labour power and the reduction in circulation costs (particularly transportation) add up to a whole battery of forces that tend to force prices downwards. Against these must be ranged the rising costs associated with natural resource depletion, congestion and other bottlenecks.

Marx is surprisingly respectful of Tooke's pioneering study of price movements – a subject that has continued to be the focus of bourgeois economic history since.
in the production apparatus, class struggle on the part of labour, increasing monopolization and the like. Price movements are, in the final analysis, dictated by the balance of incredibly divergent and particular forces.

The circumstance we are here considering has, however, a simpler logic. Marx's representation of the accumulation cycle shows that prices are depressed in the phase of stagnation, rise gradually, and then accelerate rapidly during the boom. The return to the monetary basis during the crash forces a price collapse. If a more flexible monetary basis is constructed which, instead of being tied to the money commodity, permits the printing of inconvertible state-backed money during the crisis, then price falls at that time can presumably be kept in check.

Such a policy appears, on the surface, to be eminently sensible compared with its opposite - allowing commodity values to go to the wall in order to preserve the integrity of high-quality money. But it violates Marx's rule that the realization of values cannot be achieved through a mere increase in the supply of money (see chapter 3). It also means that money must abandon its role as a measure of the value of social labour. Furthermore, the idea that the severe crisis tendencies of capitalism, as we outlined them in chapter 7, can somehow be tamed by such a policy appears somewhat far-fetched. The most that can happen is that the form taken by the crisis will change. Let us see how.

Recall, first, what the theory of overaccumulation tells us. Too much capital is produced in relation to opportunities to use that capital because individual capitalists, driven by competition and striving to maximize their profits through the exploitation of labour power, adopt technologies that drive the economy away from a balanced accumulation path. The disequilibrium is made worse because prices of production, formed through the equalization in the profit rate, give erroneous price signals in relation to the potential for social surplus value production. In addition, the underlying disequilibrium tends to be obscured by the necessary creation of fictitious capitals ahead of real accumulation.

Fictitious capitals and the interest-bearing capital invested in them stand to be destroyed in the course of a crisis, while devaluation can strike at capital in any of the states within the circulation process

\[ M - C \left( \frac{LP}{MP} \right) \ldots P \ldots C' - M' \text{ etc.} \]

Consider, now, how an expansion of central bank money relates to all of this.

\[ ^{11} \text{Explicit Marxist theories of inflation are surprisingly thin on the ground. Harvey (1977) and Rowthorn (1980) are basic reading, while Jacobi et al. (1975) review some of the problems that attach to various Marxist approaches to the subject. Sherman (1976), Sweezy and Magdoff (1972), de Brunhoff (1979), Fine (1979a), Mattick (1980) and Mandel (1978) attempt analyses from rather different angles.} \]
From the standpoint of the individual capitalist, the first sign of over-accumulation occurs with the increasing difficulty of converting commodities or property titles (fictitious capitals) into money at a price that allows the average rate of profit to be realized. The transition \( C-M \) is always difficult because it involves the movement from a specific concrete use value (or property title) into the most general form of social power that exists — money. This transition appears to be hindered by a lack of effective demand or, what amounts to the same thing, by a shortage of disposable money. Individual capitalists and other financial agents (private banks) can bypass this difficulty by extending credit. Capitalists receive the money equivalent of unsold commodities (including the average rate of profit thereon). The quantity of lower-order credit moneys expands rapidly. Pressure is then put upon the central bank to expand the supply of high-quality money. If the central bank obliges, then it seems as if overall liquidity can be maintained at the same time as all barriers to the realization of values through exchange are removed.

The matter is not, unfortunately, that simple. The central bank money issued can be used in a variety of ways. It could feed the circulation of fictitious capitals and so heighten speculative fevers. It could be converted into an effective demand for commodities (as opposed to property titles). Keynes insisted that the latter was more important to economic stability than the former and sought by specific fiscal policies (as opposed to pure monetary policies) to channel effective demand in ways that would contribute to stability rather than exacerbate the tendency towards disequilibrium. A simplified version of this idea goes like this. In times of depression, the state can create an effective demand for commodities by running a budget deficit which can be covered by borrowings from the capital market. While the increased effective demand solves the realization problem in the sphere of exchange, the increase in demand for loanable funds will, in the absence of any corresponding increase in supply, force interest rates upwards, perhaps to the point of ‘extreme usury’. This has a disastrous impact upon industrial and commercial operations (though obviously not on banking capital) and can force the very devaluation that state policies were initially designed to avoid. There is, then, a strong pressure to increase the supply of high-quality money in order to bring interest rates down. The central bank, by engaging in such an action, can help avoid the devaluation of commodities.\(^\text{12}\)

Unfortunately, such a strategy also contributes simultaneously to the realization of fictitious capital. If, for example, there has been considerable

\(^{12}\) As Harris (1979) points out, both monetarists and Keynesians accept the same underlying theory of money, which is essentially a quantity theory. Keynesian policies always contain a strong monetarist perspective because the central bank has to play its proper part if the policies are to have any chance of short-run success. What divides monetarists and Keynesians is the degree of discretion allowed to the state in fixing fiscal and monetary targets.
speculative activity in land titles, then expanding effective demand for housing keeps that speculation very much alive at the same time as it increases the demand for commodities such as bricks, timber, etc. Support of this sort for fictitious capital implies, in effect, that the state substitutes its own fictitious capital (an increase in the stock of state-backed money) for the mass of privately held fictitious capital floating around in the credit system. Whether or not this is a good or bad thing depends entirely upon whether the fictitious values so created can be realized in subsequent phases of the circulation of capital.

With the successful, though problematic, negotiation of the link C–M, the burden now shifts on to money, which will itself suffer devaluation if it is not thrown back into circulation within its 'normal' time span. There are three possible uses for that money.

1. Money reinvested in production must cross the divide

\[ M - C \left( \frac{LP}{MP} \right) . \]

An increase in \( M \) increases the demand for labour power and means of production and mops up any surpluses in the supply of both. This puts upward pressure on prices, which, in the context of a crisis, means that costs of production do not decline anywhere near as much as they otherwise would. The 'technological shake-out' is nowhere near as vigorous as it normally would be, and there may even be pressure upon producers to continue a pattern of technological adjustment more characteristic of the phase of expansion than of retraction. Wages, for example, may not decline enough to stimulate the return to labour-intensive activities. The value composition of capital is unlikely to return to its equilibrium position under such conditions.

2. Money can be invested in appropriation, in the purchase of titles to future revenues (land, stocks and shares, government debt, etc.). Fictitious values created by the state simply end up augmenting the quantity of privately held fictitious capital in the economy. The problem of the realization of such fictitious capitals through production is then posed anew.

3. The bourgeoisie diverts a portion of the extra money into its own consumption. This increases the demand for luxury goods which, in turn, bids up the demand for labour power and means of production.

The extra money that the state throws into circulation has, therefore, at some point to be realized through production. This confirms Marx's fundamental finding in his investigation of the circulation of surplus value (Capital, vol. 2, ch. 17; cf. above, pp. 95–6): realization in the sphere of exchange is, in the end, contingent upon further realization in the realm of production.
Now it was Marx's basic argument that overaccumulation arises because the technological mix (including degree of centralization, vertical integration, etc.) in production is arrived at by processes that ensure that it is inconsistent with further balanced accumulation. Nothing is changed with respect to those processes by the creation of extra money in the sphere of exchange. The printing of money cannot cure the problem. Indeed, the distortion of price signals makes the disequilibrium worse. The full force of the shake-out, which would bring the system back into an equilibrium position as measured by the value composition of capital, is held back. Further technological innovations that de-stabilize the system are encouraged. The trend towards overaccumulation will likely be increased rather than curbed.

If individual capitalists and other private agents continue to extend credit to each other in the face of burgeoning overaccumulation and spiralling quantities of fictitious capital, and if they continue to be backed up by the printing of money by the central bank, then the insane aspects of the credit system can run amok. State-backed money breaks free from any pretence of acting as a firm measure of socially necessary labour. If money exercises little discipline over capitalists, there is nothing, except competition, to prevent their raising their prices arbitrarily. They realize profits in exchange in spite of the fall-off in real surplus value production. Such a situation is plainly untenable. Generalized inflation results and the underlying tendencies towards disequilibrium become worse — unless, that is, countervailing forces (such as the foreign exchange position of the central bank or conscious recognition on the part of the central bank that monetary discipline must be restored) come into play.

The result, however, is that the devaluation of commodities can be converted into the devaluation of money through inflation. We must reiterate that this is not the only form of inflation that can exist, and any actual historical interlude of strong inflation may be the outcome of a variety of different forces. Inflation of the sort we are here considering has a very specific interpretation.

The transformation of devaluation into inflation simultaneously entails the centralization and socialization of the devaluation process that accompanies overaccumulation. Devaluation, we should note, begins as a private affair (individual firms go bankrupt; particular commodities remain unsold) and ends up having social ramifications (unemployment, diminished circulation of revenues, etc.). Inflation is a social affair at the very outset, but has private and particular consequences. The transformation of devaluation into inflation, therefore, has certain technical, economic and political implications that deserve to be explored.

First, the socialization of devaluation reduces the impact of particular events upon the basic rhythm of the accumulation cycle. Potentially damaging bankruptcies of individual corporations can be avoided or absorbed
(through government 'bail-outs', for example) and their costs spread over society as a whole. The possibility that events of this sort will bring the whole system crashing down is much reduced. Secondly, the 'constant devaluation' that attaches to technological change (see chapter 7) can be converted into a constant 'mild' inflation which, some Keynesians argue, helps to preserve balanced growth - shifting price structures provide signals for planned obsolescence and new investment. Thirdly, minor oscillations in the accumulation process can be controlled and sometimes even manipulated for short-run political ends (a case of the latter is the so-called 'political business cycle', in which monetary policy is used to create an artificial boom in the economy just prior to elections). The costs of mild bouts of devaluation, which sometimes hit overly hard during the brief spasm of crisis, can, however, be attenuated and spread out as a mild surge of inflation over several years.

The socialization of devaluation through inflation also spreads the impacts of overaccumulation instantaneously over all social classes. But the effects are by no means equally felt. The distributive consequences vary according to circumstances. Marx pointed out, for example, that the depreciation of gold and silver in the sixteenth and seventeenth centuries 'depreciated the labouring class' as well as the landed proprietors relative to the capitalists and thereby helped concentrate money power in the hands of the latter (Grundrisse, p. 805). The incomes of 'the unproductive classes and those who live on fixed incomes' tend to remain 'stationary during the inflation of prices which goes hand in hand with over-production and over-speculation', and this 'diminishes relatively' their purchasing power at such times (Capital, vol. 3, p. 491). Those on fixed incomes stand to gain during the price deflation that occurs with the return to the monetary basis but are hurt when devaluation is transformed into permanent inflation.

Inflation also tends to redistribute money power from savers to debtors because the latter pay off their debts in depreciated currency. Whether or not this happens depends, however, upon the rate of interest, which becomes negative in real terms when the inflation rate is higher than the nominal interest rate. A negative real rate of interest betokens the general devaluation of money savings. If the nominal rate of interest varies according to money resources, then the savings of the big bourgeoisie may be preserved from the ravages of inflation while those of the working classes may be devalued (cf. Capital, vol. 3, p. 508).

Most important of all, the transformation to permanent inflation allows capitalists to realize a long-cherished aim. 'The capitalist class', Marx observes, 'would never resist the trades' unions, if it could always and under all circumstances do what it is doing now by way of exception... to wit, avail

13 Kalecki (1971) was probably the first to spot the likelihood for political manipulation of the business cycle. Boddy and Crotty (1975) take up the idea in the context of a 'profit squeeze' theory that we rejected above, pp. 52-4.
itself of every rise in wages in order to raise prices of commodities much higher yet and thus pocket greater profits' (Capital, vol. 2, p. 340). This possibility becomes real only when the strict discipline of the money commodity gives way to the looser and more flexible practices of state creation of inconvertible paper money. If the state takes care of the effective demand problem and expands the money supply to keep pace, then individual capitalists can stabilize their profit rates, in the face of falling surplus value production, simply by adjusting the prices of the commodities they produce. The only short-run limitation in the market is price competition. To the degree that monopoly, oligopoly and 'price leadership' behaviours develop, so price competition weakens. For this reason inflation is frequently attributed to corporate practices under 'monopoly capitalism'. Such practices have important secondary impacts, but inflation of the sort we are here considering has much deeper roots in the general transformation of devaluation of commodities into the devaluation of money.

Class struggle changes dramatically with inflation. Wage cuts are hard to impose directly and typically provoke a very targeted, concrete working-class response. With generalized inflation, employers can concede increases in nominal money wages and so reduce the intensity of direct worker opposition. What happens to real wages depends entirely upon the inflation rate, which individual capitalists can claim is not their personal responsibility. The devaluation of labour power is then achieved through inflation. To the degree that such a strategy is successful, it permits the problems of overaccumulation to be countered through a rising rate of exploitation achieved through a diminution in real wages. The mechanisms of wage adjustment that Marx describes in the 'general law of capitalist accumulation' (see chapter 6) are fundamentally altered. It may even become possible to manage wage adjustments through inflation without the help of a massive industrial reserve army. The significance of the so-called 'Phillips Curve' – which depicted a trade-off between inflation and unemployment – was that it appears to offer policymakers a ready-made target for fiscal and monetary policy.14

The struggle over the nominal wage is, as a result, gradually converted into a struggle over the real wage. Workers then find themselves fighting on two fronts. They seek strict cost-of-living clauses in wage contracts in order to prevent the costs of devaluation being visited upon them via inflation. From this derives a wage-push theory of inflation which blames greedy unions for rising prices. This theory is correct, in the theoretical context we are here

14 The Phillips Curve refers to the empirical observation that there existed, for a number of years at least, an inverse relationship between the rate of wage increases and the level of unemployment. This was then parlayed into the general theoretical proposition that there is a trade-off between level of unemployment and inflation. Circumstances of the 1970s, when unemployment and inflation increased together, called the whole argument into question (see Fine, 1979a).
considering, only in the sense that workers prevent overaccumulation from being cured through a massive devaluation of labour power via inflation. But workers also have to confront the fiscal and monetary policies that allow devaluation to be transformed into inflation in the first place. The focus of class struggle can shift from the direct confrontation between capital and labour on to a confrontation between workers and the state. The latter thereby becomes a protective shield for capitalist class interests. It may even appear, with some not so subtle help from bourgeois propaganda, as if inflation has its origins in inefficient and ineffective government, in erroneous fiscal and monetary policies. This attribution is correct as regards the immediate cause. What it ignores is the underlying structure of class relations which generates crises of overaccumulation—devaluation in the first place.

The conversion of devaluation into inflation appears to have both positive and negative effects from the standpoint of capital. On the one hand, it can ease the pressure of direct forms of conflict over wages and even reduce the size of the industrial reserve army needed to equilibrate the wage rate. It also socializes the costs of devaluation across all classes behind the shield of fiscal and monetary policy carried out by the state. On the other hand, it prompts the formation of class alliances directed towards assuming state power. Inflation defuses conflict by broadening it and refocusing it on the state.

But inflation cannot cure the trend towards overaccumulation. If anything, it exacerbates the problem by attenuating and delaying the impacts. State policies allow an enormous head of inflationary pressure to build up to the point where it becomes potentially very explosive. The dead weight of unproductive fictitious capital is increasingly felt, the foreign exchange position of the central bank progressively weakens (bringing about devaluation of national currency in relation to world money), and price structures become so unstable that they lose their coherence as a coordinating power. Above all, the rationalization of production, which is the only solution to overaccumulation, cannot be properly set in motion. The problems of overaccumulation, in short, cannot be spirited away by the socialization of devaluation through inflation.

In this light, it is interesting to look at the range of proposed cures for inflation, all of which appeal to some kind of basic change in state involvement.

First, the state can reconstitute a strict monetary base for the economy. Though this need not be tied to a money commodity, it does imply very restrictive monetary policies (which force interest rates up), cuts in government stimulation of effective demand, and permission for the raw market forces that devalue commodities and labour power to take hold. A conventional depression, administered by the state, does its work of re-structuring the productive apparatus, eliminating excessive fictitious capitals, disciplining labour, and so on.
Secondly, the state can impose wage and price controls or seek to cool off inflation through some kind of incomes policy, a 'social contract' with labour (which usually amounts to some kind of negotiated devaluation of labour power) and an investment strategy for industry. Interventions of this sort must be accompanied by monetary and fiscal restraint if they are to have a chance of working. Monetarists argue that policies of this sort merely distort price signals and thereby destroy any proper basis for the resumption of accumulation. Marxian theory accords with that judgement, except under the unlikely circumstance that the price structure mandated and the investment strategies devised stabilize the value composition of capital. This would entail a phased and organized devaluation of capital and labour power through the agency of state policies.

Thirdly, the state, in conjunction with capital, can seek to accelerate the development of the productive forces and hope thereby to bring prices down to compensate for the inflationary surge. Failure to increase productivity, it is sometimes argued, lies at the root of inflation. The theory we are here adopting indicates that it is the uncontrolled and unbalanced development of the productive forces in the context of the class relations of capitalism that provokes overaccumulation in the first place. To the degree that inflation is a transformation of devaluation, it cannot be cured by an indiscriminate programme of raising productivity. The state can seek to change the technological mix (forced mergers, special tax incentives to certain sectors, state sponsorship of research and development). But if it is to cure the problems of overaccumulation it cannot avoid visiting the costs of devaluation upon certain segments of both capital and labour. And cures of this sort, to the degree that they entail direct or indirect state management of the productive apparatus, though they may not be socialistic, hardly bode well for the future of capitalism, either.

While it is true that the devaluation of commodities (including labour power) can be avoided by inflation in the short-run, it is equally true that problems of inflation cannot be cured without devaluing commodities. The Marxian theory tells us that, in response to overaccumulation, capital can devalue money or commodities (or some mix of both). But only the devaluation of commodities, including labour power, can force the re-structuring that will allow balanced accumulation to resume.

There is, perhaps, no better testimony to the fundamental underlying irrationality of capitalism than that the economic choices that exist within the confines of its dominant class relations are of so restricted and dismal a variety. The bigger, broader choice is between preserving those class relations or eliminating them together with the contradictions to which they give rise.
There are two conceptions of finance capital at work in this chapter. The first is that of a process of circulation of interest-bearing capital; the second, of an institutionalized power bloc within the bourgeoisie. Neither conception is, in itself, entirely adequate. We must now strive to bring them together.

In its surface appearance, the organized power of finance is impressive, seemingly impenetrable and awe-inspiring. The financial system is shrouded in mystery born out of sheer complexity. It encompasses the intricate world of central banking, remote international institutions (the World Bank, the International Monetary Fund), a whole complex of interlocking financial markets (stock exchanges, commodity futures markets, mortgage markets, etc.), agents (brokers, bankers, discounters, etc.) and institutions (pension and insurance funds, merchant banks, credit unions, savings banks, etc.). And above all it includes an array of incredibly powerful private banks (the Bank of America, France's Credit Agricole, Britain's Barclays). Bankers and their cohorts shuttle back and forth between Basle, Zurich, London, New York and Tokyo. Decisions that clearly affect the fates of millions are made at international meetings, suggesting that the bankers of the world are indeed in control not only of the lives of individuals (capitalists and workers alike) but also of even the largest corporations and the most powerful of governments. This image achieves even greater credibility when we see that even that aspect of the state given over to the protection of monetary operations - the central bank - always eludes democratic control.

The average citizen can be forgiven for lapsing into a state of total awe when confronted with the sheer magnitude of money power that resides within such institutions and the sophistication of the elite that runs them. The mystery of the financial system, and the potency of the forces operating through its agency, generate a mystique. This mystique is the easy breeding ground for conspiracy theories - conspiracies to divide and rule the world, 'think-tanks' (like the celebrated Tri-Lateral Commission) to come up with strategies for global domination, plans to be executed by a powerful cabal of banks, corporate giants and their political representatives.

It is the task of science to demystify all of this, to reveal the compelling logic that courses through the veins of the financial system, to expose the inner vulnerability beneath what appears on the surface to be totally hegemonic controlling power. The task requires a subtle blend of theory and historical materialist investigation for its proper fulfilment.

Straight empirical studies typically run into impasses, founder upon seemingly insoluble conundrums. If, for example, a conspiratorially minded elite is so powerful, has at its fingertips such multiple and delicate instruments with which to fine-tune accumulation, then how can the periodic headlong slides
into crises be explained? Or, to take another tack, how can financiers simultaneously appear as the sober guardians of an orderly process of accumulation, carried on in the interests of the bourgeoisie as a whole and operating with the common capital of the class, at the same time as they patently engage in venal and excessive appropriation, insane speculation and all manner of other parasitic practices which serve only to plunge society into paroxysms of chaos and disorder?

The conception of finance capital as a contradiction-laden flow of interest-bearing capital—a conception, we should note, that is entirely consistent with Marx’s general view of capital as a process rather than a thing—helps penetrate the impasses and unravel the conundrums. It helps us understand the instability of the configurations that arise when ‘finance capital’ is considered as a power bloc within the bourgeoisie, or, what amounts to the same thing, the difficulty researchers experience when they seek a consistent definition of ‘finance capital’ in the first place. It also sheds further light on a topic first broached in chapter 5: the dynamics of the organizational transformation of capitalism. We now probe further into these questions.

1 Finance capital as the ‘class’ of financiers and money capitalists

Those who control the flow of money as an external power in relation to production occupy a strategic position in capitalist society. If that strategic position is to be converted into a real power base, then the centralization of money capital in a few hands is a first requirement. This centralization can occur in two ways. First, a few extraordinarily wealthy individuals or families can accumulate the mass of the money power in society in their hands. Secondly, a few powerful institutions can control the dispersed money power of innumerable individually powerless individuals. When a few wealthy families, such as the Mellons and Rockefellers, own much of the money wealth and participate strongly in the control of the remainder, then a unity of ownership and control prevails within the strategic centre of the circulation of interest-bearing capital. This provides a first working definition of finance capital.

Excessive centralization of power within this strategic centre is, however, inconsistent with the proper exercise of its co-ordinating functions. Competition within the financial sector has to be maintained if the interest rate is to adjust in ways responsive to accumulation, if money capital is to flow freely and avoid the typical bias imposed by monopolistic practices. The form of competition within the financial sector varies, however. Sometimes it is manifest as intense rivalry between financial empires; sometimes it arises out

\[15\] Lenin wondered if this definition would be sufficient at one point (see Churchward, 1959). This working definition underlies the perspective of Fitch and Openheimer (1970).
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of social mechanisms that maintain a broad dispersal of money power within
the bourgeoisie; in still other cases it is guaranteed by legal requirements
which restrict certain institutions to certain kinds of activity (housing finance,
for example), delimit the geographical area of operation (restrictions on
inter-state branch banking in the United States, for example) or even dictate
basic conditions of management of the portfolio of assets a particular kind of
financial institution can hold (pension and insurance funds usually operate
under such restraints). There is often a certain ambiguity as to where money
power actually resides in such a fragmented system. The current concentra-
tion of much money wealth in the form of pension funds, for example, has
given rise to a not very interesting debate over 'pension-fund socialism' (the
idea that the mass of the people owns a large proportion of the fictitious
capital in society through pension savings) and a real and very intense battle
for control over the money power that pension funds represent. The accumu-
lation of much of the money wealth in a few hands, likewise, does not
necessarily mean that those few actively control the use of that money. They
may seek to avoid risk by dispersing their wealth through a wide variety of
institutions that operate independently of them.

The total fragmentation and decentralization of the financial system is, on
the other hand, also detrimental. The quality of paper money is best
guaranteed by a central bank with monopoly powers. Failure to centralize
money power also acts as a barrier to the conversion of money into capital as
well as to subsequent accumulation in so far as the latter depends upon the
centralization of capital. The rapid reorganization of capitalism into its
corporate and conglomerate form — steps that we saw in chapter 5 were
necessary to the perpetuation of capitalism — could not have been brought
about without a simultaneous shift in the capacity to centralize money power.

The tension between centralization and decentralization is as evident,
therefore, within the financial power bloc as it is elsewhere (see chapter 5). It
is evidenced in a variety of ways. For example, it helps explain why the United
States exhibits a highly decentralized, seemingly chaotic financial system
(kept in place by a weird assortment of piecemeal legislation enacted by a
bourgeoisie that has spasmodically sought to counter the threat of excessive
centralization) at the same time as it is characterized by immense concentra-
tions of money wealth among a few families operating through a few large-
scale financial institutions. It helps explain also why banks simultaneously
compete with each other in some arenas while in others they form alliances,
consortia and, from time to time, conspiratorial cabals in order to assemble a
sufficient concentration of money power to deal with the large-scale and
long-term aspects of the financing of accumulation. The perpetually shifting
realignments of both institutional structures and financial practices create a

16 Domhoff (1978) and Zeitlin (1974) provide detailed information on this point.
good deal of confusion. Seen as material expression of the underlying tension within the circulation of interest-bearing capital itself, the confusions and contradictions make more sense. They are simply surface appearances of the underlying requirement to balance centralization and decentralization within the financial system.

2 Finance capital as the unity of banking and industrial capital

The conception of finance capital advanced by Hilferding and generally accepted by Lenin is of the unity of banking and industrial capital. The unity is selective in the sense that it is only the large banks and the grand industrial enterprises that form the basis for delimiting finance capital as a distinctive power bloc. For this reason the concept of finance capital, in Lenin’s hands in particular, merges imperceptibly and indiscriminately at a certain point with that of monopoly capitalism in general.

The unity of banking and industrial capital, if it exists at all, is certainly a stressful one. It is obvious, of course, that large corporations cannot conduct their affairs without extensive use of banking services and that banks are desperately anxious to command the vast flows of money large corporations generate. In this sense large-scale banking and corporate capital are necessary to each other, exist in a symbiotic relation to each other. If this is all that is meant by the unity of banking and industrial capital, then there is no problem. But both Hilferding and Lenin mean something more: they assert that the unity is a working unity, which dominates the accumulation process and carves up the world into regions of subordination to the collective power of a few large banks and corporations.

The analysis of finance capital as a flow reveals the underlying unity and antagonism between financial and surplus value-producing operations. The accumulation cycle – assuming no active state interventions – suggests a shifting balance of power between industrial capital and banking capital over the course of the cycle. The shifting balance reflects the relative weight of commodity versus money expressions of value within the accumulation process. In the early phases of the upswing industrial capital is in the driver’s seat because commodities are what count. During the later phases of the boom industrial and financial interests unite to promote a credit-based expansion of commodity values. In the crisis, money is everything and the banks appear to hold the fates of industrial capitalists entirely in their hands because excess commodities cannot be converted into money. But banks themselves may also go under as the demand for high-quality money (gold or central bank money) far exceeds the supply. In the depths of the crisis, power resides with those who hold money of last resort.

The accumulation cycle is much modified by contingent events and external interventions – particularly those of government. But shifting patterns of
unity and antagonism between capital in commodity and money form are not eliminated. They are simply transformed into new configurations. They continue to form the basis for the shifting power relation between industrial and banking capital. In other words, the organizational and institutional arrangements, together with the practices of economic agents, have to be seen as a product of an accumulation process that can proceed in no other way except through perpetual opposition between money and commodities within the unity of capital as 'value in motion'. The conception of finance capital as a unity of industrial and banking capital is unobjectionable in principle, provided that the unity is seen as a unity that internalizes tension, antagonism and contradiction.

This leaves open the question as to the specific ways in which the contradictions are internalized within particular organizational structures. Consider, for example, a large-scale conglomerate corporation. Many financial operations are internalized within the firm and apparently united with production into an integrated whole. This appearance of unity is deceptive. In the same way that large corporations are forced to internalize mechanisms of competition if they are to survive (see chapter 5), so they are also forced to maintain the separation of finance from production. This opens up the prospect for conflict within the corporation — conflict that relates directly back to the antagonism between capital in money or commodity form. The unification of control does, however, provide the firm with alternative strategies for survival in times of crisis or for expansion in times of boom. Financial manoeuvres — take-overs, mergers, asset-stripping, etc. — are just as important as commitment to production operations. The struggle for survival between corporations therefore takes on a wholly new dimension. But the underlying problem is not thereby altered. If all corporations seek to survive by purely financial manoeuvres without enhancing or restructuring production, then capitalism is not long for this world. The form of appearance of struggle changes, as does the institutional and organizational framework, but the underlying essentials do not.

The somewhat acrimonious debate over whether banks control corporations or corporations control banks must be viewed in a somewhat similar light.\(^7\) What actually constitutes control is by no means clear. Formal definitions (a certain percentage of the stock, for example) rarely capture perpetually shifting practices. And to the degree that the accumulation process invariably produces phases that are long on commodities and short on money and vice versa, so we have to anticipate perpetual shifts in the power relation between industrial and banking capital. From this standpoint, putting corporate chiefs on the boards of major banks and appointing bank presidents as directors of corporations appears a futile attempt to establish an organizational unity in the face of a contradiction-laden process.

\(^7\) See the interchange between Fitch and Openheimer (1970) and Sweezy (1971).
But we would be wrong to leave matters there. The shifting patterns of control of corporations by banks or banks by corporations have also to be seen as part of a perpetual process of probing for an organizational form that will enhance the capacity of capitalism to survive in the face of its own internal contradictions. In exactly the same way that perpetual oscillations in market prices are fundamental to the establishment of equilibrium values, so perpetual oscillations in the balance of control between bankers and corporations are essential to the achievement of that equilibrium relation between finance and production of surplus value that is most appropriate at a particular moment of the accumulation process. The ‘class’ that occupies the strategic centre that joins finance and production may be clearly defined in a given situation; but it will surely remain an unstable configuration given the contradictory pressures and requirements that operate upon it.  

The unitary conception of finance capital Hilferding advances has to be judged, therefore, as too one-sided and simplistic because he does not address the specific manner in which the unification of banking and industrial capital internalizes an insurmountable contradiction. The best that he can do is to assert in very general, non-specific terms that finance capital can not overcome the contradictions of capitalism but merely serves to heighten them. What he fails to explain is exactly how and why this is necessarily so.

3 Finance capital and the state

At the level of the central bank, finance capital, however defined, integrates directly with a part of the state apparatus. But the state typically affects and relates to the circulation of interest-bearing capital across a far broader spectrum of activities than that. It fixes the legal and institutional framework and often designs the highly differentiated channels through which interest-bearing capital circulates into the different activities such as consumer debt, housing finance, industrial development and the like. It often regulates flows down the different channels by fixing interest-rate differentials or direct allocations of credit. The degree of centralization or decentralization of money wealth and control is likewise highly sensitive to state fiscal and redistributive taxation policies as well as to monetary strategies that affect inflation. The state itself absorbs a portion of the flow of interest-bearing capital in the form of state debt, and in the process creates fictitious capital of certain qualities (which may be further differentiated according to the governmental unit or agency doing the borrowing – US government debt is qualitatively different, for example, from New York City debt). And at the

18 I am therefore strongly sympathetic to the definition of finance capital given by Thompson (1977, p. 247) as ‘an articulated combination of commercial capital, industrial capital and banking capital’ within which banking capital is dominant but not determinant.
centre of this intricate system lies the central bank with all of its powers in relation to the quality of national money.

A part of the state apparatus is entirely caught up in the circulation process of interest-bearing capital. There is an aspect, and only an aspect, of the state which cannot be considered even relatively autonomous of capital because it is necessarily constructed in the image of the motion of capital itself. The administrators of this aspect of the state apparatus manage the circulation of interest-bearing capital and function as 'the executive committee of the bourgeoisie' no matter what their political allegiance. A necessary unity is thereby established between a part of the state apparatus and the money capitalists, industrialists and financiers who similarly participate in the circulation of interest-bearing capital. From the outside it appears as if a section of the state colludes directly with industrial and financial interests. A new definition of finance capital comes to the fore: one in which all three interests are unified.19

This unity contains a contradiction as well as the potentiality for transformation. Marx argues that the credit system 'requires state interference' at the same time as it socializes capital and centralizes control over social labour. Socialized capital, brought under state regulation and control, is the inevitable product of the growth of capitalism. The credit system therefore constitutes 'the form of transition to a new mode of production' (Capital, vol. 3, pp. 438–41).

Our attention is immediately focused on the antagonism within the unity of the overall circulation of interest-bearing capital. The central bank, after all, has the unenviable task of disciplining errant industrialists and bankers and penalizing them for their inevitable excesses in the race to accumulate and capture the benefits of accumulation. Open conflict frequently erupts, particularly at times of crisis, between the state apparatus, necessarily exercising disciplining powers, and all other factions of capital. This conflict exists even in states where political power clearly lies in the hands of the bourgeoisie. The capacity for the regulation and control of capital, albeit in the interests of the capitalist class as a whole, necessarily resides within the state apparatus. It then seems as if a working-class movement can dominate capital if it can gain control of the strategic centre within the state apparatus. But then the reverse side of the medal immediately becomes evident. In so far as a part of the state apparatus is a pure reflection of capital itself, even a socialist government (as many have found to their cost) can do no more than

19 Hilferding in practice tends to include the state in his theory of finance capital since the unity of banking and industrial capital is achieved within the nation state. Such a formulation poses problems because international finance is sometimes nationally based and sometimes supra-national in its form of organization. The connection between finance and the state is evidently very complex in nature – see de Brunhoff (1978) and Holloway and Picciotto (1978).
strive for a more effective management of the contradiction-laden flow of interest-bearing capital. To be sure, adjustments here and there in both institutional structures and in the direction and quantity of flows can bring benefits to workers. But the limits to such redistributions are strictly circumscribed by the necessary unity that also prevails within the circulation of interest-bearing capital. Only the total abolition of this form of circulation will suffice if the state is to escape from a position of collusion with capital. Failing that, class struggle is internalized within the state because of the dual obligation to service the flow of interest-bearing capital while striving to meet the needs of workers.

No matter what the circumstances, the state can never be viewed as an unproblematic partner of industrial and banking capital within a dominant power bloc. The underlying contradictions that plague the circulation of interest-bearing capital are frequently externalized as an opposition between the state (particularly the central bank) and industrial and banking capital. The role of the state is always, therefore, enigmatic and ambivalent. Even a purely capitalist state, run by and for the bourgeoisie, cannot circumvent the contradictions.

All of this becomes even more problematic when projected on to the international stage. The central bank, as guardian of the quality of national money, enters into relations with other central banks to constitute the core of the international monetary system, even when that system is based firmly on a money commodity such as gold. The gold reserves and the international exchange position of the nation state then materially affect the capacity of the central bank to respond to internal difficulties of capital accumulation within its borders. But the state also assumes certain powers to regulate the flows of capital – in commodity, money and even variable form through protective tariffs, foreign exchange controls and immigration policies. And relations between states certainly cannot be discussed independently of economic, political, cultural and military competition between them.

What intrigued Hilferding and Lenin, of course, was the connection between finance capital, the state and inter-imperialist rivalries. Hilferding focuses on the unity between industrial and banking capital within the framework of state power – the internal contradictions disappear. The unified power blocs centred on nation states struggle with each other for world domination. Lenin takes Hilferding’s line in the analysis of the ‘core’ imperialist powers. But he also draws upon Hobson, who saw financial operations as an independent means to control the governments of the world. Finance capital, Lenin wrote, is such a ‘decisive’ force ‘in all economic and in all international relations, that it is capable of subjecting, and actually does subject, to itself even states enjoying the fullest political independence’. This can occur only if the flow of interest-bearing capital achieves a supra-national aspect, over and above the mere power relations between states. Govern-
ments contract debts outside their borders and are thereby subjected to a certain fiscal and monetary discipline, no matter whether it be exercised by powerful international bankers (like the Rothschild's and the Baring's in the nineteenth century or consortia of private banks and supra-national agencies like the International Monetary Fund today). The behaviour of national economies can likewise be subjected to the discipline of international flows, particularly of money capital. Finance capital, Lenin averred, is that stage in which capital 'spreads its net over all countries of the world', through the export of money capital rather than goods.

The enigmatic quality of the relation between finance capital and the state here becomes all too readily apparent. While the state apparatus forms the core of the strategic control centre for the circulation of interest-bearing capital, the latter is simultaneously free to circulate in such a way as to discipline the separate nation states to its purpose. The state is both controlled and controlling in its relation to the circulation of capital. Which force dominates depends upon circumstance. But there, as elsewhere, the disequilibria have to be conceived of as perpetual oscillations around a moving point of equilibrium between countervailing forces. The equilibrium is that configuration in the relation between state powers and finance capital which can keep the capitalist system on its precariously evolutionary path. Failure to preserve that equilibrium, in the face of incredibly powerful forces that perpetually disturb it, can only push the capitalist system into a global crisis that necessarily invokes the might of competing economic, political and military capitalist states. War appears as a means to resolve the internal contradictions of capitalism (see below, pp. 438-45).

Some vital questions to be posed here are, unfortunately, beyond the immediate scope of the analysis: the central point I want to make, however, is that the relation between finance capital (however conceived) and the state is founded upon a contradiction within a unity. Any analysis of the state and of power relations between states must understand the nature and origin of the contradictions and place that understanding at the very centre of its concern.

IX THE 'SECOND-CUT' THEORY OF CRISES: THE RELATION BETWEEN PRODUCTION, MONEY AND FINANCE

The 'first-cut' theory of crises (chapter 7) revealed their origin within production. Given the contradictory unity that necessarily prevails between production and exchange, crises inevitably find expression in exchange. Capital can here appear either as commodities or money. Since money is the independent form by means of which the identity of value 'may at any time be established'

20 Bukharin's (1972a) study on Imperialism and the World Economy makes much of this point and repays careful study.
(Capital, vol. 1, p. 154), it follows that crises must have a monetary expression. The analyses of credit and the circulation of interest-bearing capital, of the formation of fictitious capitals and all the other financial and monetary complications which have been the subject of the last two chapters add a new dimension entirely to the theory of crisis formation and expression under capitalism. We are now in a position to take a 'second-cut' at the theory of crisis — one that strives to integrate the financial and monetary aspect of affairs with the earlier analysis of the forces making for disequilibrium in production.

We confine attention for the moment to capitalism within one country or, what amounts to the same thing, within a world capitalist economy characterized by a single undifferentiated monetary system. The most singular fact with which we then have to deal is the manner in which the credit system brings capital together as the common capital of the class, with the potentiality to counteract those errant behaviours of individual capitalists that are a primary source of disequilibrium in production. To this we can then add all of those vital powers that permit the co-ordination of production with realization and consumption and distribution. Sufficient power apparently resides within the credit system to counteract the tendency towards disequilibrium in production. This power cannot be applied directly but must be transmitted via price and other signals in the sphere of exchange.

The existence of such powers does not guarantee that they will be so used. Indeed, in the early years of capitalism private appropriation of the benefits to be had from the use of the common capital of the class was so predominant that the credit system was the locus of speculative crises which erupted relatively independently of disequilibrium in production. Such speculative crises have substantial effects; they can put a strain upon surplus value production and disrupt the course of accumulation. It then appears as if the sole origin of crises lies in financial manipulations. Marx rejects this interpretation with good reason. Nevertheless, the 'second-cut' theory of crises must always allow for relatively autonomous speculative booms in fixed capital and consumption fund formation, in land sales, in commodity prices and commodity futures (including those of money commodities like gold and silver) and in paper assets of all kinds. Such speculative fevers are not necessarily to be interpreted as direct manifestations of disequilibrium in production: they can and do occur on their own account. But Marx demonstrates that they are surface froth upon much deeper currents making for disequilibrium. He also shows us that overaccumulation creates conditions ripe for such speculative fevers so that a concatenation of the latter almost invariably signals the existence of the former. The difficulty here is to disentangle the pure surface froth of perpetual speculation from the deeper rhythms of crisis formation in production.

The analysis of the accumulation cycle paves the way for a more integrated
view of the relation between financial phenomena and the dynamics of production. It shows how the inner contradictions within production are manifest in exchange as an opposition between money and commodity forms of value which then becomes, via the agency of the credit system, an outright antagonism between the financial system and its monetary base. The latter antagonism then forms the rock upon which accumulation ultimately founders. The analysis appears to depict an accumulation cycle operating in the absence of extraneous speculative activity. Such is not the case. The formation of fictitious capital is essential to the whole dynamic, and how much or which of that is extraneous can be determined only after the crisis has done its work of rationalization. The surface of speculation, it turns out, is just as essential to the dynamics of accumulation as price movements are to the formation of values.

This focuses attention upon the single most important defect in the idea of an accumulation cycle — a defect that led Marx to bury the notion in such a tentative and fragmentary set of formulations that I may justly be accused of foisting upon him an idea he did not really hold. I refer to the ahistorical manner in which the cycle is specified. Each cycle looks like any other (see section V above) and therefore appears to return the capitalist system to its status quo ante after the crisis has run its course. This hardly fits with Marx’s concern for the laws of motion that govern the historical evolution of capitalism unless, that is, we are prepared to see the latter accomplished over the course of successive accumulation cycles. And in such a case our interpretation of how the accumulation cycle works must be adjusted accordingly.

From the standpoint of the long-run evolution of capitalism, the accumulation cycle then operates as the means whereby much deeper processes of social transformation are achieved. These processes must at least temporarily relieve the underlying tension between the productive forces and social relations if capitalism is to survive. If the basic class relation remains unaltered, however, then the contradictions are merely displaced and re-created on a different plane. The accumulation cycle provides the ‘open space’ within which productive forces and social relations can adjust to each other. The speculative activity associated with the upswing allows individualized and private experimentation with new products, new technologies (including organizational forms), new physical and social infrastructures, even whole new cultures, class configurations, and forms of class organization and struggle. This atomistic ferment of experimentation creates much that is superfluous and ephemeral but simultaneously lays the material basis for later phases of accumulation. It is this aspect to speculation that Marx ignores. The crash rationalizes and re-structures production so as to eliminate extraneous elements — both old and new alike. It also disciplines all other aspects of social life to capitalist class requirements and hence typically sparks some kind of organized or unorganized response, not only on the part
of labour (which goes without saying) but also from various affected factions within the bourgeoisie. This is the time for class-imposed, rather than individually achieved, innovation backed if necessary by repression. Roosevelt’s New Deal fits exactly into such an interpretation. The net effect must be to bring productive forces and social relations back to some equilibrium position from whence the accumulation process can be renewed.

Marx depicts an analogous process in his schematic representation of how one mode of production transforms into another:

No social order is ever destroyed before all the productive forces for which it is sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society. Mankind thus sets itself only such tasks as it is able to solve, since closer examination will always show that the problem itself arises only when the material conditions for its solution are already present or at least in the course of formation. (Critique of Political Economy, p. 21)

The capacity to transform itself from the inside makes capitalism a somewhat peculiar beast — chameleon-like, it perpetually changes its colour; snake-like, it periodically sheds its skin. The study of the circulation of interest-bearing capital sheds light on the concrete material means whereby such internal transformations are wrought. We see that the circulation of capital in general must necessarily assume, at a certain point, a new guise: that of the circulation of interest-bearing capital. This is the chrysalis out of which finance capital emerges as an organized controlling force, replete with internal contradictions and characterized by chronic instability. The emergence is not an abstract affair but involves the creation of new instrumentalities and institutions, new class factions, configurations and alliances, and new channels for the circulation of capital itself. All of this is part and parcel of the necessary evolution of capitalism.

But if the power of the credit system is to be mobilized as a force to counteract disequilibrium in production, then it, too, must be transformed into an unambiguous instrument of class power, not in the sense that it falls into the hands of this or that faction of capitalists, but in the sense that it must be wielded in such a way as to ensure the reproduction of capital through accumulation. The state then takes on the burden of ensuring the reproduction of capital through fiscal and monetary policies executed by the central bank and various other branches of the state apparatus. The advantage of invoking other aspects of the state apparatus, rather than depending solely on the central bank to defend the quality of national money, is that it gives the capacity to respond to disequilibrium in production by structuring a wide range of market signals and powers within the credit system as a countervailing force. We saw in section VI how this can transform the immediate
expression of crisis from the devaluation of commodities into the devaluation of money. The 'second-cut' theory of crisis must actively embrace this possibility.

But while the target of state policy may be unambiguous, the means for achieving it are of a quite different quality. Inflation does not achieve the restructing required in production and biases the outcome of the accumulation cycle in important ways which are unlikely to compensate for disequilibrium in production in the long run. The target of state policy has then to be to organize re-structuring, to organize what it is hoped will be a controlled crisis. Such a strategy encounters two barriers. First, class struggle (not only between capital and labour but also between the various factions of industrial, commercial, banking, etc., capital) becomes internalized within the state apparatus with all manner of unpredictable effects. Secondly, experience suggests that the degree of control is inversely proportional to the success of the enterprise. Bureaucratized innovation and re-structuring is a less vigorous and less viable process for evolving new forms of capitalism than the 'free market' version (outlined in section V above). Its only virtue, of course, is that it permits the worst aspects of the crash to be controlled.

Considerable debate exists in Marxist circles as to whether crises are to be regarded as temporary cyclical affairs, culminating, perhaps, in the ultimate denouement of capitalist catastrophe, or long-run secular declines, characterized by gradual degeneration and weakness in the face of burgeoning internal contradictions. The 'second-cut' theory of crises differentiates between periodic crashes, which are always the catalyst for the internal transformation of capitalism (and perhaps, ultimately, for the transition to socialism), and long-run problems that arise with the irreversible transformation of configurations in the circulation of capital, class formation, productive forces, institutions and so on. The latter, as Marx observed, are strongly affected by the increasing socialization of capital itself, first via the agency of the credit system and ultimately through socially necessary interventions on the part of the state. The character of periodic crashes is thereby also transformed. Instead of being the aggregate social effect of an essentially atomistic, individualized process, they become a social affair from the very outset. The state, via its policies, becomes responsible for creating what it hopes will be a 'controlled recession' that will have the long-run effect of putting accumulation back on track.

The options for the internal transformation of capitalism become increasingly limited, more and more confined to innovations within the state apparatus itself. And once the limit of the state's capacity to manage the economy creatively is reached, the increasingly authoritarian use of state power — over both capital and labour (though usually with far more devastating effects upon the latter) — appears the only answer. Crises embrace the legal, institutional and political framework of capitalist society and their
resolution increasingly depends upon the deployment of naked military and repressive power. The whole problematic of the transformation of capitalism – either by evolutionary or revolutionary means – is thereby altered. The problems and prospects for the transition to socialism shift dramatically.

These shifts take on even starker meaning when we drop the assumption of a closed system and consider international aspects to crisis formation. The disciplinary power of ‘world money’ – however that is constituted – and the complex relations between different monetary systems become the background to the mobility of capital and labour on the world stage. Crises unravel as rival states, possessed of different money systems, compete with each other over who is to bear the brunt of devaluation. The struggle to export inflation, unemployment, idle productive capacity, excess commodities, etc., becomes the pivot of national policy. The costs of crises are spread differentially according to the financial, economic, political and military power of rival states. War, as Lenin insists, becomes one of the potential solutions to capitalist crisis (a splendid and immediate means of devaluation through destruction). Imperialism and neo-colonialism, as well as financial domination, become a central issue in the global economy of capitalism. We take these matters up in chapter 13.