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From gold money to fictitious money

Do dinheiro-ouro ao dinheiro fictício

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RESUMO: No século XIX, o dinheiro figurava sobretudo como ouro. No século XXI, ele aparece como estritamente fiduciário. Ora, Marx disse com toda a clareza que o dinheiro-ouro era a base efetiva do sistema monetário e de crédito. Teria o desenvolvimento histórico mostrado finalmente que a sua teoria do valor e do dinheiro seria falsa? Os marxistas têm se debatido continuamente com essa questão. O artigo procura mostrar que existe uma simples e boa resposta para essa dúvida crucial. Ela surge apenas desenvolvendo um pouco a dialética da mercadoria e do dinheiro que se encontra em *O Capital*.
PALAVRAS-CHAVE: dinheiro-ouro; dinheiro fiduciário; dinheiro fictício; valor-trabalho; capital financeiro.

ABSTRACT: In the nineteenth century, money appear primarily as gold. In the twenty-first century, it appears as strictly fiduciary money. It is known that Marx said very clearly that the golden money was the effective basis of the monetary and credit system. Had the historical development finally shown that his theory of value and money would be false? Marxists have struggled continually with this problem. This paper tries to show that exist a simple and good answer to this crucial question. It comes just developing a little the dialectics of commodities and money found on Marx's *Capital*.
KEYWORDS: golden money; fiduciary money; fictitious money; labour-value; financial capital.
JEL Classification: B51; E50.

INTRODUCTION

Is money a matter or a convention? The issue implied in this question is embarrassing for many of those who consider themselves critics of political economy; but this constraint should not linger. Ruy Fausto solved this enigma in 1997 (Fausto,

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1997). The truth, however, is that both Brazilian and international debate on the subject were still unable to reach a good conclusion. Now, a former article that reviewed Brazilian dispute on global nonconvertible money, by examining texts by Germer (1997, 2002), Corazza (1998, 2002), Carcanholo (2001, 2002) and Paulani (1991, 2011), indicated the existence of this difficulty (Prado, 2013). An article by Germer that had been published in English in 2005 (Germer, 2005), and was recently published in Portuguese (Germer, 2014), constitutes another evidence that this situation still prevails.[1]

In it, this Marxist author tries to "demonstrate that Marx unequivocally defines money as a commodity", also proving that, from the standpoint of the logic of this author's theory, "money must necessarily be a commodity" (Germer, 2014, p. 9). Obviously, when he writes these phrases, he is not thinking about money exclusively as a means of circulation, but as a general equivalent. Therefore, we must say that these statements are perfectly acceptable, provided that the term "defines" that appears in the text is replaced by the term "presents" – making a brief, but fundamental, change. Because the Marxian method, as we know, is internal to the object; it does not impose a preestablished logical character to what it wants to conceptually apprehend, but rather respects the way it is and the ways it changes in the very formation of the concepts.

Germer, however, does not start well. In the first paragraph, he thus exposes the issue in Marx's theory that he intends to examine in his article: "A specific point in the discussion deals with the physical nature of money, that is, whether or not money must be a commodity within this theory" (Germer, 2014, p. 9). Now, both the ordinary commodity and the money commodity, as we know, are forms – social forms, to be accurate – which, as such, exist economically because they are based on specific material supports. As we also know, the matter of the thing that operates in the economic system as a commodity is the base of its use value and, at the same time, a support of its exchange value. This matter is also, therefore, the support of the commodity form. In his formulation, Germer confuses the support with the form, since only the support can be material, and thus falls into the fetishism of the commodity. And this flaw had already been pointed out in the above mentioned review article (Prado, 2013).

In order to better clarify this issue, we must now distinguish three mutually exclusive possibilities of considering money, not all logically correct. Therefore, we may consider that money is matter, convention, or even that it is nor matter nor convention, but rather an objectified social form. In the first case, the ability to be money is directly attributed to the materiality of the support; consequently, we may presume, for instance, that gold is gold. Now, for the critical thought the expression "gold is money" is inadequate, because it attributes the determination of the form to the matter of money, thus inadvertently accepting, as we saw, the fetishism of the commodity.

In the second case, the matter of the support is considered arbitrary, not neces-

[1] It is the translation, made by the author himself, of an article published in English in 2005, in a collective book in which all the collaborators addressed the theory of money in Marx (Germer, 2005).

sary to the figure of money, stating, for instance, that money is a pure form, that is, something that is established through a social convention; in this case, it is accepted as good a statement that merely declares that money may eventually be fixed to gold, but also to paper or even to a plastic card. Therefore, by thinking money such as it existed in the nineteenth century, that is, in a conventional way, we already disregard the fact that the matter that supports it must be appropriate to receive the form of value. Consequently, when we consider the matter to be irrelevant to the establishment of money as such, we fall into a mistake symmetrical to that of fetishism.[2]

In the third case, we assume that money is a creation inherent to mercantile sociability, which can only be adequately apprehended through a dialectical concept, that is, as a unity of opposites, use value and value or, more precisely, as something that has several use values of its own, which are necessary to the decentralized operation of the mercantile system, and which, to that effect, also takes on the form of general equivalent.

Since, in the presentation order of *The Capital*, money is derived in the first chapter, when Marx explicitly considers just the mercantile circulation, money appears and can only appear there, for the first time, as a *sui generis* commodity, as a commodity that is selected by the mercantile process to function as general equivalent. This derivation is made, of course, through logical steps: money appears as a determined negation of commodities in general. Consequently, for all the commodities to express their value in a relative form, there must be a commodity that occupies the center of reference of the mercantile system as a whole, assuming a form of commodity in general. As we know, however, the realization of money in the gold commodity support is a historical step, not a logical one.

MONEY AND COMMODITY

Very well, now we must leave behind the obvious fact that Germer – maybe simply due to his manner of expression – does not remain strictly confined to the criticism of fetishism. After that, we must immediately examine one of his claims that, although literally correct, entails a huge problem: "Marx maintains his conception of money as a commodity – and of gold as its final evolutive form – throughout his entire work [...]. There is no indication at all that he may have regarded the forms of credit money – bank notes and deposits – as more developed forms of money itself, that is, of the general equivalent." (Germer, 2014, p. 12). It is a problematic claim, because it blocks Marx's theory to the possibility of apprehending the historical development of mercantile forms – a real possibility which,

[2] An example: Ivanova, in a generally very good text, points first to something correct, but ends up falling into conventionalism: "the management of money is inseparable from the social form of imposing labor. In particular, the demands of the latter determine not only the institutional organization of money, but also the choice of the general equivalent; that is, money may not have to be a commodity at all" (Ivanova, 2013, p. 45).

at the risk of its own death, cannot elude him. Now, in view of the centuries-old development of capitalism itself, this blocking makes the Marxian theory implausible and anachronistic, appearing like an old understanding of capitalism that could only be maintained nowadays through a dogmatic belief. Because the gold money, unlike what happened at the time of Marx himself, no longer seems to have any role in the current operation of contemporary capitalism.

Germer identifies the concept of commodity with the notion of a good that gained the determination of value and that now can only satisfy human needs through the market. And this is very restrictive. We must initially stress that the commodity form evidently does not adhere only to the things established as use values whose existence is independent from their own use (namely, goods), but also to the things that exist only at the time of their use (namely, services). Now, services in general, and not only goods, also necessarily have a physical support. However, as is well known, there is no service whose materiality might work adequately as a support of the money form. Yet the money born of mercantile circulation, the one that acts as general equivalent, for practical reasons, was born having as raw material copper, silver, and finally gold.

However, this expansion of the scope of the support of the commodity form may still be considered insufficient. One may ask whether the commodity form only adheres to the common use values that are negotiated in the markets and which, through them, will meet the needs of individuals and business enterprises. No, obviously not. As we know, to Marx, capital itself may be negotiated as a commodity, becoming in this case capital commodity. And this happens when capital takes the form of loan capital; as the use value of a monetary capital – that is, its ability to buy raw materials, machines, workforce etc. – is transferred to third parties through a specific mercantile transaction, without transferring its ownership, it becomes an interest-bearing capital.

Given this possibility and in order to cause some perplexity, one may ask: which matter can give support, for instance, to corporate securities, which represent an implicit or explicit money lending relationship, and which, as such, defines a borrower and a lender? We must stress that this is not a direct relationship, but, as any mercantile relationship, is established as a social relationship of things. The matter of this thing, unlike the golden metal that receives a form of value originated in the production of goods, must receive a form of value established exclusively in the sphere of circulation – and not, we emphasize, in the sphere of production. Now, this form as such represents only a possible value, not an effective value, an abstract labor that was already established by the social process. Therefore, could this matter be a mere paper? Yes, precisely, because it definitely could not be a gold piece. Because it must receive a form of capital that Marx designates as fictitious in order to show that it is just the present value of a promised flow of future value, which actually may or may not be generated, as time passes by.

The loan capital, monetary capital as such, may have been originated in the sphere of production. It may have appeared in the hands of the capitalist lender, but it came from a capitalist as a result of the payment of a previous loan, therefore having been obtained as the final result of the sale of a commodity. In this case, as we know, it was money capital in the circuit of production of the capital. At the

time of the loan, however, capital duplicates: the monetary capital, for instance, is transferred to another capitalist, starting to exist also as a deed of property in the hands of the capitalist lender. But, as is well known, the loan capital may not have had such a "vulgar" origin; it may have a "nobler" origin. If the capitalist lender is a bank, it may create loan capital in a merely book-entry way, but it actually draws on the future, makes present the possible outcome of a promised valorization.

Corporate securities are created by business enterprises through mutual loans with the specific purpose of enabling the expansion of production and the commercialization of already produced goods. Since in the nineteenth century those securities circulated largely, they also became a form of money, which Marx designated as credit money. In addition to the promissory notes generated by private companies in general, also the banknotes issued by commercial banks based on a gold reserve worked then as credit money. Anyway, credit money is also a commodity – although not a common, trivial commodity.

Credit money, therefore, presumes the existence of transactions of capital as a commodity, which materialize through the issuance of debt certificates. Those certificates then start to exist as fictitious capital, that is, as a capital that has no direct relationship with wage labor. As we know, this latter form exists in capitalism because capital, besides being able to derive from past work and existing as a value valorizing itself effectively, may constitute a promise of value – a value that may still be realized or even generated in the future. The mercantile operation that gives rise to this form is always an indebtedness operation, a commitment made in the present and that will eventually be settled in the future, mostly, or sometimes at least, with labor-value that will be produced in the course of time. This is why, in the present, it exists merely as fictitious capital.

CREDIT AND MONEY

It is true, Marx could not have considered credit money a developed form of the general equivalent because, unlike this latter, it is fictitious money, that is, money that does not have intrinsic value. But, as we know, the mediation of all transactions in contemporary capitalism, both those involving common goods and those involving capitals that took on the form of commodities, is currently made through credit money – without the real or virtual presence of gold money. How is it possible? What kind of money is this that deceives without any disguise the objectivity of value established by the general equivalent? It seems an enigma, but the key to solve it is in Marx himself. To find it, we must quote a long passage of the volume 3 of *The Capital*.

Observing the existing conditions in the mid-nineteenth century, he writes:

> Regarding money: [its] "social existence therefore assumes the aspect of a world beyond, of a thing, matter, commodity, alongside of and external to the real elements of social wealth. So long as production is in a state of flux, this is forgotten. Credit, likewise a social form of wealth, crowds out money and usurps its place. It is faith in the social character

> of production which allows the money-form of products to assume the aspect of something that is only evanescent and ideal, something merely imaginative. But as soon as credit is shaken – and this phase of necessity always appears in the modern industrial cycle – all the real wealth is to be actually and suddenly transformed into money, into gold and silver – a mad demand, which, however, grows necessarily out of the system itself. [...] The capitalist system of production, in fact, has this feature in common with former systems of production, in so far as they are based on trade in commodities and private exchange. But only in the capitalist system of production does this become apparent in the most striking and grotesque form of absurd contradiction and paradox, because, in the first place, production for direct use-value, for consumption by the producers themselves, is most completely eliminated under the capitalist system, so that wealth exists only as a social process expressed as the intertwining of production and circulation; and secondly, with the development of the credit system, capitalist production continually strives to overcome the metal barrier, which is simultaneously a material and imaginative barrier of wealth and its movement, but again and again it breaks its back on this barrier". (Marx, 1983, p. 93)

The last sentence of this passage, the one that points to the second cause of the absurdity, is mentioned by Germer as a definite proof that, to Marx, money is always, ultimately, commodity-money. However, his mention does not stress the fact that the credit money – an important subtlety – could and actually used to usurp the place of the commodity-money. Marx's text is very clear: in nineteenth century conditions, this occurred in a limited way and during limited periods, due to the successful operation of capitalist production. It is worth remarking here that this author had as theoretical reference the gold standard prevailing in England, that is, a monetary regime based on a fractional reserve in which circulates paper money convertible into gold according to a fixed rate determined by the Central Bank.

In order to conclude his argument, Germer quotes another passage, which seems to put an end to the issue: "But it should always be borne in mind" – says Marx – "that, in the first place, money – in the form of precious metal – remains the foundation from which the credit system, by its very nature, can never detach itself" (Marx, 1983, p. 116). However, here as well, Germer fails to observe that Marx subsequently says that we must not forget either that "the credit system presupposes the monopoly of social means of production by private persons (in the form of capital and landed property), that it is itself, on the one hand, an immanent form of the capitalist mode of production, and on the other, a driving force in its development to its highest and ultimate form" (Marx, 1983, p. 166). Therefore, if the credit money was taking the place of the gold money it was because, as an "immanent form", it could act as a "driving force" of capitalist production. And if it did so during a given time, it was because it was then still based on the private ownership of individual capitalists – and not on the State's ownership.

Anyway, there is no doubt that to Marx, the gold money was the basis of the credit system – a basis from which it could not detach itself. Now, there is also no

doubt that, during the twentieth century, the gold money was withdrawn from the circulation of goods and finally sent to exile, that is, to the bottom of the coffers of the central banks – particularly, to the coffers of the central banks of imperialist powers – there remaining inactive, that is, exclusively as a monetary reserve fund. It remains there indefinitely, as a reserve, allegedly to be used in the event of a collapse in the monetary system based on credit, an exceptional situation, but possible in principle, in which only a real commodity receiving the money form may actually function as money. But if this fund has some role in strengthening the faith in the fictitious money that actually circulates in global capitalism, it is also the subject of a religious belief: should a collapse really occur, then we would see that the gold available would be completely insufficient to secure the operation of the markets and, therefore, to prevent the failure of the monetary and credit systems as a whole.

In nineteenth century crises, according to Marx, inexorably "the demand is made that all bills of exchange, securities and commodities shall be simultaneously convertible into bank money, and all this bank money, in turn, into gold" (Marx, 1983, p. 93). If this used to happen, why it no longer happened during the twentieth century? To answer this question, we must observe that the monetary and credit systems are connected to the system that produces goods, and they exist to enable capital accumulation at the highest possible level. Given this intrinsic purpose, it is widely known that they did not remain indifferent to the constantly renewed, rough and turbulent history of capitalism; rather, they went through several institutional changes in order to become adapted to the needs of the accumulation.[3]

Since the gold money – the commodity-money in general – is an immanent product of the mercantile circulation itself, it was, during a long time, the proper and perfectly appropriate way of anchoring those two systems and, therefore, the mode of production as a whole. If the gold money was transferred from the sphere of circulation to remain only as a reserve in the Central Bank, this can only be explained by the fact that it was no longer suitable to better subordinate the workers to the ties of capital relation and to maintain capital accumulation at the fastest possible pace, according to the challenges of the historical time.[4]

The money form does not necessarily need to be fixed to a commodity that has

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[3] We do not intend to discuss here the details of those historical changes, as important as they may be. The main changes in the capitalist mode of production appear in order to better subsume the workers and thus to impose on them a way of working that results in productivity increase, with their least possible resistance; basically, in the final analysis, they aim at increasing the production of surplus value and, consequently, at ensuring profitability. It is a fact that capitalism pursues this objective even when it shifts, whenever it considers necessary, from real profitability to fictitious profitability. This mode of production, as we know, is highly dynamic: intensely rational and, simultaneously, madly immoderate.

[4] What follows was inspired by certain ideas supported by theorists of the "value criticism" on the nature of contemporary money, particularly the way they were formulated by Lohoff and Trenkle (2014). But, in fact, we are here giving continuity to what we had formerly written on the subject (Prado, 2013). It must remain clear, therefore, that we disagree with the central idea maintained by those authors, that is, the one that clearly appears in the following statement: "when the creation of credit money by the central banks becomes the prevailing form of money supply, those banks' securities play the role of

intrinsic value. This is only necessary when, as a privileged form, it emerges as a product of largely spontaneous mercantile transactions. What characterizes money above all is that it represents commodities in general; as a *sui generis* commodity, it appears before all the others as their possible form par excellence. Now, when this form is generated and manipulated by the State in order to subsidize accumulation, it has to be fixed, not to a "gold fetter", but to monetary paper, that is, to a merely formal commodity.

In order to understand the fundamental cause that produced such a significant change, we must emphasize that capital exists under two forms: as functioning capital, which feeds on the generation of surplus value with the processes of production of goods, and as fictitious capital, which exists as an anticipation of future valorization. The gold money was maintained at the base of the monetary and credit systems during the long time in which the functioning capital remained as the undisputed protagonist of the accumulation process.

During the period that goes from the last third of the eighteenth century to the mid-twentieth century, the fictitious capital, in expansion or contraction according to the moment of the economic cycle, appeared only as a supporting character in the accumulation process; sometimes it grew significantly, sometimes it retreated to the back of the economic scene. However, during the last century, the transformations of capitalism itself progressively undermined the vanguardism of the functioning capital and, consequently, the functionality of the gold money. It became increasingly necessary to supplement the cumulative impetus of the capital that gains surplus value by hiring wage-workers through a stimulation stemming from the State. It also became necessary, particularly in developed countries, to co-opt a working class that was increasingly numerous and organized in trade unions to the purposes of the capital, allowing it to share, up to a certain point, the "fruits of progress".[5] The growing importance, in the sphere of national states, of internal goals in macroeconomic management required the separation between the economic policy and the constraints of the gold standard.

To make this possible, therefore, it was necessary to contradict, up to a certain point, the intrinsic regulation of value in the determination of prices. Since the gold money imposes a "natural" constraint on the markets's way of operating, its forced exile and, therefore, the suppression of the functional activity of the general equivalent became a necessity. During the twentieth century, the accumulation process in the sphere of the industrial capital lost part of its autonomy and was no longer self-sustainable, but this did not happen suddenly. In fact, it took place through a

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commodity-money" (Lohoff and Trenkle, 2014, p. 173). We maintain here that Central Bank securities are not money, properly speaking, but simply anchors for the production of fictitious money.

[5] Eichengreen explains the abandon of the gold standard during the twentieth century by a reason of political nature: the nations had to sacrifice the preservation of the fixed exchange rate in view of the emergence of new economic policy goals, that is, the pursuit of welfare and full employment (Eichengreen, 1996, pp. 3-6). We regard this explanation as superficial; it overlooks the fact that this change is ultimately rooted in the historical development of the capitalist mode of production, that is, of the forms of capital accumulation.

historical journey that lasted several decades, at the end of which the necessity arose for the fictitious capital itself to become the protagonist of the capitalist mode of production. Anyway, throughout this journey, the usurpation of the place of the gold money, which Marx regarded as episodic, became something permanent.

The economic theory usually maintains that the market process generates itself, that is, works spontaneously. Consequently, it assumes that the action of private capitals alone is able to promote – using here a vulgar expression that it favors – the economic growth. Now, this theoretical understanding is an idealization based on the appearance of the cyclic movement of the process of capital accumulation, which could be observed in the nineteenth century. During the twentieth century, and particularly as of 1929, it became clear that the capitalist economic system in the strict sense could not recover from crises exclusively by means of its own force.

On the contrary, many observers believed that, in that turbulent period, its spontaneous course followed the path of a prolonged depression. The historical situation had drastically changed: the destruction of capital – with the concurrent drop in employment and product – necessary to re-establish the profit rate now took on truly extraordinary proportions. After the worst moment of the crisis and a huge wave of bankruptcies of banks and industrial enterprises, the capitalists were still very disinclined to resume investment projects. The recovery, therefore, now demanded State intervention, that is, an action that could centrally influence the volume of workforce utilization. The active economic policy, that is, the management of fiscal and monetary policies to promote capital accumulation, became incompatible with the preservation of the gold standard.

NEW FOUNDATION

In the nineteenth century, when a crisis arose, businesses also came to a standstill. The capitalist economy only gradually resumed its level of activity, as the more solid business enterprises recovered and the bankrupt ones left the market. During the crisis, unemployment increased dramatically and, consequently, actual wages fell. Therefore, the rate of exploitation increased but did not prevent the drop in the amount of surplus value from almost always happening. Even if, at the end of the crisis, the profit rate increased enough, the collapse of the credit system never ceased to be a tragedy for the capitalists. The dramatic loss of a significant amount of fictitious capital represented a real loss to the capitalists. In addition, this sudden disappearance not only paralyzed the operation of the markets, but took away a good portion of industrial capital that was operating in the production units. Besides, the reduction in the level of economic activity and the increased unemployment implied a simultaneous reduction in the production of surplus value.

Under nineteenth century conditions, the governments' economic policy was bound to the preservation of the monetary standard based on commodity-money (gold or silver) and to the maintenance of the exchange rates – and therefore, to the preservation of international reserves at adequate levels. It was not employed, therefore, in the support of economic activity or even in the rescue of financial

institutions in trouble.[6] On the contrary, it was presumed that the operation of the economic system itself would be able to find the best solution for its inherent difficulties, were they mere fluctuations or the emergence of major crises. Governments clung to the markets' own regulation and resisted directing their economic policies towards other purposes than the preservation of the stability of their own monetary standard. Under those circumstances, the crises were overcome because, in the course and at the end of them, a significant amount of capital was destroyed, restoring, therefore, the profit rate.

During the twentieth century there was a profound change in the function of the central banks that, even if it did not completely break with the past, gave a new direction to capitalism. And if there is no sign of it in Marx's text it is because it was not yet present in his historical field of vision. The "metal barrier" was apparently overcome because – and this is quite obvious – an alternative way was found in the development of capitalism of establishing confidence in the "social nature of production". That is, a way was discovered of giving a different support to the operation of the credit system and thus, presumably, to the whole system that produced surplus value. But this new way was not a mere institutional innovation. As already mentioned, it also emerged because it became necessary and suitable to the very development of the capitalist mode of production. Instead of anchoring the credit system to the gold monetary system and, thus, to the labor already established as value, it became anchored to the labor to be done, that is, to a future value representation.

Under mid-nineteenth century conditions, the creation of fictitious capital – mere deeds of property that represented an anticipation of future value – which aimed at meeting the needs of production and circulation of common goods, occurred mainly within private activity itself.[7] Under these circumstances, when a crisis arose, there was also inevitably a widespread loss of confidence in the enforcement of the private agreements that somehow financed production and mercantile circulation. This loss also entailed a widespread fear that the abstract wealth represented by the deeds of property would not survive. This is why, when the crisis broke out, the operation of the private credit system entered a state of paralysis and, simultaneously, a run on the gold money took place. At that moment, to possess gold and gold alone, this money metal par excellence, was the only thing that seemed to guarantee the preservation of the wealth that capitalists in general believed to have.

During the twentieth century, the activities of the central banks began to be

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[6] With the diffusion of the fractional reserve already in the nineteenth century, as we know, the banks became susceptible to bank runs. Besides, this vulnerability was never circumscribed; on the contrary, it manifested as a vulnerability that spread to the system as a whole. This is why, already at that time, it demanded the intervention of the Central Bank to provide the liquidity that prevented widespread bankruptcy. The existence of gold standard, however, was an obstacle to initiate this kind of intervention.

[7] As we know, the States have always resorted to public debt to cope with expenses that could not be supported by current revenues. These expenses, however, were not specifically aimed at encouraging economic activity.

oriented by economic policy criteria different from those existing in the previous century; they were now gradually seen as components of the maintenance of the operation of the system as a whole and, therefore, also as promoters of economic activity. The explicit preservation of a high level of employment and, thus, the implicit expanded generation of surplus value became a key target of the credit management policy of the central banks. The regulation of liquidity through the operation with government bonds, that is, through the purchase and sale of the fictitious capital provided by the State, was no longer aimed at specifically maintaining the monetary standard and began to pursue the target of keeping capitalism operating at a high level.[8] As we know, when they undertook this task, the central banks ceased to be passive and became active regulators of the economic system. The creation of credit – and consequently of credit money – ceased to be largely spontaneous; it became a task carried out by the public authorities with a specific purpose. Therefore, it began to rely on the force of the State, that is, on that instance of society that represents the abstract unit of the capitalist system as a whole.

The privileged position of the Central Bank as the bank of banks, as the primary source of credit, allowed it then to also anchor a monetary system based on paper money and on bank money. Therefore, the law reserved to it the monopoly of issuing the first type of money, on the basis of which is issued the second one. Because, as we know, the possibility of expanding credit through the simultaneous creation of loans and deposits is given the commercial banks, second-tier lenders, which operate under the strict regulation of the Central Bank itself.

In the nineteenth century, paper money circulated in the markets as a sign of gold; it had, therefore, the nature of a symbol that represented in an ephemeral way the value that gold seemed to carry in a permanent way. This form of money, however, cannot be mistaken for the contemporary form of paper money, because, in present-day capitalism, paper money no longer is a sign of gold. It became fictitious money, that is, money that, apart from not carrying an abstract labor and not having, therefore, the content of an already established value, does not represent the content of the already established value of a commodity-money, which it would replace in the circulation of goods. This money cannot be exchanged for gold with the Central Bank; it can only be converted into the securities administrated by the bank of banks. It is, therefore, legal tender paper money that simply represents an indirect promise of value.[9] The possibility of keeping in operation a monetary sys-

[8] This transformation begins after the end of the First World War, in 1917, but is completed only at the beginning of the 1970s. It therefore takes place at the height of the big industry, that is, in that period of the history of capitalism sometimes characterized as "Fordism". And it has two crucial moments: the abandon of the so-called gold standard after the 1929 Crisis and the loss of convertibility of the so-called dollar-gold standard in 1971. This transformation is presented in detail, although under another theoretical perspective, in the book *Globalizing Capital* by Eichengreen (1996). Lohoff and Trenkle's book (2014) and Ivanova's article (2013) mentioned above help understand it. In addition, their comprehension of the transformation of the gold money into fictitious money (an expression that, incidentally, they do not employ) is closer to the one presented here.

[9] The current paper money can still be converted into gold in the gold "commodity" markets. Even today, when someone has gold, he/she still holds the universal commodity, the one that undeniably appears as

tem thus established is not based on pure confidence; it rather derives from the fact that this system is anchored to another commodity, Central Bank securities, a State form of fictitious capital.

Consequently, the fictitious money that circulates in capitalist markets is not bearer of an already produced value or of abstract labor that was generated in the past. Therefore, it cannot function either as a true general equivalent. In fact, it performs the function of standard of price, thus meeting the immediate demand of indirect representation of value that is necessary to the continuous operation of the economic system. The sustainability of the credit system achieved by anchoring the paper money to government bonds has a counterpart: the purchasing power of the means of circulation acquires a certain instability, because it now depends on the discretionary power of a Central Bank that does not and cannot control the operation of the economic system as a whole. Particularly, it cannot suppress the contradictions that move the capitalist production. In addition, this is the reason why it becomes susceptible to several kinds of political demands.

Central Bank securities are not a new general equivalent either; they do not represent a late replacement of the gold money that visibly prevailed, during a long time, in the history of capitalism. Evidently, those securities cannot play the role of a measure of value because they do not have a value content in themselves. In fact, since they do not circulate, they cannot even be considered money, even if they can sometimes function as means of payment. As they are negotiated – sold or bought – by the Central Bank in open market operations, they make it possible to expand and contract the money supply and, thus, in principle, the credit; the final impact of those operations on the functioning of the economic system occurs through the activity of commercial banks with private owners. Those banks grant or do not grant credit to business enterprises and to individuals, thus enabling or preventing the increase of production and the circulation of goods.

The Central Bank, however, carries out its functions in the economic system in a contradictory way, because it must act to ensure a high level of capital accumulation and, simultaneously, must support a paper money that is not convertible into gold, helping it keep a certain stability. Anyway, it may be said that contemporary capitalism proceeds on a forced march under the command of monetary and public expenditure policies. The functioning capital lost a large portion of its own impulse as the process of industrialization (and of urbanization) was historically achieved at the center of the global system. And we must acknowledge that those policies are basically based on the primary issue of fictitious capital: public debt securities and the means of credit expansion. From them, evidently, is created a whole fantastic pyramid of fictitious capital of private origin.

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bearer of value. In this sense, the dollar had not removed and will not remove this status from the gold, no matter what happens in the history of capitalism. The function of general equivalent did not disappear, it became absent. It was dismissed by the continuous functioning of a whole credit system that is anchored to the government bonds issued by the central banks of the national states. It became, therefore, the image of the saint that did not lose its material support, but that was placed in the crypt (or central bank vaults).

AN UNSHAKEABLE SYSTEM?

As we can see in the excerpt of *The Capital* mentioned in full in this article, in the nineteenth century the expansion of credit tended to become excessive and thus to result inexorably in a crisis, during which a good part of the corporate securities were devalued or liquidated. As the credit system undergoes a transformation during the twentieth century and begins to be backed up by government bonds guaranteed by the State, what can happen when a crisis burst? More specifically, is the Central Bank, the agency that administrates this fictitious capital of State origin and, simultaneously, the credit money, able to keep the system operating even when the markets of credit become insolvent under certain circumstances? Now, the Central Bank does not escape the contradiction that tortures the agents of capitalist production between the preservation of the accumulated capital and the highest possible valorization of this capital.

The stability of money's purchasing power is necessary to the capitalist expectations and to ensure the effective performance of the provisions, specially quantitative ones, of the agreements; well, in contemporary capitalism, this stability is strongly subjected to opposing forces that inherently arise from the very nature of fictitious money; and this fictitious money exists as such to allow the manipulatory management of the operation of the economic system. The expansion of credit creates an effective demand, but if investment and, consequently, production, do not respond adequately, it may engender inflation or even stagflation. The expansion of credit may excessively feed not only consumption, but also the exorbitant and speculative operation of the capital markets. Consequently, huge bubbles of fictitious capital appear, which never expand indefinitely, but ultimately always burst. When this happens, there is also a contraction of credit which then produces deflationary tendencies, due to the sudden drop in the effective demand.

The bubble of fictitious capital bursts because it consists *in itself* of a very large accumulation of anticipated value – a grotesque and absurd amount of possible value that proves to be, in a certain moment of its uncontrolled process of inflation, impossible to be realized as such. Now, this poses the broader question of knowing what is the relationship between the functioning capital and the financial capital in the capitalist mode of production (Prado, 2014). The first one acts directly in the extraction of surplus value from the workers through the process of production of common goods; the second one, in its several forms, such as securities, shares, derivatives etc., appears through an act of faith in the valorization, as a *sui generis* commodity of the sphere of the circulation of capital, which exists to further the accumulation beyond its currently established limits.

This second kind of commodity exists, therefore, not only due to an intrinsic need of the circulation, but also as an immanent result of the intrinsic impatience and lack of restraint of the capital. When an instrument of debt is created, a new

capital is created without the direct creation of a capital relation, that is, without immediately establishing a relation of subordination of the wage labor to the capital.[10]

It should be now noted that the functioning capital and the fictitious capital are not strange to each other, as think those who long for the old protagonism of the functioning capital, which was already left behind in the history of capitalism (Mello, 2014). They are merely the heart and the lungs of capitalism; they collaborate mutually, although competitively, in the accumulation process. However, they traded roles during their historical course throughout the twentieth century: in the middle of this century, the functioning capital began to depend on the expansion of fictitious capital provided by the State. It was quite a change. Supported by the theory of Keynes and his followers, it contributed significantly to contradict the prospects of stagnation of capitalism that had already appeared in the late 1930s (Hansen, 1939). It also created the conditions for the occurrence of a "golden period" of capitalism in the postwar time that lasted around 25 years, coming to an end at the beginning of the 1970s. During this whole period, the expansion of the fictitious capital served mainly to the real accumulation of capital.

From then on capitalism gradually began to move through the protagonism of the financial capital, but not as an effect primarily produced by the deregulation of financial activities within national states and internationally. Because the very deregulation then observed emerged as a response of the economic policy to the relative exhaustion of the dynamics of real accumulation of capital in the big and Fordist industry. Anyway, after the formation of several bubbles in the world economy and after the great crisis of 2008 as a result of the excesses of the financial capital, the economy, now truly globalized, is in a deadlock. This is why some economists seem to anticipate that the history of the system, now, might not have a happy ending (Summers, 2014).

Finally, it should be noted that the nineteenth century credit system could fail because it was ultimately anchored to the gold money. Now, the credit system governed by the Central Bank which replaced it during the twentieth century, on the contrary cannot fail because, in this case, there will be an absolute collapse of the mode of production as a whole. And this mode of production, during its own development, became increasingly global, increasingly complex, increasingly more fantastic, a world beyond. A final question then remains to be answered by history: will the current credit system end up breaking its own back or not?

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[10] The identity between the accumulated capital and the actual accumulation of value no longer exists when we take into account the existence of fictitious capital. The accumulated capital may increase or decrease, given the actually accumulated amount of value, because the amount of fictitious capital autonomously increases or decreases, up to a certain point. And, in order to assess this amount, we must take into account all forms of fictitious capital, whether public or private.

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