Re-reading Luxemburg
A Monetary Circuit Perspective on Capitalist Dynamics, Distribution, and Effective Demand Crises

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> Once again, the self-pitying will bewail the fact that 'Marxists are arguing amongst themselves', that tried and tested 'authorities' are being contested. But Marxism is not a dozen people who ascribe the right to 'expert knowledge' to each other and before whom the mass of faithful Moslems must prostrate themselves in blind trust. Marxism is a revolutionary world outlook which must always strive for new discoveries, *which more than anything else dislikes formulations valid once and forever*, and whose living force is best preserved in the clash of self-criticism and in the rough and tumble of history.
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> Rosa Luxemburg, *Anti-Critique*: 150, modified

1. The *Accumulation of Capital*: a brief sketch

In the *Accumulation of Capital* Luxemburg insists that, for capitalist reproduction to go on undisturbed, it is not enough the presence of its material elements in the adequate proportions; nor it is sufficient that there is a compatibility between these technical and material constraints, on one side, and the value equilibrium conditions, on the other. For reproduction to be *capitalist* what is required is also that surplus value, after having being produced, be *realized*, and therefore *invested*, in a spiral. Actually, if the prospects of realization today *and* in the future are not in sight, surplus value would not be produced at all.

The perspective Luxemburg adopts is the analysis of *total* capital. According to Luxemburg, in a succession which is both logical and historical, the 'commodity capital', which is the outcome of the 'productive capital' started by the advance of finance to capitalist firms, must take again the form of money – that is, must turn into 'money capital' – and then go into production again, in a new cycle. The issues raised by Luxemburg are therefore three, and intertwined: (i) valorization means producing *and realizing* new value embodying surplus value, at prices granting an adequate 'normal' rate of profit; (ii) then, there is the need for *enough effective demand* to be provided *in the current period* to firms' output; (iii) and then also, what is needed is an *incentive* to accumulate, that is there must be *prospect*s of *growing* outlets for the ever increasing output *in the forthcoming periods*.

Luxemburg thinks that if capitalism is analysed as a 'closed' system, and the environment of non-capitalist areas is discarded, as Marx did at the end of *Capital* volume II, it is *impossible* to see who can provide this demand. Note: not only or mainly demand *today*, but especially demand *in the future* validating (in the metamorphosis of commodities with money, at the expected prices) the surplus value; and thus validating the *increasing* share of investment which must be forthcoming if the *initial* realization crisis must be postponed.

The present and future wage-earners, of course, provide part of consumption demand buying subsistence goods, and the latter magnitude may rise over time in absolute terms. However, if *workers' consumption* can realize the surplus value of the *individual* capitals, this cannot be admitted for *total* capital as a whole because, by definition, their expenditure is bound *within the limits of variable capital*. Pure demographic increase is here irrelevant, because what we are looking for is not potential demand based on 'need', but demand backed by money, and moreover demand *in excess of the capital advanced and thereby also of the (present and future) money wage bill.* This growing effective demand cannot come from *capitalists' luxury consumption* either. 'Enlarged' reproduction is built exactly on the hypothesis that *surplus value must not be fully consumed*, otherwise we would fall back on 'simple' reproduction: and, again, it must be clear that we are looking for the demand validating ex post firms' investment on an *increasing* absolute and relative scale. The so-called 'third persons' of course buy consumption goods too, but what they spend is coming from an income whose sources are *deductions* from the new value extracted by workers. They simply *substitute* workers' or capitalists' consumption, and this must be abstracted from their problem. Foreign trade within the capitalist world simply change the form of the surplus value, without providing the final *monetary* realization we are looking for.

Since what Luxemburg wants to explain is the actual *historical* existence of capitalism as a system based not on simple reproduction but on *expanded* reproduction, and since the logical inquiry provided by Marx in volume II of *Capital* is not able to show the possibility of capitalist accumulation in a 'pure' society where capitalist social relations are ruling everywhere, then the answer is clear. *Capitalist development is actually built upon the presence of non-capitalist areas, which act both as provider of commodity outlets and as provider of inputs* (raw materials, labour-power, etc.). Thus, the theory of capitalist development must necessarily slides into the history of capitalism conquering the 'external' environment. Capitalist accumulation means increasing political and military struggle over these areas – that is, *imperialism*.

Because these processes determine the shrinking of the non-capitalist areas, the tendency to crisis becomes stronger and stronger over time, leading spontaneously to capitalist *collapse* and to *barbarism*. The *active* intervention of the *organized* working class must find in these *objective* and *unavoidable* long-term prospects the ground to break with capitalism and affirm socialism.

2. Why the argument fails

Several criticisms have been put forward against Luxemburg's train of thought. The most sensible one regards her reading of the meaning of the schemes of reproduction in Marx's overall theoretical project. In fact, she thinks that the inquiry about total capital must be *immediately* developed at a *concrete* level of investigation. For Marx, instead, both inquiries of individual and of total capital have to be developed starting from those determinations common to capital as such. In the inquiry there is a *double* movement of abstraction. The first is from the way the inner nature of capital realizes itself within 'competition', where the appearance is of an external law working through the reciprocal action and reaction of 'many capitals' against each other. The second is from the concrete historical movement of capitalism.

In Marx's method, theory is something *derived* (from the concrete to the abstract, with the priority of the historical over the logical), but also and at the same time it is the *premise* of a true understanding of the 'facts' (from the abstract to the concrete, with the priority of the logical over the historical). 'Capital in general' is, on the one hand, the abstraction allowing to define the distinctive features of the capitalist mode of production relative to the others. But 'capital in general' is also, on the other hand, not only a logical but also a *real* abstraction. What competition does is indeed, not just to reveal the immanent laws of capital, but to invert and distort them. An immediate analysis of the capitalist mode of production, of the kind Luxemburg wishes, is foreign to this view. It is rather necessary to find the *mediations* through which the essence necessarily shows itself in an upside-down form of manifestation.

It is therefore quite natural that the inquiry about the reproduction of total social capital in volume II does say nothing about the issue which most interests Luxemburg, the *actuality* of capitalist accumulation. The only role of the 'schemes of reproduction' is to show the *possibility* to reconcile in expanded reproduction the constraint on the production process coming from its dual nature, being labour process and valorization process. The issue of a 'realistic' picture is out of place here, as it is of course devoid of sense the argument of those who from the same schemes want to derive the impossibility of a generalized overproduction of capitalist commodities because of lack of effective demand.

In fact, Luxemburg falls into the same epistemological error of the authors she criticizes when she tries to show, through a mathematical manipulation of the schemes, that, with different hypotheses, the general glut of commodities is necessary. Her different hypotheses are taken from volume III, and the spirit of the overall Marx's critical political economy: *increasing organic composition* and *increasing rate of surplus value*. If these two trend are super-imposed to the schemes, she argues, the result is an *overproduction of supply relative to demand in the sector producing consumption goods*. There are many problems with this line of thought. First, it does not seem coherent with the same problem raised by Luxemburg, which was one of lack of effective demand *as a whole* rather than 'under-consumption' strictly speaking. Second, while Luxemburg wants to be more realistic with her assumptions relative to Marx, she nevertheless maintain from Marx's scheme the constraint that surplus value is capitalized only *within* the sector in which it is extracted, something that is both practically and theoretically disputable as a fair representation of capitalist dynamics – it assumes away both the reality of capital transfers between sectors and the tendency to the uniformity of the rate of profit. Third, and decisively, what Luxemburg obtains is just an 'over-determination' of the model.

Let us look at this last point more in detail. Luxemburg maintains from Marx as an equilibrium condition the equality of savings and investements in each sector separately. At the same time she allows for an increase in the rate of surplus value while taking as constant the share in surplus value which is saved period after period. Of course, this amounts to an higher rate of growth in capital accumulation than in overall consumption. While capitalist consumption rises at the same pace than investments, workers consumption is a *decreasing* share of income. Since surplus value can be spent *only* within the sector from which it originates, the outcome cannot but be an excess supply in the consumption goods sector. But this, can be countered, is nothing but a *disproportionality crisis*, to which it corresponds off course an excess demand in the production goods sector: definitely, it is *not* an excess of total supply relative to effective demand as a whole. Nothing strange in this, since this result is in the nature of the schemes of reproduction.

This said, a different perspective may be advanced. If one looks at what Luxemburg clearly is trying to do, this 'disproportionality' Luxemburg constructs in the scheme is *not* so self-defeating for her argument. Moreover, it shows how she is putting forward an argument which is *very far* from underconsumptionism. Her modification of the schemes of reproduction with an excess supply of consumer goods and an excess demand of production goods (including raw materials etc.) *has a definite and coherent counterpart in her solution* to the difficulty she raises. The excess consumer goods in section II are sold to non-capitalist areas and this allows to import from these areas the raw materials and inputs needed to resolve the excess demand in I. On this line, for the capitalist area accumulation can go on *without taking into account any limit from internal consumption.* In other terms, the rate of accumulation is made independent from the internal market, and maximized.

3. The critics, however, do not see the problems

Just as soon as the book appeared in print, it was the object of fierce criticism. This criticism did not came simply from social-democratic authors. It came also, and harshly, from bolsheviks, like Bukharin, or from theoreticians who were themselves proposing an approach to crises stressing the theme of the insufficient realization of surplus value, like Sweezy. There were a couple of *easy targets* – at least, so it seemed at the time. The first was the insistence by Luxemburg on the realization *in money* of surplus value as a key issue. Thus, she was accused of having confused the question: 'where demand comes from to realize surplus value?', with the question: 'where money comes from to monetize profits?' This second problem is taken by her critics to be simply a 'technical' one, easily solved, say, by an increase in the velocity of money. The first problem is also false, because critics argue that Luxemburg is guilty of the usual error by 'under-consumptionists' – she does not see that capitalists provide demand to themselves, not though consumption but through the same act of *investments*. Thus, investment dynamics is justified by itself.

The locus classicus of this criticism is Bukharin's *Imperialism and the accumulation of capital.* Consumption is growing with accumulation, he argues: capitalists' consumption in absolute terms of the workers *already* employed, of course, but also workers' consumption through accumulation and the corresponding *increase* in employment. The *additional variable capital* coming into the system, year after year, realizes the surplus value extracted in prior years. Investments strictly speaking – namely, *additional constant capital* – is in itself not only an increase in productive capacity: it is also demand providing the realization of the value and surplus value produced with that capacity. Investmens is then the *solution* to the problem it poses to itself. There is nothing strange in the fact that, to guarantee the possibility of extended reproduction over time, what emerges is the picture of a world in which production is done *for the sake of production.* It is nothing but the consequence that use value is not the aim of production, it is just the support of value in view of the maximization of surplus value.

There is no *necessity* of realization crisis in the form of under-consumption crisis, there is *no impossibility* of capitalism in a 'pure' two-class society, in a 'closed' setting with no external non-capitalist environment. Unless, of course, for total capital the issue of realization is translated into that of the *immediate* and *simultaneous* transformation of the commodities into an equivalent 'pile' of money. *This* is exactly Luxemburg's error, for Bukharin. Luxemburg would be guilty not only of under-consumptionism, but also of locating the source of the crises *in circulation* and not in production; and of seeing the problem in circulation in its *most superficial* aspect, given by its monetary setting. This doesn't mean that there are no crises in capitalism. For those who criticize Luxemburg on these lines, they don't have to do with effective demand: they have to do either with *the tendency of the rate of profit to fall*, or with 'anarchy' on the market resulting in *disproporrtionalities*. *General overproduction* of commodities is a red herring.

This criticism is *not convincing*. We already saw that she broke with under-consumptionism. She actually considered the increased consumption coming from the new labour power employed thanks to accumulation, and she didn't discarded investment. For sure, for her the realization crisis was coming from the relative reduction in variable capital, and this was springing from the inner dynamics of capitalist production of relative surplus value.

What the critics miss are the *three defining features* of her contribution, which clearly show her superiority over them. They are: (i) the *macro-monetary* nature of the capitalist process, and therefore the crucial issue of *finance* in the accumulation of capital; (ii) the dependence of the dynamic equilibria of extended reproduction from the dynamic of investments, and of this latter from the *incentive* to invest; (iii) the grounding of crisis theory in the dynamics of *production* of value and surplus value, because the crisis of realization is the necessary consequence of *relative surplus value extraction* producing *the tendential fall of the 'relative' wage*. If it is true that Luxemburg was not able to exploit her insights to the full, her critics don't even see the problem she was facing.

4. The *Introduction to Political Economy*: a monetary labour theory of value

Before coming back to the topic of capitalist reproduction and crisis, it is important to take a step back and reconstruct some key moments of Luxemburg's reading of Marxian economic theory as represented in writings different than the *Accumulation of Capital*. One privileged entry point is her *Introduction to political economy*. It was published after her death by Paul Levi, in 1925, as an unfinished work taking origin in her teaching at the party school: she started writing it no later than 1912, and revised it in 1916. Only part of it is available in English - the first chapter, and a section on primitive societies The book is important to us here for two main reasons: (i) the necessary link between value and money (ii) the law of the tendential fall in the 'relative wage'. We postpone the discussion of the second point to section 5, and deal here with the first.

Luxemburg stresses that the novelty of Marx relative to the Classics is in the *value-form* analysis

> To discover that in the exchange-value of every commodity, in money itself, there is only human labour and that the value of every commodity increases with the amount of labour required for its production, and vice versa, is to recognize only half of the truth. The other half consists in explaining *how* and *why* labour takes on the *estranged* form of exchange-value and the *mysterious* form of money' (Luxemburg 1925: 221; translated from the Italian, my Italics).

Capitalism is generalized commodity exchange, and exchange – says Luxemburg - is 'the *only means for associating atomistic individuals and their activity in a coherent social economy*' (*ibid.*: 222; translated from the Italian, my Italics). In other words, exchange is the *indirect* social nexus of an *asocial* society founded on *separation* between producers, that in capitalism are firms in mutual competition. What does this mean? Concrete, individual labour extracted by single capitals in mutual competition is 'immediately private labour' commanded by capitalists in the expectation that it will be validated by the market, *ex post*, as socially undifferentiated labour. Capitalist labour is *not immediately* social labour in its useful and natural shape, rather it is labour which is *indirectly* social, which must *become* social. Though Luxemburg does not use in the *Introduction* the term 'abstract' labour, it is clear that for her this ex-post socialization is going on thanks to the *abstraction* from the concrete determinations of its performance and the eventual validation of the commodity on the commodity market. Everybody produces as individual and only their final products constitutes social wealth. Their share in social labour is not represented by a certain amount of labour determined in advance but by the final product, by the commodity. The individual producer (or firm) is *not* anymore sure that the labour producing that commodity will be confirmed as social by the market.

"Only the product which can be exchanged has value, *a product which is not sold is without value*", she wrote (Luxemburg 1925: 195; translated from the Italian, my Italics), and the labour going into it would be wasted. "*Only exchange* determines the labours and products which are useful and which count socially." (Luxemburg 1925: 197; translated from the Italian, my Italics). Therefore, the notion of *socially necessary labour* cannot be separated from the *eventual validation in exchange*. More than that, immediate private labour can become social only through *monetary* exchange, that is in as much as the commodity is exchanged with money.

Money is itself a product of labour, and the labour producing the 'universal' commodity – the commodity against which all other individual commodities *must* be exchanged to show they are part of abstract social wealth – is, says Luxemburg, the "embodiment of social labour", what 'marks' immediate private labour as socially necessary validated ex post (Luxemburg 1925: 205; translated from the Italian). The labour producing money "is the *only immediately social* labour" (Luxemburg 1925: 221; translated from the Italian, my Italics), and thus money reveal itself to be a commodity *unlike any other*, since the other commodities are produced by immediately private labour and in the exchange with them the labour producing money counts as immediately social labour. In this sense, money is nothing but the *expression* of *social labour*.

When the market economy becomes predominant, "exchange *cannot but pass through the intermediation* of money, and the value of every commodity is *necessarily represented* in money". (Luxemburg 1925: 220; translated from the Italian, my Italics). Money is the only common reality connecting different private labours, a piece of human labour without any utility. "If this unique means for reciprocal understanding among individual isolated producers in the anarchy of the economy is suppressed, they are lost" (Luxemburg 1925: 224; translated from the Italian).

As I anticipated, in the Introduction the connection of all this with the notion of the 'abstraction' of labour is not explicit. But that abstract labour is a *real* abstraction *specific* to capitalism and not a mental generalization of the researcher, and that the other side of the coin of abstract labour is none other than money itself as the true outcome of the capitalist process, all this was already clearly recognised by Rosa Luxemburg in a prior text, in *Social Reform or Revolution?*:

> Marx's abstraction is not an invention but a discovery. It exists not in Marx's head but in the market economy. *It has not an imaginary existence, but a real and social existence*: so real that it can be cut and hammered, weighed and minted. *The abstract human labour discovered by Marx is, in its developed form, nothing but – money*' (the English translations, from Waters 1970: 67 and Howard 1971: 100, have been adapted, my Italics).

The necessary conclusion is that, as Luxemburg again writes at the end of the last chapter in the *Introduction*, capitalist profits, production, and accumulation depends on the present and future market outlets: "Capitalist production depends from the market and is *driven by demand*" (Luxemburg 1925: 247; translated from the Italian, my Italics)

5. The *Anti-Critique*: the capitalist process as a monetary circuit

This stress on the monetary nature of the capitalist economy is foreign to almost all of her critics. In the *Introduction* Luxemburg's approach was rescuing Marx's analysis of the internal relation between abstract labour (as a notion where the sociality of labours is *not granted ex ante*) and 'money as a commodity' (as the *incarnation of immediately social labour*): in other terms, the level of the analysis is that of the beginning of *Capital*, Volume I, where money is introduced as the *universal equivalent*. The inquiry is framed in an approach in which the production of value in generalized commodity exchange is made dependent from the market. This conclusion is in fact valid still more for surplus value production, which is dependent from effective demand, and thus from the expectations of sales at prices guaranteeing the normal profit rate.

Before turning again back to the *Introduction*, it is interesting to see how her *Anti-Critique* starts with a powerful, quite novel and original re-reading of Marxian theory as based upon a *class* and *macro-monetary* picture of the economy. In fact, it is a 'circuitist' reading of the capitalist process through which she introduces the reader to a better appreciation of her problematic in the *Accumulation of Capital*. Capitalist production is for profit, in the form of 'glittering bullion', and constantly growing profit (*Anti-Critique*: 49). Exploitation has two conditions; first, that the labour market and the production process are such that the extraction of labour and surplus labour may be fulfilled; second, "the possibility of *selling the commodities* produced by the workers *to recover, in money, the capitalists' original expenses as well as the surplus value* stolen from labour power" (*Anti-Critique*: 49, translation here as elsewhere modified) – and this implies for Luxemburg, as we already know, a *steadily increasing* possibility of selling the commodities. It is crucial here the argument put forward in the *Introduction* - i.e. a reading of commodity circulation and production as a situation where the sociality of private labour is *only* realized *ex post*, and may be *disconfirmed* by the market; therefore, the *demand-driven determination* of the level of production, and of the socially necessary amount of labour time spent in capitalist labour processes:

> To accumulate capital does *not* mean to produce higher and higher mountains of commodities, but *to convert more and more commodities into money capital*. Between the accumulation of surplus value as commodities and the use of this surplus value to enlarge production there always lies the *decisive leap*, the 'salto mortale' of commodity production, as Marx calls it: *selling for money*. Is this perhaps only valid for the

> individual capitalist, but not for the entire class, for society as a whole? Definitely not … the accumulation of profit as money profit is just such a specific and quite essential characteristic of capitalist production and *it is as valid for the class as it is for the individual employer* (*Anti-Critique*: 71-72, my Italics)

Capital accumulation depends on the market, and thus on 'social needs'. To define the social need within capitalist accumulation, and its elements, the appropriate scheme of reference is a *macroeconomic* starting point:

> The problem immediately becomes precise if we approach it *from the standpoint of total capital*, once we see the process of capitalist production *as a whole*. This is *the only relevant and right way*. It is the standpoint Marx develops systematically for the first time in the second volume of *Capital*, and *on which he bases his whole theory* … through all contradictions of competition there remains the fact that all individual capitals in society form a whole … *When one looks at capitalist production as a whole, then social requirements become a magnitude which can be grasped*, and which can be divided in its elements (*Anti-Critique*: 51, my Italics)

From here, Luxemburg goes on to an analysis of the various components within the schemes of reproduction, whose originality lies in three elements. First, the strong accent put on the *non-fictionality* of the 'macro' nature of total capital as the basis for the Marxian system. Second, the *monetary* nature of the capitalist process, and then the necessity of *finance* both *for production and demand*. Third, the *class division* as fundamental not only for the 'real' but also for the 'monetary' description of the cycle of capital.

Let us first look at total capital – vis-à-vis the working class - as something 'real' and 'concrete', not a mere mental abstraction of the researcher. Luxemburg asked herself:

> But wait: perhaps such questions are putting us on quite the wrong track.. Perhaps profit accumulation does take place in this ceaseless wandering from one capitalist's pocket into the other, in the successive realization of private profits, where the aggregate amount of money capital does not even have to grow, because such a thing as the 'aggregate profit' of all capitalists does not exist outside of obscure theory (*Anti-Critique*: 72-73)

and she countered with one of the most clear affirmation of the *priority* of the macro-social foundation over the inquiry about the individual behaviour which can be found in Marxist economics:

> Marx's economic theory stands and falls with the concept of gross *social* capital as a *concrete* amount, which finds its *tangible* expression in *aggregate* capitalist profit and its distribution, and *whose invisible movement initiates all visible movements of individual sums of capital* (*Anti-Critique*: 73, my Italics)

Moreover, even though

> every capitalist goes blindly on producing, competing with others, and hardly sees what is happening in front of his nose … there must obviously be invisible rules which somehow work in all this chaos of competition and anarchy … From the circumstance that all these laws we expound here are not explicit norms for the conscious behaviour of individual capitalists, and indeed that does not exists in society any general institution that consciously establishes and enforces these laws, it simply follows that production today fulfils its tasks like a sleep-walker, through all these gluts and dearths, price instability and crises (*Anti-Critique*: 54).

Hence, the problem remains:

> gross *social* capital continually realizes an *aggregate* profit in *money-form*, which must continually grow for gross accumulation to take place. Now, *how can the amount grow if its component parts are always circulating from one pocket to another*?" (*Anti-Critique*: 73, my Italics)

To better understand this last observation, let us look together at the second and third original points in Luxemburg approach: (i) the detailed description of *how the various elements* considered in the schemes of reproduction *circulate* in monetary form, *from whom money is disbursed*, *where it is recovered*, taking into account the *class division* in capitalism *as basic* in a 'monetary production economy'. In this way we go back to the effective demand problem in the *Accumulation of Capital*, but with a different twist.

"*Every capitalist* – she wrote – *must lay out the money capital in advance*" (*Anti-Critique*: 52, my Italics), and "*nobody receives anything from the social stock of commodities without the means of purchase - money*" (*ibid.*, my Italics). Let us start with the means of production required to reproduce the economic system on the same scale, 'simple reproduction': "since capitalist firms provides all the necessary means of production for society's labour process" (ibid.), the exchange of the commodities constituting constant capital "is an *internal* or *family matter* between capitalists" (*ibid.*) where "*the required money* for this process, of course, *comes out of the capitalists' pockets*" (*ibid.*, my Italics). Exactly for this reason, that money circulates necessarily *within* the *aggregate* firm sector, *it safely remains into the pockets of the capitalist class* before and after the exchange on the market has taken place. Reproduction of constant capital on the same scale obviously requires, year after year, the *same* amount of money to be mobilized – this kind of finance is, as Keynes would say, a 'revolving fund'.

The same is true, Luxemburg says, for capitalist 'luxury' consumer goods. These are already owned by the capitalists *as a class* 'in kind', before exchange, since they are part of the commodity stock produced in their firms. These commodities too must be exchanged with money, but this money is brought into circulation in the necessary amount by the capitalists themselves. "[A]s with the renewal of constant capital, this is an *internal*, *family arrangement* of the entrepreneurial *class*. Once more, this money *returns whence it began* – into the pockets of the capitalists as a class." (*Anti-Critique*: 53, my Italics) Under the hypothesis of 'simple reproduction', with all the surplus value going into capitalist consumption, we would need again only the same amount of finance year after year – the 'revolving fund'.

A different issue altogether is behind the realization of the means of subsistence for the working class. "[A]ll commodities – *except for labour-power* – comes into this world as property of the capitalists" (*ibid.,* my Italics). Firms have then to buy workers, paying them a wage bill, to begin production. The workers – who, unlike capitalists, are deprived of the ownership means of production and have not available money in advance of selling commodities - cannot but sell the only commodity they own, their labour-power, to capitalists. This is, in fact, the *only* way for those belonging to the working class *to have access to money as the means of purchase to finance their consumption*, and *this finance originates again from the capitalist class*: "the majority of the working population must exchange its labour power with capital to acquire means of purchase … *Every capitalist must advance the necessary money capital to purchase his labour power* – what Marx calls 'variable capital' – *in order to keep his enterprise going*" (*Anti-Critique*: 52-53, my Italics).

This time, however, it is *not* anymore an internal business, or family affair: 'variable' money capital flows *out* of the capitalist class. Since, however, Luxemburg does not take into account any savings (and still less any liquidity preference) from the working class in her macro scheme, the money wage bill is *entirely* spent buying the output of the section of the firm sector producing the means of subsistence. Therefore, "since it is the capitalists who sell means of subsistence to the workers as subsistence" (*Anti-Critique*: 53, my Italics), again "this money *returns, down to the last penny, into the pockets of the capitalists as a class, after the worker has bought his means of subsistence*" (*ibid.*).

The determination of the wage as something going on at the *macro* level is very clear in Luxemburg's picture. It is a *real* wage for the working *class* as a whole, 'given' at the subsistence level. It is *defined by the capitalist class' choices on the composition of output* - thanks to their monopoly both of means of production and of money as capital; and not through conscious behaviour but through invisible movements - *under the social constraint of social norms and class antagonism*. Workers have to receive the wage in *money* form, for the mechanism of production and expenditure to be put in motion *at the beginning of the capitalist circuit*, otherwise the cycle of money capital would not even start and firms would not have the availability of labour power. But *what is hidden* behind the monetary transaction *when workers spend their money wages* buying consumer goods is again a *real* 'macro' process:

> From the total quantity of commodities produced by the workers, *a certain share of consumer goods is assigned to them by the capitalist class*, in the exact measure of their possibility to be employed in production. By means of exchange the working class, selling the labour-power, thus *receives from the capitalist class a certain sum of money* every year; and *with this money they take from the social stock of commodities* (which are, of course, the property of capitalists) *the share of subsistence goods allotted to them according to their cultural level and the stage of the class struggle* (*Anti-Critique*: 52-53, my Italics)

But of course we cannot stop here. Capitalism is defined by the fact that "[i]ts aim and goal is profit *in the form of money*, the accumulation of money-capital" (*Anti-Critique*: 55, my Italics). Surplus value must "also contain a part destined for accumulation" (*ibid.*). More than that: "[t]his actual purpose is so important that workers are only employed (and then are also able to obtain their means of subsistence) if they produce this profit to be accumulated, *and there is the plausible expectation that this accumulation can go on in monetary form*." (*ibid.*)

The portion of the commodity output containing surplus value has to be realized against money. It is clear that, within the monetary sequential framework adopted by Luxemburg, two interconnected issues must now be raised. One we already know: *what kind of demand*, and *productive* demand, and *from whom*, is there for these commodities? The second is: since this demand must be, first of all, a *monetary* demand, *who advances this money*, from where does it originates?

The answer to the first demand we also already know. The demand cannot come from workers, because

> according to the standpoint of the capitalist *as a class – it is very important to always take this standpoint as distinct from the limited horizon of the individual capitalist* – workers are not, like others, 'customers', but simply pure labour-power, whose maintenance out of part of their own output is an unfortunate necessity, reduced to the minimum society allows in the specific given circumstances (*Anti-Critique*: 55, my Italics)

Nor it can come from capitalists in the form of demand for luxury consumption, even though in abstract they may consume all of their surplus value. This would contradict the problem, which is that of finding a *productive* demand justifying *not only* the ex-post validation of *present* value production *but also* the *prospective spiral of capital accumulation*. For the same reason, Luxemburg rejects *all* kind of 'unproductive' form of demands as a solution to her problem. Among these unproductive expenditures there is also the demand of the non-capitalist strata (as "civil cervants, clerics, academics and artists which can neither be counted among the workers nor the capitalists", *Anti-Critique*: 56) which are only consumers, and whose income come from deductions from profits or wages. If we resolve the conundrum through investments, "such a solution only pushes the problem from this moment to the next" (*Anti-Critique*: 57), since we have to find an even greater prospective demand: "*a continually expanding market*" (*Anti-Critique*: 67, my Italics).

The above points, in fact, give an answer also to the second question we raised, the one of the *monetary financing of demand*. As long as workers would buy the larger output, this would mean a compression of money profits, and this is a self-defeating solution for the realization of surplus value as a monetary magnitude. More than that, these *higher money wages would be financed from the capitalist class itself*, since it is only from firms that workers get their means of purchase, and *the capitalist class (identified with the firm sector) is in this model the only point of origin for money*. A larger share of capitalists' monetary consumption would not work as a solution not only because, as we already said, this is an unproductive kind of demand, and then it would not realize money *as capital*. The point here is that in this way what the capitalists get, as money 'valorizing' capital, *would be only money they themselves have to inject into the system* (and this is, of course, true for non-capitalist social strata as consumers, since they too get the means of purchase from capitalist pockets, either directly or through the wages of labour).

The same criticism, in fact, goes against the more straight answer, which is to see in the capitalists themselves, directly or indirectly, the customers for themselves not through unproductive expenditure but through the accumulation of capital itself:

> what else is accumulation but extension of capitalist production? *Those commodities* which fulfil this purpose must not *consist of* luxurious articles for the private consumption of the capitalists, but must be composed of *various means of production (new constant capital) and provision for the workers [new variable capital]*. (*Anti-Critique*: 57)

But here too, as in the other cases surveyed before, no excess of money receipts over the money injected into the system is possible *for the capitalist class a whole*. The money which circulates among capitalist firms to buy the new constant capital is, again, an *internal business*, a *family affair within the capitalist class*. And the money spent by the new workers also springs from their employers, *once more it comes from the pockets of the capitalist clas*s. The 'gold miner' which may produce more gold as money, and inject it into the capitalist process exchanging his product with some commodities, cannot be an adequate solution for Luxemburg. In this way part of the surplus value extracted may of course be sold, but the price is that *resources must be distracted away from productive capitalist reproduction*, and this would reduce the pace of capitalist accumulation. Rather than having new capital flowing, we would have a slower growth. Luxemburg, indeed, insists again and again that we need not simply money for the mere *circulation* of surplus value, but money that, while monetizing surplus value, is *at the same time* activating a new capitalist cycle of accumulation: money *as capital*.

The problem is clear: at the *macro-monetary* level of the argument, *with means of purchase flowing from capitalists as owners of the competing firms*, and assuming *given velocity*,

> if the capitalist as a class are the *only customers* for the total amount of their commodities, apart the share they have to part with to maintain the workers, and if

> they must always buy the commodities *with their own money*, thereby 'monetizing' the surplus value embodied in them, *then the accumulation of profits by capitalists cannot possibly take place* (*Anti-Critique*: 57, my Italics)
>
> Exploitation is complete, the possibility of enrichment, of accumulation has come. But *exchange*, the realization of the increased surplus value in *increased*, *new money capital*, has to take place in order for possibility to become reality. Notice that we do not ask here, as Marx often does in the second volume of *Capital*: where does the money for the *circulation* of surplus value come from? To answer finally: from the gold miner. We ask rather: how does *new* money *capital* come *into the pockets of the capitalists*, since (apart from the workers) they are the only ones who can consume each other's commodities? *Here money capital wanders continuously out of one pocket into another* (*Anti-Critique*: 72, my Italics).

The only valid answer, for Luxemburg, may be found in buyers which must "receive their means of purchase from an *independent source of purchasing power*, and *do not get it out of the pocket of the capitalist* like the workers" (*Anti-Critique*: 57, my Italics). They must *not* be part of the capitalist class, and must be *producers* within *monetary commodity (simple) circulation*. This is exactly what happens in the 'solution' she devises to her 'disproportionality' crisis model in the *Accumulation of Capital*.

6. The *Introduction to Political Economy*: the law of tendential fall in the 'relative wage'

Let's now go back to the *Introduction to Political Economy*. As we anticipated, the book is also relevant for the formulation of the *law of tendential fall in the 'relative wage'*. The latter follows as a necessary consequence of her reading of Marx's theory of the wage. Luxemburg distinguishes in the 'absolute' wage the *nominal* wage and the *real* wage. The 'normal' level of this latter is fixed by *social conventions* and *class struggle* (cfr the quote from p. 52-53 of the *Anti-Critique* at page 9). The (historical, social and conflictual) subsistence real wage defines the *value of labour power* as the socially necessary labour time required to *produce* the means of subsistence (as Marx does in vol. I of *Capital*). The former is the *monetary expression* of the value of labour power, or its *price* – in this chapter Luxemburg does not consider deviations of the money wage from the level guaranteeing that workers get the subsistence real wage. We know from the last section that this subsistence real wage, whatever the 'appearance' at the 'microeconomic' level of inquiry, is in fact determined by *total* capital, when the capitalist class as *a whole* fixes the *real* wage for the working class which will be bought by the money wage bill advanced a variable capital..

The *Introduction* insists that the peculiarity of labour-power as a *very special* commodity is *dual*. We may rewrite these two characteristics in the following way. First, it consists in the fact that its use-value, *living* labour, is *not separable from the seller*. This, of course, means that *after* the buying and selling of labour power in the labour market and *before* produced commodities are sold in the commodity market, capitalists have to *compel* workers to work as expected, and work for a (socially necessary) labour time which is longer than necessary labour time. Second, the *materialization* or *crystallization* of living labour in *objectified* abstract labour (*ideal* money) is the *substance* of value. The *actual* metamorphosis with *real* money, directly social labour, simply exhibits this substance of value in a *monetary* form. Surplus value is then the monetary expression of surplus labour, whose origin is in the prolongation of living labour over and above the necessary labour.

For the extraction of surplus labour to be possible a certain level of *productive power of labour* must be reached in society, thus the (surplus) *value productivity* of wage workers cannot be traced back to some *physiological* property, and depends on *social phenomena* – among which we may remind as especially relevant the historical evolution in the past, the organization of labour, and the determination of the methods of production in present society.

Another specificity of the wage relation can be appreciated, according to Luxemburg, through a *historically comparative* approach. In *slave and feudal societies*, where labourers were either (the slaves) were part of the same means of production or (the serfs) were tied to them, in both cases strictly in a relation of open and transparent subordination, *what was determined beforehand was the lot of goods accruing to the ruling classes, not the one accruing to the direct producers*. In *capitalism*, where workers are juridically 'free' subjects, *what is given and known beforehand is,* on the contrary, *the lot of commodities available to wage earners*. A similar contrast between class pre-capitalist societies and capitalism may be stated looking at the *destination* of the surplus. In *slavery and feudalism* the end of production was *consumption in kind of the ruling classes*, something which is - more or less - *limited* whatever the rapacity of the ruling classes. In *capitalism*, the end of production is *sale against money on the commodity market* to obtain a potentially *unlimited* surplus value: and this means that in immediate production the drive is to push beyond any limit the excess of living labour over necessary labour.

"Under the money form, wealth does not know any limit. That's why *the hunger for surplus labour is without limit*" (Luxemburg 1925: 237, translation from Italian, my Italics). It is with this in mind, to obtain more money from the money capital advanced, in a *limitless* spiral, that the capitalist process is started. "To extract surplus value and to extract it *without limit*, this is the aim and the function of the buying of labour power" (*ibid*., my Italics).)

These two points are crucial, and connected in a dialectical relation. The value of labour power is ruled by the subsistence level of the real wage: this latter is seen as a *determinate* amount - 'given' and 'known' in the period, as Marx wrote - *before* production, and in 'pure' theory it regulates the buying and selling of labour-power on the labour market where the *nominal* wage is fixed through bargaining between trade unions and firms. The surplus value, and hence the surplus labour, is, at that point in the cycle of capital, *yet to be determined*. It will be determined *after* the initial exchange on the labour market and *within* the immediate production of value and surplus value, in the capitalist labour process (as contested terrain). It is therefore the *result* of class struggle in production. In the inquiry over the origin of surplus value surplus labour is an *endogenous* variable. It is here, in fact, that the notion of *living* labour – a *fluid* to be congealed, (abstract) labour yet 'in motion' or in 'becoming' – shows to be essential for the labour theory of value as a *theory of exploitation*.

To *increase* surplus labour, to be 'realized' as surplus value, it is, of course, possible to *lengthen the social working day*, or to *cut the 'absolute' wage*. But these two means are too 'simple', as Luxemburg defines them. They are not the typical means of extraction of (potential) surplus value in the *capitalist* mode of production. In fact, they are even threatening its survival, because sooner or later they would destroy the same working class. And workers are the bearers of the 'capacity to work' from which living labour, the source of value, and hence thereafter its objectification, value as substance and form, spring. According to Luxemburg, it is here that we better understand the role of *trade-unions*. It is only *through class struggle* that the length of the working day may be reduced and the conventional subsistence real wage increased. These are *reforms*, they are *positive* for workers' 'well-being'. At the same time, they are *functional* to the working of the capitalist economy . It is only thanks to this *social constraint* that capital may express its inner 'positive', 'progressive' nature.

Luxemburg's *Introduction* at this point introduces the notion of the 'relative' wage, which is central in her perspective. The notion was already in *Wage-Labour and Capital*, a conference by Marx in 1847 published in 1849 in the *Neue Rheinische Zeitung*. It helps to understand the relation between the standard of living granted to workers and social wealth. *Relative* wage is defined by Luxemburg of as "the *share* of the wage in the whole output created by workers" (Luxemburg 1925: 253-254, translation from Italian, my Italics). *Given* the length of the working day and the intensity of labour, capitalists obtain a *larger* share of surplus labour (and then potential surplus value) within the whole of the labour time pumped out from workers (and therefore a share of surplus value) *only to the extent that more advanced techniques of production diminish the value of labour-power*. This latter, we already know, is regulated by the real subsistence wage and is a *known datum*, at a given time and in a given place. Against any theory that would impute to Marx the idea of an 'increasing *absolute* impoverishment' of the working class, Luxemburg clarifies that the real wage may increase and the relative wage may fall (Luxemburg 1925: 254). In other terms, and more generally, innovations may allow *at one and the same time* an increase in the share of surplus value going to capitalists *and* an increase in workers' material 'well-being'. The latter may be realised either as *higher real wages* or in *reductions in working time*, or *both*.

How Rosa Luxemburg goes as far as to put forward what she defines as a 'law' distinctive of the mode of production founded on labour-power as a commodity, the law of a *tendential fall in the 'relative wage'*? Here again her method is *historical* and *comparative*. In *primitive communism* "the division of the product is made, in equal parts, before production" (Luxemburg 1925: 256, translation from Italian). In *feudalism* not equality but exploitation rules: nevertheless, "what is exactly fixed is *not the share of labourers*, of serfs, in their output, *but the share going to the exploiter*, to the feudal lord … What residues, as labour time and as output, is the share of the serf" (257). In *pre-capitalist exploitation*, she says, there are clear, though arbitrary, norms regulating *ex ante* the share in distribution going to exploiters, so that if in production they are able to increase their production the residual accrues to them. In capitalism, she insists, the situation is very different :

> In the wage system there are neither legal nor customary rules, neither coercive nor arbitrary determinations of the *workers' share* of their product. Rather, this share *is determined by the degree of the productive-power of labour*, then by the state of techniques. *It is* not any arbitrary will of exploiters but *technical change* that causes the *inexorable and relentless pressure on workers*' (Luxemburg 1925: 257; translated from Italian, my Italics).

Indeed, Luxemburg continues:

> *[F]or capitalism, continuous and ceaseless technical change is a necessity, a vital condition.* The *competition* between individual entrepreneurs compels each one of them to produce, as cheaply as possible. That is, with the highest possible saving of human labour' (Luxemburg 1925: 255; translated from Italian, my Italics).

The conclusion is that:

> *[E]ach advance in the productive-power of labour manifests itself in a contraction of the necessary labour to reproduce the worker*. That is to say: capitalist production cannot take a single step without limiting the participation of workers in the social product' (*ibid.*, my Italics).

Let me summarize the argument. Luxemburg argues that an increase in the productive-power of labour, driven by *individual capitals' competitive hunt for extra-profits*, necessarily leads to a *decrease in the labour socially necessary to produce wage-goods*. The change in distribution is thereby traced back to *dynamic* competition: the way the inner nature of capital, pushing to a constant pressure on workers for a limitless excess of living labour over necessary labour, manifests itself in the reciprocal repulsion of the 'many' capitals. This conclusion follows *necessarily* from the two others which stated *the real wage as a 'known datum' before production* (the absolute wage as an *already* determined magnitude on the labour market), and from the variability of surplus value in immediate production as a consequence of class struggle and innovation (that is: surplus labour and potential surplus value, as magnitude *yet* to be determined in the analysis of the *origin* of surplus value). In fact, the fall of the relative wage is for Luxemburg *nothing but the consequence of the extraction of relative surplus value*. In a situation like this the real wage may rise; but this has clear *upward limits*. Her conclusion is straightforward:

> [T]he struggle against a fall in the relative wage also implies a struggle against the commodity character of labour-power, i.e. against capitalist production as a whole. Thus *the struggle against a fall in the relative wage is no longer a struggle on the basis of the commodity economy, but a revolutionary, subversive attack on the existence of this economy*; it is the socialist movement of the proletariat (Luxemburg 1925: 257; English translation in Rosdolsky 1968: 295, my Italics).

7. Luxemburg on Marx on money and value: assessment

Luxemburg was one of the very few Marxists to realize, at least partially, that Karl Marx's critique of political economy is a *unique* case in the history of economic thought. To speak of monetary 'aspects' of the Marxian system it is even not enough, because what he offers is a view of the capitalist economic process *as a whole* where production, circulation and distribution are *deeply affected by money and finance*, so that any dichotomy between the 'real' and the 'monetary' is futile. Indeed, if there is an author for whom the label *monetary theory of production* is appropriate, this is Marx. She re-read the capitalist process in *Capital* as a *monetary sequence* of *successive* and *intertwined phases*. Read together, the *Accumulation of Capital* and the *Introduction* show that Luxemburg was on the way to combine a *monetary labour theory of value and exploitation* and a *macro-class monetary approach to production and distribution*. Indeed, she may be seen as a forerunner of recent attempts to re-instate 'valorization' as the *core* of a 'monetary theory of production', as some theorists of the monetary circuit has proposed in recent years. Luxemburg allows us to better understand Marx's theory of money as the *general equivalent*, and Marx's *cycle of money capital* as applied to total capital.

As to the money as the general equivalent: in Volume I, capitalism as 'generalized commodity exchange' is presented *from the start* as an *essentially monetary* economy. It is impossible to have any dichotomy between the analysis of value and the theory of money, as the most widespread traditional interpretations go. Value finds its *necessary* form of manifestation in money as the *universal equivalent*, but this is in Marx strictly linked to his view of money *as a commodity* – which here means 'product of labour'. Luxemburg clearly saw *why* money as a commodity seems to be necessary for Marx's monetary theory of value. In generalized commodity exchange, individual producers are *dissociated* and in *competition* with each other. The labour of these asocial individuals is *immediately* private and can *become* social only ex post, on the market. This happens *indirectly*: each commodity is shown to be equal to other commodities in certain quantitative ratios, to have an exchange-value, *in as much as it is expressed through money as the universal equivalent*. Thus, *labour is not social in advance, but only in so far as its true end-product is money*: i.e. "generic" or "abstract" wealth.

Luxemburg seems to understand that, although it is *only* through money that private labour becomes social labour, it is *not* money that renders the commodities commensurable. On the contrary. For Marx, commodities have exchange-value because, even *before* the final exchange on the commodity market, they have *already* acquired the *ideal* property of being universally exchangeable, so that they have the 'form' of value. This property, so to speak, *grows out* from the commodities as objectified 'abstract' labour, i.e. from the 'substance' of value.

The idea that value expresses *nothing but* labour depends, for Marx, on the following theses clearly hinted by Luxemburg: (i) that products are commodities (and thus have values) in as much as they are *sold against money on the market*; (ii) that money is a (very special) *commodity*, a product of labour; (iii) that this necessary monetary ex-post validation is at the same time a *passive, outward expression of the inner 'substance'*, the abstract, homogeneous labour *crystallised* in commodities, which have to assert (and measure) themselves in the sphere of circulation; (iv) that, therefore, *values* are a *pre-condition* of *monetary circulation*.

This last thesis seems to *contradict* the first: abstract labour and value are both *presupposed* and *realized* in exchange. In Marx this is *not*, at first, a contradiction, exactly because of his theory of money as a commodity. Since '[t]he body of the commodity, which serves as the equivalent, always figures as the *embodiment of abstract human labour*, and is always the *product of some specific useful and concrete labour'*, and since '[t]his concrete labour therefore becomes *the expression of abstract human labour*' (K1, p. 150), in gold-money as the 'universal equivalent' the *concrete* labour producing gold *as money* becomes the form of expression *of its opposite*, abstract human labour materialized in the other commodities exchanged. Although labour of 'private' producer, the labour producing money as a commodity *counts* in that relation as labour in *directly* social form – the point Luxemburg stressed. Though value is a *pre-condition* of circulation, it is so because, as value, it is *ideal* money, and because, as money, it has a *labour* content. But of course, this means that the link between value and labour passes *necessarily* through gold as money: the abstract labour of commodities *becomes* social only in so far as commodities are sold against money showing to be use value for others; that is, only in so far as they are equated with the concrete labour producing money as a commodity.

When these points are established, and when we pass to the 'general formula of capital' and the 'cycle of money capital', we have the following *logical* chain of *successive phases*. *Finance to production* is supposed to be made in *gold (as money)*, which *represents a given amount of labour 'congealed'*. After we have *immediate production*: in it living labour materializes in commodities. Once commodities are produced, they may be seen as a potential money magnitude, as an *ideal* price for the commodity output – that is, an *ideal* amount of gold *(as money)*, which again *represents a given amount of labour 'congealed'*. This ideal amount of gold as money must be of course 'realized': *latent* or *potential* value must *come into being* as *actual* value in 'final' exchange on the commodity market. If this happens, and given workers' exploitation, not only the money capital advanced *returns* to the capitalists covering exactly the initial finance (a thing which we no to be unproblematic for total capital in a 'pure' capitalist setting) but also - abstracting at present from the problem Luxemburg raises in the *Accumulation of Capital* - there is a *positive excess of money receipts over money costs.*.

The stress by Luxemburg on the *demand-driven determination of the socially necessary labour-time* is *not* in contrast with Marx's centrality of the 'social relations of production' in value determination. This centrality is encapsulated in the *priority* of, on the one hand, the 'initial' *buying and selling of labour power* on the labour market and the *immediate* *production process* over, on the other hand, the exchange on the 'final' commodity market. Luxemburg's position implies that the mere 'technical' definition of socially necessary labour time, operative in most of *Capital* on the major assumption that supply equals demand, must be supplemented by the 'social' definition taking into account the dimension of 'social need'. But in volume III of *Capital* this equality of supply and demand may be read as a determination of production from 'ordinary demand': that is *not* as a determination of demand by supply, but a determination of the ('equilibrium') level of firms' supply from (expected and realized) demand. If so, *given the level of 'ordinary demand'*, the value created in circulation *corresponds* to the value which congeals, as objectified labour, the living labour extracted in production. Latent value and ideal money are *confirmed* as realized value and actual money. Together with the view of 'money as a commodity', this allows Marx not only to define exploitation *at the end* of immediate production and *before* final exchange, after the purchase of labour-power and after its use has been effected. It also allows to see those labour quantities as socially necessary both technically and in relation with social need..

It may appear that all this works *only* if money is conceived *as a commodity*, in the way Marx does. If money is not a commodity, initial finance is *without a labour content*, so what is its 'value'?. The expenditure of labours in production may appear as hopelessly private and concrete, then *non-homogenous*. The sociality of these labours can appear as something to be assessed *only* ex post, in 'final' exchange on the commodity market, against again *a money without value*, so that the monetary expression of labour time is itself determined ex post. There appears to be no *tentative* and *latent* 'social' reality *already there* before final exchange, only a *technical-material* definition of production.

Indeed, the debate in the last 30 years moved towards a *dichotomy* of positions, which paradoxically ended in the same corner. Some authors, belonging to the *surplus approach*, separated the 'real' definition of economic magnitudes (methods of production, real wage, quantity of inputs and output) from distribution. Money may interfere only indirectly – e.g., thanks to the bank rate of interest fixing the rate of profit. On this way, Steedman and most of the Neoricardians jettisoned as *redundant* the labour theory of value (not a surprise, since here not only money is not introduced from the start, but living labour as a fluid and surplus labour as an endogenous variable are cancelled). Another competing approach, the *value-form* interpretation, wanted to maintain a strong stress on money as 'form of value' but arrived to similar conclusions. Either it abandoned any reference to labour as a substance of value (cfr. Eldred), or maintained that reference reading labour as the substance of value only as *concrete* labour, abstract labour being only a circulation notion. Abstract labour, and then the key notion in Marx's labour theory of value, is *lost*. [I will provide a beginning of a solution at the end of next Section]

7. Luxemburg on Marx on the cycle of money capital: assessment

The problems does not end here. Once the analysis of money does not restrict itself to the generalized circulation of commodities before the explicit consideration of capitalist production, but looks at the capitalist process as a *production of (more) money by means of money* through labour and production, the issue of the *finance* for production and effective demand becomes central for critical political economy.

The view of the valorization process as "money begetting money" is indeed already crucial in *Volume I*, where the *general formula of capital* is introduced. Luxemburg, building on the 'macro' picture of the *cycle of money capital* in *Volume II*, clearly posited as a starting point in her discussion of the accumulation of capital that: (i) in a monetary economy *money buys commodities, commodities do not buy money*; and (ii) to *activate* the capitalist process is required money as capital in advance, which for her also means something akin to a *cash-in-advance constraint*. In her outlook, the problem is most clearly the one of the finance *of effective demand only*, in enlarged reproduction, because in this setting, against simple reproduction, there is a need for an *inflow* of *new* money: It is clear, however, that from here there is only one step to the view that the more general problem is how money *enters* for the first time in the economy, and to answer that in capitalism this is systematically answered by finance *to production*.

Luxemburg stopped here, without considering enough Marx's developments in *Volume III*, with the investigation of *interest-bearing capital*, *credit* and *fictitious capital*. Thus, her picture of the monetary circuit in the *Accumulation of Capital* and in the *Anti-Critique* is not predicated on *a clear separation between firms and banks*, which is not yet spelt out by Marx either in Volume I or in Volume II. This omission permits to better understand how she framed her problem. In a macro circuit perspective, in a 'pure' and 'closed' capitalist setting without the State, where the capitalist class is identified with a firm sector *already in possession of a given stock of money* provided by the gold producer in past circuits, there is no way that in enlarged reproduction the surplus value can be 'realized' against *new* money flowing *into* the circuit. The only possibility, as Luxemburg realized, imagining an *external* inflow of money. As Kalecki noted, if we allow for the presence of the State, there is an alternative to (net) exports, which he dubbed *internal exports*: a Government budget deficit financed by the Central Bank. It is *internal* to the closed economy, but it is *external* to the capitalist area. This would (temporarily) resolve both the effective demand problem and the finance problem. Luxemburg would have rejected it, though, being the State budget deficit to be considered a (directly) unproductive expenditure. The realization in money is not against money *as capital*.

Looking carefully, and as *a criticism*, Luxemburg's problem may be said to be non-existent in her own setting, for *different* reasons than those usually put forward – that is, taking seriously *her* picture of the monetary circuit. If we truly construct the macro circuit in her way, not only *any wage expenditure is sure to flow back to firms*, but also *any exchange between capitalists is*, as she insisted, an *internal affair*, a *family business*. The capitalist class, in fact, is a *fully integrated* sector: *one and the same agent* is buying the output it iself is supplying. Money, *as means of purchase*, is here completely *inessential*. Let me distinguish money as *currency*, 'opening' and 'closing' the monetary circuit, from money as *abstract wealth*. Surplus value commodities, where living labour is objectified in excess than necessary labour, is surplus abstract wealth. *It need not to be put on sale* against money (as currency). As Luxemburg herself noted, the surplus commodities are new capital goods and luxury goods: that is, they commodities which are exchanged *among capitalists themselves*. Nothing is lost if money as intermediary of exchange is abstracted from. On the contrary, as once again Luxemburg made crystal clear, the buying and selling of labour power in monetary terms is a distinctive feature of capitalism – and, of course, one which cannot be abstracted from even when capitalists are put together as total capital.

If we instead consider *credit and banks*, as in Volume III of *Capital*, another *criticism* is possible, this time *from an orthodox Marxist* point of view. Credit and banks may *increase the velocity of circulation* of money as a commodity, so that surplus value may be sold against money even though the stock of money strictly speaking is unchanged. The effective demand problem and the problem of financing of demand becomes here two completely different questions. I think however that Luxemburg is right in stressing that it is not reasonable to imagine to answer her difficulty *systematically* through variations in velocity.

Luxemburg's problem may be restated in a different setting, the one privileged by old (Wicksell, Schumpeter, Keynes, amongst others) and new (Schmitt, Parguez, Graziani, amongst others) *theories of the monetary circuit*. They all *reject* the view of money *as a commodity*. Moreover, they all build their models from a *strict separation between firms* (which produce commodities but do not produce money) *and banks* (which produce money *ex nihilo*, but do not produce commodities) as *a defining feature of the capitalism*. In my view, commodity producers in the *generalized commodity exchange* at the beginning of *Capital* have nothing to do with a *simple commodity society*. In fact – though this is implicit at that stage of the argument – they are nothing but *capitalist* firms. But then, it is clear that production needs a *prior* finance, with 'industrial' capitalists (the firm *sector*) who have to resort to 'monetary' capitalists. The latter cannot be reduced to the producers of gold as money, or to banks making loans from primary deposits in gold. If gold production itself requires a prior finance, this cannot be conceived as based on commodity money, i.e. gold, unless one resorts to a kind of regression theorem à la Mises, or falls into the trap of a regression ad infinitum. Unfortunately, Marx's analysis of banks is ambigous on all these points. Banks are partly interpreted as *intermediaries*, partly as true *creators of money*. The only way out is then to interpret the 'monetary' capitalists as the banking *system*, with 'loans making deposits'.

If we take this point of view - that money is in capitalism *essentially* bank money (created by commercial banks and the Central Bank), and that loans create deposits - Luxemburg problem takes a new twist. Now firms have to *ask* finance *to banks* to begin production. If the system is in simple reproduction, as Luxemburg clearly saw, each year the *same* amount of bank credit as money is circulated – though now this *revolving fund* is *created* at the beginning of the circuit and *destroyed* at the end, *one period after the other*. In this settings, different than Luxemburg's, *firms have to give back the loan to* *banks*: but in a *closed* economy and with *no savings from workers* firms are again, as in her view, absolutely *certain to receive back all the finance they injected into the system*. And, as in her model, in enlarged re'production, if velocity is constant, *a new inflow of money seems to be needed to monetize the commodities emboding surplus value*. A new problem, actually, arises in the new setting, even more serious than the 'monetization' of surplus value in Luxemburg: *how firms are able to pay back interests on the loan, in money, to banks*, since what they can obtain back from the commodity market is only the 'initial' finance?

These last two problems – the payment of interests to banks in money; the monetization of gross profits - have been heavily debated within the modern theory of the monetary circuit. One possibility is to see in the 'macro' setting *nothing but a fiction*, behind which there is in fact the reality of *overlapping monetary circuits*. As a consequence, the finance to production of some (later) circuits realize the surplus value commodities of other (prior) circuits. This however *goes against Luxemburg's stress on total capital as something 'real' and 'concrete'*. A second possibility is *to deny there is a problem*. The *surplus* produced by the firm sector is thought as *something 'in kind'*, and *interest is paid to banks 'in kind'*. Exchanges *within* the firm sector may be regulated with *bills of exchange*, a form of *bilateral* credit and not (as bank credit) a three party relation - and interest on loans is nothing but a tax resembling *feudal rent*. In this way, however, the picture becomes disturbing, departing from the reality of a monetary and capitalist economy where *also demand*, not only of consumption but *investments too*, is a *monetary* demand – and again Luxemburg would have refused it for this reason. A third possibility has been advanced, and it is to imagine that part of the firm sector incurs in losses, and this of course corresponds to money profits of the other part. This solution seems *ad hoc*, and like the second does not give *any* answer Luxemburg's quest for a *new* money *inflow*.

The only valid 'solutions' to Luxemburg challenge in a theory of monetary circuit setting seem the following three: (i) *external outlets in non-capitalist areas*, that is Luxemburg's original solution; (ii) Kalecki's '*internal exports*'; (iii) the banking system *financing* not only production (both of consumer and producer goods) but also firms' (net) investment *demand*. In fact - in the new theoretical setting, with banks separated from firms, and unlike her own setting where firms advanced money themselves - the financing of (net) investments means an *increase* in the *flow* of money, and this time of *productive* nature. In this way, against Luxemburg, the *possibility* of dynamic growth equilibrium in a *monetary* capitalist system can be confirmed. This equilibrium, however, may be shown to be *very unstable*, making again *Luxemburg plus Kalecki* solutions (i) and (ii) quite reasonable in practice.

To be sure, Luxemburg would have been quite dissatisfied with a perspective like this. Not only because here the effective demand crisis is a definite and likely outcome, but *not* a strict economic necessity in the form of *collapse*. The other reason is that *the new inflow of money is a new money capital for the firm sector but not for the capitalist class as a whole*. Banks may provide *unlimited* finance for firms' investment demand because, by definition, *there is no leakage out of the firm sector*: once again there is an absolute certainty that the aggregate of firms may be able to reimburse the new money they get. But this new money is 'created' by a *fraction* of the capitalist class, the banking system as monetary capitalists; and this new money, as such, is *without 'value'*. Once again, a solution like this is acceptable only if one is ready to buy a distinction between money *as currency* (needed as the initial finance, eventually recovered by firms on the consumer and investment goods market) and money as *abstract wealth* (the surplus commodities are monetized by the new inflow of money, which simply resolves the 'technical' issue of the monetary sale).

What is interesting is that introducing money as bank finance created ex novo we have the possibility to *reinstate the connection between value and labour in a non-commodity money perspective*, *maintaining the notion of abstract labour*.

As Napoleoni noted in the early 70s, at the beginning of *Capital* abstract labour is deduced by Marx from exchange *as such*, but in the *Grundrisse* it is also deduced as the *living labour of the wage workers*. This *dual* deduction, he rightly insisted, is *not* a contradiction, since commodity exchange is general *only* when capital becomes the predominant social relation (a point also Luxemburg stresses in her *Introduction*).

Much earlier, Rubin noted, that when Marx deduces abstract labour from 'exchange', this latter must be interpreted not as a *separate* phase juxtaposed to production, but *as a form of the whole production process* itself, encompassing exchange *and* production. In this view, abstract labour in production is not simply immediately private labour which has to become social, it has *already* a latent and ideal social nature.

The difficulty of Rubin's perspective is that, as in Marx and Luxemburg, this *preliminary* and *tentative* sociality, is based on money *as a commodity*. An argument starting *from* the universal equivalent (deduced in general circulation of commodities *as such*) and is projected *backwards* on the *capitalist* process. The stress on finance in a circuitist framework changes the picture. What is fundamental here is the *monetary* nature of *capitalist production* rather than the *monetary realization* of commodities as such. Finance to production *ante*-validates the expenditure of *living* labour as abstract labour (labour producing abstract wealth, then value as money) rather than just give representation *in money* to *objectified* labour. If the firms' short-term expectations regarding their outlets are confirmed by the market, this *ideal* or *latent* value 'comes into being' in commodity circulation without change to its magnitude. But, as Luxemburg saw, this must be read not as demand equal to supply, like Say's Law, but as demand *driving* supply, like in the principle of effective demand.

Moreover, even though money is without value in itself, exploitation can be (theoretically, not operationally) defined still referring to *quantities* of *labour* before final exchange. In a macro setting starting from *total* capital, as Luxemburg clearly saw, the *only* 'external' (very special) commodity to buy is the *labour power* of the working *class*. The 'value' of *initial* finance is then, as a first definition, the *number of workers* bought on the labour market, given the money wage. As Luxemburg insisted in the *Introduction*, the money wage bill is buying a *pre-determined real wage for the working class*: this means that to the workers employed it corresponds an amount of *necessary labour* as the labour *required to produce that given level of subsistence wage*. If we suppose that the expected *extraction of living labour* from those workers is going on smoothly, then we also have *a given commodity output at the expected prices*. This is the *ideal* value to be realized, and *it objectifies a larger amount of living labour in excess of necessary labour*.

8. Luxemburg on Marx on distribution and crises: assessment

Luxemburg's reading of the determination of the wage in capitalism as a macro-monetary process, where the access to money as finance is an exclusive privilege of the capitalist working class, is incredibly perceptive, and helps to rescue the same Marx's way of theorizing the wage relation. In *Capital*, Volume I, we find a very similar picture to Luxemburg's:

> The illusion created by the money-form vanishes immediately if, instead of taking a single capitalist and a single worker, we take the *whole* capitalist class and the *whole* working class. *The capitalist class is constantly giving to the working class drafts, in the form of money, on a portion of the product produced by the latter and appropriated by the former. The workers give these drafts back just as constantly to the capitalists, and thereby withdraw from the latter their allotted share of their own product.* The transaction is veiled by the commodity-form of the product and the money-form of the commodity. (K1: 713, my Italics)

That this macro-monetary view must be prolonged in an interpretation where the real wage for the working class is to be seen as determined by capitalists' choices on the composition of output - which fixes the commodities made available to wage-earners, and against which their money wage will be spent. This is again a controversial but substantially right view. And it again can be found clearly expressed by Marx in a long quote from the *Results* where the macro-monetary perspective is prolonged in a theory of distribution:

> if we think of the *whole* of capital as standing on one side, i.e. the *totality* of the purchasers of labour-power, and if we think of the *totality* of the vendors of labour-power, the *totality* of workers, on the other … *all material wealth* confronts the worker *as the property of the commodity possessors*. The fact that Capitalist No. 1 owns the money and that he buys the means of production from Capitalist No. 2, who owns them, while the worker buys the means of subsistence from Capitalists No. 3 with the money he has obtained from Capitalist No. 2 *does not alter the fundamental situation* that Capitalists No. 1,2 and 3 are *together* the *exclusive* possessors of money, means of production and means of subsistence. … *Commodities*, in short, appears as the purchasers of *persons*. The buyer of labour-power is nothing but the personification of *objectified* labour *which cedes a part of itself to the worker in the form of the means of subsistence in order to annex the living labour-power* for the benefit of the remaining portion, so as to keep itself intact and even to grow beyond its original size by virtue of this annexation. *It is not the worker who buys the means of production and subsistence, but the means of subsistence that buy the worker to incorporate him into the means of production*. (K1: 1003-1004)

Luxemburg's law of the tendential fall of the relative wage is another theoretical development in a line of strict continuity descending from Marx. It is not difficult to see that the law is nothing but the 'negative' of the *real subsumption of labour to capital* and of the *extraction of relative surplus value*. What is interesting is that Luxemburg builds the law in a way to allow *a simultaneous rise in the real wage and fall in the relative wage*. Contrary to the determinist reading of class struggle typically imputed to Luxemburg, she sees the objective basis – as long as capitalism does not enter its final phase of maturity and collapse – of social reforms allowing, *within capitalist compatibilities*, a *bettering* of workers' condition. This is meaningful, however, *only* in the use-value dimension. In the value dimension things are not this way and necessarily so, since value *inescapably* implies an *antagonistic* partition of the working day. Capitalism necessarily is driven to an increase of its share against the one going to workers.

This view of distribution allow us to see one of the roots from where the problem of effective demand arose in Luxemburg; and also permits to suggest a development. Luxemburg's discussion of the wage in her *Introduction* goes back to a dialectic between endogenous technical change in capitalism, distribution and crises – that is, *the incessant revolution of the mode of production necessary for capital's valorization is the origin of effective demand crises*. She accepts from Marx the identification of *innovation* with mechanization and with *labour-saving techniques*: this would lead to *an increase in the organic composition of capital*, of dead labour over living labour. The corresponding *increase in the rate of surplus value* means a *reduction in workers' consumption, and in consumption in general*. Looked from this angle, as we already noted, the problem definitely is not restricted to circulation, and is not under-consumption. *It is a limit on demand which capital poses to itself in circulation because of its inner dynamics in production*.

Outside any attempt to see in a dynamic like this a necessary path leading *mechanically* to economic *collapse*, it is interesting that Marx himself put forward a perspective where *overproduction* is imputed to the limits arising in exchange from the disequilibria in circulation which are more and more likely *because of the incessant revolution in the methods of production*. I shall limit myself here to some quotes from the *Grundrisse*:

> *At a given point* in the *development of the productive forces* – for this will determine *the relation of necessary labour to surplus labour* – a *fixed relation* becomes established, in which the product is divided into one part – corresponding to raw material, machinery, necessary labour, surplus labour – and finally surplus labour divides into one part which goes to consumption and another which becomes capital again. … This *inner division*, inherent in the concept of capital itself, shows itself *in exchange* in such a way that the exchange of the capitals among one another takes place in *specific and restricted proportions* – even if these are *constantly changing in the course of production*. … This gives, in any case, both the sum total of the exchange which can take place, *and the proportions in which each of these capitals must both exchange and produce*. … *Exchange* in and for itself gives these conceptually opposite moments an *indifferent* being; they exist *independently* of one another; their inner necessity becomes *manifest* in the *crisis*, which puts a forcible end to their seeming indifference towards each other. *A revolution in the forces of production further alters these relations*, *changes these relations themselves*, *whose foundation* – from the standpoint of capital and than *also* of that of valorization through exchange – *always remains the relation of necessary to surplus labour*, or, if you like, of the different moments of objectified to living labour. … *If production proceeds regardless of this state of affairs, then ultimately a minus, a negative magnitude, will come out of the exchange on one side or the other* (*Grundrisse*: 443-444, my Italics; modifications)

The argument is clear enough. Valorization is linked to the real possibility of further valorization. It depends from the *unity* of production *and* circulation. It is not enough that a use-value is produced in a capitalist labour process to be a commodity. As a commodity a good need to be a use value *for others*, object of *social need*, exchanged with the universal equivalent. The new value can be realized only through *monetary sale*. The problem is that capitalist production poses growing difficulties to the 'coming into being' or the 'realization' of surplus value as actual money in circulation, and than to the renewing of the capitalist process as accumulation. Why? The production of relative surplus value *reduces more and more the necessary labour*. As a consequence, the part for which a demand different from consumption must be found (to translate a larger surplus labour in surplus value) is not constant but *widening*.

This point, however, is in itself not decisive. The same process of relative surplus value extraction *multiplies the branches of production*, so that capitals *exchange with each other on a larger scale*. The real difficulty is that the 'revolution in the methods of production' *continuosly* alters the 'equilibrium' exchange ratios among branches of production required for accumulation to go on without crises. At the same time, the fulfilment of these equilibrium exchange-ratios is a *chance*. A 'proportioned' or 'balanced' growth is *not* an internal requirement of the capitalist production, *in no way arises out of the nature of capital itself*. It can be imposed only *externally* and *violently*. It is then *inevitable* that *periodically crises erupt*.

In fact, this argument may be prolonged into an attempted *coordination between 'disproportionality' crises and 'general overproduction' crises*. An increase in investment is accompanied by an increase in new industries and new branches of production, along with changes in old industries and old branches of production. This involves a *modification of the conditions of equilibrium between sectors* (which in the following may be reduced to two or three: means of production, wage consumption goods, luxury goods). In an unplanned economy this makes a *disproportionality crisis* ever more likely, with excess demand *in some sectors* and excess supply *in others*. . In these latter, the excess of production over effective demand gives way to a *fall in prices* resulting in *losses* and even *bankruptcies*, which in time involve *lay-offs* and a rise in *unemployment*. Thus, firms' demand for means of production collapses together with workers' demand for wage goods. *When this negative multiplier chain affects important sectors of the economy, the downfall in investment and consumption demand transmits excess supply to the other industries*, a sequence eventually leading to *general overproduction*.

This is not, of course, Luxemburg's *original* train of thought: but it maintains a *close* link to it, since it is grounded in the interaction of innovation and distribution in the capitalist process interpreted as a monetary circuit.

More implicit, but nevertheless clear, is another theory of crises Luxemburg never developed, but which follows quite naturally from her 'law of the tendential fall in the relative wage'. This crisis may be dubbed *social crisis in the immediate valorization process*.

According to Luxemburg, which here again follows Marx quite closely, the rate of accumulation (the rate of growth of capital) must be seen as the *independent* variable, the rate of growth of wages the dependent variable. Of course, there is always some room for *elasticity* in the dynamic of the real wage. Even a *temporary* increase of the real wage in excess of the productive power of labour may have *positive* effects on accumulation as a further pressure for firms to innovate. But in the logic of Luxemburg, *it is not so if workers' struggle are able to make the dynamic of the wage independent from the path required by the law of the tendential fall of the relative wage*. This does not mean necessarily a rise in relative wage, it is enough that the wage does not fall as much as is needed to capitalist reproduction. It is also coherent with the way Luxemburg depicts the wage relation to say that, if workers are able to *gain control over the expenditure of their living labour* in the capitalist labour process, this situation is *socially* catastrophic for capitalism.

When this happens, the crisis in capitalism is very different from those traditionally debated in Marxism: the tendential fall in the profit rate because of the rise in the organic composition of capital; the realization crisis (either in the form of a disproportionality or in the form of a general overproduction), the profit squeeze crisis because of mere distributional struggles.

In fact, it would be even possible to articulate these Marx's theories of crisis in a sequence which is both logical and historical. In a *first phase*, the *tendency of the rate of profit to fall is predominant*: this would represent capitalist reality until the beginning of the last century, and the age of the so-called *Great Depression*. The law is countered as long as the revolution in methods of production is increasing the rate of surplus value more than the organic composition. But, as we have seen, sooner or later this would give origin to a *second phase*, where the system faces an *effective demand crisis* because of the interaction between disproportionality and general overproduction: this would be part of the story of the *Great Crash*. If this latter problem is 'resolved' thanks to 'Keynesian' policies, as in WWII and the so-called Golden Age, it can be argued that in the long run this would be self-defeating. On the one hand, the way effective demand has been raised is very often 'unproductive' in Marxian terms, thus increasing the pressure on the productive core of the working class for a further increase of the rate of surplus value. On the other hand, full employment (in some areas, of some section of the working population) reduced the automatic control over workers granted by the 'normal' functioning of the industrial reserve army. This would be the crucial element in explaining the *end of Fordism*.