Levels of Analysis and the Concept of Interest: an Unoist Approach

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Marx's presentation of the concept of interest is developed through a relationship between 'money capitalists' and 'functioning capitalists' made possible by the conversion of capital into a commodity. His presentation is problematic since it assumes that there is a segment of the class of capitalists who would rather earn a rate of interest lower than the rate of profit rather than using its capital itself to earn an average rate of profit. In contrast, Uno develops the concept of interest on the basis of the 'conversion of funds into commodities'.[1] Idle funds are accumulated in the production process by individual capitals and the function of banks as intermediaries between industrial (and commercial) capitalists is to 'activate' these funds by lending them out, particularly in spheres that earn a higher than average rate of profit. Banks earn the interest-differential on deposits and loans as their 'profit'. It is only after the concept of interest is specified in the circulation-process of industrial capital that loan-capital, commercial capital and finally interest-bearing capital can be developed.[2] The relationship between the categories of profit and interest is of significance to crisis theory given the role that the rate of interest plays in the formation of the average rate of profit and how the magnitude of profit affects the level of formation of idle funds, which in turn regulates the rate of interest throughout the industrial cycle. It is the average rate of profit that ties the fate of individual capitals together and while the rate of interest is not a direct cause of economic crisis, it is a key mechanism for enforcing a state of 'excess capital' on individual capitals: as the rate of interest rises towards the rate of profit, a state of excess capital is reached.[3]

What I will first seek to do is critique Marx's presentation of the concept of interest from an Unoist perspective. In the Unoist approach, the theory of a purely capitalist society is developed as a logically self-contained 'global' economic society. This means that certain economic relations that are of

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[1] Uno 1980, pp.109-17.

[2] Well aware of these 'antediluvian forms' of capital, Marx explains in *Capital* Vol. I that: "In the course of our investigation, we shall find that both merchants' capital and interest-bearing capital are derivative forms, and at the same time it will become clear why, historically, these two forms appear before the modern primary form of capital" (1976, pp. 266-7). Uno's *Principles of Political Economy* (1980) helps to clarify our understanding of the inner logic of capital by means of reconstructing the logical sequence of categories of capital out of the commodity form. Such a theoretical undertaking is made possible by assuming "that actual conditions correspond to their concept" (Marx 1986, p. 242). It is Sekine (1986), however, who reconstructs this logic of capital as a dialectic of capital. A clear understanding of the logic of capital, in turn, helps us to distinguish various forms of capital it's relation to 'antediluvian' forms of capital and it is through the lens of stage theory that we can study capitalist history where the 'actual conditions' do not correspond to the abstract and reified context of a purely capitalist society.

[3] The state of excess capital (or 'absolute overproduction') is reached "as soon as no further additional capital could be employed for the purpose of capitalist production" (Marx 1981, ch. 15, sc. 3, p. 360). Since "the maximum limit of interest would seem to be the profit itself" (ibid., ch. 22, p. 480), this would be the point—when the rate of interest rises to the level of the rate of profit—at which interest-bearing capital would cease to function as capital: there is no capitalist-rational reason for borrowing additional capital in production when the share accruing to the industrial capitalist is zero. In fact, any 'additional capital' that the industrial capitalist has on hand would be better left deposited in the bank, accruing interest. This does not imply that the rate of profit must reach 0% in order for a crisis to occur, only that it is less than the rate of interest. For an illustration, see Sekine 1986 Vol. II, pp. 63-6.

extreme importance in a concrete context (for example, foreign trade) are to be analyzed only after this theory is complete. Next, I will identify several features in both Marx's and Uno's presentation of the concept of interest that call out for stage-theoretic clarification. These relate to the nature of the 'series of legal transactions' that characterize the credit system and the fluctuation of the rate of interest throughout the industrial cycle. It is clear that a more active conception of the role of the state is needed, particularly in the sphere of banking legislation. I argue that a clear conception of the concept of interest at the level of the theory of a purely capitalist society helps to guide the analysis of financial institutions at the level of historical analysis, but only if such analysis is mediated by stage theory. While I will describe the relationship between the concepts of profit and interest and the mechanisms through which cyclical economic crises are produced within the logic of capital at the most abstract level of analysis below[4], at more concrete levels of analysis, the relationship between profit and interest are not completely governed by the law of value and this raises significant problems in the application of crisis theory to historical analysis.

Marx After Uno: Differences in the Logical Presentation of the Category of Interest

Marx presents his analysis of interest in the context of a relationship between the money-capitalist and the industrial or 'functioning' capitalist immediately following sections on the falling rate of profit and commercial and merchant capital.[5] This differs substantially from Uno's presentation, which, I believe, conforms more closely with Marx's own method. The basic difference is that Marx conceives of the conversion of capital into a commodity as the origin of interest-bearing capital whereas Uno grounds it in the "conversion of funds into commodities".[6]

It should be recalled that money-capital (or commodity-capital for that matter) isn't treated as a commodity as such in Marx's discussion of the circuits of capital in *Capital*, Vol. II. At this point in Marx's presentation, circulation capital (money-capital and commodity-capital) facilitates the transformation or metamorphoses of value into surplus-value or profit, however, capital itself is not a commodity. Commodities change hands, but capital does not: "In no individual moment of the metamorphosis, taken by itself, does the capitalist sell the commodity to the buyer as capital…nor does the buyer alienate his money as capital to the seller".[7] The series of exchanges that link the three circuits together are based on the exchange of equivalent values. Money in these circuits (for example, in money capital) functions solely as the "means of purchase for commodities".[8] In contrast, the money capitalist does not lend the industrial capitalist money *as money*, but money *as capital*.[9]

The specific character of interest-bearing capital lies in the act of lending money as capital, "as capital not only for himself but also for others. It is not simply capital for the person who alienates it, but

[4] For a more complete view of the labour-power shortage, excess capital theory of crisis, see Sekine 1986 vol. II, ch. 7 (c).

[5] "It is in fact only the division of capitalist into money capitalist and industrial capitalist that transforms a part of the profit into interest and creates the category of interest at all; an it is only the competition between these two kinds of capitalists that creates the rate of interest" (Marx 1981, p. 493). It is on this foundation that Marx develops his analysis of interest in *Capital* Vol. III, part 5.

[6] Uno 1980, pp. 121-2, n. 5.

[7] Marx 1981, pp. 463-4.

[8] Marx 1978, p. 463.

[9] Marx, 1981, ch. 21. Here, Marx explains that money is to be understood "as the independent expression of a sum of value, whether this actually exists in money or in commodities" (p. 459). Money can be lent in the forms of fixed or circulating capital, but whatever form the loan capital might take "and no matter how its repayment might be modified by the nature of its use-value…what is lent here is always a definite sum of money, and it is on this sum that the interest is reckoned" (p. 465). For the purposes of this paper, however, we will focus on interest-bearing money capital since "other forms of interest-bearing capital…are derived from this form and presuppose it" (p. 517).

is made over to the other person as capital right from the start, as value that possesses the use-value of creating surplus-value or profit".[10] This exchange (for which no equivalent is received) marks the beginning of the circuit of industrial capital. In other words, since what is lent is a form of capital, the concept of interest presupposes the production of surplus value. The question arises: why shouldn't capital be capital for the person who alienates it? Marx attempts to logically ground the concept of interest through a type of exchange between two individuals, the money-capitalist and the functioning capitalist. This may not seem odd since this is precisely how he analyzes the commodity-form in the opening chapters of *Capital* Vol. I. As with the exchange of any commodity, the commodity owner alienates or 'negates' the use-value of the commodity offered for sale, expressing its use-value in the value of some other commodity.[11] Of course, the difference here is that an exchange occurs between two commodity owners here, while the money capitalist does not receive an equivalent value in return for lending his capital. Since Marx's money-capitalist receives nothing immediately in return for loaning his capital, this raises difficulties for him in showing how the rate of interest is determined.

Interest-bearing capital presupposes the circuit of industrial capital which will produce the surplus-value that will subsequently be distributed as profit, rent and interest. In Uno's view, it is precisely in the three circuits of industrial capital that we should search for the origins of the concept of interest. Each individual capitalist accumulates capital but does not automatically or immediately expand production with each turnover. Reserve funds are generated in the circulation-process as 'a temporary form of asset', 'depreciation funds', 'accumulation funds' and "as reserve money against price fluctuations".[12] Expanding production requires that additional labour power and means of production are added to the production process in the proper proportion. Capitalist accumulate idle reserve funds until they grow to the right proportion to be activated into expanded production. The existence of these reserve funds acts as a drain on the production of surplus-value: "In all these forms, the existence of idle money-capital passively constrains the value augmentation of individual capitals".[13] The 'alienation' of the use-value of capital that Marx refers to is more consistently understood in this sense: being of insufficient magnitude to expand production, reserve funds lack immediate use-value and it is for this reason that they find their way to banks. The institution of banks facilitate the socialization of idle funds. By making otherwise idle funds available for investment (whether by industrial or commercial capital), 'the magnitude of unproductive money-capital' can be reduced to the minimum.[14] By economizing on circulation costs, the development of credit and interest contribute to the production of additional surplus value by reducing the amount of capital tied up in circulation.

Rather than grounding the category of interest in a problematic conception of the 'money capitalist', Uno develops a theory of lending that does not rest on an arbitrary distinction between 'money capitalists' and 'functioning capitalists'.[15] The category of interest arises in the dialectic of capital with the development of a peculiar kind of commodity, but it is not capital that is converted into this commodity: it is the various funds accumulated in the circuits of capital that are converted into this commodity. This commodity's use-value consists in facilitating the production of additional surplus value. By economizing on circulation costs, the development of credit and interest contribute to the

[10] Marx 1981, pp. 464-5.
[11] "The internal opposition between use-value and value, hidden within the commodity, is therefore represented on the surface by an external opposition, i.e. by a relation between two commodities such that the one commodity, whose own value is supposed to be expressed, counts directly only as a use-value, whereas the other commodity, in which that value is to be expressed, counts directly only as exchange-value" (Marx 1976, p. 153).
[12] Uno 1980, p. 109.
[13] Ibid.
[14] Ibid. "For, in that case, the proportion of circulation-capital can be socially lowered, enabling a greater portion of the aggregate social capital to directly engage itself in the production of surplus value" (Sekine 1986, Vol. II, p. 401).
[15] See Uno 1980, pp. 120-21, n. 2. This is not to deny that, historically speaking, there are capitalists whose activities essentially correspond to what Marx has in mind in referring to 'functioning capitalists'. At the level of pure theory, a capitalist "can be none other than the personification of capital" (ibid).

production of additional surplus value by reducing the amount of capital tied up in circulation. Capital itself becomes a commodity, but it is a specific kind of commodity that is not the result of the production process, hence, it lacks material or 'sensuous' use-value. Rather, the category of interest-bearing capital arises from the circulation process of capital.[16] In the circulation process, various forms of idle funds are generated that "cannot be immediately applied to the production of surplus value".[17] These funds can be 'capitalist-socially activated' by the institution of credit, which turns these funds into "commodities whose prices are the rates of interest determined in the money market".[18]

Marx himself did not leave a fully coherent theory of crisis behind, nor was he unambiguous about which sets of causes were fundamental to cyclical crises. This helps to explain why debates over crisis theory have been so controversial. The Unoist approach contributes to this controversy in its own peculiar way. In the context of the theory of a purely capitalist society, understanding the relationship between the rate of profit and the rate of interest is essential to understanding the underlying mechanism that generates periodic crises. Uno argues that "there exists no inherent limit to the expansion of capital except the availability of additional labour-power".[19] This particular variant of an excess capital theory of crisis, a labour-power shortage, sees crises triggered as the rate of interest gradually rise above the rate of profit and as capital moves from a phase of extensive to intensive accumulation. In the theory of a purely capitalist economy, the rate of profit and the rate of interest have a clear relationship that is governed by the commodity-economic logic of capital.

The rate of interest is regulated by the law of value through the ebb and flow of the supply of accumulation funds stored in banks. The ebb and flow corresponds to the widening and deepening phases of accumulation of capital. While a rising rate of interest is not a direct cause of capitalist crisis, together with the rate of profit, it does constitute a barometer of the state of excess capital. The state of excess capital is reached when capitalists are faced with a situation where each additional increment of investment (or 'marginal investment') fails to return a positive rate of profit. While a state of excess capital can be reached for individual capitalists or even industries before the rate of interest equals the rate of profit, an economy wide excess of capital is indeed reached when the two rates roughly coincide.[20]

From the Dialectic of Capital to Stage Theory

The capitalist mode of production does not create banks, neither does it create landed property, but a close analysis of the logic of capital shows what form of credit relations (or property relations) most closely conforms to capitalist production. This is how I understand Marx's methodological principle of 'assuming that the actual conditions conform to their concept'.[21] To the extent that Marx's own insight into the inner workings of the capitalist mode of production was made easier because the 'actual conditions' of 19th C England came relatively close to 'conforming to the concept', we can say that our task is that much more difficult. There are numerous reasons for this. There are difficulties of

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16 Sekine 1986, Vol. II, p. 389.

17 Ibid.

18 Ibid., pp. 389-90. To be clear: it is these funds that are transformed into commodities first and interest is the price paid for the use of these funds for a definite period of time. Only after the concept of interest is grounded in the activity of loan-capital in this way can the concepts of commercial capital and interest-bearing capital be developed out of the logic of capital. See Sekine 1986, Vol. II, ch. 9.

19 Uno 1980, p. 111-12; see also pp. 85-90. This claim ought to be understood at the most abstract level of analysis. Since a purely capitalist society "is a single global society without specific boundaries" (Albritton 1991, p. 12), the possibility addressing labour shortages through state immigration policies is more properly left to stage-theoretic analysis, as is foreign trade and the role of international financial and monetary systems.

20 See Sekine 1986 vol. II, ch. 7 (c) and ch. 9 (c) for a more complete account.

21 Marx 1986, p. 242

applying Marx's theory to history especially since Marx left very little to guide us in this task. In fact, Marx himself often moved quite easily, though not unproblematically, between what can be considered today as (at least) two distinct levels of analysis.[22] Capitalism itself has evolved in ways not anticipated, much less theorized, by Marx himself. For instance, if what is fundamental to capitalism is the production and accumulation of surplus value, then we can ask if there have been qualitative differences in the way in which the extraction of it has been organized in different periods of capitalist history.

The necessity of analyzing the capitalist economy in terms of different levels of analysis is based on the understanding that the social reproduction of any society cannot be fully subsumed to the commodity-economic logic of capital. While there are many reasons why this is the case, perhaps the most fundamental is that the accumulation of capital is essentially dependent upon a commodity that cannot be capitalistically produced, namely, labour power.[23] Marx analyzed the regulation of industrial capitalism through the law of value, whereby the competition between capitals would tend towards the equalization of profit rates and all commodities would be supplied in socially necessary quantities and produced with socially necessary labour-time. But the law of value cannot directly regulate the supply of non-capitalistically produceable commodities. Periodic crises are, hence, necessary to ensure the continued commodification of labour power.[24] Given that "the extent to which commodity production is carried out by commodified labour-power varies from stage to stage" of capitalist development, at the very least, this means that the historical analysis of economic crisis should be guided by a stage-theoretic understanding of dominant forms of capital and the dominant type of capital/labour relation for each respective stage.[25]

The direct application of the logic of capital to the historical analysis of capitalism has been critiqued on methodological grounds by Sekine and Albritton.[26] Bridging the gap between theory and history is, I believe, the most critical task of Marxian political economy today. This is precisely what an Unoist levels of analysis approach seeks to do. The problem is, how do we use a rigorous understanding of the inner logic of capital (as it is theorized within a theory of a purely capitalist society) to guide the historical analysis of capitalism? The solution that a levels of analysis approach offers is to first theorize the inner logic of capital in different periods of history where 'actual conditions do not conform to the concept'. This is not the place to offer much by way of elaboration of the methodological principles behind the stage-theoretic levels of analysis.[27] My purpose is much more limited. What I will seek to show is that despite the problems associated with Marx's presentation of the concept of interest, his presentation nonetheless raises a number of issues for the historical analysis of actual capitalist economies that are best addressed through the lens of stage theory.

Firstly, if, as Marx says, credit relations are characterized by a series of 'legal transactions' we need to investigate the content of the laws governing national credit systems and how these have related to dominant modes of capitalist accumulation. Marx describes the circuit of interest-bearing capital as being governed by a 'series of legal transactions' that, in themselves, do not alter the character of the circuit itself.[28] Yet at the level of history, there may be plenty of instances where legal conditions present

[22] Consider, for example, his extended commentaries throughout all three volumes of *Capital*, on debates, commentaries and the work of a wide variety (and quality) of economic theory of his time. We find as well historical analyses on the origins of merchant capital, 'capitalist agriculture', ground-rent and interest itself.
[23] Land cannot be capitalistically produced either and as we move away from pure theory, monetary system solely governed by the law of value through the production and value of gold "is replaced with a more complicated financial system that always involves state intervention" (Abritton 1991, p. 17).
[24] Uno 1980, pp. 85-90, 95-6 n. 13. Sekine 1986, Vol. II, pp. 249-67.
[25] Albritton 1991, pp. 31-35. To the extent that political, legal and ideological institutions are involved (in different ways in each stage of capitalist development) in maintaining the commodification of labour power, the historical analysis of economic crises needs to take account of these as well.
[26] See Sekine 1986 Vol. I, pp.72-85, and Albritton 1986.
[27] For an elaboration of these methodological principles and a justification of the need for a mid-range level of analysis in Marxian political economy, see Albritton 1991, ch. 3.
[28] Marx 1981, p. 469.

significant barriers to the character of this circuit. For example, anti-usury laws characteristic of the stage of Mercantilism prevented interest rates from rising faster than what might otherwise be expected under freer market conditions.[29] In the post-World War II era, the relative ascendancy of Keynesian economic theory lent justification to demand management policies aimed at stimulating employment, including the lowering of interest rates to stimulate capital investment.[30] It is true that even in the theory of a purely capitalist society, certain political, legal and ideological conditions must be assumed, and this includes presupposing the legal forms that correspond to the capitalist mode of production.

Secondly, foreign trade (and finance) is an important element of the global capitalist economy, and Marx often invokes at various points in his analysis (for example, in the determination of profit rates and even rates of interest), yet it is a subject that is properly left to more concrete levels of analysis. The fundamental problem that Marx confronts in Part 5 of *Capital* Vol. III, is how gross profit (or surplus value) "is invariably ossified and autonomized as interest".[31] The strategy that Marx uses to show that interest is a derivative form of surplus value is similar to that used in his analysis of the commodity form in *Capital* Vol. I, he analyzes the relation between two commodity owners. As I have argued, Uno's account of interest in much more convincing than Marx's. But the absence of a fully developed stage theory in Marx's *Capital* does not prevent us from exploring how Marx used his theory of capital to analyze contemporary developments in banking and interest rate policies. Marx himself devotes considerable attention to the Bank Act of 1844 in England and the controversy between the Banking School and the Currency School over the extent to which the Bank of England could issue banknotes to increase the means of circulation, particularly in times of crisis.[32] At the level of stage theory, monetary and financial institutional arrangements are always, in part, structured through state policy.[33]

Finally, actually existing institutional arrangements have not wholly conformed to the requirements of capitalist production in any historical period of capitalist production. We know that interest rates are not purely determined by money markets but instead have an inherently political character. In the contemporary global economy, the interest rate policy of one state can have profound implications for other, less powerful, states and pose severe constraints on their strategies for economic development. An analysis of bank legislation is key to understanding the regulation of credit in different periods of capitalist history. Understanding the role and political-economic objectives of Central Banks as an element of state economic policy can bring us closer to a stage-theoretic understanding of capitalist development.

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[29] Anti-usury laws in England during the stage of mercantilism applied to all but government bonds (which made them quite popular) and were not repealed until the middle of the 19th C (Albritton 1991, pp. 90-1, 171).
[30] See Drache and Glasbeek, 1992.
[31] Marx 1981, p. 495. Almost immediately following this question, Marx distinguishes the concept of interest corresponding to the capitalist mode of production from its historical forms: "Historically, however, interest-bearing capital exists as a ready-made form handed down, and hence interest as a ready-made subordinate from of the surplus-value produced by capital, long before the capitalist mode of production and the conceptions of capital and profit corresponding to it come into existence" (1981, p. 499).
[32] Marx 1981, ch. 34.
[33] For an understanding of how the commodity, money, is regulated through state economic policy within each stage of capitalist development, see Albritton, 1991, pp. 89-92, 142-146, 191-95, 238-243.

Conclusion: From Stage Theory to Historical Analysis

The relationship between profit and interest within the history of capitalism is a very complex and complicated phenomena. Early 20th C Marxists had great difficulties coming to terms with calculating and understanding the behaviour of rates of profit in an era where capitalist economies didn't seem to be behaving in accordance with Marx's theories. Marxian political economy can understand this relationship more effectively by paying greater attention to the development of stage-theoretical analysis. Moving to more concrete levels of analysis involves a re-theorization of the law of value within the context of an open world economy, where, among other contingent historical complications, "state regulation of currency, the relative autonomy of international and domestic monetary systems, and the state regulated financial institutions such as banking systems and stock markets" needs to be taken into account.[34] Rates of profit vary widely across industries and between nations affected as they are by both levels of industrialization, state economic policies and their relative power against international monetary and financial forces. The current international financial system can be understood as a framework for extracting surplus from debtor to creditor nations. In this respect, national development strategies depend crucially on the power and capacity of states to determine their own direction of development independently of the policies of other nations. While the theory of a purely capitalist society can be used to show how the law of value regulates the rate of interest, interest rates have historically been the purview of state economic policy and, hence, are an inherently political element of capitalist economies in both their internal and external relations with other states (whether capitalist or not). Needless to say, it is the interest rate policy of the US, and the power they exert through international monetary and financial systems, that is of greatest concern to the rest of the world.

This analysis should serve as a reminder that state monetary policy, in particular, interest rate policy, can only, at best, temporarily postpone the onset of economic crisis. At a time when the recently retired Chairman of the US Federal Reserve, Alan Greenspan, crowned 'greatest Central Banker ever'[35] by US politicians, media and economists, has been credited with steering the US economy through a period of unprecedented growth (and unprecedented levels of public and private debt), the illusion that judicious application of measured interest rate policy can save capitalism from economic crisis seems to be worth asking again. For those who worship the market, "it is faith that brings salvation".[36] Much of the rest of the world have seen through this illusion and have placed their faith in the possibility of building alternatives neo-liberal globalization.

[34] Albritton 1991, p. 21.
[35] Henderson, N. "Under Greenspan's watch, the economy thrived despite stock market crashes, international financial crises, terrorist attacks, wars and other shocks. No wonder, as Greenspan prepares to retire next week, economists have lauded him as the greatest central banker ever." (Washington Post, Jan. 23, 2006, p. A01).
[36] Marx 1981, p. 727.

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