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# Capital Inside and Out: The Drive to Internalize

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## Abstract

Capital moves not only to expand its value while changing its form but also to internalize what is outside capital, which is confronted by two difficulties: commodification and realization. This paper investigates how to overcome these difficulties by taking two examples: labor and money. Both are considered to be outside capital. It is a claim that can make capital internalize what is outside it. The claim on labor power is commodified and the claim to money is created for the realization of more money. Even if the laborer and the banker do not initially own their labor and money, a claim can be set up to allow the capitalist to access nothing, as outside, which will then turn into something profitable, such as labor power and credit money, through the acceptance of the liabilities on offer. To establish these claims is the technique that capital uses to internalize what is outside it.

***Keywords***: Right to claim, Ownership, Motion of capital, Realization, Commodification, Labor power, Credit money

***JEL Classification***: B51, B41

## 1. Introduction

It has often been argued that capitalism faces crises, but these have not only occurred in recent decades, they have been present from the beginning of capitalism. Crises do not defeat capitalism. There are curious affinities between crises and capitalism. Marx and Engels posed the following question, "How does the bourgeoisie get over these crises?" They simply answered, "by the conquest of new markets, and by more thorough exploitation of the old ones" (Marx and Engels, 1998, p.42). Capitalism can get over crises by the creation of a new market and the exploitation of the old market. But how can this be done?

In the second section, we explore how capital tends to create a market following its own logic. We will establish that capital moves to internalize what is outside capital. At the same time, it encounters two difficulties: commodification and realization. In the following sections, we examine how capital tries to overcome these difficulties. We will explore two examples, one each for commodification and realization: the commodification of labor power in the third section, and, regarding realization, the creation of credit money in the fourth section. We will find one common technique which can internalize what is outside. In the last section, we will answer the following questions. What is outside? How is this internalized, and whether what is outside will be completely internalized in the future.

Now, what is capital?

## 2. Capital and What is Outside it

Capital is the motion to expand its value while changing its form. This is typically shown in the general formula of capital, expressed by M (money) - C (commodity) - M' (more money).[1] Marx described this movement as follows.

> The complete form of this process is therefore M - C - M', where M = M + ΔM, i.e. the original sum advanced plus an increment. This increment or excess over the original value I call "surplus-value". The value originally advanced, therefore, not only remains intact while in circulation, but it increases in magnitude, adds to itself a surplus-value, or is valorized. And this movement converts it into capital. (Marx, 1976, p.251)

We can extract two essential moments from this simple formulation of capital, which makes its concept specific. One is so-called valorization; the other is metamorphosis.[2]

One characteristic moment of the movement of capital is valorization, which is considered the expansion of its value. The value of capital is not only preserved, but also increased. In other words, the result of this motion, M', should be more than M at the beginning. We can formulate this motion as $M' > M$, or, equally, the surplus-value must be more than zero, i.e. $\Delta M = M' - M > 0$. The purpose of the motion of capital is to add surplus value, ΔM, to the principal value M. Valorization is presented as the aim of the motion of capital. It will never stop, because the start and ending point of this motion is in the same form of money, so money ends the movement only to begin it again with a constantly renewed movement. The motion of capital is limitless. However, this does not mean that there is no limitation to this motion. Capital has to find an adequate means to achieve its end.

The other specific moment of the motion of capital is metamorphosis, which is presented as a means to an end. This is to change form over time. In the case of the general formula of capital, value passes through different forms, from money M, to commodity C, to more money M'. Money M at the initial time cannot jump directly to the end of more money M'; it has to take the form of a commodity before it obtains the increment of value at the end. In other words, capital has to go through two phases to complete the whole movement; to purchase M - C, and to sell C - M'. Metamorphosis is the means to obtain more money, or the constraint condition to maximize surplus value.[3] Capital seeks any opportunity to transform and try to relax this constraint in order to achieve the objective of increasing its value.

From these two specific characters, we can find the reason why capital has the thrust to create the market. As Marx stated;

> The tendency to create the world market is directly given in the concept of capital itself. Every limit appears as a barrier to be overcome. (Marx, 1973, p. 408)

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[1] This characterization of capital follows the idea of Uno (1980, Chapter 3).

[2] See Karatani (2003). He basically pointed out two specific moments to characterize capital. He defined capital as "a kind of self-increasing, self-reproductive money" (Karatani, 2003, p.154) which essentially implied valorization, and he also argued for a moment of metamorphosis. "If the metamorphosis is not complete, namely, if capital cannot complete its self-reproduction, it is no longer capital" (Karatani, 2003, p.208). His view is deeply influenced by Kozo Uno. See Uno(1980).

[3] See Satoh (2009), which pointed out that these two essential moments are the *sine qua non* of the motion of capital and then also formulated the motion of capital mathematically as the maximization of the value of capital, subject to the constraints of metamorphosis.

The creation of the market will be needed to make capital execute its movement easily. Why? One reason is that capital has an infinite and unlimited drive to valorize. If the demand of the market is unlimited, surplus value can be gained infinitely. The more there is a market, the higher the profit that capital can obtain. Another reason for the need for the market is that capital can broadly and readily move from money into commodities into more money. If markets become very open, capital can readily access profitable commodities. The more of a market there is, the more opportunity there is for capital to obtain a profit, which is to say, capital needs to create the market *ab origine*, because valorization and metamorphoses will then be accomplished easily. For capital, everything that is outside the market appears as an externality to be internalized insomuch as "every limit appears as a barrier to be overcome". The recuperation of what is outside appears as the essential movement that is derived from the concept of capital itself.

However, there is a problem which capital has to confront in order to create the market. What kind of limit does capital have to encounter through the process of creating the market? Indeed, the motion of capital may be much more easily accomplished if the market is created, but the history of capitalism proves that this cannot be so easy. How does capital overcome the barrier? How can capital internalize what is outside it?

There logically exist two difficulties with which capital has to wrestle in order to overcome the barrier. One is commodification, which is related to metamorphosis, and the other is realization, which is related to valorization.

There would be no barrier that would stop capital from purchasing anything in the world, if there were no objects which it was hard to commodify. However, there are immense objects outside the market which are not produced for sale. Capital needs techniques to commodify any objects which will bring surplus value for capital. The prime example of these objects is labor power. It is obvious that labor consists of activity undertaken by a laborer in order to live and that laborers are human beings. Both are not for sale. In other words, labor power can be considered originally as outside capital. We will investigate how labor power is commodified.

It is also true that capital has to struggle with difficulties in realizing surplus value.[4] Indeed if there were enough economic demand for surplus products, all products would be destined to be sold, but an act of sale is, according to Marx, the commodity's *salto mortale*. "If the leap falls short, it is not the commodity which is defrauded but rather its owner" (Marx, 1976, p. 200-201). Capital has to seek enough money to clear its surplus products in order to avoid being defrauded. Intuitively, the more surplus is produced, the more money is needed. Imagine that all commodities are produced by means of commodities under the control of capital. In this case, there is no logical limit to the production of an infinite number of commodities, but is there enough money to realize all transactions of sale? If capitalists cannot find the additional money inside capitalism, they have to internalize sufficient money from somewhere outside capitalism. Where is the source of that money? We will examine how credit can be created.

In either case, capital has to face difficulties which should be eliminated. How can this be done? By exploring these two examples — labor power and credit money—, we will solve the mystery of how capital can internalize what is outside it.

First, let us look at what happens in the labor market.

[4] Marx (1978) first posed this controversial question and Luxemburg (1951) gave the (wrong) answer. She has been criticized for supposing that the additional demand comes from outside the non-capitalist area, but we will argue that money comes from outside capital.

# 3. What Happens in the Labor Market?

## 3.1. Commodification of labor power

According to Marx, what a laborer sold to the capitalist was not their labor. It may sound strange that labor is not transacted in the labor market, but he explained why the laborer did not sell their labor as follows.

> As soon as his labor actually begins, it has already ceased to belong to him; it can therefore no longer be sold by him. (Marx, 1976, p. 677)

Labor in itself cannot be commodified because it cannot be owned by the laborer *ex ante facto*. It can be only activated *ex post facto*. It is not a commodity but an activity under the process of production after the laborer has a contract to sell something else in the labor market. Therefore, the laborer has to sell something other than labor itself.

Marx introduced the concept of the commodification of labor power to solve the problem of what a laborer sold to the capitalist. Labor power is interpreted to be owned by the laborer in advance, as all commodities are owned by their owners. It is also alienable from the laborer, as general commodities are alienable from their owners. In terms of the property relationship, there is no difference between general commodities and labor power. Marx insisted that it was labor power that was commodified in the labor market instead of labor itself. It is, however, still open to question whether labor power is commodified in the same way as general commodities.

Let us take a detour to explore whether labor power can undoubtedly be commodified. At first, we strategically assume that labor power is completely commodified. Second, we examine the whole transaction of labor power in order to investigate its logical consistency. And finally, we will find a serious contradiction in the transaction of labor power.

Let us first describe the initial endowment of a laborer according to the hypothesis that labor power is commodified. It is assumed that a laborer has one unit of labor power as an initial endowment. It is also assumed that the wage is normalized as unity and paid at the beginning of the production time in advance. If the labor power is rigorously the same as a general commodity, the laborer owns his labor power as an asset at this initial time. If we take a look at the balance sheet of the laborer, the one unit of labor power is the one and only one component under assets, and, correspondingly, the same amount of capital (or net equipment) is registered under liabilities. We can formulate the combination of the asset and liability accounts of a laborer as a row vector (L, K). The first column indicates the asset side of his balance sheet, the second the liability side. L is one unit of labor power and K is the capital (or net equipment) owned by a laborer, which has the same value as the labor power.

The first transaction is the process under which he sells his own labor power to a capitalist for money. In any case, the notion of a sale means the alienation of someone's property rights to someone else to appropriate money in compensation for them. We can denote this transaction as (L, K) → (M, K), where M is money. From the standpoint of the laborer, this process is called the sale of labor power. The next transaction is to purchase commodities. The laborer will buy a definite quantity of the means of subsistence. In the vector of the balance sheet, the process of purchase is described as (M, K) → (C, K), where C stands for commodities. The final process is not the transaction with others, but the process of the reproduction of labor power by consuming the means of subsistence. Consequently, labor power is reproduced back again. We can describe this process as (C, K) → (L, K). L is reproduced through the consumption of commodities. The whole movement is described as (L, K) → (M, K) → (C, K) → (L, K).

As we have seen above, throughout the process of this transaction, the commodity of labor power does not seem to be different from general commodities. The laborer can own his labor power as much as the owner of commodities can own his commodities. The laborer can alienate their labor power in the same way as the owner of commodities can alienate their commodities. Labor power can be commodified as any goods are commodified. In other words, they both follow the same logic of commodification.

But are there no differences between labor power and general commodities? The answer, of course, is “Yes”. At first, let us look at Marx's explanation of the property relationship between general commodities and their owners in order to grasp the specific difference of labor power.

> Things are in themselves external to man, and therefore alienable. In order that this alienation may be reciprocal, it is only necessary for men to agree tacitly to treat each other as the private owners of those alienable things, and, precisely for that reason, as persons who are independent of each other. (Marx, 1976, p. 182)

General commodities, on the one hand, can be alienable because they are external to the holder of the commodities. If there exists an object which is not alienable, it is not external but internal. How about labor power?

Labor power is not external to the laborer. As Marx himself wrote;

> We mean by labor power, or labor capacity, the aggregate of those mental and physical capabilities existing in the physical form, the living personality, of a human being, capabilities which he sets in motion whenever he produces a use-value of any kind. (Marx, 1976, p. 270)

Labor power is internal to human beings because it is simply defined as the mental and physical capabilities to work. It is impossible for a human capability to be alienable because it is an internal entity. If we assume that human capability is transferred to someone else, there exist serious contradictions between this supposition of the laborer's transaction and the suppositions held inside capitalist society. Let us take a closer look at the first transaction, $(L, K) \rightarrow (M, K)$. Assume that the laborer transfers their labor power as a commodity to the capitalist. Consequently, the capitalist is supposed to own their labor power as an asset. On the other hand, labor power is internal to the laborer so that the laborer and their labor power are inseparable. It is unavoidable that the laborer is also simultaneously transferred to the capitalist.

Labor power, which is internal to the laborer, is never externalized for sale, because of this inseparability. This feature is clearly distinct from other general commodities. Indeed, it may be that the laborer owns their labor power, as the owner of a commodity owns their commodity. In the case of labor power, however, it is not alienable and transferable to others, and, of course, the capitalist is never allowed to own the laborer in a capitalist society, though it is possible under slavery. Marx stated as follows.

> The slave, together with his labor power, was sold to his owner once and for all. He is a commodity that can pass from the hand of one owner to that of another. He himself is a commodity (Marx, 2008, pp. 18-9)

In other words, slavery commodified human beings, but capitalist society never does.

Here is a simple proof by contradiction which insists that labor power is not commodified.

Assume the ownership of labor power is alienated, but the laborer and their labor power are inseparable, so that the laborer as the owner of labor power is simultaneously alienated. However, the laborer is never alienated in capitalist society. This contradicts our initial assumption that the ownership of labor power is alienated. We can therefore conclude that labor power is not commodified.

We can provide collateral evidence that the laborer does not sell their labor power to the capitalist. Let us set the balance sheet of a capitalist at the initial time as (M, K), where M is money and K is capital. If the labor power is purchased by the capitalist as a commodity, it must be registered as an asset on his balance sheet instead of their paying money for it. This transaction is reflected in the vector of the capitalist balance sheet as (M, K) ➝ (L, K) where L is labor power.[5] Does it happen in the real capitalist economy? Of course not.

The capitalist never owns labor power as their asset. This transaction results in a decrease in their asset account, and simultaneously a decrease in their liabilities account, thus (M, K) ➝ (M − L, K − L). This is because labor power can never be held in stock. There is no accounting entry for labor power on the asset side of the balance sheet. The transaction to pay for labor power directly affects the capitalist's cash outflow, which are flow-based entries, not stock-based. Labor power cannot be possessed by the capitalist. In contrast, imagine the transaction to purchase general commodities. This results in a decrease in one asset account of money and simultaneously an increase in another asset account of commodities. This means that the total assets remain unchanged after this transaction, thus (M, K) ➝ (C, K), where C is a commodity. General commodities can be held in stock as goods in process. They can be held in stock as inventory. On the other hand, labor power can never be held in stock.

If our proof by contradiction is denied, we cannot avoid facing some curious logic.[6] Marx gave us such a "curious" statement about labor power:

> (The laborer) manages both to alienate his labor power and to avoid renouncing his rights of ownership over it. (Marx, 1976, p. 271)

In an intuitive way, there is a contradiction between alienating one's labor power and avoiding the renunciation of their rights of ownership over it. After an owner has alienated their commodity to someone else, they can never again assert their rights of ownership over it. To put it the other way around, if the owner of commodity is still able to assert rights of ownership, those rights have not yet been alienated to someone else.

We have to conclude that labor power is not commodified if we wish to avoid a contradiction. However, we have to raise one simple question here. What is commodified if labor power is not commodified? What does the laborer alienate to the capitalist if they are to avoid renouncing their rights of ownership over their labor power? It is the task of the next section to provide an answer to these questions.

## 3.2 The Commodification of the Claim on a Laborer's Labor Power

Let us introduce an alternative concept to solve the contradiction in the nature of the commodification of labor power. We can re-read Marx's curious statement without any inconsistency if we add just one phrase:

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[5] For simplicity, we assume that there are no capital goods in this model. This assumption allows us to ignore the means of production so that we can justify the supposition (M, K) → (L, K).

[6] Gintis and Bowles (1981) also recognize the curious logic in the commodification of labor power, but they fail to provide alternatives. They insist that "wage labor enters into exchange relations, but it is not a commodity" (Gintis and Bowles, 1981, p.17). It seems to us that this statement also reproduces this curious logic.

> The laborer manages both to alienate his *claim on his* labor power and to avoid renouncing his rights of ownership over it. (The phrase in italics is added by the quoter.)

It is the "claim" on labor power that we now introduce. This small modification gives rise to a large distinction. Let us take a look at the difference between the supposition that the ownership of labor power is commodified and that the claim on labor power is commodified.

The largest difference exists in the initial endowment. In the case of the commodification of the claim on labor power, the laborer has nothing to own. It is faithful to Marx's description that "the proletarian is without property" (Marx, 1998, p. 48). The laborer's account is expressed by (0, 0) at the initial time. How can the laborer create their assets from a zero initial endowment?

The claim on labor power is created *ex nihilo*.[7] It can happen because the laborer simultaneously creates the obligation to provide his labor power. Let us denote the Laborer's account by ($L_C$, D), where $L_C$ is the claim on one unit of labor power and D is the obligation attached to that labor power in his debt account. The claim on labor power is created through the obligation attached to that power.

However, this set of claims and obligations seems unrealistic, because both the obligee and the obligor are the same person — the laborer. At this stage, the laborer places a claim on their labor from their own labor power for their own benefit, and they oblige themselves to provide that labor for themselves. This is as meaningless as a people owing debts to themselves. Both claims and obligations cannot be effective until the claims are assigned to someone else. Before this assignment, the account of ($L_C$, D) is meaningless and fictitious. Capitalism is, however, established on the basis of these kinds of fictions.

The claim on labor power is created, commodified and transferred. The laborer sells $L_C$ to a capitalist to obtain their wage in the labor market. In that way, the wage is remuneration for the transfer of the claim on the laborer's labor power. The alienability of the claim on the laborer's labor power from the laborer contrasts sharply with the inalienability of the ownership of labor power. This transfer allows the account of the laborer ($L_C$, D) to be changed into (M, D).

Laborers have to work under the lordship of the capitalist after they sell their claim on their labor power. The process of production is nothing more than that of productive consumption. The capitalists productively consume their productive resources. The claim on labor power is no exception. The capitalist places their claim on the laborer to perform their labor. They have the power to extract labor from labor power through the exchange between the claim on labor power and the wage. They can formally obtain the right to extract the labor from labor power because the laborer has the obligation to work as a result of the debt that they have incurred. The relationship between the capitalist and the laborer is similar to that between the creditor and the debtor. This relationship includes a vertical power-relation rather than a horizontal exchange-relation.[8]

The laborer can reduce this obligation on the liability side of his balance sheet as they work. The more they reduce their debt, the more they increase their capital. Laborers will be released from the debt relationship only after they let their work clear their debt. This transition can be described by the account vector as (M, D) → (M, K), where K is the laborer's own capital account. In other words, D is gradually substituted by K as the laborer works in the process of production.

K in the vector (M, K), which is transformed from a laborer's obligations D, can be interpret-

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[7] But this never happens if the capitalist does not recognize something profitable — labor power— in the laborer. In this sense, the claim on labor is a joint construction, being both the creation of the laborer and the act of recognition by the capitalist.

[8] See Braverman (1974), which is a classic Marxian work that investigates the power relations involved in the process of production.

ed as "labor power". It is principal in order to obtain the wage *ex-post facto*. The value of the labor power, K, takes the form of a wage, M. This interpretation suggests that labor power is not a commodity that the laborer holds as an asset, but capital from which the value of the wage arises. Labor power does not exist *a priori* before the laborer works. It is only the claim on labor power that fictitiously exists in advance. Labor power will be found *a posteriori* after a laborer works.

A laborer can purchase a bundle of consumption goods on their wage M, but we assume that there exists one commodity in this economy, which we can denote as C. We can formulate this transaction as (M, K) → (C, K) after their purchase.[9] This is the same story as the hypothesis of the commodification of labor power, but a different scenario occurs after the purchase. In the case of the commodification of labor power, labor power is reproduced through consumption. However, in the case of the claim on labor power, the consumption goods are just consumed and disappear. Nothing is reproduced without a proletarian who has no asset. The laborer is doomed to end up with the account (0, 0) in the end. Summing up, the entire transaction of the laborer is expressed by (0, 0) → ($L_C$, D) → (M, D) → (M, K) → (C, K) → (0, 0).

It is noteworthy that the transactions of laborers in the real world are partially recognized as (0, 0) → (M, K) → (C, K) → (0, 0). In other words, bookkeepers or accountants observe the sudden jump into (M, K) from (0, 0) after the laborer obtains their wage M. $L_C$ and then D are never confirmed in the real economy.

Of course, the initial condition (0, 0) does not automatically or immediately transit into (M, K). How do we get there? How is it possible to get from nothing to something? The claim on labor power can make it possible. It takes a similar role to that of an additional line in a proof of geometry. If the notion of $L_C$ is introduced into the process of the transaction of the labor market, it can completely explain the whole transaction, but if it emerges and is transferred from the laborer to the capitalist, it drops away or vanishes from the real economy. In that way, we can interpret $L_C$ as the vanishing mediator.[10]

Through this example, we can summarize how to recuperate what is outside capital. Capital establishes the claim on the "place" where it is hard to establish property rights. That place — actually non-place or more precisely, "nothingness"— can be called what is outside capital. The claim can make it possible to transfer and alienate any entity. In other words, capitalism can commodify everything through the establishment of a claim.

In the next section, we will explore how money is created to overcome this difficulty in a manner similar to that for labor power.

## 4. What Happened in the Credit Market?

### 4.1 Mediation of Money: The Moneyed Capitalist and the Functioning Capitalist

Money is an entity from what is outside capital. This may sound paradoxical. That's because the motion of capital starts from money, M, and ends in more money, M'. It is often identified with the motion of "increasing money". It is thought that money should be an inner entity throughout the motion of capital. Why can money be thought of as outside capital?

Let us pose one simple question. Where does the initial money, M, come from? Let us consid-

[9] For simplicity, the laborer is assumed to spend his all wages on consumption goods.

[10] This concept is proposed by Jameson (1988) and developed by Žižek (2008). They argue that Protestantism took a critical role as a vanishing mediator through the transition from feudalism to capitalism. Žižek notes that "the one cannot pass from the medieval 'closed' society to bourgeois society immediately without the intercession of Protestantism as a vanishing mediator" (Žižek, 2008, p.186).

er the general formula of capital M - C - M’. At first glance, the answer seems easy. It comes from the result of the previous transaction. If we explicitly define the time dimension t, the motion of capital is generally described by M(t) - C(t) - M’(t). We can obtain the previous transaction as M(t−1) - C(t−1) - M’(t−1). Therefore M(t) can be obtained from the result of the previous transaction M’(t−1). But how about the money in the previous time M(t−1)? How about M(t−2)? We can ask the same question an infinite number of times and can never approach the final answer. Indeed we may be able to give an answer in an ad-hoc manner. It may come from heritage, plunder, manna or whatever, but in every case, it does not follow the inner logic of capital. This means that money comes from outside capital.

How can the capitalist obtain an initial amount of money and render it subject to the inner logic of capital? If we read volume III of *Capital*, we can find the key to this question. Marx introduced two concepts to explain how to obtain this money — the moneyed capitalist and the functioning capitalist.

The moneyed capitalist will provide the initial money to the functioning capitalist. The moneyed capitalist cannot be interpreted as a household *a la* neoclassical economic agent, but as a capitalist who holds relatively sufficient funds among capitalists. This can happen if capitalists have a much larger amount of funds in reserve for depreciation or price fluctuation than they expect to need. On the other hand, functioning capitalists are potential or actual capitalists who do not have enough money to start their businesses. The moneyed capitalist has an incentive to lend his idle money to obtain interest. Functioning capitalists also have an incentive to borrow funds even though they have to pay interest.

Assume a functioning capitalist has nothing of their own assets at the initial time whose account is described by (0, 0). If they can convince the moneyed capitalist that they have a successful business plan that will yield a fair return, they can obtain funds via the issuance of bill certificates. This transaction to obtain funds can be described as (0, 0) → (B, D) → (M, D). The functioning capitalist makes a bill, B, to create debt, D, from the initial state of (0, 0). They obtain money, M, if the bill is accepted by a moneyed capitalist. Now the functioning capitalist can obtain the initial money M which lets them start the motion of capital such as in M - C – M’.

The moneyed capitalist has money and capital of his own as (M, K). He lends his own money to obtain the bill which will result in revenue from the interest. The whole motion of his transaction is (M, K) → (B, K) → (M’, K + ΔK). B is the bill issued by the functioning capitalist and ΔK is the increment of the capital. The moneyed capitalist will be able to obtain more money, M’, which is more than the initial money M.

It seems that this setting can explain how to obtain the initial money. It allows functioning capitalists to start their own businesses from nothing. However, even if this is possible from a microscopic perspective, it is not always possible from the macroscopic point of view.

The problem is that money is not increased in the macro-economy as a whole in this setting. M at the initial time flows from the surplus unit to the deficit unit. It, in a sense, mediates between abundance and a shortage, but the money supply as a whole is not created. The sum of pluses and minuses cancel each other out in the whole economy. Even if money mediates between the moneyed capitalist and the functioning capitalist, it is never created. In addition, the macro-economy will have a shortage in the amount of money necessary to clear the transaction of M’. There is no limitation on the macro-economy growing permanently through the production of commodities by means of commodities,[11] but how can money be produced at the same pace to clear every transac-

[11] See Sraffa (1960). He proved that there exists a price (and quantity vector) which allows the economy to grow steadily if all commodities are produced by means of commodities.

tion? Where is the source of money for this?

We should explore the answers to these questions in the next section.

## 4.2 Creation of the Claim to Money: the Banker and the Industrial Capitalist

Credit money is created through the motion of bank capital.[12] In order to explain the logic behind the creation of credit, let us introduce two characters. One is the industrial capitalist, who takes a similar role to that of the functioning capitalist, the other is the banker, who behaves differently from the moneyed capitalist.

The industrial capitalist is assumed to behave in the same manner as the functioning capitalist. Assume he has no asset or capital, which means (0, 0). He has to draw a bill to borrow funds. The transaction to obtain funds is $(0, 0) \rightarrow (B, D) \rightarrow (M_C, D)$ where B is the bill, D is debt and $M_C$ is the claim to money. This motion is the same as that of the functioning capitalist except we substitute $M_C$ for M. He obtains not money M, but a claim to money which functions as a certain amount of purchasing power in an available form. But how is this purchasing power created? We have to move on to an analysis of bank capital.

Bankers are supposed to have their own money and capital like moneyed capitalists, but they never lend their own money. Instead, they advance the "claim to money" which is a legal claim to a definite amount of money, transferred from the banker to the industrial capitalist. A claim to money can take various forms, such as a banknote in the 19th century or a demand deposit in the 20th century. The bank is prepared to exchange the banknote or the deposit against proper money at any time. The claim to money can be called a substitute for money that functions as if it is money itself.

Let us formulate the motion of bank capital. As mentioned before, bank capital is supposed to have its own money and capital at the initial period, say (M, K), but this money does not play an essential role in the motion of bank capital. M is never lent to other capitalists and never changes its form throughout the whole transaction of bank capital. The omission to enter M in the account of bank capital does not prevent us from fully describing the motion of bank capital and clarifying the logic behind the creation of credit. It can allow us to define the account of bank capital at the initial period as (0, 0), instead of (M, K). The banker has nothing at the initial time.

The banker can establish a claim to money which will circulate as money proper from the initial state (0, 0). The creation of money makes the account of bank capital change in form as $(0, 0) \rightarrow (M_C, D)$, where $M_C$ is the claim to money and D is debt. In other words, bank capital can create credit money *ex nihilo*. However, the combination of $(M_C, D)$ is ineffective because the creditor and the debtor belong to the same economic agent — a banker. Nobody can raise money by borrowing from himself, and nobody can earn interest by lending to himself. The banker has virtually nothing at this stage, in short, $(M_C, D)$ almost equals (0, 0). Why does the banker prefer to move on to the stage of $(M_C, D)$ and not move at the stage of (0, 0)?

$M_C$ will become effective if (and only if) it falls into the hands of other capitalists in exchange for the bill drawn by the industrial capitalist. Bankers accept bills issued by other capitalists, then they advance claims to money. This process can be described by $(M_C, D) \rightarrow (B, D)$ where B is the bill drawn by the industrial capitalist. The banker accepts the bill in order to obtain interest.

Finally, the banker can claim money when B reaches maturity which brings in revenue from interest. For simplicity, assume that the industrial capitalist pays his debt using a claim to money instead of money itself. The transaction is $(B, D) \rightarrow (M_C', D + \Delta K)$, where $M_C'$ is the amount of the claim to money promised as payment by the industrial capitalist, and $\Delta K$ is the increment on

[12] See Itoh and Lapavitsas (1999, chapter 4) for a full explanation of the credit system.

the capital which comes from the revenue from the interest, which is equal to $M_C' - M_C$.

Let us compare the difference between the moneyed capitalist and the banker. The former is $(M, K) \rightarrow (B, K) \rightarrow (M', K + \Delta K)$ and the latter is $(0, 0) \rightarrow (M_C, D) \rightarrow (B, D) \rightarrow (M_C', D + \Delta K)$. There are two crucial and noteworthy differences.

The first difference exists at the initial point. Moneyed capitalists have money which they will lend, but bankers have nothing to lend. The money M is just owned by the moneyed capitalist *a priori*, but the claim to money is created by the banker *a posteriori*. The purchasing power, $M_C$, is created *ex nihilo* by bank capital for the purpose of transferring it to the industrial capitalist, but this is not simply transferring existing purchasing power, M, which the moneyed capitalist would hold. The consequence of money creation is an increase both in the money supply and in aggregate demand in monetary terms. But how can this be created? This question brings us to the second difference.

The second difference exists in the liability side of the balance sheet. The purchasing power is created by bank capital to shoulder the burden of the debt, D, in contrast to the moneyed capitalists who hold their own equity, K. Bankers never lend their own money. Instead, they lend their debt, which will be monetized. The monetization of the debt breaks the limitation on the amount of real money in the real world. The capitalist eventually can transform any limit into a barrier to overcome, and overcome it.

## 5. Technique of Recuperation of What is Outside

Capital moves to internalize what is outside it. But what is outside capital? — Nothing. Nothing is outside capital. Note that we have to take this literally. It does not mean that there is nothing outside capital, but it does mean that nothingness is the realm of what is outside capital. The laborer and the banker, who will create the claims, have nothing at the initial stage. No one can buy something from others who have nothing. The capitalist, however, can obtain labor from the laborer and credit from the banker. Capital has a technique to change nothing into something, but how can this be done?

The claims are set up at the second stage to allow the capitalist to access nothing which it will turn into something. The laborer is identified as an agent who has a claim on labor power, and the banker is identified as an agent who has a claim to money. Each case can be expressed by $(L_C, D)$ and $(M_C, D)$, but both the claim and the obligation are vested in the same economic agent at this stage; the claim on labor with the laborer and the claim to money claim with the banker. In these cases, such claims are not effective and then extinguished. They will be effective after they have been alienated to the capitalist.

At the third stage, something arises from nothing just after the claims have been alienated. Claims which the capitalist obtains at hand become effective against both the laborer and the banker. Capitalists obtain the power to claim the performance of labor directly from laborers through the extraction of their labor power. They also obtain the power to claim money so that this right can work as a substitute for money. In each case, they can get something from nothing. Labor and money are created *ex nihilo*.

From the viewpoint of the third stage, the claim in the second stage is identified with the vanishing mediator between the first stage and the third stage, i.e. from between nothing and something. Once it has accomplished the task of allowing the capitalist to appropriate money and labor, or rather, to internalize what is outside it, it has no further reason for being and is extinguished from the whole transaction. These claims are not real entities, but not simply nothing. This can be one reason why labor and money are called fictitious commodities.[13] The fictitious nature of a fictitious commodity should depend largely on the ghost-like character of these claims.

We can conclude that capital can internalize what is outside it, as we have already seen, through the technique to establish claims, but here we have to pose one more question. Is all that is outside doomed to be distinguished under capitalism? The answer is, unfortunately or not, "No". We briefly consider this question and answer it in our final remarks.

## 6. Concluding remarks

We can indicate at least two reasons why what is outside is never distinguished under capitalism.

One reason is that nothing exists at anytime and anywhere. The technique of recuperation is as old-fashioned as the history of capitalism, but at the same time it can be also applied to brand-new frontiers, such as financial instruments and immaterial labor.[14] These modern phenomena look complicated, but they are basically simple applications of this technique. They look very different now, but the principle to internalize what is outside is absolutely the same. These new phenomena will continue to be found anytime and anywhere. Thus the recuperation of what is outside will continue forever.

The other reason is serious for capital. There is a possibility that something vanishes into nothing. Establishing claims allows the capitalist to request the obligor to tender their entire work, but no capitalist can completely eliminate the possibility that this request will not be realized. Capitalists may not be able to extract labor from laborers according to their wishes. They may not be able to exchange substitutes for money. In these cases, something passes into nothing. In other words, entities which have already been internalized become what is outside again. The internalized outside still remains outside *in potentia* even though it is inside capitalism.

This possibility is, in fact, another name for the possibility of crisis. A crisis of a labor shortage and excess capital can be caused if the capitalist fails to commodify the claim on labor power. A monetary crisis can happen if substitutes for money cannot be exchanged for money. They are still no more than possibilities, but they will be a real possibility. How can what is outside, when internalized, act against recuperation? Or, if we pose the same question in a different way, how can this possibility really become a reality?

To answer this question, though, is "outside" the scope of this paper.

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[13] The notion of a fictitious commodity originates from Polanyi (1944, chapter 6). He points out that "labor, land, and money are obviously not commodities" because "none of them is produced for sale." He also remarks that "it is with the help of this fiction that the actual markets for labor, land, and money are organized" (Polanyi, 1960, p.72-73). We can share with him the idea that they are fictitious, but the reason they are not for sale is different.

[14] See Negri and Hardt (2000) for these new phenomena in the area of Empire.

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