- From the introduction to *Capitalism: Competition, Conflict, Crises* -

Chapter 5 takes up the question of money. Production activities are undertaken by individual businesses concerned with their own profit, with no immediate regard for their fit with social needs. Each firm anticipates profit from sales of the planned product and anticipates buying other products for future inputs or personal consumption. The inevitable discrepancies between conflicting individual expectations and plans are resolved in the market. Neoclassical economics skirts the din of real markets by pretending that individual production plans mesh perfectly with social needs. This pretense is called general equilibrium. In point of fact, the turbulent order arising from real markets is achieved only in-and-through disorder, and money is its general agent.

Exchange is not to be confused with gift-giving, even when the latter is reciprocal. A proper gift asks nothing in return, whereas a proper exchange asks nothing less. Potlatch is an example of a custom in which the social ranking of the participants was determined by how much they could give away. In reciprocal gift-giving, each side tries to give back something desirable to the other. In exchange, each side tries to get back something more desirable than it gives. In the same vein, a payment obligation should not be confused with a proper debt. For instance, tributes and taxes are one-sided payment obligations often enforced by a threat. These are generally one-sided, which is why we use terms like tribute and tax. A debt is a repayment obligation, so it involves a reflux in interest and amortization payments. This is different from time-separated exchange: tools can be exchanged on the spot for grain, or tools can be received now and the grain delivered later. Such differences are shown to play an important role in the theory of money and credit.

Barter is the earliest form of true exchange. It will establish multiple exchange ratios between any given commodity and all the others in its orbit. Money arises naturally as the reach of exchange is extended, in response to the intrinsic need to convert the many exchange ratios of a given commodity like grain with meat, salt, leather, tools, and so on into a single ratio between it and some given socially selected commodity like salt. Then salt is the local money commodity and all the commodities in its sphere acquire a salt price. Price is intimately connected to money: it is the monetary expression of a commodity's quantitative worth.

The distinction between a mere commodity and a money commodity arises again and again in human history, with the latter taking various form such as salt, cattle, pigs, grain, shells, cocoa beans, beads, turmeric, red ochre, axe blades, arrows, spears, millstones, beetle legs, beeswax, metals, and tokens, with new forms constantly being invented. Monies start off as localized entities, and like royalty, most are deposed over history's long march. Section II traces the evolution of money from its origins in 11 Introduction exchanges to private and state-issued coins, private and state-issued convertible and inconvertible tokens, state fiat money, and bank money. It ends with a statement of the three essential functions of money (medium of pricing, medium of circulation, and medium of safety) and a look at some striking long-term empirical patterns. Section III goes from classical theories of money and the price level to Marx's discussion of these same issues. Marx restricts himself to the case in which tokens directly or indirectly represent a money commodity (he promises to analyze pure fiat money and bank credit at a later date but does not live to do so). From this point of view, his treatment of commodity-based money applies up to 1939/40, which marks the end of gold standard.

A central factor is his determination of the national price level as the product of two terms: the competitively determined relative price of commodities in terms of the historically chosen money commodity which in the West was gold; and the price of the money commodity determined by monetary and macroeconomic factors. Some striking empirical patterns come into view in the United Kingdom and United States when price levels are examined from this perspective. One of the benefits of this approach is the identification of a simple long wave indicator that continues to be valid to the present day (chapters 16 and 17).

Section IV links the classical treatment of fiat money in a commodity money (say gold) standard to the modern (Sraffian) treatments of relative prices of production, before moving to the key question: How does one address the case in which fiat money is no longer linked to any money commodity? It is argued that under modern fiat money the national price level is directly determined by monetary and macroeconomic factors, but in a manner different from Monetarist, Keynesian and post-Keynesian theories. Hence, this aspect is postponed to the analysis in chapters 12–14 of Part III of the book in which classical approaches to profitability, effective demand, growth, and inflation are developed and applied to macroeconomics. Modern theories of inflation and a classical alternative are then treated in chapter 15, along with a critical analysis of Chartalist and neo-Chartalist claims about the historical role and modern powers of the state.