

The Value of Money and the Theory of Imperialism

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Prabhat Patnaik's treatise on *The Value of Money* is a complex work. The complexity arises primarily because it is at least two, if not three, books brought under a single title. The work contains both a general critique of economic theory as well as a theory of imperialism, tied together with two common analytical threads – the conceptualization of capitalism as a system which is functionally dependent on its pre-capitalist surroundings and the question how a positive and finite value of money is determined under capitalism. The general critique of economic theory contained in Prabhat Patnaik's treatise is highly insightful and the categorization of "Marx-Kalecki-Keynes" as belonging to a single methodological tradition, although not unique, is an apt one in the current conjuncture. What is perhaps unique is the linking up of Marx's economic ideas and the Keynes-Kalecki framework under the rubric of "Propertyism", through the common thread whereby the value of money is determined from outside the system and not on the basis of the supply-demand mechanism. A theory of imperialism has also been developed, inspired by as well as based upon a critique of the "incompleteness" of "propertyism", which we shall discuss at length in the following sections.

I

Those familiar with Prabhat Patnaik's earlier work, *Accumulation and Stability Under Capitalism*, would find its arguments interwoven into the present one. To recapitulate the basic argument of the earlier work, the spontaneous operations of the accumulation process under capitalism cannot ensure a steady positive rate of growth of output along with stability of prices. While state intervention in demand management plays an important role in stabilizing capitalism, even that cannot ensure that the level of activity under capitalism remain within a range where output grows without experiencing non-accelerating inflation in every period. Therefore, what accounts for the fact that capitalism as a system, while witnessing occasional phases of deflation and accelerating inflation, has still succeeded in functioning within a range of positive output growth and non-accelerating inflation over long time periods in history?

The answer to this question in Prabhat Patnaik's earlier work was found in the functional dependence of capitalism on the pre-capitalist surroundings it has historically inherited. On the one hand the pre-capitalist sector provide a "reserve market" for capitalism, which by its sheer existence and availability, provides a lower bound to the rate of capital accumulation within the capitalist sector. On the other hand, the existence of a set of unorganised producers in the pre-capitalist sector whose ex ante

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income shares can be squeezed through terms of trade movements, help in ensuring that distributional conflicts between the capitalists and workers within the capitalist sector do not result in accelerating inflation even at high levels of economic activity and employment. In other words, the cushion of the pre-capitalist sector acts as a stabiliser-of-last-resort for capitalism.

The present work, while remaining focussed on the same basic questions related to the stability of capitalism, builds upon the earlier argument and develops it further in significant ways. Firstly, with growth in the capitalist sector and the gradual degradation of the pre-capitalist sector, the size and importance of the latter in playing the stabiliser-of-last-resort function gets eroded over time. This erosion, coupled with the fact that the ascendancy of international finance capital severely constrains state intervention in demand management under contemporary capitalism, has contributed to a “general tendency towards slowdown”. Secondly, while the leading capitalist country, the US, is trying to act as a surrogate “world state” by running a huge current account deficit in order to provide the market required for the stabilisation of the international capitalist order, the absence of colonial control over pre-capitalist markets precludes the possibility of offsetting its current account deficit, through a current account surplus vis-à-vis the pre-capitalist sector. This has led to growing net indebtedness of the leading capitalist country vis-à-vis the rest of the capitalist world, which entails a “serious problem” for capitalism, both in terms of the value of the currency of the leading capitalist country (which characterizes its leadership role in the first place) as well as the sovereignty of the leading capitalist state over its “national” assets.

A third and significant argument contained in the book involve a reformulation of the concept of stability under capitalism. Stability of a money using system like capitalism also entails the stability of the value of money, as a form of holding wealth. In order to ensure the stability of the value of money vis-à-vis the world of commodities, the stability of the value of money vis-à-vis labour power as well as vis-à-vis primary commodities need to be ensured. This stability of the value of money under capitalism, according to Prabhat Patnaik’s treatise, is ensured from “outside” the system through the maintenance of unemployment and through imperialism. The existence of the “reserve army” of the unemployed within the capitalist sector, along with the unorganised producers as well as the unemployed in the pre-capitalist sector, weaken the bargaining power of workers in the capitalist sector, thereby restraining their wage claims and ensuring the stability of the value of money vis-à-vis labour power. In a world comprising of many countries under capitalism and therefore many national monies, the money which matters is the currency of one capitalist country which acts as the leader, vis-à-vis whose currency the currencies of all other countries are pegged.

Stability of the value of money vis-à-vis the primary commodities is maintained through the exercise of control over such resources by the leading capitalist country.

However, under contemporary capitalism there is one primary commodity, oil, which is a crucial energy input but over which the state of the leading capitalist country struggles to exercise control. This is because a section of the producers of oil are organised and are not price-takers unlike the producers of most primary commodities. Maintaining the stability of money vis-à-vis oil, or in other words stabilizing the value of the currency of leading capitalist country vis-à-vis oil, therefore becomes crucial for the stability of capitalism. However, the attempts by the leading capitalist state, the US, to sustain the oil-dollar standard has invariably led to a quest for colonial control over oil resources through wars of conquest in the most oil rich region of the world, the Middle-East, unleashing political dynamics which threatens the sustenance of the oil-dollar standard.

III

The arguments provided in Prabhat Patnaik's treatise contain two deep insights into the working of capitalism, throughout its period of existence. Firstly, the observed stability of capitalism arises not out of its spontaneous functioning as a self-contained system but because of its imperialist character; in other words imperialism is a necessary condition for stability under capitalism. Secondly, in order to ensure stability under capitalism, a leading capitalist country has to play its imperialist role which entail: (a) providing market access to other capitalist countries, either by offering its own markets or by facilitating encroachments on pre-capitalist markets, (b) ensuring the existence of unemployment both within capitalism and its pre-capitalist surroundings in order to maintain price stability, and (c) ensuring the stability of the international monetary system by maintaining the value of its own currency vis-à-vis the world of commodities through coercive control. The satisfaction of these imperialist roles fulfills the sufficient condition for stability under capitalism; an undermining of any of these imperialist roles also undermines its stability.

The major contradictions underlying contemporary imperialism fit well into the analytical framework of the treatise; a general tendency towards slowdown, growing indebtedness of the leading capitalist country and the threat to the sustenance of the oil-dollar standard. One can further argue that the ascendancy of international finance capital has not only constrained the role played by the state in demand management as has been explicitly noted but have other implications for the stability of the accumulation process under contemporary capitalism. The speculative excesses committed by international financial entities precipitate financial crises from time to time, which often spill over to the real economy. While such crises appearing in any capitalist country has an impact on the stability of the overall accumulation process given the integrated nature of the international financial system, when it occurs within the leading capitalist country, as is being witnessed currently, the implications are particularly significant. Besides causing a recession in the US economy, which has precipitated a global slowdown, the sub-prime lending crisis in the US has also

contributed to the weakening of the dollar. Moreover, having incurred significant capital losses in the mortgage lending market, international financial entities have made speculative ventures into the futures markets for commodities like oil and food, which has contributed along with other factors to a rise in their spot prices, creating inflationary pressures globally. The operations of international finance capital indeed have destabilizing consequences for the capitalist world economy.

Unlike Rosa Luxemburg, Lenin never had a formal model of imperialism. For him imperialism involved more of an open-ended theatre where the imperatives and contradictions arising out of the workings of monopoly capitalism played themselves out, with nation-states backed by their respective finance capitals engaged in bitter inter-imperialist rivalry over markets, resources, avenues for capital exports and “spheres of influence”. The strength of Lenin’s understanding lied in its being able to analyze all significant world events of his time from the point of view of imperialist imperatives and contradictions. It is true that the phase of inter-imperialist rivalry, which formed the backdrop of Lenin’s writings on imperialism, got over after the Second World War with the establishment of complete hegemony of the US over the capitalist world. It is also true that the emergence and ascendancy of an international finance capital as opposed to nation-state based finance capitals of Lenin’s time, has created a situation where inter-imperialist contradictions have receded under the imperatives of dollar hegemony. However, those contradictions have not vanished and make appearances from time to time, not only in the form of rivalries over energy resources and markets but also other geo-political reasons. It would be interesting to know how a possible outbreak of inter-imperialist rivalry can play itself out through the major contradictions of contemporary imperialism captured under the analytical scheme of Prabhat Patnaik’s treatise.

One can argue that the role of the state under capitalism has not been properly appreciated in the treatise. The analysis has been conducted mainly in terms of capitalism and its pre-capitalist surroundings. The role of the state in stabilizing capitalism has been assessed almost entirely in terms of demand management and even this role is noted to have been truncated following the ascendancy of international finance capital with only the state of the leading capitalist country able to indulge in demand management to a certain extent. While expenditure by the state under capitalism has indeed been constrained in recent times, such expenditure continues to remain quite substantial as a source of demand under capitalism. Moreover, the strength and importance of the state as a source of demand under contemporary capitalism is certainly more compared to the pre-capitalist markets and the stimulus provided by them. In fact, state expenditure of certain types, like military expenditure, which has a direct bearing on the imperialist role of the capitalist state, has risen sharply in recent times.¹ More importantly, imperialist functions required to ensure stability

¹ According to the Stockholm International Peace Research Institute, world military expenditure, which had come down in the post-cold war period from around \$1200 billion in 1988 to \$800 billion in 1996, has seen a 37% rise

under capitalism like ensuring price stability and maintaining the value of money vis-à-vis the world of commodities, are essentially mediated through the state, an explicit recognition of which has not been made. Just as the conceptualization of capitalism as a self-contained system is problematic, the functioning of capitalism is inconceivable without the myriad roles played by the state. The role played by the pre-capitalist markets in stabilizing capitalism has at times been weighed against the role played by the state in the treatise, which is perhaps not an appropriate comparison.

IV

The treatise notes at one point: "Concepts, and the theories using them, are of value essentially as aids to praxis". This is especially true for any theory of imperialism. To begin with, in the discussion on the mode of production, a complex concept of exploitation has been developed after envisaging capitalism as being perpetually ensconced in a pre-capitalist setting:

Exploitation within this totality is of diverse forms: there is above all the exploitation of workers directly employed by capital through the appropriation of surplus value; there is the exploitation of the metropolitan reserve army which is kept in depressed living conditions, and has the role of keeping down the bargaining strength of the trade unions in the metropolis; then there are the unorganized workers in the periphery who are exploited through unequal exchange and made to act as price-takers so as to sustain the stability of the value of money; finally, there is the vast pauperized mass amidst whom these unorganized workers are placed which is also exploited, through even more depressed living conditions than the metropolitan reserve army, and upon whom the system rests ultimately for its stability. In addition to these, there are of course the different forms of exploitation by the pre-capitalist hegemonic classes.

While the concept of exploitation mentioned above is rich in content, the implications for praxis are less than clear. That is not to deny the multi-faceted nature of exploitation under imperialism but to underscore the point that any concept of exploitation should also clear the air regarding how that exploitation is to be fought effectively and eventually ended. In the present case, while the exploitative relations between imperialism and each of the different categories of the exploited are clearly established,

since 1997 to reach \$1204 billion in 2006. Out of this, military spending by the US at \$528.7 billion in 2006 accounted for nearly 44% of world military expenditure. The US moved from a budget surplus of \$86 billion in 2000 to a budget deficit of \$434 billion in 2006 under the Bush administration, with the defence budget increasing from 3% of US GDP in 2000 to over 4% in 2006. Faced with a recession, the Bush administration has further stepped up deficit financed military expenditure, with the US defence budget reaching \$623 billion for 2007-08, which is almost double the amount when Bush took office in 2000 and the largest US defence budget (in real terms) since World War II.

the nature of relationships between the different categories of the exploited (i.e. whether there are contradictions between them) are unclear. Therefore it is difficult to conclude whether all these exploited categories can be united in an anti-imperialist alliance. And if an anti-imperialist alliance is at all possible between all these exploited categories, who should provide the leadership to that alliance and on what basis?

In fact, the basic categories of capitalism and its pre-capitalist surroundings used in this theory of imperialism, themselves require some clarification. This is because capitalism as we observe it, exists in the form of territorial nation-states. It is important from the point of view of praxis to locate exactly where the capitalist and the pre-capitalist sectors are located, as far as the nation-states are concerned. This is particularly relevant from the point of view of the “diffusion” of capitalism that has been talked about. On the one hand “diffusion” of capitalism to its pre-capitalist environment is decisively rejected in the discussion on the mode of production:

The capitalist mode, it follows, is both revolutionary and yet not quite revolutionary enough. It does break down the insulation of existing pre-capitalist societies; it does ruthlessly draw them into the vortex of its own accumulation process, but not necessarily by creating within them, in a dominant form, the structures of the bourgeois mode of production itself. They are transformed by, and hegemonized by metropolitan capitalism, but they themselves never get transformed into predominantly bourgeois societies.

Historically speaking, capitalism originated from a pre-capitalist setting and significant diffusion did take place over time to assimilate the pre-capitalist sectors within several countries. So much so that the leading capitalist country, as a part of its leadership role, runs a current account deficit to provide markets for its rival capitalist powers, which neither possess nor have any significant access to pre-capitalist markets. This creates a second category of nation-states, after the leading imperialist nation-state, where diffusion of capitalism has already taken place. Then there are societies which:

...may replicate within them the dichotomy characterizing the system as a whole, by having an enclave of capitalism, but this is very different from their transformation into bourgeois societies.

This creates a third category of nation-states where there is some diffusion of capitalism, although partial. There is a clear hint where these nation-states are located:

...the US is currently engaged in pressurizing, not its major capitalist rivals, but the newly industrializing countries of Asia, to *appreciate* their currencies. This is a typical “beggar-my-neighbour” policy, which would

thwart whatever diffusion of industrial activities is occurring from the capitalist core to the newly industrializing countries of the third world.

Thus the interaction between the capitalism located in the leading capitalist country and all countries of the third world, where bulk of the pre-capitalist sector is presumably located, is not of a uniform nature. There are “newly industrializing countries” where capitalism continues to diffuse, in however partial a manner, while there are other countries where the pre-capitalist sector continues to predominate in the absence of capitalist diffusion. This implies a dual character of imperialism vis-à-vis the third world; it facilitates a limited diffusion of capitalism in some third world countries by providing them with access to the market of the leading capitalist country and its rivals while not allowing such diffusion to other third world countries thus perpetuating their predominantly pre-capitalist character. This has important implications for praxis, in terms of the character of the ruling classes within these third world countries, especially that of the big capitalist class, vis-à-vis imperialism. Moreover, the objective basis for a grand anti-imperialist unity of the third world, which would have followed from imperialist exploitation and degradation of the pre-capitalist sector spread uniformly across the third world countries, becomes difficult to achieve in the face of this variegated reality.

V

The emphasis in Prabhat Patnaik’s treatise on the degradation of the pre-capitalist sector and the displacement of the petty producers under contemporary capitalism is understandable. There is no questioning the fact that petty producers, especially the bulk of the peasantry in the third world, bears the brunt of imperialist globalisation in myriad ways. The essence of the argument regarding the pre-capitalist sector is contained in the following excerpt:

While Rosa Luxemburg might not have been correct in predicting a “collapse” of capitalism, she was again remarkably prescient in her surmise that the continued degradation of the pre-capitalist reserves upon which capitalism subsists would engulf capitalism in intensifying problems. Its attempts to overcome these through coercion would bring forth increasing resistance, which the assault on petty production would further add to. But unless the different strands of this resistance are combined and channelled towards transcending capitalism and building a humane society, it may take all kinds of destructive forms such as terrorism, religious fundamentalism and reactionary utopianism.

Does this formulation suggests that the central contradiction under contemporary imperialism lie in capitalist development on the one hand and pre-capitalist petty production on the other? If so, then one can duly ask whether the Leninist categories

like the working class, worker-peasant alliance, democratic revolution, anti-imperialist front and the contradiction between third world nation-state and imperialism have become passé? Or have all those categories collapsed into one giant contradiction between capitalism as a whole and the pre-capitalist sector, with the former continuously encroaching upon and degrading the latter? These questions become particularly relevant since Prabhat Patnaik's treatise itself argues in another context that the size and importance of the pre-capitalist sector vis-à-vis the stabilization of capitalism have only reduced over time.

The point is not that the peasantry or other petty producers in the third world countries are not being subjected to intensified exploitation, but because they are being subjected to exploitation irrespective of whether they belong to the capitalist or the pre-capitalist sector. In fact the working class of the capitalist sector, both in the organised and the unorganised sector, as well as the rural proletariat, mostly belonging to the pre-capitalist sector, are also subjected to intensified exploitation. In short, the intensified exploitation of the working people is not specific to the pre-capitalist sector but characterizes the capitalist sector too. The dual nature of the big capitalists vis-à-vis imperialism in third world countries like India, witnessed in an earlier period when socialism existed, has given way to an increasingly pro-imperialist role whereby they are seeking their class development through a strategic alliance (junior partnership) with imperialism and international finance capital. The regime of capitalist development which has been unleashed in the process, while engendering economic growth, has intensified the rate of surplus appropriation both within the capitalist as well as the pre-capitalist sector in an unprecedented manner, spawning hitherto unseen levels of socio-economic inequalities.

As Prabhat Patnaik's treatise argues, the different strands of the resistance to such intensified exploitation need to be urgently brought together in order to usher in progressive socio-political change rather than allow reactionary forces to utilize the situation. This resistance must be led by the working class in firm alliance with the peasantry and other sections of the working people including petty producers, and directed at wresting the nation-state out of the clutches of the ruling classes led by big capitalists, who are allied with imperialism.
