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Proudhon's Socialism and Marx's Market Theory: the Theory of Free Credit and the Theory of Value Form

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Background of the Problem

From the 1980s to the present, faith in Keynesian economic policies has faltered globally, and the Soviet model of socialism as an alternative to capitalism has crumbled. These two historical facts have increased the number of socio-economic movements, more suitably called *the new anarchism*,[1] specifically the anti-WTO protests in Seattle in 1999 and in Genoa in 2001, as well as local currency movements. From an equitable market society standpoint, some of these movements have goals similar to Pierre-Joseph Proudhon's (1809-65) principles. Thus, to understand the anarchism that is currently on the rise, a basic consideration of Proudhon's theories is required.

The theory and concepts of socialism based on equitable markets are often viewed as anarchism, whose theoretical underpinnings are represented in Proudhon's theories of money and credit reform, which are also referred to "the theory of free credit".[2] In Proudhon's era, Karl Marx (1818-83) defined this mutualism as "labour money theory" and criticized it both theoretically and thoughtfully; however, several issues remained.[3] Marx presented his criticism of the labor money theory in his work "The Poverty of Philosophy" (1847), which preceded "Capital" (1867). His works in "The Poverty of Philosophy" was further developed in "Economic Manuscripts of 1857-58" (Grundrisse) and "A Contribution to the Critique of Political Economy" (1859). While these works dealt directly with the labor money theory, they primarily explained Marx's thoughts on Proudhon. It has been overlooked that the theoretical development in "Capital" includes the criticisms of the labor money theory. In particular, the development of value form theory in relationship to the exchange process theory passed over his criticisms of "Proudhon's socialism" (Marx 1867, p. 79), which were latent in the theory of money creation.[4] In addition, while Marx's definition of the labor money theory is historically accepted, doubts remain as to whether this definition is on target.[5] Thus, rather than adopting Marx's stance, a summary of the free credit theory espoused by Proudhon is in order. Finally, drawing on the summary, one must analyze how reasonable Marx's criticisms were and the plausibility of Proudhon-style anarchism, particularly in view of the support that anarchism receives today.

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1 Graeber and Grubacic (2004) declared that "there are some obvious reasons for the appeal of anarchist ideas at the beginning of the 21st century." They note as one of the reasons, "the failures and catastrophes resulting from so many efforts to overcome Capitalism by seizing control of the apparatus of government in the 20th century."

2 Proudhon called himself an "interest-free loan theorist" (Proudhon 1849, p. 69).

3 In this paper, we use the term "labour money theory" to refer specifically to Marx.

4 For example, refer to Oishi (1989), Yamanobe (1974), and Yamamoto (1989).

5 Sato (1977) declared that "if there is anything in common between Owen and Proudhon, it is their insistence on doing away with money rather than the labor money system" (p. 319), making it impossible to view Proudhon as a labor money theorist.

I Proudhon's Theory of Free Credit

The Exchange and People's Bank, the embodiment of Proudhon's theory of free credit, was proposed during the February revolution of 1948.[6] According to Proudhon, the February revolution was the proletariat's "cry of distress" and their demand for a resolution of the "Lack of work," which was the source of poverty (Proudhon 1851, p. 19). Although French citizens had gained political freedom through the abolition of feudal privileges and serfdom during the Revolution of 1789, they had not yet arrived at economic freedom and independence, rendering lingering economic dependencies unresolved. In other words, "liberté, égalité, fraternité," the guiding principles of the French Revolution, were realized in the political but not in the economic sphere, making the revolution incomplete. This was society's perception of Proudhon (*ibid*, p. 43).

The proletariat's impoverishment and mass unemployment led to an economic crisis that spread throughout Europe in 1847. The turmoil in France can be summarized in the following three points: (1) a surge in imported wheat and the foreign outflow of specie due to the poor harvest in 1846,[7] (2) railway stock speculation and its collapse due to a privileged financial aristocracy,[8] and (3) the expansion of treasury expenditures and increased taxation.[9]

For Proudhon, however, the above developments were nothing more than extrinsic factors in the crisis. This was because, while such factors could possibly induce a crisis, the actual external causes of the shocks were deficiencies in the credit system. A worsening

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[6] When examining the timeline of Proudhon's transition plan, articles of the incorporation of the "Exchange Bank" were published in 1848 in "Les représentants du people." Subsequently, the name of the Bank was changed to "People's Bank." In September of the next year, through April 1850, with the exile of Proudhon, the bank was forced to liquidate. He proposed a "Permanent Exposition" during the Paris Expo of 1855, a showcase for production at the Palace of Industry. From the above, it can be surmised that Proudhon's plan was two-fold, including the Exchange and People's Banks, and Permanent Exposition (Sato 1977, pp. 323-25). Also, in "General Idea of the Revolution in the Nineteenth Century" (1851), Proudhon uses the term "National Bank." This was probably due to it being used as a revolutionary model for the National Discount Bank, established by the February Revolution's provisional government.

[7] Proudhon's disciple, Alfredo Darimon (1819-1902), defined "stoppages in circulation" as a "feature of a crisis," and explained the outflow of capital in response to a currency crisis as "direct speculation in the foreign outflow of precious metals held by banks." As this outflow takes place, the amount of precious metal holdings drops, and guarantees for bank notes are weakened. Banks then "increase the discount rate for notes, reject payment in specie, and shorten the period on notes, creating a credit crunch." Darimon criticized banks' behavior as exacerbating the situation by tightening credit, particularly when bank credit is needed the most, during a currency crisis. He also argued the necessity of releasing precious metals, stating that bank fund protections are no more than "an illusory guarantee." The original guarantees of bank notes were produced goods, and free credit allowed for exchanges or buying and selling without hard currency; the inherent "equivalent exchange system of products" needed to be restored (Motoike 1979, pp. 41-2).

[8] For more details on railway stock speculation, see Koga (1964, Chapter 2) and Tsugita (1972a, 1972b).

[9] In addition to military expenditures, the "expansion of expenditures, including public works expenses, and the accumulation of public debt…led to increased taxes" (Mori 1967, p. 112).

economic situation requires credit for producers; similarly, banks and financiers must tighten lending requirements and increase the discount rate on notes, precipitating the crisis. This crisis was a result of extremely tightened credit that constrained purchasing power that shrank sales channels. Thus, "of all economic forces, the most vital, in a society reconstructed for industry by revolution, is *credit*" (*ibid*, p. 51).

Proudhon discovered the greatest significance of credit system reforms and identified two internal deficiencies in the system of credit. First was the precious metal reserve system that demanded banks keep precious metals to guarantee bank notes. Thus, the general exchangeability of bank notes was dependent on the metal held in reserve. Consequently, bank notes were issued to maintain a certain circulation rate that accorded with the Bank of France's reserves. This resulted in an external outflow of specie because poor harvests forced a tightening of various monetary policies. The basis for Proudhon's theory of free credit was the critique of a metal currency, that is, precious metals used as guarantees and hard currency. He believed that such metals were an impediment to the exchange of goods due to the special position they metals were given in exclusively monopolizing general exchangeability. According to Morino's introduction to the materials of "Exchange Bank Theory," metal monopolized the exchangeability of gold and became the basis for the feudal authority to collect interest on exchanges (Morino 1998b, p. 52). In other words, precious metals deprived products of their exchangeability as well as generated the authority to collect interest from those not holding precious metals but exchanging products for them. A solution to the first argument is a simple method that offers freedom from exchanges based on precious metals so that currency does not obstruct the exchange of goods.

The second internal deficiency was the Bank of France's tendency to impose a high interest rate given the private nature of the Bank; in other words, the existence of interest itself. The Bank of France was freely granted "the privilege of issuing bank notes and of gradually displacing coin by paper in circulation" (Proudhon 1851, p. 176). The Bank of France was established as a corporation because banks were forced to pursue their own private profit. Based on the above two privileges, the Bank of France's primary shareholders were able to gain profit in addition to that generated by their own capital, while on the other hand, this same "financial aristocracy" enabled bankers and lenders to earn vast profits by setting interest rates arbitrarily high.[10] The second internal deficiency of the credit system, the private nature of banks that

[10] "It was not the French bourgeoisie that ruled France under Louis Philippe, but one faction of it: bankers, stock-exchange kings, railway kings, owners of coal and iron mines and forests, and part of the land proprietors associated with them – the so-called financial aristocracy. It sat on the throne, it dictated laws in the Chambers, it distributed public offices, from cabinet portfolios to tobacco bureau posts." (Marx 1850, p. 48). Marx pointed out that vast finances were generated by fraudulent market manipulations and speculation in government bonds on the part of the financial aristocracy, and this activity devoured the railway projects. According to Tsugita (1972a), the financial aristocracy "ruled on

exclusively enjoyed the privileges of precious metals was, unquestionably, a consequence of interest. Interest is nothing more than a device to misappropriate producers' profits using two economic powers: the privileged position given to precious metals and the monopolization of banks by financial aristocrats. According to Proudhon, banks proper should not be allowed to obstruct exchanges by collecting interest, an act influenced by financial aristocracy monopoly, thereby causing the stagnation of circulation. Banks needed to be liberated from the metal reserve system, and the private nature of banks needed to be turned public. In doing so, interest-bearing discount bills and lending would be converted to non-interest bearing credit, and the causes behind the bank's obstruction of circulation could be converted to promote circulation.

Proudhon also argued two points regarding extrinsic artifical issues, or French issues in particular. To support deficiencies in the credit system from the outside, Proudhon first addressed the credit system and the predatory nature of financial aristocracy, which monopolized the Bank of France's management and influenced interest rates. The inevitable consequence was "economic chaos" (*ibid*, p. 50). Second, Proudhon criticized that the state was a known hotbed of financial aristocracy and others living off interest. Social programs such as national retirement pay, national bonds, and pensions were "taken away by parasites" (*ibid*, p. 54). According to Proudhon, achieving the Revolution's ideals required the purging of society's hierarchical economic structures, which were the basis of existing power and privilege surrounding the government, and that the economic independence of every man be placed on an equal footing. Accordingly, disposing of financial aristocracy that controlled credit and preventing the state from being a breeding ground for the privileged classes were fundamental to solving the credit squeeze in the 1847 crisis.[11]

To elucidate the state of the credit system, Proudhon juxtaposed the four abovementioned internal and external deficiencies, along with the ideals of the French Revolution. He stated that in a free and equitable post-revolutionary society "every privilege is public property" (*ibid*, p. 176). This meant that, by virtue of its privileges, the Bank of France needed to become a "public institution" (*ibid*). In addition, citizens should have the right to establish banks at will. If the Bank of France became a public institution, it would stop serving for-profit organizations and issuing discount bank notes at low or zero interest. This, in turn,

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the basis of the immaturity and uneven distribution of financial markets, and monopolized currency through speculation and high interest" (p. 60).

[11] Proudhon learned ways of dismantling the state from the French Revolution. In the "Fifth Study" of "The General Idea of the Revolution in the Nineteenth Century," Proudhon proposed a method he described as a "social liquidation." This term referred to a policy of abolishing economically dependent relationships by repurchasing feudal privileges at low or zero interest. This followed the example of the abolition of compensation from feudal rents and the repurchasing of the rights to collect rent, implemented in the French Revolution. It may be said that dismantling the state was nothing more than remunerating various rights of the state and transferring these rights to the public.

would gradually push financial aristocracy away from credit transactions, through which they privatized the banking industry and extracted unfair profits on the basis of high interest. This would lead to changes in relationships from those of unilaterally extending credit to reciprocal relationships between equal position of lender and borrower.

However, this raises the question about the specific functions of the Exchange Bank and the People's Bank. The banks' primary activities were, for example, to discount interest-free commercial bills signed by the drawer and endorser (or collateralized interest-free loans) and the sales and purchase of consigned products. After the banks imposed requisite handling fees, they could then discount commercial bills at no charge, "removing all situational characteristics of the lendee, such as location, date, personality, payment date, and objects" (Morino 1998b, p. 55), and replacing those notes with general bank notes.[12] Bank notes used the best commercial bills representing delivered, rather than unsold, products as collateral (*ibid*, p. 58); thus, bank notes are "collateralized by products" (*ibid*, p. 54), instead of precious metals. Further, they are issued only in proportion to the value of products that can be seen as having realized value by virtue of their being sold for commercial bills. "Over-issuances are impossible" (*ibid*, p. 58). In the case of lending, the relationship with interest-free discounts of commercial bills could be changed so that producers deposited products in a bank, and banks used these deposited products as collateral for loans without interest. In the case of discounted notes and lending, equivalent exchanges between banks and producers could always be made, with the value being guaranteed and fixed as the cost at the time of exchange. This would facilitate "reciprocity" in the exchange.[13] In addition, if we assume that as commercial bills circulate among producers, the payers of these bills, and that bank notes of equal value are circulated back to the banks from the producers, at which point all market transactions are completed, then social allocation for labor are also smoothly completed. In this event, from the viewpoint of social standards, the amount of labor embodied for each producer is appropriate, and the "proportionality of value" is maintained.[14] The periodic circulation of bank notes in conjunction with the payment of bills is an argument against the possibility of excess circulation

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[12] The basic function of the Exchange and People's Bank was the "generalization of commercial bills" (Sato 1977, p. 322) or the "generalization of bills of exchange" (Morino 1998b, p. 54).

[13] "*Reciprocity*…consists of the sellers and buyers guaranteeing each other, irrevocably, their products at cost price" (Proudhon 1851, p. 91). Producer relationships include ethical stipulations that one must not shrewdly deprive others in pursuit of price differences like merchants, and follow the simple ideal of equality in exchanges. In other words, products have a fixed value when put on the market, and that value should not be affected by fluctuations in the market.

[14] Proportionality of values is (A) proportionality in proper exchanges that follows exchange values measured by labor time and cost spent by producers in production, and (B) the set correlation between the use value and exchange value set for each product. In this case, it has a dual meaning as reverse proportionality (Fujita 1993, p. 14).

of bank notes. The market principles of ‘equivalent exchanges between products’ are realized through the market transaction process.

The Exchange and People’s Banks, however, were thought to have two problems in their issuing methods. First was the issuance of bank notes with excellent bills as collateral; the criterion of excellence was based upon the future delivery performance of products. However, without considering the ability to make future payments, if one views a sale as having been transacted when a product is delivered, then this discount would likely be imprudent. Recipients (payers) must make a successful sales transaction using either bank notes or cash to pay back a bill. The second problem deals with the method of depositing goods in banks and issuing notes. Products were deposited into banks as collateral for loans, but the handling of these products needed to be dealt with in the same manner as the settlement of a commercial bill. In other words, just as producers pay arrears at certain intervals on their own bills using bank notes or cash, they also need to buy back the deposited products. In any case, the only effect was delaying uncertainty in a sale. Bank notes from the Exchange and People’s needed to be collateralized, which depended on successful sales by the payer of the commercial bill and the products deposited in the banks.

While Proudhon’s Exchange and People’s Banks posed the aforementioned problems, they also proposed to fulfill the following social roles: On one hand, the value of products in individual transactions would be mutually guaranteed by both parties through the issuance of notes by the Exchange and People’s Banks, which would serve to convert mutually acknowledged value. Thus, bank notes would become credit notes representing relationships of mutual guarantees and promises. On the other hand, commercial bills would be payment promises agreed upon in private relationships, which are converted to group payment promises of the parties involved. Therefore, in issuing bank notes, the Exchange and People’s Banks would effectively convert private receivables and payables relationships, in the form of commercial bills, into bank notes that represented contractual relationships acknowledged by society. In addition, currency monopolies would be resolved through a series of processes, and the equality of the parties involved in the transaction would be preserved. In this case, the manner in which commercial bills would be settled was still uncertain, yet the receiver would bear the responsibility for conducting a firm transaction. Thus, it would be possible to stop the moral hazards of drawing bills. Also, credit to producers, who were parties to associations, such as the Exchange and People’s Banks, led to the outset of the issuance of bank notes by the People’s Bank. This then became the mechanism to stop the monopolization of currency issued by the central bank. Eventually, interest-free credit would be supported by the certainty of payment by producers. Thus, depositors and banks would work in collaboration for these operations while adhering to strict audits.

As discussed, Proudhon's ideal for an economic revolution was the realization of a market economy in which producers dealt with each other as equals during exchanges. According to Proudhon, this could be achieved through the removal of large-scale ownership and monopolies typified by the large feudal land holdings and high interest that impeded exchanges among producers. Therefore, the ideal market envisioned by Proudhon was one in which there were no currency, interest, or state impediments to exchanges. The ideal primary subjects in economic activity were small independent producers who had their own means of production, made independent decisions, maintained economic independence regarding production, and whose ownerships were limited in scope such that they did not impinge on others ownerships.

By presenting these concepts, Proudhon indicated his next, modern direction. This was the awareness of current markets being distorted by "currency, interest, and the state," and the search for true markets to replace the current ones. Proudhon attributed various causes to these market distortions; however, different understandings of his interpretation led to several movements. Nevertheless, at their core, these movements shared a similar vision of the market.

II Marx's Difinition of the Labor Money Theory

As shown, Proudhon's theory of free credit was a concept that advocated the abolition of interest and metal currency. In this section, we confirm Marx's definition of the labor money theory and examine how Proudhon's theory of free credit and his plans for the Exchange and People's Banks, and Marx's critique of the theory of labor money are related.

Prior to Proudhon's publication on the theory of free credit, Marx made the following assertions regarding the attributes of Proudhon's theories in the "System of Economical Contradictions, or the Philosophy of Poverty" (1846). Marx questioned whether Proudhon was the first to conceive the notion of social revolution by changing mankind into direct laborers and making exchanges with each other for equal amounts of labor. Marx responded to his own question by stating that anyone conversant with economics "should know that socialists in England advocated almost everything about the egalitarian application of Ricardo's theory in various ages." Marx viewed Proudhon as the so-called "Ricardian socialist."[15] From this dialog

[15] In the Introduction to the first German edition of the "The Philosophy of Poverty", Engels (1885) commented on "the utopia of labour money", saying "And the petty bourgeois especially, whose honest labour – even if it is only that of his workmen and apprentices – is daily more and more depreciated in value by the competition of large-scale production and machinery, this small-scale producer especially must long for a society in which the exchange of products according to their labour value is at last a complete and invariable truth. In other words, he must long for a society in which a single law of commodity production prevails exclusively and in full, but in which the conditions are abolished in which it can prevail at all, viz., the other laws of commodity production and, later, of capitalist production."

we see that Marx sought after Proudhon's "regenerating formula of the future" in "the determination of value by labor time," and defined this formula as an idea for exchanging equivalent amounts of labor based on small producers (Marx 1847, p. 138).

Sato (1977) and scholars, however, have raised objections to Marx's given definition; the author of this paper also has some concerns. As with Marx, was Proudhon's theory of free credit something that "directly pursued exchanges based on labor time?" (Sato 1977, p. 319). As shown in Section I, interest-free, equivalent exchanges were made on the basis of Proudhon's Exchange and People's Banks. If supply and demand were aligned as a result of market transactions, then a "proportionality of values" could be maintained. It is possible that the underlying labor amounts included the possibility for exchanges of equal amounts of labor, but they did not proactively guarantee these equal exchanges. In Proudhon's plan, built on the assumption of market transactions, the relationship to the amount of labor is determined "*ex post*" and invisibly, while in the labor time theories of Owenite or in Ricardian socialism, products are exchanged after determining labor time "*ex ante*," on the basis of the products. To this effect, the two are decisively different.

For example, Marx states the following in his "A Contribution to the Critique of Political Economy": "*John Gray* was the first to set forth the theory that labour-time is the direct measure of money in a systematic way. He proposes that a national central bank should ascertain through its branches the labour-time expended in the production of various commodities. In exchange for the commodity, the producer would receive an official certificate of its value, i.e., a receipt for as much labour-time as his commodity contains, and this bank-note of one labour week, one labour day, one labour hour, etc., would serve at the same time as an order to the bank to hand over an equivalent in any of the other commodities stored in its warehouses." (Marx 1859, pp.320-21). This is "the basic principle" of labor money theory (*ibid*). Namely, the national central bank would give producers a certificate for labor time spent on production in advance of exchanges. At the same time, the bank guarantees the value of products as current value.

Under Proudhon's system of the Exchange and People's Bank, receipts would be given for products guaranteed by current value, thereby realizing an exchange for an equivalent amount of labor. If one considers Gray's model as a typical labor money system, then realizing proportionality according to labor time and cost is clearly different from Owen's concept of labor money, since it does not pursue realization itself, as can be seen in Proudhon's plans to establish the Exchange and People's Banks (Fujita 1993, p. 30). In other words, Marx misconstrued the theories of labor money in England as being similar to Proudhon's principles.

Nevertheless, Marx continued the argument, using his criticism of labor money theory, which erroneously combined the two ideas, as a criticism of Proudhon's work. However, not all of Marx's criticisms missed the mark. According to Marx, despite the fact that labor money theorists must assume a production system that requires producer's labor to be expended directly as social labor, by having labor money-issuing banks intercede on the basis of the production of products, these theorists fall under the illusion that individual labor is treated directly as social labor. Put differently, the question of why products must take the form of commodities in a commodities economy is overlooked.

"Commodities are the direct products of isolated independent individual kinds of labour, and through their alienation in the course of individual exchange they must prove that they are general social labour , in other words, on the basis of commodity production, labour becomes social labour only as a result of the universal alienation of individual kinds of labour" (Marx 1859, pp.321-22). Even if one posits that Marx asserts "value proportionality" as a result of market transactions in Proudhon's theory of free credit, the assumption of an exchange of products at a fixed value through banks offering free credit in the circulation process treats currency as an emblem of circulation; in addition, this is done with no understanding of the peculiarities of a commodities production system, which in turn invites contradictions between individual labor and social labor. No matter how much free credit is given, rational economic activity requires a third commodity as a measure of social labor for the other two commodities. In other words, commodities in the form of money are required. According to Marx, Proudhon believed that only precious metals were commodities in monopolizing currency. But ridding precious metals of their currency status would only lead to the substitution of another commodity in place of currency for as long as production continued. Proudhon was never clear on the distinction between precious metals, particularly gold, being accepted as money and other form of money. This point will be revisited in Section III. Although Marx's criticism of Proudhonism may, at times, miss the mark on these two concepts, Marx's own market vision is noteworthy. However, (1) Marx made the mistake of combining free credit theory and labor money theory, (2) and accepted and made anti-criticism policy recommendations grounded in France during the specific age. This being said, these two points have become Marx's policy assessments regarding the theory of free credit.

In Chapter 2 (On Money) in "Grundrisse", Marx criticized the "Proudhonian" Darimon (Marx 1857-8, pp. 51-2). This development corresponded with his criticisms of Proudhon's theory of free credit. Next, Marx's criticism of Darimon is considered.

Marx's criticism of Darimon covered several points, among which we discuss whether the passages on the conflict between individual labor and social labor are theoretically meaningful. Marx's criticisms arose from the following questions: (a) whether individual labor time, included for each commodity, was a measure that could be equated, or whether it was a unified measure reflecting differences in productivity among producers and temporal changes in labor productivity regarding production of commodities of the same type, and (b) whether labor time was an appropriate measure of a commodity's value, or whether producers could use it as a perceivable metric to ascertain trends in supply and demand.

With question (a), Marx criticized labor money theorists' assumptions that the individual labor time of products was homogeneous and equatable. Is product labor time equatable? Let us consider an example: Labor money theory is also a critique of metal currency, thus labor money referred to herein is assumed to be paper money with no value in and of itself. When given a certain level of labor productivity, producers will accept labor money, wherein X number of labor hours are noted as corresponding to the labor time spent in production. In doing so, various commodities are given a value that is equal to the labor time spent in production. Naturally, in this example of an exchange, the labor time noted on the labor money held by producers will match the commodity's labor time. As a result, all producers' labor time can be equated according to labor productivity, and the theoretical conditions are given for realizing an exchange of equal amounts of labor and rights to whole labor. However, when the additional issue of spatial differences in labor productivity for similar commodities is considered, it is clear that if there is a difference in productivity, individual labor time cannot be equated. At some point, producer *A* will accept labor money marked for 10 labor hours of production for one unit of desks. But consider the case where producer *B* has twice the productivity, requiring only five hours to produce one unit of desks. If producer *B* makes the same number of desks as producer *A*, he can only accept five hours worth of labor money. As a result, labor money showing the same 10 hours worth of time may have two values: one unit and two units of desks. When measuring based on labor amounts for one unit of desks, the labor time for the producer with lower productivity will receive twice the amount as the producer with higher productivity. Other than cases wherein productivity is equal, equating labor time for differing levels of productivity requires another measure of labor time for each party. In addition, the consequences are the same for temporal changes in productivity. Market economies, in which the pursuit of profit is a motive for production, brings about spatial differences and temporal changes in productivity. In the production of similar commodities, labor money that uses labor time as a measure of value that does not reflect differences in productivity is remarkable. Further, relationships that buy back commodities on the basis of a valuation system of labor time spent in production and the amount produced per one hour of labor time per producer (in other words, the relationship between invested labor and commanded labor) cannot be managed, as this will vary by producer. Labor money that should steer toward fair exchanges will, instead, engender feelings of unfair treatment between producers (*ibid*, pp. 72-4).

In the criticism (a), it was noted that individual labor time was insufficient as the measure of commodity value. Thus in (b), Marx criticized labor money theory that viewed value and price as the same. He argued that, assuming an anarchical production system based on private ownership, money price must be considered as a measure replacing labor time. "The *value* (the real exchange value) of all commodities (including labour) is determined by their production costs, in other words, by the labour time required for their production. Their *price* is this exchange value of theirs expressed in money." Undoubtedly, "but this would be attained only on the assumption that *vale* and *price* are only *nominally* distinct," labor money can be directly expressed through labor time as commodity value. Within market economies, however, individual exchanges are based on the system of private property, and supply and demand vary; therefore, social conditions that equate value and price do not exist. Although "Demand and supply continually determine the prices of commodities; they never coincide or do so only accidentally; but the costs of production determine for their part the fluctuations of demand and supply." Eventually, the relationship between supply and demand determines price. Further, "the value of commodities determined by labour time," as imagined by labor money theorists, "is only their *average value*," and in actual market transactions, "But this average is very real if it is recognized as both the driving force and moving principle of the fluctuations which occur in the prices of commodities during a particular period of time." The average prices of commodities are used as "the basis of commercial speculation" to calculate the probability of speculation. The market value of commodities is always different than the average value of those commodities, and emphasizes that speculative transactions based on fluctuations of prices standardized on average commodities prices are a distinctive trait of market economies. Thus, Marx presents the vision of a real market overlooked by Proudhon, who had an ideal vision of markets. (*ibid*, pp. 74-5)[16]

According to Marx's "Grundrisse," the monetary function of measure of value, or money itself, is required when individual labor time for commodities cannot be equated.[17] Whether commodity quality and amount is in accordance with demand, and whether labor time for commodities is expended on the basis of managed productivity, cannot be assessed as a direct metric of each commodity's labor time. "Labor time as a measure of value (behind the price relationship –author) exists only ideally" and "Price as distinct from value" is a metric that can also be referred "*money price*."[18] Labor money used as a direct measure of labor time value

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[16] Obata (1986, p. 114) critically examined labor money theory cited in Marx's "Grundrisse," (1857-8, p. 75) and outlined Marx's understanding of markets. Obata commented that "Marx declared that '*Pric*e, therefore, differs from *value*, not only as the nominal differs from the real; not only by its denomination in gold and silver; but also in that the latter appears as the law of the movements to which the former is subject', showing the image of an undisciplined market encapsulating movements as 'precisely through continual inequity to itself.'" Obata herein clearly explains Marx's peculiar market awareness.

[17] Measure of value includes both showing the value amount and measuring the value of a commodity being purchased. In this paper, the former is referred to as "measure of value" and the latter as "the (monetary) function of measure of value."

[18] In the Introduction to the first German edition of "The Philosophy of Poverty," Engels (1885)

must be “with all the properties of our present money without performing its services.” The system of private production capabilities give rise to anarchical production, which always results in excess or insufficient production in the adjustment process. Markets acting as anarchical production adjustment mechanisms, on the one hand, form standards of supply and demand productivity, and on the other hand, they provide room for mercantile speculation surrounding price differences arising from productivity differences or excess or insufficient production. By answering the question of what markets are, Marx became a critic of Proudhonists and their vision of the ideal market. In other words, Marx’s viewed markets as encapsulating the absence of exchanges for equal amounts of labor and ideal averages through intrinsic anarchy; put differently, they evidenced difficulty in making adjustments for supply and demand (*ibid*, pp. 77-8).

III Criticisms of Proudhon in “Capital”

In “Grundrisse”, the discussion on criticism about labor money theory, as developed in Section II, focused on whether labor money as a unit of labor time functioned as money. In other words, this proved the need for money price, and a criticism of the theory of measure of value in particular. Assuming a market economy based on private property, labor time cannot be a standard for determining the appropriateness of commodity values on the basis of social standards, and money price is necessary to show value. In addition, labor money that does not appropriately reflect commodity value cannot become a metric of the social allocation of labor time in a commodity economy.

Further, in Chapter 4 of “Capital” I, “the transformation of money into capital” is referred to income for producers, including surplus value (or surplus products) from exchanges of equal amounts of labor. Thus, in response to Proudhon, who posited that exploitation would not occur, and the assumptions of labor money theorists, this was a theory of surplus value, with a noted possibility for exploitation in surplus value during the production process, even in market economies with exchanges of equal amounts of labor.[19] Marx’s definition of exchanges of equal amounts of labor necessitates a stage for surplus value theory to criticize labor money as a theory of unfair exploitation. Even if this were the case, in “Commodities,” Chapter 1 in

commented on Rodbertus’ labor money theory, declaring that “if price appreciation, or informing producers of world markets in decline in response to competition is forbidden, producers will close their eyes completely.” Engels emphasizes that price, for producers, acts as the “sole adjustment” made to determine whether production volume is proportional to social demand.

[19] Obata (2004) states that “surplus value theory is mostly meaningless when divorced from the object of theoretical criticism of mainstream socialism at the time, such as Ricardian socialism tied to rights to whole products from labor, and Proudhon-style market socialism” (p. 4). Perhaps this comment shows a particular aspect of markets similarly assumed in “Capital” with exchanges of equitable value such as were assumed by Proudhon.

"Capital", assuming simple commodities circulation and exchanges of equal amounts of labor, in some ways, the content on the theory of value form criticizes "Proudhon's socialism," deeming labor money theory difficult to comprehend. In keeping with the historical considerations of the criticism of Proudhon's socialism within Marx's "Capital", a rethinking of the theory of value form and the exchange process theory allows a different aspect of labor money theory criticism to come into view compared with works written prior to "Capital".

In the theory of free credit, Proudhon criticized precious metals as morphing into the authority to collect interest in exchanges because of its being regarded as currency, thereby obstructing equal relationships in exchanges. With the Exchange and People's Banks providing free credit, Proudhon envisioned raising commodities to a status at the same level as precious metals. However, Marx's theory of value form can also be seen receding from these types of assertions by Proudhon.

Let us first summarize Proudhon's theory of free credit as interpreted by Marx. According to Proudhon, the Exchange and People's Banks would lend without interest, using free discounts of commercial bills and commodities as collateral. In doing so, the value of all products and bills would be fixed; Marx criticized this point stating that the process for fixing this value was not acceptable. Fixing a value means acknowledging a fixed value without comparing the results of individual labor to the standards of social labor. Thus, even though it might be said that the Exchange and People's Banks used market mechanisms, they disposed of the ability to escape from the inconsistencies of individual and social labor. For markets to function as a platform for individual labor to turn into social labor, the value of commodities must be able to change. In addition to the previous criticism that the theory of value form adjusts labor amounts, discussions in subsequent paragraphs provide a viewpoint on the difficulty in realizing value or constrained by the use value. To re-summarize Marx's criticisms of Proudhon regarding the theory of value form, two questions are addressed: Why can commodities not simultaneously take the form of general exchangeability? Can markets truly take shape without money obstructing buying and selling when metal currency is removed from the equation?

In Chapter 1 of "Capital" I, in the notes to the third section of "the general form of value," Marx comments on Proudhon's socialism and states the following: "It is by no means self-evident that this character of direct and universal exchangeability is, so to speak, a polar one, and as intimately connected with its opposite pole, the absence of direct exchangeability, as the positive pole of the magnet is with its negative counterpart. It may therefore be imagined that all commodities can simultaneously have this character impressed upon them, just as it can be imagined that all Catholics can be popes together. It is, of course, highly desirable in the eyes of the petit bourgeois, for whom the production of commodities is the *nec plus ultra* of human freedom and individual independence, that the inconveniences resulting from this character of commodities not being directly exchangeable, should be removed" (Marx 1867, p. 79).

In other words, commodities with general exchangeability monopolize the status of the general form of value, and for this reason alone must exist in juxtaposition to a set of commodities with indirect exchangeability that is deprived of a form of general, direct exchangeability, or in other words, a form of relative value. On one hand, commodities take the form of relative value, and on the other, money takes the general equivalent form of value. Clearly, this is a criticism of the assumption that all commodities offer a form of general exchangeability, as Proudhon's theory of free credit eliminates metal currency. However, it is also a criticism of the market view that markets can return to an inherent stable state, with all commodities being exchangeable at any time, if only the introduction of money can be done away with. Disposing of money from circulation and wishing for the direct exchange of products, while still assuming small independent producers and a commodity economy, leads to the loss of an objective basis for determining an appropriate rate of exchange.

Regarding the relationship between a money form and gold, Marx declared that, in the move from a general form of value to a money form, "the progress consists in this alone, that the character of direct and universal exchangeability – in other words, that the universal equivalent form – has now, by social custom, become finally identified with the substance, gold" (*ibid*, pp. 80-1). This shows the possibility that, through social customs, the universal equivalent form, that is, "a form of value in general…can, therefore, be assumed by any commodity" (*ibid*, p. 80). Although one can say that commodity markets inevitably demand a money form, having gold attain the status of a general form of value is inevitable under specific social conditions. The question of what types of commodities will attain monetary status is settled by the dependence on society's historical context and customs. Nevertheless, Marx's view was that Proudhon, with his understanding of money being tied to gold, was being foolish through his inability to view France's situation as self-evident rather than in relative, historical context. Thus, the theory of free credit, shown to view the money form and gold currency as equivalent, could not realize the 'equivalent exchange of products' even after dethroning gold as a money form. The utility of one's commodity can only be known by an exchange ratio of the use value of other commodities. Further, a commodity must overcome the constraints of its own use value to realize its value. Although retroactive as a development of the theory of value form, Proudhon's theory of free credit concludes by saying "The whole mystery of the form of value lies hidden in this elementary form" (*ibid*, p. 58), questioning the primordial form of commodity economy.

Within elementary forms of value that begin with an exchange between two individuals, the values of the commodities owned by the two individuals are not equated from the outset, as with the homogeneity of human labor obtained as a result of social abstractions. Thus, the other person's commodity's body must be expressed as a mirror of one's own commodity's value. For the owners of commodities, the sociality of the value residing in one's commodity cannot be acknowledged; therefore, a process is required to express this value. Commodities of equal forms of value not only act as mirrors of the value but also are in a position to determine exchanges with commodities having a form of relative value. This relationship expresses the advantage of money in a general form of equal value. If we focus on this point, the value realization theory comes to fruition; it notes the conflict between money in the general forms of equal value and commodities in the relative forms of value. In particular, in individual commodities transactions, exchanges do not occur without matches between the coincidental desires of both commodity owners, and do not merely reflect the labor quantity relationship lurking in the commodities' background. This makes it difficult to say that the realization of value is guaranteed only by equal value. Finally, at issue once more is the method of issuing notes by Proudhon's Exchange and People's Banks.

In the Exchange and People's Banks, it was assumed that the value of products would be fixed and they would be exchanged for equal value. Accepting this assumption at face value, and assuming that prices for products and bills at the time of exchange would be constantly maintained, Marx's criticism of the theory of measure of value does not need to be an issue at the moment. In the case of free credit, even when considering commercial bills discounted without charge or loans with collateral of deposited goods, the value of deposited products or bills held by banks is fixed; thus, these can be seen as safe assets. But was that truly the case? Within the theory of free credit, there was no change in the fact that recipients were to settle a transaction using bank notes by the date of a bill, and thus, no matter how much free credit was extended, establishing a smoothly running economy depended on successful sales under the constraints of use value. Free credit was to create conditions that would enable the exchange of products at equal value. However, it did not promise the realization of that value. In other aspects, Proudhon overemphasized the stability of actual asset values (discounted commercial bills and deposited products), and overlooked uneven changes in asset value due to supply and demand trends and those in productivity. Eventually, bank credit would be given cheaply, and although it may have provided purchasing power without constraining commercial credit, there would be no change in the opportunity to sell to the owners of bank notes, nor would there be any proof that a form of money would not be necessary, as was posited by those who said metal currency could be eliminated from circulation.

Marx argued with Proudhon over a vision of the market and stressed that anarchy in production would disturb markets. Further, it can be said that Marx made a policy evaluation of realism, whereby the undisciplined nature of markets born from motives other than production anarchy made the theory of free credit impossible in principle. This is because additional merchant speculation drives temporary and repetitive discrepancies in the average price of commodities. In anarchy movements in the modern day, however, Marx's assessment is, for the most part, not accepted, and Proudhon's ideas are becoming understood as ideals of a movement and practical guidelines. As discussed in subsequent paragraphs, this has much to do with the ideals of market creation that embodied ideals similar to those of the French Revolution, which were Proudhon's aim, and "genuine globalization" (Graeber 2002, p. 65).

In Lieu of a Conclusion: Anarchism and the Modern World

We now consider Proudhon's intentions, which Proudhon himself never sufficiently made a case for. First, the purpose of the theory of free credit is the provision of money to small- and medium-sized producers who cannot freely procure financing. At the same time, this was criticized because of the privileged role of money grants interest-collection authority that was given to money holders. Proudhon believed that a true free market economy could be realized and inequality in exchanges based on a money advantage could be eliminated; he believed this was possible by enabling producers to obtain money on an equal basis through free credit. The markets envisioned in this case were not real markets that continued anarchical production, but collaborative markets with mutually independent producers that relied on one another. These markets were not realistic markets that pursued profit amidst uncertainty and dramatic fluctuations, as was emphasized by Marx. Rather, they were ideal markets with little change and fixed transactional relationships repeatedly maintained in a narrow range of circulation. Reciprocity of value was nothing more than an ideological representation of this type of market vision. In other words, while Marx emphasized that value in actual markets is not fixed, Proudhon maintained that market deficiencies should be corrected to create relationships where value can be fixed. Marx's focus was the world of capitalistic markets. But Proudhon pursued the ideal image of a local market economy with small producers comprising artisans and farmers. There was a stark contrast in both market visions. While both Marx and Proudhon explored the question of how markets should be understood as a common issue, both sides competed over a market vision of truth; These market visions were clearly presented as fundamental investigations of a vision of money that dealt with how money should be understood. Arguments around labor money theory have developed a dual worldview of market visions defined by a vision of money.

We see commonalities in Proudhon's vision of market and his credit reform theories as well as the anarchism movement of the modern day. For example, according to Graeber, the anarchist movement is more of a "globalization movement" than an "anti-globalization movement." This means it is a movement of "the effacement of borders and the free movement of people, possessions and ideas" (*ibid*, p. 63). Because local currency is regionalistic, globalization moves in the opposite direction. Despite the denying of positive interest rates and the central bank's monopoly on the issuing of notes made it possible to create media (for example, local currencies) that include personal assertions and values. As a whole, it can be said that both sides act on the basis of the same ideals of creating free and equitable market networks via capitalistic market economies. This is shown in the organizational forms of groups in the globalization movement. In other words, "it is about creating and enacting horizontal networks instead of top-down structures like states, parties or corporations; networks based on principles of decentralized, non-hierarchical consensus democracy." (*ibid*, p. 70). These ideals exist outside of history and share common ground with those of Proudhon.

There are two aspects to Marx's theory of the value form of money and his criticism of labor money theory. The first aspect follows the criticism in "A Contribution to the Critique of Political Economy", which states that labor is the substance of commodity value. However, this cannot be shown by individual labor time, and is a theory of measure of value that does nothing more than express money price. Second, production anarchy in market economy inevitably gives rise to the advantage of money, and the difficulty or eventuality of sales (or realizing value) in market transactions. Labor money theorists, including Proudhon, overlook both of these aspects. This being said, Marx's theory leaves room for reconsideration. Proudhon's narrow understanding of market relationships, and that social relationships are not encapsulated in market relationships alone, are issues with similar roots. This is because Marx's theories of measure of value and the inevitability of money are constrained by problem setting that criticized Proudhon and by assuming a rigid commodity producing system. This leads to marginalization of the historical viewpoint inherent in Marx's theory. For example, Marx's theories would not demonstrate an understanding of the idea that the market cannot include the entire social reproduction process, constantly leaving behind fragments. In addition, exogenous natures of market that have developed through history, such as trade relationship between communities, are not theoretically incorporated. Discussions of the problems of realizing value and the quantitative relationships of labor assumed in market economies, without addressing these issues, show the limitations of Marx's criticisms of Proudhon from a Marxist theoretical viewpoint. At the same time, can we say that there is insufficient theoretical explanation given for local currencies and other movements to expand their activities in the non-market areas outside of both Proudhon and Marx's theories?

If one considers the current circumstances, the metabolic cycles of regional economies have been broken down due to bloated financial markets, and the burden of interest rates on small producers and laborers has been growing. Despite this, neither Keynesian doctrine nor

Soviet-style socialism are able to function as alternatives. Attention has been paid to Proudhon ideals, such as the elimination of increased unearned income including interest, which brings about fair market economies, coupled with an aversion to implementing state policies or making large-scale changes in economic systems. The approach of setting market principles and criticizing real markets has been used by various timeless movements within anarchism such as the modern-day WTO demonstrations and local currencies. More than being an inherent market ideal, it may be more properly said that certain ideals are being incorporated into markets. In that sense, is it appropriate to maintain this as a method of counter positioning ideals to reality within a normative theory? The idea of ideal markets functioning as alternatives is one that merits further research.

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