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# 7 The theory of labour money

## Implications of Marx's critique for the Local Exchange Trading System (LETS)

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### Introduction

In this chapter I will examine Marx's critique of the theory of labour money, and present his own vision of communism. Based on the results thus obtained, I will then evaluate the significance of the Local Exchange Trading System (LETS). Proudhon, Owen and Ricardian socialists, in common, claim that labour money should be introduced in order to correct the unfairness of capitalism and to establish their ideal societies. They argue that labour is the true measure of value, which they define as the labour necessary to produce products. This presumes that the labour theory of value holds valid constantly over time, not only in the long run but also in the short run. All of them view the market as static in stationary equilibrium, and regard money merely as the medium of exchange. Marx criticises the theory of labour money because it ignores disequilibrating or dynamic factors intrinsic to the market economy where anarchical commodity production prevails, and where value is only revealed *a posteriori* as a social average of oscillating market prices determined by the relation between demand and supply.

Marx visualises communist society, on the one hand, as an association of free individuals, as Proudhon does, and, on the other hand, as a co-operative society with common ownership of the means of production, as Owen and Ricardian socialists do. I think that it is possible and desirable to synthesise these visions into one: an associative and co-operative market economy consisting of free individuals and freely formed organisations, using some form of 'alternative money'. LETS would be an alternative form of money constituting such an economy, immune to Marx's critique of labour money. It is individually created and multilaterally settled as credits or debit of account. Associative money with zero interest helps non-profit organisations to propagate more easily than in a capitalist economy, and its zero-sum principle prevents the self-expansion of capital. Thus LETS has the immanent potential to transform a capitalist market economy gradually into an associational one.

## Marx's critique of the theory of labour money

Marx began his critique of the theory of labour money in *The Poverty of Philosophy*, in which he attacks Pierre-Joseph Proudhon's concept 'constitutive value' or 'synthetic value', the cornerstone of Proudhon's work generally known in English as *The Philosophy of Poverty* (Proudhon 1888). Proudhon explains that value in use (utility) and value in exchange (scarcity) mutually contradict each other if we need a great variety of products and must therefore produce them by means of labour. If liberty for producers and consumers is granted, the price of merchandise will always fluctuate and stagnation will develop; equilibrium in the market will be destroyed. On the other hand, Proudhon sees communism as an attempt ideally to realise equality, but eventually to violate individual liberty. He argues that justice is a necessary condition of fraternity if labour has to be done in an associative society in order for people to live, and that justice will be imperfect without a fair measure of value. He then introduces the concept of 'constitutive value', which registers absolute value conceived in terms of the proportionality of products.

Marx criticises Proudhon for his unaccountable neglect of an important predecessor, Ricardo, who had explained a concept equivalent to Proudhon's 'constituted value', but in more precise terms as the relative labour time needed to produce a product. However, regardless of any outward similarity in their doctrines, when considering their implications, there is a big difference between Proudhon and Ricardo (Marx 1976: 120–44). While Ricardo's theory of value is descriptive in the sense that it explains the laws prevailing in the existing capitalist economy, Proudhon's concept of 'constituted value' presents instead a set of normative criteria for judging the fairness of exchanges in society. Marx concludes that Ricardo is right because the equality of labour is already realised, for example, in an automated workshop where simple labour, reducible from compound labour, has already become the measure of value.

Marx also demonstrates the erroneous character of Proudhon's thesis. The value of what is produced is only shown as a gravitating point through the fluctuation of market prices caused by incessant changes of supply and demand. Later on, in Chapter 10 of *Capital*, volume three (Marx 1998: 171–98), Marx explained more accurately that this relationship should be realised not between value and market prices, but between prices of production and market prices. Proudhon inverts the order of cause and effect, and argues that value itself could assure the balance of supply and demand in the market. As far as the industrial stage of capitalist economy is concerned, the law of proportion (or equilibrium in the market) cannot be continuously maintained, but rather disproportion prevails in most cases, because of the anarchic character of production in a capitalist economy. There is also another reason why the proportional relation is not stable. Value tends to decrease as labour productivity increases in some cases.



The continual diminution of value caused by inventions brings about the realisation of minimum labour time as value through competition among capitalists, and the formation of monopoly or dominance of particular products with the lowest price owing to new inventions. The reduction of value is countervailing to a tendency towards proportional relations.

Furthermore, Proudhon's application of the concept 'constituted value' to an ideal society was neither new, nor unique. Marx knew that many Ricardian socialists in England, such as Hodgskin, Thompson, Edmonds and Bray, had already re-interpreted Ricardo's economic theory as 'the right to the whole produce of labour' and by the 1830s had applied it theoretically and practically to an egalitarian co-operative society in the form of 'labour money' or a 'labour-chip'. Anton Menger later characterised the basic claim against capitalism made by Ricardian socialists as the legal expression of a property right to the products of labour held by their producers. In fact, there is some divergence of opinion, and their claim is not necessarily on the level of the 'legal' but rather that of the 'social', in the sense that many of them seek to realise this claim by changing society, rather than law. However, as this expression is convenient for indicating the common feature of their claim, we will continue to use it in this chapter. Marx recognised that Proudhon's idea was only a modified repetition of the one developed by Ricardian socialists, in particular, Bray.

Marx, in *Capital*, volume one, attacks Proudhon for seeing the juridical relations of the commodity economy as expressing an ideal, '*justice éternelle* (eternal justice)', and, in order to realise it fully, for seeking to reform the production of commodities (Marx 1996: 68, 84). Although this criticism is true, we should not regard Proudhon's anarchism as mere petit bourgeois ideology and simply reject it, but should rather appreciate the positive sides of his thought: the primacy of freedom and individual independence. His problem is not that he seeks to realise liberty and justice in exchange, but that he assumes that he can realise justice with labour money. He surely denied such collective authority as the state or parliament, and insisted instead that such institutions should be replaced by associations of independent producers. However, his blueprint for 'The Exchange Bank' presented subsequently is incompatible with this anarchism or 'mutualism'.

In 1849, Proudhon applied his principle of *crédit gratuit* (free credit), according to which individuals or banks should provide credit with extremely low, or no, interest. He proposed to establish The Exchange Bank as an institution for circulation and credit in order to correct inequalities in exchange. According to his plan, workers would become members, without holding shares, of a commercial union called The National Exchange Bank, so that they could mutually exchange their products, both as producers and consumers, at equitable prices calculated on the basis of labour time and cost of production. The National Exchange Bank was supposed to determine the prices of products, to be in charge of buying and selling the products of its members, and to issue four kinds of vouchers used in the trade of products. However, Proudhon's proposal was defeated in the assembly, and was not put into practice. In the end, it had not been tested by its success or failure, but the basic idea was the same as Owen's Labour Exchanges.

Proudhon had argued that, while all products in a modern society are the fruits of 'collective force' born of workers' co-operation and the division of labour, capitalists then deprive workers of this force and appropriate the products gratis. This is theft, which is by definition unjust. Proudhon attacked private ownership of property from this perspective. At the same time, he regards private property as ultimately ensuring individual liberty against the authoritative or coercive power of the state. In this respect it sounds as if his claim is self-contradicting, but this is not so. Rather, he recognised both sides, good and bad, of property. On the other hand, he criticised the National Workshops proposed by communists such as Louis Blanc, insisting that they would ultimately form state monopolies, and so threaten individual liberty. His anarchism directed against capitalism or state authoritarianism was not itself problematic, but there was rather a fundamental flaw in his theorising that equitable exchange could be immediately achieved by applying the concept of 'constitutive value', assuming that money is just a 'representative symbol of labour', and that the abolition of the 'sovereignty' of money would be sufficient in itself to produce an ideal society.

There is another essential problem. Despite Proudhon's denial of collective authority, The Exchange Bank as an equitable price fixer would really turn out to be a planner and practitioner of production. As a regulator it would need to command people to exchange their products according to the labour time necessary to produce them. Marx criticises John Gray's ideas on labour money for problems with a national central bank, and thereafter he attacks Proudhon as follows:

> *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 ... Although Gray merely wants 'to reform' the money evolved by commodity exchange, he is compelled by the intrinsic logic of the subject-matter to repudiate one condition of bourgeois production after another. Thus he turns capital into national capital, and land into national property and if his bank is examined carefully it will be seen that it not only receives commodities with one hand and issues certificates for labour supplied with the other, but that it directs production itself ... But it was left to M. *Proudhon* and his school to declare seriously that the degradation of *money* and the exaltation of *commodities* was the essence of socialism and thereby to reduce socialism to an elementary misunderstanding of the inevitable correlation existing between commodities and money.
>
> (Marx 1987: 320–3)



This would consequently lead to collective economic planning, which would deny market freedom and repress individual liberty. Hence, Proudhon's proposal would necessarily fall into self-contradiction. It is worth noting that Proudhon regarded money as an indispensable medium for the exchange of products, but we should not ourselves necessarily endorse his centralised institutional structure, because it inevitably requires authoritative power.

Marx thus clarified the problems in Proudhon's conception of value and money, as well as in his plan for labour money, arising out of his misunderstanding of political economy. Nonetheless, Marx never denied the ideal of an association of free individuals expressed in Proudhon's anarchical political philosophy. His evaluation of Proudhon varies, depending on the field of study that he was engaged in.

## Robert Owen and the Ricardian socialists

After considering Proudhon's idea of labour money, we now turn to Ricardian socialists. Above all, we cannot ignore the experiment of labour notes in which Robert Owen and many Ricardian socialists, such as John Gray, William Thompson and John Francis Bray, also participated. At present, this is also regarded as the origin of modern local currencies. After the failure of a co-operative village in New Harmony, in the United States, Owen returned to England and played a leading part in the process through which the workers' co-operative societies of the National Equitable Labour Exchange were established in London in September 1832. Thereafter, similar systems were set up in Sheffield, Leeds and many other towns in England. 'Labour notes' were to be issued by the Exchanges and imprinted with the labour time expended on products. Workers would receive them in exchange for their products, whereby they could purchase other products of the same value. A labour note of 6*d* was regarded as equivalent to one hour of labour, and a fee of 8.33 per cent was charged on each transaction in order to cover operational costs. The experiment sought to promote equitable exchanges of products based on Ricardo's labor theory of value. Owen and others believed that if these Labour Exchanges diffused throughout the nation, and if this occurred in conjunction with the development of co-operative movements, a peaceful transformation of capitalism into communism would take place.

More than ten years before, Owen had insisted in his *Report to the County of Lanark of a Plan for relieving Public Distress* that a natural measure of value should be labour, not gold or silver, nor the notes of the Bank of England, and, that if labour money were introduced in co-operative villages, the demand for labour would be stabilised, which would then reduce unemployment and poverty, and workers would receive an 'equitable reward' for their labour. In this respect, Bray is theoretically clearer than Owen. He writes:

> From the very nature of labour and exchange, strict justice not only requires that all exchangers should be *mutually*, but that they should likewise be *equally*, benefited. Men have only two things which they can exchange with each other, namely, labour, and the produce of labour.
>
> (Bray 1839: 48)

Similarly, Ricardian socialists such as Hodgskin, Thompson, Bray and Gray, in line with the theory of value in Ricardo's *Principles of Political Economy and Taxation*, insisted that the whole produce of labour should be given to producers, because labourers create all the value of anything that is produced. This movement aimed at realising such an ideal, but it terminated in only two years because of intrinsic problems. One problem concerned the computation of the value of products by measuring average labour time. It required a proper appraisal of values in heterogeneous labour in various jobs and industries as well as in complex forms of labour related to skills and proficiency, but it was not successfully done, which caused inequality among producers. As a result, the Labour Exchange could not adjust the supply of, and the demand for, necessary goods. The other problem is that speculation spread, which made its operation difficult to sustain. The experiment in labour notes clearly demonstrated the fundamental defects in the direct use of labour time as the standard of value for equitable exchange.

It is true that Marx's theory of surplus value owed much theoretically to them, yet he repeated his criticisms against 'the right to the whole produce of labour', and to labour money as its application, in his successive critical studies on political economy: *Grundrisse*, *Contribution to Critique of Political Economy*, *Manuscripts of Capital* and *Capital* as published. Marx, for instance, rebutted the argument concerning bank reform proposed by Alfred Darimon, a Proudhonist, which was also advocated by Ricardian socialists:

> The replacement of metal money (and of paper or fiat money denominated in metal money) by labour money denominated in labour time would therefore equate the *real value* (exchange value) of commodities with their *nominal value, price, money value.* Equation of *real value and nominal value, of value and price.* But such is by no means the case. The value of commodities as determined by labour time is only their *average value* . . . Market value equates itself with real value by means of its constant oscillations, never by means of an equation with real value as if the latter were a third party, but rather by means of constant non-equation of itself (as Hegel would say, not by way of abstract identity, but by constant negation of the negation, i.e. of itself as negation of real value) . . . The time-chit, representing *average labour time*, would never correspond to or be convertible into *actual labour time*; i.e. the amount of labour time objectified in a commodity would never command a quantity of labour time equal to itself, and vice versa, but would command, rather, either more or less, just as at present every oscillation of market values expresses itself in a rise or fall of the gold or silver prices of commodities . . . The difference between price and value, between the commodity measured by the labour time whose product it is, and the product of the labour time against which it is exchanged, this difference calls for a third commodity to act as a measure in which the real exchange value of commodities is expressed. *Because price is not equal to value, therefore the value-determining element – labour time – cannot be the element in which prices are expressed, because labour time would then have to express itself simultaneously as the determining and the non-determining element, as the equivalent and non-equivalent of itself.* Because labour time as the measure of value exists only as an ideal, it cannot serve as the matter of price-comparisons.
>
> (Marx 1986: 74–7)



In Marx's writings before *Capital* there are still confusing usages of concepts like value and price, but the point in Marx's argument is clear. Ricardian socialists believe that the labour embodied in products is in itself equal to social labour, or, to put it in Marx's terminology, 'nominal value, price, or money value' is always equal to 'real value' (exchange value) of commodities. However, this is not sustainable, because real value is only shown as an average of fluctuating nominal values or prices deriving from each transaction to buy and sell using money in the market. In short, 'labour time as the measure of value exists only as an ideal' of the ceaselessly moving real. Ricardian socialists had overlooked the necessity of money as a detour for ensuring social acceptance, and had postulated that ideal, social labour should become directly real, that is, money.

During his preparation for *Capital* Marx came to recognise that this is true not only for Ricardian socialists, but also for Ricardo himself, and that the fundamental defect in conventional political economy lay in the absence of an analysis of money as a general form of value, or an analysis of the inevitable asymmetry between commodities and money in a market economy. He did this in 'the theory of the form of value' in *Capital*. It is noteworthy that the critique of labour money gave rise to dichotomous concepts in Marx's *Capital*, in distinction from Ricardo's *Principles*, such as substance of value and form of value, value and price of production, and the price of production and market price. This needs to be pursued further in relation to the genesis of Marx's economic theory. If labour money were to express socially necessary labour time directly, it would be more than 'money', defined as direct exchangeability with commodities, because it would require not only an equilibrium of demand and supply but also a universal homogeneity and intensity of labour. However, this is not the function of money, but of competition, which would presumably establish such conditions in a capitalist market economy. That is why Marx rejected the idea of labour money as a flawed and unreal fantasy.

## Marx's two visions of communism

Labour money is defective as an economic theory, but it was truly one of the major efforts in trying to develop a new co-operative society. In this respect, Marx evaluated Owen higher than Proudhon, even if they both advocated an almost identical plan for labour money. While the former tried to introduce it into co-operatives or co-operative societies in order to change the 'competitive' character of the market economy, the latter only did so in his contemporary market economy. Owen was more conscious of its partial and limited qualities. He knew that if labour money were the sole endeavour, and if it were not connected with the co-operative movement, it could not be successful. The difference between Owen and Proudhon is significant for our reconsideration of Marx's own view of communism. Although he barely described a future ideal society at all, we will find that there are two different visions of communism if we look through his writings.

The first vision depicts communist society as an association or community of free individuals, similar to Proudhonian anarchism. Marx defines it as: 'an association in which the free development of each is the condition for the free development of all' (Marx 1976: 506); 'a community of free individuals, carrying on their work with the means of production in common, in which the labour-power of all the different individuals is consciously applied as the combined labour-power of the community' (Marx 1996: 89); and 'a higher form of society, a society in which the full and free development of every individual forms the ruling principle' (Marx 1996: 588). The second quotation does not necessarily mean economic planning together with the national ownership of the means of production. Rather we should understand it as explaining the co-operative aspect of communism. By contrast, Proudhon writes: 'Free association, liberty – whose sole function is to maintain equality in the means of production and equivalence in exchanges – is the only possible, the only just, and the only true form of society' (Proudhon 1898: 272).



The term 'free' has two meanings here. One is that individuals are 'free' to form associations of their own free will based on spontaneous agreements, and the other meaning is that they are 'free' to develop their peculiar abilities to the full extent and in various directions without any social hindrance. The second vision defines communism in terms of a co-operative society composed of production–consumption co-operatives whose means of production are owned in common by the members. This vision has much in common with Owenite communism and Ricardian socialism. While the first vision focuses on 'freedom' and 'association', the second focuses on 'co-operation' and 'common ownership'.

In volume three of *Capital*, Marx explains that once credit has developed, it not only progresses all the way to bank credit, but also helps to create two different organisations for production – stock companies and co-operative factories. Marx writes:

> In stock companies the function is divorced from capital ownership, hence also labour is entirely divorced from ownership of means of production and surplus-labour. This result of the ultimate development of capitalist production is a necessary transitional phase towards the re-conversion of capital into the property of producers, although no longer as the private property of the individual producers, but rather as the property of associated producers, as outright social property.
>
> (Marx 1998: 434)

> The co-operative factories of the labourers themselves represent within the old form the first sprouts of the new, although they naturally reproduce, and must reproduce, everywhere in their actual organisation all the shortcomings of the prevailing system. But the antithesis between capital and labour is overcome within them, if at first only by way of making the associated labourers into their own capitalist, *i.e.*, by enabling them to use the means of production for the employment of their own labour ... The capitalist stock companies, as much as the co-operative factories, should be considered as transitional forms from the capitalist mode of production to the associated one, with the only distinction that the antagonism is resolved negatively in the one and positively in the other.
>
> (Marx 1998: 438)

Marx contends that these are two different 'transitional forms' in the movement from the capitalist mode of production to 'the associated mode of production'. For him, stock companies and co-operative factories are, respectively, negative and positive sublations (*Aufheben*) of a contradiction in the capitalist mode of production. Stock companies can transform private ownership of the means of production by individual capitalists into common ownership by many shareholders, and thus make a separation between ownership and administration of firms, which will change capitalist economy from within. But stock companies bring about 'private production without the control of private property', and so cause side effects such as monopolies, state interventions and financial aristocracy. This limitation of stock companies is a 'negative' factor for Marx, as they abolish capital as private property only 'within the framework of capitalist production itself'. Contrarily, Marx evaluates co-operative factories 'positively' because they 'present within the old form the first sprouts of the new', even though they reproduce 'all the shortcomings of the prevailing system'. He appreciates this potentiality in the sense that it shows that large-scale production can be conducted by 'co-operative labour' without the existence of managers and capitalists. Nevertheless, he was cautious not to overrate the experiment of the co-operative movement. For example, Marx writes:

> But there was in store a still greater victory of the political economy of labour over the political economy of property. We speak of the co-operative movement, especially the co-operative factories raised by the unassisted efforts of a few bold 'hands'. The value of these great social experiments cannot be overrated ... At the same time the experience of the period from 1848 to 1864 has proved beyond doubt that, however excellent in principle and however useful in practice, co-operative labour, if kept within the narrow circle of the casual efforts of private workmen, will never be able to arrest the growth in geometrical progression of monopoly, to free the masses, nor even to perceptibly lighten the burden of their miseries.
>
> (Marx 1985a: 11–12)

This is because he knew that if co-operative factories were scattered, they would never have the power to transform the capitalist economy, and that if they must compete with monopolised big companies, they would fail or degenerate into ordinary companies. Therefore, the co-operative movement needs, as external circumstances for their development, a type of market different from the present one, which, I believe, LETS can create. In order to examine Marx's evaluation of co-operative societies further, we need to consider his *Instructions for the Delegates of the Provisional General Council*. Marx writes:

> (a) We acknowledge the co-operative movement as one of the transforming forces of the present society based upon class antagonism. Its great merit is to practically show, that the present pauperising, and despotic system of the *subordination of labour* to capital can be superseded by the republican and beneficent system of *the association of free and equal producers*. (b) Restricted, however, to the dwarfish forms into which individual wages slaves can elaborate it by their private efforts, the co-operative system will never transform capitalist society. To convert social production into one large and harmonious system of free and co-operative labour, *general social changes* are wanted, *changes of the general conditions of society*, never to be realised save by the transfer of the organised forces of society, viz., the state power, from capitalists and landlords to the producers themselves. (c) We recommend to the working men to embark in *co-operative production* rather than in *co-operative stores*. The latter touch but the surface of the present economical system, the former attacks its groundwork.
>
> (Marx 1985b: 190)



Marx explains in the section 'co-operative labour' that the co-operative movement is significant in so far as it is 'one of the transforming forces of the present society based upon class antagonism', since 'the republican and beneficent system of the association of free and equal producers' can supersede the subordination of labour to capital. His recommendation to the workers is 'to embark in co-operative production rather than in co-operative stores', because the former has the potential to change the groundwork of the capitalist system, transforming it into 'one large and harmonious system of free and co-operative labour', starting from the sphere of production. This corresponds to his second vision of communism. Although we admit that changes in the general conditions of society must occur, the added condition that 'the organised forces of society, namely, the state power' could only fulfil the transformation is not agreeable. Marx's claims concerning the primacy of producers' co-operatives and his concomitant requirement for a continuing state are deduced from his doctrine of historical materialism. But, as will be seen later, we should abandon these basic assumptions: one-way causality from the powers of production to the relations of production, as well as the primacy of production over circulation.

It is true that Marx sees that labour money is only valid in the first phase of communism, i.e. 'co-operative society based on common ownership of the means of production', where associated labour is conducted. Marx writes:

> Owen's 'labour-money', for instance, is no more 'money' than a ticket for the theatre. Owen pre-supposes directly associated labour, a form of production that is entirely inconsistent with the production of commodities. The certificate of labour is merely evidence of the part taken by the individual in the common labour, and of his right to a certain portion of the common produce destined for consumption.
>
> (Marx 1996: 104)

> Within the co-operative society based on common ownership of the means of production, the producers do not exchange their products; just as little does the labor employed on the products appear here as the *value* of these products, as a material quality possessed by them, since now, in contrast to capitalist society, individual labour no longer exists in an indirect fashion but directly as a component part of total labour ... What we have to deal with here is a communist society, not as it has *developed* on its own foundations, but, on the contrary, just as it *emerges* from capitalist society ... Accordingly, the individual producer receives back from society – after the deductions have been made – exactly what he gives to it. What he has given to it is his individual quantum of labour ... The same amount of labour which he has given to society in one form, he receives back in another.
>
> (Marx 1989: 85–6)

In such a condition, individual labour is directly regarded as social labour, 'as a component part of total labor'. Owen's labour notes are used for 'the certificate of labour' which 'is merely evidence of the part taken by the individual in the common labour, and of his right to a certain portion of the common produce destined for consumption'. As it is not money but 'the certificate of labour' – like 'a ticket for the theatre' – 'the producers do not exchange their products'. Rather they redistribute their products using these labour certificates after socially necessary deductions are made. In short, a co-operative society is not a market economy, because it has no market where value is determined as an average of continuously fluctuating market prices. However, it is uncertain that Marx believed that there would be no need for money in a co-operative society, and whether there would also be no market between co-operative societies. We could at least say that co-operative society is not the same as the planned economic society in terms of state power, because Marx also criticised the Lassallean idea of a producers' co-operative society with state aid in his *Critique of the Gotha Programme*.

As already stated, despite his repetitive warning that the reality of the market should not be dismissed easily, Marx was clearly inclined to the second vision of communism. But, I think it fruitful not to take either of these positions, but to synthesise them into one that emphasises both freedom and co-operation. Communist society must be non-capitalistic, but I do not believe that it would be either a traditional society based on reciprocity in tribal communities with common ownership, or a constructivist society based on central planning with national ownership, but rather one that would instead maintain the existence of money and the market. If so, the synthesised vision could be depicted not as a 'co-operative society' (using 'certificates of labour') but as an 'associative market economy', in which, using 'alternative money', individuals could freely trade products on the basis of mutual trust and contracts, and in which individuals could freely engage in various forms of organisation with common ownership: stock companies, producers' and consumers' co-operatives, or non-profit organisations.



However, this cannot be accomplished by means of labour money resting on labour as a value standard. It is not money that creates markets, but rather the certificate of labour. These certificates cannot take account of the difference between skilled labour (complex labour) and unskilled labour (simple labour), nor can they take into account the different qualities of output attained by individuals. If we simply ignore such differences and, in principle, regard all kinds of labour as equal, such egalitarianism would reduce the spontaneity and incentives of individuals, and indeed restrain individuals' freedom to develop their different abilities and needs. On the other hand, if we pursue a certain system of evaluation of various kinds of labour, it would inevitably require an authoritative power to determine the terms and conditions, and to put it into practice, which would then threaten individual freedom. In any event, we conclude by abandoning Marx's first vision of communism. To escape from this knotty problem, we need 'alternative money' that has the ability not only to create a market, but also to encourage co-operation more than competition.

When Marx, in *The Poverty of Philosophy*, criticises Bray's egalitarian idea of the individual exchange of equal labour, he bases his argument on the relation of the form of exchange of products to the form of production. Marx writes:

> In general, the form of exchange of products corresponds to the form of production. Change the latter, and the former will change in consequence. Thus in the history of society we see that the mode of exchanging products is regulated by the mode of producing them. Individual exchange corresponds also to a definite mode of production which itself corresponds to class antagonism. There is thus no individual exchange without the antagonism of classes.
>
> (Marx 1976: 143–4)

Here Marx postulates that 'the mode of exchanging products is regulated by the mode of producing them'. This might be regarded as a variation in the formula of historical materialism. But we cannot take it for granted, because, observing the upswing of electrical, informational and financial technologies like internet banking and electronic money in the present day, we need to recognise that these modern technologies are related to the production process as well as to the circulation or exchange of products. It thus follows not only that the mode of producing products determines the mode of exchanging them, but also that the latter determines the former. The relationship concerned involves, not one-way, but two-way causations; it is a relation of dual determination. By reconsidering this, we could see a possibility that an institutional change in the mode of exchange of products by means of some type of 'alternative money' could result in a change in the mode of producing them.

## The potential of LETS as associational money

What medium of exchange should be used in order to actualise an association of free and equal individuals? I believe that LETS is the most likely form and has the most potential. LETS is a kind of local currency which has spread since the 1980s and has reportedly reached more than 3,000 venues over the world. It was initiated in Canada in 1983, but its core idea is much older. LETS has properties similar to those found both in 'money' and 'credit'. It is 'money' in the sense that it can function, like conventional national currencies, as a means of circulation to mediate exchange, as a measure of value to provide the standard for exchange, as a means of payment to settle deferred payment, and as a means of hoarding to store value. It is also 'credit' in the sense that it is a multilateral settlement system through balancing accounts. But, on the other hand, it is not conventional money or credit, because it bears no interest and prevents resources from draining out of communities as well as credit creation by the banking system, hence it would not turn into 'money in *perpetuum mobile*', i.e. capital. Hence LETS fulfils economic purposes such as stimulation of depressed local economies, elimination of unemployment, establishment of cyclic economy and prevention of capital accumulation. However, LETS is not just an economic medium; it is also a social, ethical and even cultural medium, whose purposes are to rebuild co-operative and mutual-aid human relationships, based on the idea of reciprocal exchange (Nishibe 2001a), to bring about trust in regions and communities, to share values and interests, and to encourage communication. Thus, in LETS, the economic, the social, the ethical and the cultural are closely interrelated, which itself embodies the principle of a new economic society. LETS is a synthetic medium of 'intercourse' (*Verkehr*), expanding the meaning of freedom and rebuilding a domain for co-operation (Nishibe 2001b).

LETS is not intended to re-embed the alienated capitalist market economy in society and to restore economically reciprocal relationships, but is rather an 'alternative money', which creates an associative market by forming society in terms of economic exchange. LETS is based on Marx's critique of labour money and is designed to overcome the shortcomings he specified. Accordingly, its standard of value is not defined in terms of labour time, but is rather a unit of account linked with a national currency, depending on location. If, for example, a certain LETS is formed in Canada and its unit is called the 'green dollar', one green dollar is assumed to be equivalent to one Canadian dollar. Its purpose is not to fulfil egalitarianism in terms of labour as labour money was intended to



do, but rather to coexist initially with national currencies and to function as a 'supplementary' to them, and so gradually as 'alternative money' to create associative markets.

In LETS, participants:

1 start with zero accounts;
2 publicise their intentions to offer and to buy products and services with specific terms of price and quantities;
3 make contracts and transactions on a peer-to-peer basis.

It adopts an accounting system that credits 'black' to a seller and debits 'red' to a buyer on each transaction, so that the sum of all participants' accounts constantly equal zero. Because of this 'associative counterbalance (zero–sum) principle', money exists only in the accounts with credit as 'black' on the micro-level, but does not exist in the association as a whole, on the macro-level. Hence LETS is regarded as 'associative credit system', since participants mutually provide 'credit' through the association that they belong to. Accordingly, participants can purchase products and services whenever they want, even without prior possession of 'credit', because, if necessary, they can freely create 'debit' their accounts with no interest. They only have to promise to return their 'debit' back to the association by making 'credit' on future sales of products and services. It is noteworthy that they do not necessarily have to return gifts to the person who originally offered them, but to a third party. This means not only that reciprocity is unnecessary, but also that reciprocal exchange is only an ideal that each participant should refer to, because such a situation is realised only when every account equals zero, but is unattainable in reality. The 'credit money' that is individually and spontaneously created in LETS circulates within the association and gradually vanishes through multilateral cancellation among participants. Owing to such properties, LETS can be 'money' or 'credit', but, at the same time, does not transform itself into capital. It is true that competition among participants, though not always in terms of profit, still exists, but its inherent properties enhance co-operative ethics and mutual trust all the more. In his *Critique of the Gotha Programme*, Marx mentioned:

> a higher phase of communist society ... after labour has become not only a means of life but life's prime want; after the productive forces have also increased with the all-around development of the individual, and all the springs of co-operative wealth flow more abundantly.
> (Marx 1989: 87)

## Conclusion

This 'higher phase' of society is conceivable as an association of both free individuals and spontaneously formed associations without any control by the state, where labour power as a commodity and the state as an authority structure are both abolished. The slogan 'from each according to his ability, to each according to his needs!' can be realised by using LETS, albeit partially. Although many instances of LETS have so far been formed by small groups of people in villages or towns, we should not presume that it can work only in a small community whose inner human relationships are transparent and face-to-face. LETS is able to transform the meaning of sociability and the intermediacy of the 'cash nexus' in capitalist market economies and to create a new view of money and the market. It has the potential to make a capitalist market economy evolve into an associative one.

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