

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money: Part 6

Money and its Circulation (pp. 186-203)

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Marx returns to his main thread: money and its circulation.

Circulation (in other words, “the *turnover of money*”¹) corresponds to “an opposite *circulation*, or *turnover*, of commodities. (Marx 1973, p. 186) Money goes one way, commodities the other: “[a] commodity possessed by *A* passes into the hands of *B*, while *B*’s money passes into the hands of *A*, etc.” (Marx 1973, p. 186)

Marx makes a distinction between what he calls “direct” circulation, and circulation mediated by the banking system. In the former, “[t]he circulation of money, like that of commodities, begins at an infinity of different points, and to an infinity of different points it returns”; in the latter there take place “[d]epartures from a single centre to the different points on the periphery and the return from all points of the periphery to a single centre [...]”; Marx calls the former the “first, spontaneous and natural circulation”. (Marx 1973, p. 186.)

But what exactly do we mean by “circulation”?

“Circulation” only begins, Marx argues, when the precious metals cease to function as *commodities*: “[c]irculation proper [...] begins only where gold and silver cease to be commodities; between countries which export precious metals and those which import them, no circulation in this sense takes place, but mere simple exchange, since gold and silver function here not as money but as commodities.” (Marx 1973, p. 186) Money that mediates the exchange of commodities functions as a means of circulation; but money itself circulates in this process, and has, therefore, a “circulation” or “turnover” of its own. Marx asks now as the degree that this circulation is governed by particular laws.

¹ “*Der Umlauf des Geldes*”. (Marx 2006, p. 117) “*Umlauf*” is a word Marx uses effectively as a synonym for “*Circulation*” (“*Zirkulation*” in modern orthography) right up to the later drafts for *Capital* II, i.e. right up to the late 1870s. If there is a difference between the two words, “*Circulation*” emphasises the *movement* of the phenomenon being described (as one might, for example, describe traffic), while “*Umlauf*” has more of a sense of *completeness*, in that it suggests movement with a beginning and end, or perhaps a return to a point of departure (as in the circulation of blood). When Marx talks about the “turnover” of *capital*, emphasising the completion of a process of transformation, he invariably uses the word “*Umschlag*”.

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

The first thing Marx notes is this. “If money circulates commodities, then commodities circulate money. The circulation of commodities and the circulation of money thus determine one another.” (Marx 1873, p. 186)

Regarding “monetary turnover”, three things merit attention: (1) “the form of the movement; the line it describes (its concept [*Begriff*²]”); (2) how much money is in circulation; (3) “the rate at which it completes its motion, its velocity of circulation.” (Marx 1973, p. 186)

Marx notes at the outset that it is the circulation of commodities (the circulation itself and the manner of that circulation) that “is the original precondition of the circulation of money” (and not the other way round); but that there may also be a reaction back of the circulation of money on the circulation of commodities of a nature and extent that he is yet to establish. (Marx 1973, pp. 186-7)

The first thing to establish, Marx says, is what he calls “the general concept [*Begriff*, again] of circulation [*Circulation*] or of turnover [*Umlauf*].” (Marx 1973, p. 187, italicisation suppressed, and 2006, p. 118) He notes that what money circulates is *exchange values*, such that when we consider the circulation of commodities it is not just their mass but their prices too that we need to consider. This means that we have to develop a concept of price *before* we develop the concept of circulation; “[c]irculation,” Marx notes, “is the positing [*setzen*, maybe “setting”] of prices.” (Marx 1973, p. 187)

Money has a dual function: it is both a measure of value and a means of circulation, and these two functions run in different directions. When money circulates commodities, it circulates commodities that have *already* been transformed into money “ideally” (that is, “not only in the head of the individual but in the conception [*Vorstellung*, perhaps “understanding”] held by society”, i.e. prices are attached to commodities through social mechanisms, not on the basis of individual whims).

(Marx marks the last paragraph on Marx 1973, p. 187 “a”); he appears to indicate with this that he will start by examining the first of the functions of money—as measure of value—and then, later (Marx 1973, p. 193), the second—as means of circulation. (He will also introduce a third subdivision “(c)” and give that section its own subheading—“Money as material representative of wealth”—further on in the text (on Marx 1973, p. 203).))

If it is an “essential characteristic” of circulation that it circulates exchange values in the form of prices, there are therefore forms of commodity exchange that do *not* constitute circulation, *viz.* barter, payment in kind, feudal services, etc. Circulation proper has two preconditions: first, that the commodities concerned have prices; second, that exchange not be an isolated act, but a “circle”: “a totality of the same, in constant flux, proceeding more or less over the entire surface of society ; a system of acts of exchange.” (Marx 1973, p. 188)

(Marx now repeats several of the ideas that he has already set out in his presentation.)

Exchange value expressed as money is price, but a particular price, a particular sum of money, given, “in the general law” (Marx 1973, p. 188) by the labour-time “contained” (but Marx

² In the *Science of Logic*, Hegel talks about the *Begriff* of something as “that which is truly permanent and substantial in the manifold and accidentality of appearance and fleeting externalization” of it (Hegel 2010, p. 16, italicisation suppressed): what is, in other words, in our understanding of something, essential and constitutive to it, as opposed to what is contingent and variable to it. (Marx uses the word *Begriff* and associated forms repeatedly in his mature work, so it is as well to have some kind of definition of it at hand.)

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

actually says “*realisirte*”; Marx 2006, p. 119) by the exchange value. A given exchange value is measured by a mass of gold (or silver) which equals (Marx uses the “=” symbol) the same labour-time.³

The price of a commodity is external to it. The commodity *is* exchange value, but *has* a price. (Again, Marx is grasping here, it seems to me, towards notions he will express with more precision in *Capital*: the distinction, respectively, between exchange value and price he draws here appears parallel to that between value and exchange value he draws in the first chapter of *Capital* I.) Alongside the real commodity, there exists the commodity as price; alongside real money, there exists the commodity posited ideally as money.

Marx now expands on the distinction between “real money” and “accounting money”. In its origins, money was an expression of exchange value; as prices, commodities are representatives of money. “After money is posited as a commodity in reality, the commodity is posited as money in the mind.” (Marx 1973, p. 191) In the positing of commodities as prices, no actual money need be present, nor is the actual quantity of money in existence of any relevance. If the labour-time represented by a commodity is equal to that expressed by a certain quantity of gold, then the labour-time represented by the commodity finds its expression in gold (and then, in turn, in currency), without any gold or currency having to be present.

(Marx notes that James Mill errs in arguing that it is the quantity of precious metals and not their cost of production that determines their value; and then quotes a number of different commentators, Sismondi included, to back up what he (Marx) has just been arguing.)

For the full development of a system of prices exchange needs to be more than occasional and episodic. Marx quotes James Mill (*An Inquiry into the Principles of Political Economy*) to the effect that “[s]ale alone can determine prices, and frequent sale alone can fix a standard.” (Marx 1973, pp. 192-3)

In turn, the existence of price system presupposes that the producer produces exchange value, that she does not produce her own means of subsistence (“*Lebensunterhalt*”; Marx 2006, p. 123): the direct product of the producer must therefore “be mediated by a social process, in order to become the *means of life* ([*Lebensmittel*; Marx 2006, p. 123] for the individual.” (Marx 1973, p. 193) Between “the patriarchal condition” and “the full development of industrial society” there are “many intermediate stages, endless nuances.” (Marx 1973, p. 193)

(Marx here inserts the label “(b)”, indicating he is to deal now with the second of money’s functions, as means of circulation.)

The transformation of exchange value into price supposes an *ideal* transformation; the actual exchange of commodities supposes a *real* one. But this real transformation follows mediating moments: first, a particular exchange value (the commodity) is exchanged for exchange value in general; then it is in turn exchanged for *particular* exchange value. In exchange, commodities and money move in opposite directions. Money is “the instrument of circulation for the turnover of commodities; but, as such, it also has a circulation of its own [...]” (Marx 1973, p. 193)

Commodities are exchanged—transformed into real money—only after they acquire prices: have been transformed into ideal money. The latter is the precondition of the former, even

³ The value of gold and silver, Marx notes, quoting Senior, is determined by the cost of production in the country of their production; hence is equal to the labour realised in the products exported in return for that gold.

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

though it appears that it is its result.⁴

(Marx makes the point that in the “circulation” of commodities as he has been describing it is the circulation of *titles of ownership*. “The real circulation of commodities through time and space is not accomplished by money. Money only realizes their price and thereby transfers the title to the commodity into the hands of the buyer, to him who has proffered means of exchange. What money circulates is not commodities but their titles of ownership.” (Marx 1973, p. 194))

The amount of money required for circulation is given by the mass of commodities to be circulated *and* their prices. But the required amount of money also depends on what has come to be known as the “velocity of money”: “[i]f 1 thaler in one hour makes 10 purchases at 1 thaler each, if it is exchanged 10 times, then it performs quite the same task that 10 thalers would do if they made only 1 purchase per hour.” A little more mysteriously, Marx comments that “[v]elocity is the negative moment; it substitutes for quantity; by its means, a single coin is multiplied.” (Marx 1973, p. 194)

Now Marx makes a categorical statement against the quantity theory of money (or at least one version of it): that “prices are not high or low because much or little money circulates, but that much or little money circulates because prices are high or low; and, further, that the velocity of the circulating money does not depend on its quantity, but that the quantity of the circulating medium depends on its velocity.” (Marx 1973, p. 195)

Given that we are talking about circumstances in which money does not originate from a single centre (i.e. we are not considering the existence of a banking system), the velocity of money can substitute for its quantity only up to a certain point.⁵ This imposes limits on the minimum amount of money required for the circulation of commodities. An increase in the velocity of money can only affect the number of transactions a given quantity of money can make successively, but there will always exist a given set of payments that must be made simultaneously.

There now occurs an unfortunate typographical error in the text. Marx, in a parenthetical remark, quotes from the book *The Currency and the Country* (1843) by the financier and Conservative politician John Gellibrand Hubbard. Marx’s text in Marx 1973 reads thus:

“*Measure*, used as attribute of money, means indicator of value”... Ridiculous, that “prices must fall, because commodities are judged as being worth so many ounces of gold, and the amount of gold is diminished in this country...The efficiency of gold as an indicator of value is unaffected by its quantity being greater or smaller in any particular country...The efficiency of gold as an indicator of value is unaffected by its quantity being greater or smaller in any particular country. If the employment of banking expedients were to succeed in reducing the paper and metal circulation in this country by half, the relative value of money and commodities would remain the same.”

But a comparison with Marx 2006, p. 125 shows that the second closing quotation mark is in the wrong place. The text should read:

“*Measure*, used as attribute of money, means indicator of value”... Ridiculous, that “prices must fall, because commodities are judged as being worth so many ounces of gold, and the

⁴ This strikes me as uncharacteristically undialectical on Marx’s part. Surely both moments of the transformation of commodities into money—the ideal and the real—presuppose *each other*.

⁵ The obvious inference being that the existence of a banking system augments the possibilities for a higher level of velocity of money.

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

amount of gold is diminished in this country”. The efficiency of gold as an indicator of value is unaffected by its quantity being greater or smaller in any particular country. The efficiency of gold as an indicator of value is unaffected by its quantity being greater or smaller in any particular country. If the employment of banking expedients were to succeed in reducing the paper and metal circulation in this country by half, the relative value of money and commodities would remain the same.

(Curiously, the offending paragraph is missing in its entirety from the *Collected Works* version of the text (cf. Marx 1986, p. 131))⁶

Marx reiterates the point: “In its quality of being a measure, money is indifferent to its quantity, or, the existing quantity of money makes no difference. Its quantity is measured in its quality as medium of exchange, as instrument of circulation.”⁷ (Marx 1973, p. 196)

That circulation exist, it is necessary that “that exchange appear as a process, a fluid whole of purchases and sales”. (Marx 1973, p. 196) This in turn presupposes that commodities be produced as exchange values, “not as *immediate use values*, but as mediated through exchange value.” (Marx 1973, p. 196) Circulation considered as the realisation of exchange values supposes: (1) that what I produce transcends singularity and expresses generality; that it serve as a product for others, not for me; (2) that it serve as product for me only through its alienation; and (3) that it is a product for others only through having been alienated; and (4) that production for me is a means, not an end.

To the degree that the whole movement appears as a social process, and that the individual exchanges arise from individual wills, so does the whole process appear as an *objective* product of nature. “Their [the participants’] own collisions with one another produce an alien social power standing above them, produce their mutual interaction as a process and power independent of them.” (Marx 1973, p. 197)

The social relation of individuals to one another as a power over the individuals which has become autonomous, whether conceived as a natural force, as chance or in whatever other form, is a necessary result of the fact that the point of departure is not the free social individual. Circulation as the first totality among the economic categories is well suited to bring this to light.⁸ (Marx 1973, p. 197)

Marx now takes aim (without naming names) at what is called “Say’s Law”, which can be put that production creates its own supply. This notion is often expressed in the form that each purchase is simultaneously a sale, and each sale is simultaneously a purchase: that sales and purchases therefore balance out such that there can be no commodities that go unsold. “The commodity is exchanged for money; money is exchanged for the commodity. In this way, commodity is exchanged for commodity, *except that this exchange is a mediated one.*” (Marx 1973, p. 197, italicisation added) Circulation is not barter: commodities are exchanged for commodities but only through the intermediating stage of the transformation into money, and

⁶ According to the *Apparat* section of the volume of the *MEGA*² volume that the original text of the 1857-59 Manuscript appears in, Marx quotes Hubbard from an excerpt notebook he compiled in 1851. (*MEGA*² 2006, p. 982)

⁷ “Whether these two qualities of money can enter into contradiction with one another—to be looked at later.”

⁸ It is difficult not to imagine that Marx does not have the “invisible hand” metaphor in some recess of his brain at this point.

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

money into commodity.⁹

The commodity is exchanged in circulation for a commodity: at the same time, and equally, it is not exchanged for a commodity, in as much as it is exchanged for money. The acts of purchase and sale, in other words, appear as two mutually indifferent acts, separated in time and place. When it is said that he who sells also buys in as much as he buys money, and that he who buys also sells in as much as he sells money, then it is precisely the distinction which is overlooked, the specific distinction between commodity and money. (Marx 1973, pp. 197-8)

Money realises prices. Price has a double aspect: it is both an “ideal aspect” of the commodity, and, when the commodity is sold, money is exchanged for the commodity’s *realised price*, *real price*. Out of this double existence—ideal price and real price—there arises a further contradiction. “If the commodity cannot be realized in money, it ceases to be capable of circulating, and its price becomes merely imaginary; just as originally the product which has become transformed into exchange value, if it is not really exchanged, ceases to be a product.” As Marx notes, a commodity requires not demand but “demand that can pay in money.” If the commodity cannot be sold, if its ideal price cannot be realised as real price, the commodity appears “devalued” and “depriced”.¹⁰ (Marx 1973, p. 198)

The necessity of a general medium of exchange grows with the development of the division of labour:

When production is oriented towards immediate subsistence, not *every* article can be exchanged for *every* other one, and a specific activity can be exchanged only for *specific* products. The more specialized, manifold and interdependent the products become, the greater the necessity for a general medium of exchange. At the beginning, the product of labour, or labour itself, is the general medium of exchange. But this ceases more and more to be general medium of exchange as it becomes more specialized. [...] Hence the necessity for a *general medium of exchange*, where the specific product and the specific labour must be exchanged for *exchangeability*. The exchange value of a thing is nothing other than the quantitatively specific expression of its capacity for serving as *medium of exchange*. In money the *medium of exchange* becomes a thing, or, the exchange value of the thing achieves an independent existence apart from the thing. (Marx 1973, pp. 199-200)

The separation of sale and purchase into distinct acts permits buying without selling (“stockpiling of commodities”) and selling without buying (“accumulation of money”); it makes speculation possible; and it leads to the appearance of a class of merchants.

If money as general exchange value is premised on the division of labour, the existence of money, in so far as it derives from the independence of labour from its product, in turn “provides

⁹ In *Capital* Marx will represent this movement as C-M-C (Marx 1976, p. 131); here below he will represent it C-M-M-C.

¹⁰ Marx criticises the French economist Boisguillebert, to whom he ascribes the notion that the difficulty here is that of the contradiction between commodity and money (“money is the hangman of all things”). No, says Marx, that is only how it appears: “[i]n the period of the rising absolute monarchy with its transformation of all taxes into money taxes, money indeed appears as the moloch to whom real wealth is sacrificed. Thus it appears also in every monetary panic.” In reality, however, “the determination of prices in themselves contains what is counterposed to money in exchange; that money no longer represents the commodity, but the commodity, money.” (Marx 1973, p. 199)

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

the possibility of an absolute division of labour.” (Marx 1973, p. 200, italicisation suppressed)

Marx now says the following.¹¹ A general rise in prices (“in periods of speculation”) cannot be attributed to a general rise in production costs (because this would also affect the money commodity). Neither can it be put down to a fall in the production cost of gold. But since gold is also a particular commodity (i.e. it is used for purposes other than functioning as money), a rise in demand for other particular commodities can lower the price of the commodity that functions as money. (I do not fully understand the point Marx is making here.)

(Marx now signals that he still needs to consider “circulation, its strength, weakness, etc., and notably the disputed point regarding the quantity of money in circulation and prices”; before he does this though, he says, he will look at money “from the point of view of its third characteristic”. (Marx 1973, p. 201) (This third characteristic will be that of money as the “material representative of wealth.”)

Not only does circulation take the form of the unity of sale then purchase, commodity transformed into money and then into commodity again, but also as unity of purchase and sale, of money transformed into commodity and then into money again: “money is mediated with itself by the commodity, [...] appear[ing] as the unity which joins itself with itself in its circular course.” (Marx 1973 p. 201) Money now appears not as the medium of circulation, but its aim; now, not selling in order to buy (Commodity-Money-Money-Commodity), but buying in order to sell (Money-Commodity-Commodity-Money).

At a certain point in circulation the commodity is cast out and consumed; in the case of money, its function is to remain in circulation in perpetuity. *Prima facie*, to exchange commodity for commodity makes total sense, since commodities are qualitatively different, their exchange satisfying different needs; the exchange of money for money does not. Naturally, therefore, the intention for the exchange of money for money can only be profit: that the sum of money which terminates the movement be greater than that which initiates it.)

Marx’s description here in this part of the text has served to set up the third of money’s functions, that of serving as the “material representative of wealth”.

¹¹The sentence that begins “The general rise of prices in times of speculation [...]” in the second complete paragraph of Marx 1973, p. 200 is, in the original Manuscript (Marx 2006, p. 129) the beginning of a separate paragraph.

The *Grundrisse* (The 1857-58 Manuscript)

The Chapter on Money Part 6: *Money and its Circulation* (pp. 186-203)

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