Chapter 35: Precious Metal and the Rate of Exchange

Marx begins by noting that despite the intention that the Bank Act of 1844 transform the bullion reserve into means of circulation by seeking to compensate for a drain of gold by contracting the means of circulation and for an influx by expanding the means of circulation, it has never been successful in doing this. In the crisis of 1857 the quantity of notes in circulation exceeded the gold reserve by a daily average of £488,830; in all other occasions since 1844, however, the quantity of notes in circulation has never reached the maximum that the Bank was authorised to issue.

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With regard to the international movement of precious metals, Marx makes the following points.

1 One needs to distinguish between the international trade in precious metals between countries, and that trade resulting from the movement of metal from where it is produced.

2 Among the non-producing countries, precious metals flow constantly back and forth. Any ultimate inflow or outflow is thus a *net* balance. 'The matter is always conceived as if an excess import or export of precious metal were simply the effect and expression of the import and export relationship for commodities, whereas it also expresses a relationship between *the import and export of precious metal that is independent of commodity trade*.'[1]

3 In general, the balance of preponderance of imports over exports is reflected by changes in the central bank's metal reserves. This, however, depends on the extent of the centralisation of the banking system, on, in other words, to what degree the central bank's reserves consist of the total amount of stockpiled metal; it also depends on the degree to which imported metal is used for purposes of circulation, or for luxury use.

4 'An export of metal takes the form of a "drain" if the movement of decline persists for a long period, so that the decline presents itself as a general tendency and the national bank's metal reserve is significantly depressed below its average level, until something like its average minimum is reached.'[2]

5 The metal reserve of a central bank has the following functions. First, it is a reserve fund for international payments (what Marx calls 'a reserve fund of world money'[3]); second, a reserve fund for expanding and contracting domestic metal circulation;[4] and, third, a reserve fund for payment of deposits and convertibility of notes. 'It can therefore also be affected by conditions that bear on only one of these three functions.'[5]

6 Marx notes that business-cycle crises (presumably in Britain) tend to occur after a drain in gold has occurred, and then stopped.

7 Once a business crisis has passed, gold and silver are once again distributed in their previously existing proportions (the relative size of each country's hoard being dependent on that country's position in the world market). Once this redistribution is established, there occurs (again presumably in Britain) first a

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[1] Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], pp- 700-701 (italicisation added).

[2] C3, p. 701. 'This latter is fixed more or less arbitrarily, since it is determined differently in each particular case by legislation governing the backing for cash payment of notes, etc.'

[3] C3, p. 701.

[4] '[T]his is connected with the banking function and has nothing to do with the function of money as simple money'. C3, pp. 701-2.

[5] C3, p. 702.

growth in the reserve, and then a drain.

8 ‘A drain of metal is generally the symptom of a change in the state of foreign trade, and this change is in turn an advance warning that conditions are again approaching a crisis.’[6]

In relation to the rhythm of the business cycle, imports and exports of precious metal generally occur at the following moments.

import: In that part of the cycle from that point immediately following the crisis, which is marked by low interest rates and a contraction of production, to the subsequent phase in which production begins to expand but interest rates, although rising, are yet to reach their average level. ‘This is the phase in which returns are brisk and commercial credit high, so that the demand for loan capital does not grow in proportion to the expansion of production.’[7]

export In the immediate pre-crash phase: ‘as soon as returns are no longer easy, markets are overstocked and the apparent prosperity is maintained only by credit; i.e. when a very pronounced demand for loan capital already exists, so that the rate of interest has reached at least its average level.’

We need to remember here that, in a crisis, there is no dearth of capital (as Tooke believed); quite the contrary. What marks the crisis is the inability to transform the abundance of existing capital into *money*. Neither is it the case, as the currency school believed, that a drain of gold was a cause of crisis. Crisis is rooted in production: the drain of gold is a symptom of the conditions of the latter.

Nevertheless, fluctuations in the international movement are important, and important precisely because of the operation of the credit system.

> [I]t is not the mere quantity of precious metal imported or exported that operates as such, but that this firstly has its effect by way of the specific character of precious metal as capital in the money form, while secondly it acts as. the feather which, added to the weight already on the scales, is enough to tip the balance [...]. Were it not for these reasons, it would be completely impossible to understand how a drain of gold of £5-£8 million, say, [...] could exert any significant effect. This small increase or decrease in capital, which appears insignificant even against the £70 million in gold that is the average circulation in England, is infinitesimal against the total volume of English production. But it is precisely the development of the credit and banking system which on the one hand seeks to [...] transform all money income into capital [...], while on the other hand it reduces the metal reserve in a given phase of the cycle to a minimum, at which it can no longer perform the functions ascribed to it – it is this elaborate credit and banking system that makes the entire organism oversensitive.[8]

In short, ‘[t]he central bank is the pivot of the credit system. And the metal reserve is in· turn the pivot of the bank. [...] A certain quantity of metal that is insignificant in comparison with production as a whole is the acknowledged pivot of the system.’[9]

What happens in a crisis?

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[6] C3, p. 704.

[7] C3, p. 704. ‘[A] a large *influx* of precious metal can take place at the same time as a *contraction* in production, this being always the case in the period after a crisis. In the following phase, precious metal may flow in from countries where this is mainly produced; the import of other commodities is generally balanced in this period by exports. In both these phases, the rate of interest is low and rises only slowly [...]. [Interest rates are low] because, under the existing conditions, the demand for loan capital does not grow in relation to [...] profit; i.e. loan capital has a different movement from industrial capital.’ C3, p. 720.

[8] C3, pp. 705-6.

[9] C3, p. 707. ‘[I]n what way are gold and silver distinguished from other forms of wealth? Not by magnitude, for this is determined by the amount of labour embodied in them. But rather as autonomous embodiments and expressions of the *social* character of wealth.’

Credit, [like metal] being [...] a social form of wealth, displaces money and usurps its position. It is confidence in the social character of production that makes the money form of products appear as something merely evanescent and ideal, as a mere notion. But as soon as credit is shaken, and this is a regular and necessary phase in the cycle of modern industry, all real wealth is supposed to be actually and suddenly transformed into money, into gold and silver – a crazy demand, but one that necessarily grows out of the system itself. And the gold and silver that is supposed to satisfy these immense claims amounts in all to a few millions in the vaults of the bank. [...] A drain of gold, therefore, shows strikingly by its effects that production is· not really subjected to social control, as social production, and that the social form of wealth exists alongside wealth itself as a *thing*.[10]

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The monetary system is essentially Catholic, the credit system essentially Protestant. 'The Scotch hate gold.' As paper, the monetary existence of commodities has a purely social existence. It is *faith* that brings salvation. Faith in money value as the immanent spirit of commodities, faith in the mode of production and its predestined disposition, faith in the individual agents of production as mere personifications of self-valorising capital. But the credit system is no more emancipated from the monetary system as its basis than Protestantism is from the foundations of Catholicism.[11]

[10] C3, pp. 707-8.

[11] C3, p. 727.