Manuscript of 1857-58 (*Grundrisse*)

4 The Chapter on Money

Part 1 – Darimon's theory of monetary crises (pp. 51-60[1])

Marx begins the manuscript by jumping straight in to a critique of the politician and journalist, and follower of Proudhon, Alfred Darimon (1819-1902). Darimon had argued that in crises the drain of bullion from the banking system reduced the supply of available money (and hence credit), making the crisis worse. To counter this, Darimon had proposed a reformed monetary system based on joint-stock banking backed by system of credit-insurance, rather than having bank money backed by gold and silver.

'All the trouble derives from the predominance of the precious metals which is obstinately being preserved in circulation and exchange,' Marx quotes Darimon form the latter's *De la réforme des banques*.[2]

Darimon '[b]egins with the measures taken by the Banque de France in October 1855 "to remedy the progressive diminution of its cash reserves" [...].'[3] To reduce the outflow of its reserves the Bank had raised the discount rate and reduced the payment period for discounted bills; as far as Darimon was concerned, the cause of the outflow of specie was the need to import grain in the face of crop failure—all the measures taken by the Bank achieved was hinder the release of its metallic reserves into circulation, precisely the wrong thing to do given the prevailing demand for funds.

Darimon 'wants to give us a statistical *tableau* of the position of the Bank in the five months preceding its measures taken in October. For this purpose, he compares the size of its bullion reserves in each of these five months with the "fluctuations in its portfolio", i.e. the amount of its discounts (the commercial papers, *bills of exchange* in its portfolio). According to Darimon, the figure expressing the value of the securities held by the Bank "represents the greater or lesser need which the public feels for its services, *or, which amounts to the same, the requirements of circulation"* [...].' (Darimon's figures are reproduced in **figure 1** on the next page; the first table is the Bank's bullion reserve, the second its portfolio.[4])

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1 Karl Marx, *Economic Manuscripts of 1857–58 (First Version of Capital)*, trans. Ernst Wangermann and Victor Schnittke, in Karl Marx and Friedrich Engels, *Marx Engels Collected Works* (hereafter MECW) vol. 28 (hereafter G). For reasons I have discussed elsewhere, this translation is to be preferred to the other extant full translation in English, *viz*. Karl Marx, *Grundrisse: Foundations of the Critique of Political Economy (Rough Draft)*, trans. Martin Nicolaus (Harmondsworth, 1973) (hereafter G(N) (although I shall make reference to the latter where it helps clarify Marx's meaning). The standard German translation ('translation' because Marx was in the habit of writing in draft in a cacophony of different languages) is Karl Marx, 'Ökonomische Manuskripte 1857/1858' in Karl Marx and Friedrich Engels, *Werke* (Berlin, 1981-), Bd. 42 (hereafter G(W)); the original manuscript is Karl Marx, 'Ökonomische Manuskripte 1857/58', in Karl Marx and Friedrich Engels, *Gesamtausgabe* (Berlin, 1975-) II, 1 (i.e. *Abteilung* II, *Band* 1) (hereafter G(M).

2 G, p. 51.

3 G, p. 51.

4 Alfred Darimon, *De la réforme des banques* (Paris, 1856) p. 3. (Darimon's book is accessible in facsimile at Internet Archive, De la réforme des banques, accessed 19 June, 2023, <https://archive.org/details/delarformedesba00giragoog/page/n2/mode/2up>.)

Marx disagrees with Darimon's interpretation. The value of the bills presented for discount at the Bank reflect the demand for *credit*, not circulation. In order to determine anything about the requirements of circulation Darimon would have to take account of the actual quantity of paper money in circulation but he does not. Marx characterises this omission on the part of Darimon as betraying 'at once amateurish incompetence and deliberate confusion of the requirements of credit with those of money circulation—a confusion upon which the entire secret of Proudhonian wisdom is in fact based.'[5]

12 avril.	432,614,797 fr.	88 c.
10 mai.	420,914,028	»
14 juin.	407,769,813	28
12 juillet.	314,629,614	13
9 août.	338,784,444	29
13 septembre.	288,645,333	87

12 avril.	322,904,313	65
10 mai.	310,744,925	88
14 juin.	310,369,439	30
12 juillet.	381,699,256	68
9 août.	458,689,605	07
13 septembre.	431,390,562	64

figure 1: Banque de France, bullion and portfolio balances (1855)

Darimon's conclusion (which Marx labels a tautology) is that 'in proportion as bills were brought to the Bank to withdraw bullion from it, its portfolio became filled with bills and its vaults emptied of bullion.'[6]

But, says Marx, the tautology is only apparent, for there is something amiss here. Darimon's table shows that over the period under consideration the Bank's reserves by about 144 million francs while its portfolio rose by about 108 million.[7] The fall in the Bank's reserves exceeds the increase in its portfolio by around 36 million francs.[8]

Marx goes through Darimon's figures (we need not detain ourselves with the details) and observes that at one of the data points a fall in bullion reserves is accompanied by an increase in the portfolio, at another a fall in the reserves is accompanied by a fall in the portfolio (but not of the same magnitude). Then, at another point, a fall in the reserve is accompanied by an increase in the portfolio; at another both quantities increase. 'A decline in one column, a rise in the other; a decline in both columns; a rise in both columns. So there is anything but a consistent pattern, above all there is not an inverse relationship, not even an interaction, since a decline in the portfolio cannot be the cause of the fall in the reserves, and an increase in the portfolio cannot be the cause of the increase in the reserves.'[9]

Had Darimon included in his figures values for the circulation of paper money and for the volume of deposits (claims Marx) he would have seen that the sum of these two values would account for the

[5] G, p. 52. 'As if in a mortality table illnesses figured on one side and deaths on the other, while births were overlooked.'

[6] G, p. 52.

[7] Marx says '101 million'. (G, p. 52)

[8] Marx says '43 million'. (G, p. 52)

[9] G, p. 56.

discrepancy between the variations in reserves and portfolio. But in turn, had he done this, Darimon would have shown 'that the satisfaction of the growing requirements of trade by the Bank does not necessarily result in an expansion of the amount of its notes in circulation; that the contraction or expansion of this note circulation does not correspond to a contraction or expansion of the Bank's bullion reserves; [and] that the Bank does not control the quantity of means of circulation [...]—all of [...] [these] conclusions which conflict with the arguments which Mr. Darimon is trying to sell.'[10]

Marx continues. In the period covered by Darimon's tables, the Bank's reserves fell by 144 million and its portfolio increased by 108 million;[11] in October the Bank raised its discount rate 4% to 6% and reduced the time for the repayment of discounted bills from 90 to 75 days. It did this to protect its reserves: 'it rendered more difficult the conditions under which it placed its bullion at the disposal of commerce.'[12] For Darimon, this shows that '"that a bank organised on present-day principles, i.e. founded upon the predominance of gold and silver, deprives the public of its services exactly at the moment when they are most needed" [...].'[13] But all this says is that 'the supplier [the Bank] raises the price of his services [the discount rate] in the same measure that the demand for them [the discounting of bills, i.e. demand for credit] rises (and exceeds them)'.[14] Marx admonishes Darimon for imagining 'the Bank should be an exception from this general economic law'.[15]

According to Darimon, '[t]he causes which drained from the Bank its precious metals were [...] a bad harvest and the consequent necessity of importing grain from abroad.'[16] Marx concurs, but accuses him of forgetting the effect of the following additional factors.

- the failure of the French silk harvest (and consequent demand for imported silk from China);
- large-scale foreign speculation on the part of the Crédit Mobilier;[17]
- unproductive expenditure occasioned by the Crimean War.

Nevertheless, imagine, says Marx, that (as Darimon proposes) the French currency did not rest on a metallic basis, and that other countries were willing to accept French capital in non-specie form. Would this have spared the Bank from raising the discount rate? The paper money that the Bank lends out when discounting would now no longer be drafts on gold and silver but drafts on 'the nation's store of products and its immediately employable labour power.'[18] The former is 'limited', says Marx; the latter 'expandable only within very definite limits and in certain periods of time.' '[T]he paper-machine,' on the other hand, 'is inexhaustible, as if driven by the power of magic.'[19] At the same time, the failure of the grain and silk harvests would have diminished one part the nation's exchangeable wealth while the foreign investments would have immobilised another part. This conjunction of circumstances would result in a general rise in prices of manufactured goods, of raw materials and of labour, coupled with an

[10] G, p. 57.

[11] Marx again says '101 million'. (G, p. 57)

[12] G, p. 57.

[13] G, p. 57.

[14] G, p. 57.

[15] G, p. 58.

[16] G, p. 58.

[17] The French joint-stock bank set up by the Saint-Simonian brothers Émile and Isaac Pereire.

[18] G, p. 59.

[19] G, p. 59.

expansion of the paper money issue of the bank, and a depreciation in its value.[20] 'The Bank would not have expanded the national wealth by the touch of a magic wand, but would only have depreciated its own paper as a result of a very ordinary operation.'[21]

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[20] This being how I interpret Marx's remark that there would be 'unrestricted growth of the issue of bank drafts ('*Bankanweisungen*'). The immediate consequence: a rise in the price of manufactured goods, of raw materials and of labour. On the other hand, a fall in the price of bank drafts.' (G, p. 60; cf. G(M), p. 57)

[21] G, p. 60.