Manuscript of 1857-58 (*Grundrisse*)

5 The Chapter on Money

Part 2 – Money and the relations of production (pp. 60-74[1])

Marx clarifies why he started the manuscript with a critique of Darimon and his theories.

> We have now arrived at the basic question, which is no longer connected with our point of departure. The general question is: is it possible to revolutionise the existing relations of production and the corresponding relations of distribution by means of changes in the instrument of circulation—changes in the organisation of circulation? A further question: can such a transformation of circulation be accomplished without touching the existing relations of production and the social relations based on them?[2]

A positive answer to this question would be reveal a 'misunderstanding concerning the inner connection between the relations of production, distribution and circulation.'[3]

Marx asks as to 'whether the various civilised forms of money—metal coinage, paper money, credit notes, labour money (this last as a socialist form)—can achieve what is required of them without abolishing the production relation itself which is expressed in the category of money; and whether it is not then necessarily a self-defeating effort to seek to overcome the essential conditions of a relationship by effecting a formal modification within it.'[4] His answer is no.

> The various forms of money may correspond better to social production at various stages of its development; one form may remove certain shortcomings with which the other cannot cope. But none of them, so long as they remain forms of money, and so long as money remains an essential relation of production, can resolve the contradictions inherent in the money relationship, they can all only express these contradictions in one form or another.[5]

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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. 60.

[3] G, p. 61. 'Of course, the historical example referred to above is not conclusive, since the modern institutions of credit were as much a result as a cause of the concentration of capital, representing only an aspect of this process, and the concentration of wealth may be accelerated as much by lack of circulation (as in ancient Rome) as by improved circulation.'

[4] G, p. 61.

[5] G, p. 61. 'Though one form of wage labour may overcome the defects of another, none can overcome the defects of wage labour itself. One lever may overcome better than another the resistance of matter at rest. But all depend upon the fact that the resistance remains.'

Darimon 'identifies *money circulation with credit,* which is an economic fallacy.'[6] All that Darimon in fact establishes is that 'the banks, which deal in credit, like the merchants, who deal in commodities, or the workers, who deal in labour, sell at a higher price when demand rises in relation to supply, i.e. they make it more difficult for the public to obtain their services at the very moment when the public most needs them.'[7] That this is the case (as we have seen) has nothing to do with whether or not the notes issued by the Bank are convertible or not.

In addition, Darimon errs when he seems to imagine that 'the Bank [...] regulates credit by means of its monopoly.'[8] This is not the case, argues Marx. '[T]he power of the Bank only begins where the power of the private *"escompteurs"* [discounters] ends, that is, at a moment when its own power is already extraordinarily limited.' The Bank can set a discount rate, but if the private discounters set a lower one then '[t]he *escompteurs,* instead of emulating the Bank, would discount all its business [away] under its very nose.'[9]

Finally, Darimon proposes to (in his own words)end the 'privilege enjoyed by gold and silver of being the only authentic instruments of circulation and exchange. [...]'[G]old and silver [...] [should] become commodities just like any other, or, to be precise, [...] all commodities [should] [...] become instruments of exchange of the same rank [so that] [...] products [...] be truly exchanged for products.'[10] 'Money, in its most perfect state, is paper money,'[11] says Darimon, quoting Ricardo.[12] 'Let the Papacy remain, but make everyone Pope,' says Marx. ' Do away with money by turning every commodity into money and endowing it with the specific properties of money.'[13]

But Marx asks:

> does not the bourgeois system of exchange itself make a specific instrument of exchange necessary? Does it not of necessity create a special equivalent of all values? One form of this instrument of exchange, or of this equivalent, may be handier, more appropriate, entail fewer inconveniences than another. But the inconveniences resulting from the existence of a special instrument of exchange,

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6 G, p. 61.

7 G, p. 62.

8 G, p. 62.

9 G, p. 63. 'Nowhere is this shown more clearly than in the history of the Bank of England after the 1844 [Currency] Act which made the Bank a real rival of the private bankers in the discount business, etc. The Bank of England, in order to secure itself a share, and a growing share, of the discount business during the periods of easiness [i.e. of low interest rates] in the money market, was continually forced to lower its discount rate, not only to the level maintained by the private bankers, but often below it. Its 'regulation of credit' is therefore to be taken *cum grano salis* [with a grain of salt] whereas Darimon makes his superstitious belief in the Bank's absolute control of the money market and of credit the starting point of his argument.'

10 G, p. 63.

11 G, p. 64.

12 G, p. 64, even though the latter was a staunch defender of convertibility. 'A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold which it professes to represent. The use of paper instead of gold, substitutes the cheapest in place of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it before used for this purpose, for raw materials, utensils, and food; by the use of which, both its wealth and its enjoyments are increased.' (David Ricardo, *Principles of Political Economy and Taxation*, in Pierro Sraffa (ed.), *The Works and Correspondence of David Ricardo*, vol. 1 (Indianapolis, 2004), p. 361.

13 G, p. 65.

of a special and yet general equivalent, are bound to reproduce themselves (if in different ways) in every form.[14]

Darimon ignores this question.

When there is a drain of bullion the real contradiction that the precious metals are *not* merely commodities like all the others comes to the fore; 'modern political economy is suddenly shocked always to find itself temporarily back among the prejudices of mercantilism.'[15]

What might occasion a drain of bullion? A bad harvest at home of some food staple, or a bad harvest abroad of a mass consumption good (tea, say) and a consequent rise in price. A failure of in the harvest of an industrial raw material (cotton, wool, silk, flax).[16] Excessive imports caused by speculation or war.[17]

Take the case of a bad grain harvest. Comparing the nation affected with another, not only its real wealth but also its capital are diminished.[18]) The resulting rise in the price of grain will apparently leave everything in value terms as it was before (except that the reduced quantity of grain multiplied by the increased price in case of real bad harvests never equals the normal quantity multiplied by the lower price'[19]).

Marx now develops a rather strange numerical example, whose purpose is not transparently obvious.[20] Suppose the production of wheat to fall by one half, and that this quantity to sell for the same price as the original crop. If we assume that the original crop requires $2x$ working days for its reproduction then the nation would effectively exchange $2x$ working days (cost of production [*Productionskosten*[21]]) for x working days (the price of the product). The 'productive power'[22] [*productive Kraft*[23]] of the capital would have declined by one half; the sum of values owned in the country would have been reduced for each working-day would have depreciated by one half. Every item of capital would now represent only one half of its former value (of its equivalent in cost of production), even if the nominal value of the nation's capital would remain unchanged) 'because the diminished value of the other products would

[14] G, p. 65.

[15] G, p. 65.

[16] 'The replacement of a sudden or lasting shortage (of grain, tea, cotton, flax, etc.) causes the nation a double loss in case of a bad domestic harvest. A part of the country's invested capital or labour is not reproduced—a real loss of production. A part of the reproduced capital must be released to fill the gap, a part, that is, which is not simply arithmetically proportionate to the shortfall, for the price of the scarce product rises, and necessarily so, on the world market, because of the reduced supply and increased demand.' (G, p. 66)

[17] '*Bad grain harvests* and *excessive imports* the chief cases. War self-evidently too, since in economic terms it is the direct equivalent of a nation throwing a part of its capital into the water.' (G, p. 66)

[18] In the same way as 'the peasant who has burnt the dough for his bread and must now buy it from the baker is impoverished by the amount of his purchase.' (G, p. 66)

[19] G, p. 66.

[20] I have changed the premise of the example from a decline in the grain harvest from 30 million to one to two to one.

[21] G(M), p. 61.

[22] G, p. 66.

[23] G (M), p. 61.

be exactly compensated for by the increased [per-unit] value of the [...] wheat.'[24] The doubling of the per-unit price of wheat would express a two-fold depreciation of all other products.[25]

Marx notes that even under conditions of free trade, and even if imported grain were as cheap as the home-produced, 'the nation would be poorer to the extent of the capital not reproduced by the farmers.'[26]

If grain rises in price then, relatively, the prices of all the other commodities will fall. 'The increased production costs [*Productionskosten*] (represented by the price) at which a quarter of grain is obtained, imply a reduction in the productivity of the capital that exists in all other forms.'[27] More spent on grain means less available for other products, and therefore a fall in their prices. All this has nothing to do with the metallic basis of the currency.[28]

Proudhon claims (says Marx) that the crisis occurs because it is only the precious metals which possess value.[29] But all the rise in the price of grain means is that more gold and silver are required for a given quantity of grain (the price of grain has risen relative to gold; gold falls in price relative to grain). 'Gold and silver therefore share in the depreciation of all other commodities relative to grain, from which no privilege protects them.'[30]

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[24] G, p. pp. 66-7.

[25] 'Incidentally, this distinction between home and abroad is quite illusory. The relationship of the nation which suffers the grain shortage to the foreign nation from which it buys, is identical to that of every individual in that nation to the farmer or grain merchant. The extra sum that he must expend for the purchase of grain is a direct diminution of his capital, of his disposable means.' (G, p. 67)

[26] G, p. 67. 'However, in the case we have assumed, the nation always imports as much foreign grain as may be imported at the normal price. A growth in imports thus presupposes a rise in price.'

[27] G, p. 67.

[28] '[T]he crisis caused by a bad grain harvest is in no case produced by the drain of bullion, although it can be aggravated by attempts to stem this drain.' (G, p. 67)

[29] 'Les économistes semblent n'avoir jamais entendu, par la mesure de la valeur, qu'un étalon, une sorte d'unité primordiale, existant par elle-même, et qui s'appliquerait à toutes les marchandises, comme le mètre s'applique à toutes les grandeurs. Aussi a-t-il semblé à plusieurs que tel était en effet le rôle de l'argent. Mais la théorie des monnaies a prouvé de reste que, loin d'être la mesure des valeurs, l'argent n'en est que l'arithmétique, et une arithmétique de convention. L'argent est à la valeur ce que le thermomètre est à la chaleur : le thermomètre, avec son échelle arbitrairement graduée, indique bien quand il y a déperdition ou accumulation de calorique : mais quelles sont les lois d'équilibre de la chaleur, quelle en est la proportion dans les divers corps, quelle quantité est nécessaire pour produire une ascension de 10, 15 ou 20 degrés dans le thermomètre, voilà ce que le thermomètre ne dit pas ; il n'est pas même sûr que les degrés de l'échelle, tous égaux entre eux, correspondent à des additions égales de calorique.' (P J Proudhon, *Système des contradictions économiques, ou philosophie de la misèr*e, Tome I (Paris, 1850), pp. 81-2)

[30] G, p. 68. 'The depreciation of gold and silver against grain is identical with the rise in the price of grain. (Not quite correct. A quarter of grain rises from 50 s. to 100 s., i.e. by 50%, but cotton goods fall by 100%. Silver has fallen against grain by only 50%, but cotton goods (because of slack demand, etc.) by 100%, i.e. the fall in the price of other commodities is greater than the rise in the price of grain. But the contrary may also take place. For example, in recent years when grain temporarily rose by 100%, industrial products did not depreciate in anything like the proportion in which gold had done compared to grain. This circumstance does not affect the general argument for the moment.)'

Neither is it the case that the fact that gold is coined gives it any particular privilege. 'A thaler (silver) remains under all circumstances a thaler. So does a bushel of wheat remain a bushel, and a yard of linen remain a yard.'[31]

Marx draws the following conclusions from what he has just argued. The depreciation of most commodities (labour included) and the ensuing crisis in the case of a significant failure of the grain harvest cannot therefore be naively ascribed to the export of gold, since the depreciation and the crisis would occur even if no domestic gold were exported and no foreign grain imported. The crisis reduces itself simply to the law of supply and demand, which, as we all know, operates much more sharply and energetically in the sphere of primary necessities—at the national level—than in all other spheres. The export of gold is not the cause of the grain crisis, but the grain crisis is the cause of the export of gold.[32]

But gold and silver play a role in *aggravating* the crisis in two ways. First, to the extent that the export of gold is inhibited by the actions of the banks (and the prevailing conditions under which they have to operate); second, insofar as the export of gold becomes necessary because it is the only means of international payment acceptable.

During the period that the Bank of England was legally authorised to issue inconvertible notes, the notes fell against bullion but the mint price of gold also fell against bullion.[33] 'Gold had become a special kind of commodity as distinct from banknotes.' But it is of course the case that banknotes are always 'convertible' to gold even under conditions of the suspension of legal convertibility because gold can always be bought. 'It can be said that the note remained dependent upon gold in so far as it nominally represented a definite quantity of gold for which in fact it was not redeemable. Gold remained its denominator although the note was legally no longer exchangeable for this quantity of gold at the Bank.'[34] The debates in Britain between the bullionists and non-bullionists are therefore not really about convertibility but about *how* convertibility works.[35] 'Convertibility into gold and silver is

[31] G, p. 68.

[32] G, p. 68.

[33] The mint price can differ from the bullion price for a precious metal because of the different ways that coinage and bullion are dealt with in law (for example with regard to import/export restictions, etc.).

[34] G, p. 69. 'There is surely no doubt [...] that so long as paper money is denominated in terms of gold (i.e. so long as e.g. a £5 note is the paper representative of 5 sovereigns) the convertibility of the note into gold remains for it an economic law, whether or not it exists *politically*. Even from 1799 to 1819 [during the operation of the Bank Restriction Act, which suspended the convertibility of notes] the notes of the Bank of England continued to state that they represented the value of a definite quantity of gold. How can this assertion be put to the test other than by the fact that the banknote actually commanded such and such a quantity of bullion? From the moment that a £5 note could no longer be exchanged for bullion equal to 5 sovereigns, the note was depreciated, even though it was inconvertible. The equality of the face value of the note with a definite value of gold immediately entered into contradiction with the actual inequality between notes and gold.'

[35] 'In Prussia there is paper money with forced currency. (A reflux is assured for it in so far as a proportion of taxes must be paid in paper money.) These paper thalers are not drafts on silver, they are not legally exchangeable for it at any bank, etc. They are not loaned by any commercial bank against bills of exchange, but are paid out by the government to meet its expenses. But the notes are denominated in terms of silver. A paper thaler is supposed to represent the same value as a silver thaler. If either confidence in the government were seriously undermined, or this paper money were issued in greater amounts than required by the needs of circulation, the paper thaler would in practice cease to be equal to the silver thaler; it would depreciate, because it would have sunk below the value expressed by its denomination. It would even depreciate if none of the above-

therefore in practice the measure of value of any paper currency denominated in terms of gold or silver, whether that currency is legally convertible or not. A nominal value is only a shadow running alongside its body; whether the two coincide must be proved by the actual convertibility (exchangeability) of the note.'[36]

Marx notes that in rural Scotland, paper money is preferred over metal. Until the 1844 Bank Act[37] was imposed on Scotland (in 1845), Scotland suffered the same social crises as England did (and perhaps more sharply[38]), yet there was no monetary crisis of note: 'there was no depreciation of banknotes, no complaints or investigations as to whether the quantity of currency in circulation was sufficient or not, etc. Scotland [...] shows [...] how the money system on its present basis can be completely regulated—all the evils deplored by Darimon abolished—without abandonment of the present social basis [...].'[39]

Nominally (i.e. as money) gold and silver cannot depreciate when their value falls with regard to other commodities because, as money, they are their own denominator; they are not valued in terms of a 'third commodity',[40] but only express fractional parts of their own material.'[41] Darimon cannot see this—he can as a consequence only see the appreciation of gold and silver against other commodities during a crisis; he cannot see the depreciation of gold and silver against other commodities in periods of 'prosperity'.

Convertibility (into silver or gold)—*de facto* or *de jure*—is a requirement for money, i.e. for what is a *token of value*: convertibility equates the token (the paper money) to a 'third commodity'.[42] If we imagine that a 'sovereign'[43] (in reality a given quantity of gold, let us say one *x*th of an ounce) take the name of *x*

mentioned circumstances obtained, but if an exceptional demand for silver, e.g. for export, were to give silver a privilege over the paper thaler.' (G, p. 70)

[36] G, p. 70. 'A decline of real value below nominal value is depreciation. Actual parity of nominal and real values, exchangeability, is convertibility. With inconvertible notes, convertibility shows itself not at the counter of the bank but in the day-to-day exchange between paper money and the metallic currency whose denomination it bears. Actually, the convertibility of convertible notes is already endangered when it is no longer confirmed by normal business throughout the country but by special large experiments at the counter of the bank.'

[37] Which restricted the powers of the banks to issue notes.

[38] '[F]or in Scotland the clearing of the land was carried out more ruthlessly.' (G, p. 71)

[39] G, p. 71. In *Capital* volume three Marx quotes the *Economist*. '"The Scotch banks keep unemployed amounts of cash with their London agents; these keep them in the Bank of England. This gives to the Scotch banks, within the limits of these amounts, command over the metal reserve of the Bank, and here it is always in the place where it is needed, when foreign payments are to be made."

'This system was upset by the 1845 Act. In consequence of the Act of 1845 for Scotland "of late a large drain of the coin of the Bank has taken place, to supply a mere contingent demand in Scotland, which may never occur ... Since that period there has been a large sum uniformly locked up in Scotland, and another considerable sum constantly travelling back and forward between London and Scotland. If a period arrives when a Scotch bank expects an increased demand for its notes, a box of gold is brought down from London; when this period is past, the same box, generally unopened, is sent back to London" (*The Economist*, 23 October 184 7).' (Karl Marx, *Capital: A Critique of Political Economy* (vol. 3), trans. David Fernbach (London, 1981), p. 697)

[40] They already are the 'third commodity'.

[41] G, p. 71.

[42] G, p. 71. Although, as Marx points out, equivalence suggests non-equivalence, just as convertibility suggests non-convertibility.

[43] A sovereign was a coin of monetary value £1 which, in its 'modern' form, contained 123.274 grains of gold (about 8 grams). Use of sovereigns in Britain was phased out over the course of the First World War.

hours of labour time. Thus we have $\frac{1}{x}$ ounces of gold = x hours of labour time. But the gold is past labour-time, labour-time that has already been expended. For it to be 'convertible' it would have to be exchangeable for—be able to purchase—x hours of labour time, but this latter is *not* past labour time but *current* labour time. 'Not the labour time incorporated in [already-produced] output, but the currently necessary labour time determines value,' says Marx.[44] If a pound of gold is the product of 20 hours' labour time, and then—for whatever reason—it becomes possible to produce a pound of gold in 10 hours' labour time, the pound of gold, *denominated* equal to 20 hours' labour time is now *equal to* 10 hours' labour time.

> Gold money with the plebeian denomination *x hours of labour,* would be more subject to fluctuations than any other kind of money, and especially more than the present gold money; because gold cannot rise or fall against gold (being equal to itself), while the past labour time embodied in a definite quantity of gold must continually rise or fall against present living labour time. To maintain its convertibility, the productivity of an hour's labour would have to be kept constant.[45]

(Given that we would expect labour productivity to rise secularly, 'constant depreciation would be the inevitable fate of this gold labour money.'[46])

What if, to avoid this problem, 'labour money' be made of paper rather than gold? Now, a rise in the productivity of labour would mean a rise in the money's purchasing power. 'In accordance with the same law by which the gold labour money would be subject to constant depreciation, the paper labour money would enjoy constant appreciation.'[47] And the (Proudhonite and Owenite) socialists would say that that is its advantage: 'the worker would be glad of the rising productivity of his labour, instead of, as now, creating proportionately more alien wealth and his own depreciation.'[48] But there is a problem. '[O]nce we assume the existence of money, even if only as labour-time tickets [*Stundenzettel*], we must also assume accumulation of this money and contracts, obligations, interest payments, etc., which would be entered into in terms of this money.'[49]

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[44] G, p. 73.
[45] G, p. 73.
[46] G, p. 73.
[47] G, p. 73.
[48] G, p. 73.
[49] G, p. 74.