The concept of the 'gold standard' and the misunderstandings of political economy[*]

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Introduction

This paper is part of a research project with broader scope, about Marx's theory of money. Its specific aim is to develop one element necessary to the closer examination of the subject, which is the Marxist characterization of the non-Marxist concept of gold-standard, relating to the frame of the international monetary system in the decades that preceded World War I. Additionally, a Marxist theoretical framework for the capitalist monetary system will be suggested as well[1].

The definition of money, in the realms of Marxism, faces nowadays a challenge, which may be succinctly expressed as follows. According to Marx's definition, the money form of value is complete when gold becomes the commodity that performs the function of general equivalent. As money, gold performs in the first place the functions of measure of value and of standard of prices (or money standard). The later function is decisive in the present debate because, according to Marx, the money standard consists of a given amount of the money-commodity adopted as the standard for the expression of prices. Thus, for instance, the English sterling corresponded to something less than 8 g of gold between 1717 and 1931[2], and the dollar to aproximately 0,89 g gold between 1934 and 1971. As the banking system gradually developed along the evolution of capitalism, particularly after World War I, the link of the money standard to gold grew weaker, until it finally seemed to vanish in 1973. However, the monetary system went on working, even if subject to a succession of crises. Thus, there is at first sight a contradiction between Marx's theory, which requires money to be a commodity, specifically gold, and the apparent disappearance of every explicit link between the presently existing money standards and gold. This led several Marxist authors to suggest that Marx's theory of money is either wrong or at least unsatisfactory[3].

It may be said that many Marxist authors who wrote about the theory of money, in the past 30 years, adopted some combination of two attitudes in face of that difficulty. On the one hand, there has been a naively inductivist reasoning in accepting without closer examination the idea that the actual development of the monetary system had proven Marx's theory of money to be mistaken. In order to arrive to this conclusion, however, it is necessary to admit that money does not have to have intrinsic value, i.e, does not have to be a commodity. The inductivist shape of such conclusion comes from the acceptance of an empirical fact as the truth without closer theoretical examination.

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[1] The expression 'monetary system' is used by Marx to refer specifically to the preponderance of the direct circulation of gold performing monetary functions, which most obviously occurs in the hypothetical conditions of the so called simple circulation (Marx, 1970, p. 35, 157-60; 1980, p. 22, 24). Since in capitalism the circulation functions of money (=gold) are performed by credit money in the place of money, Marx called the capitalist sphere of circulation 'credit system', which should preferably be used in Marxist writings (Marx, 1971, p. 468-9; 1952, p. 64; 1967, v. 2, p. 346, 500; 1967, v. 3, p. 400, 440-1, 479, 536, 572). Thus, the usual 'monetary system' of current literature corresponds actually to the 'credit system' in Marx's theory. In this paper I use the expressions 'monetary system of capitalism' or 'credit system' interchangeably, meaning the 'credit system' in the sense just aduced to, because of the wide use of the expression 'monetary system' even in Marxist writings.

[2] The sterling standard was fixed at the turn of the 18th century by "Sir Isaac Newton, the Master of the Mint, [who] had established the canonical weight for the Pound sterling in gold, (...) (corresponding to 7.988 grammes at the title of 0.916)" (De Cecco, p. 539-40; Kindleberger, 1984, p. 23).

[3] See footnote n. 7.

In order to come to a final conclusion, it would have been necessary to establish whether the observed facts expressed an underlying real process or a merely deceptive appearance. More theoretical and empirical research seems necessary in order to solve this problem. The naivety in the judgement lies in the way of facing the history of the debates about money. The nature of money has been subject to lively debates for centuries, not only because of exceptional theoretical difficulties, but also of the huge material interests that usually surround money[4]. The problem of the monetary role of gold, especially after the end of the 60s, is inseparable from the problem of the maintenance of the monetary supremacy of the dollar, which is linked to the maintenance of the global supremacy of the United States. This single aspect of the problem would seem to be a relevant reason for assessing the subject with both greater theoretical caution and political finesse.

On the other hand, after having admited such a great theoretical mistake by Marx, the Marxist writers looked for alternatives to Marx's explanation[5]. Those efforts followed two basic lines, which still prevail. One of them believes Marx's definiton of money to be mistaken, from which follows the need to elaborate an alternative explanation, still based on Marx's theoretical system, but capable of a better assessment of the monetary phenomena of contemporary capitalism, admitedly based on abstract forms of money. The other line of thought suggests that Marx's theory of money has been mistakenly interpreted, asserting that it indeed entails the possibility of purely abstract forms of money. What is needed is to develop this aspect of Marx's theory. In both cases the end of the prevalence of a commodity performing as money is taken for granted. This assumption, however, is not easily sustainable on grounds of Marx's theory, and may not be so at all.

This combination of defensive reactions has had quite serious consequences upon present day Marxism, because it led in practice to the abandonment of efforts striving to more thoroughly apprehend the diverse and unexplored aspects of the theory of money as Marx presented it. Thus, the full implications of his theory of money have so far not been explored. The commodity nature of money is a clear example of one essential aspect whose compatibility with the contemporary sphere of monetary phenomena has not been examined closely enough. The abstract nature of present day money has been accepted as obvious. The relevant implication of this fact is that for more than a century after the publication of *Capital* the Marxist school, with few exceptions, has not sufficiently studied the events in this segment of the economy, which means that it has not developed Marx's theory on this aspect and hence has not been able to provide an interpretation of them, alternative to the different schools of burgeois monetary theory, either the orthodox neoclassical or its Keynesian branches. This is the reason why available theories and/or historical interpretations of monetary events are mostly based on concepts incompatible with Marx's theory. In addition to that, several concepts, belonging to other theories incompatible with Marx's, have been adopted as if they represented Marx's theory[6]. By the same token, the interpretations of the actual development of the monetary and financial systems, both national and international, supplied by different theoretical schools, have also been adopted without clear criteria.

This is the object of the present paper, which assesses the mistaken acceptance of concepts strange to Marx's theoretical system, whose relevance is the fact that it represents one of the reasons that handicap the solution of the theoretical problem underlined above. The present paper attempts to

[4] One of the first great debates about the concept of money, at the end of the 17th century, in England, was caused by financial interests, opposing creditors of the State to the later (Marx, 1970, p. 76-8). At present the debate around the reform of the international monetary system isn't merely academic either, envolving huge financial interests.

[5] "These historical and institutional developments called into question much of classical monetary theory, which was based on the assumption of a commodity money system. (...) those theories (...) were left with the need to propose an alternative mechanism for determining the value of the monetary unit" (Foley, 1987, p. 256). Attempts in this direction have been made, f.i., by the authors mentioned in footnote n. 7.

[6] About the adoption, by Marxist authors, of basic concepts developed by the post Keynesian school, see my previous paper (Germer, 1998b).

demonstrate that the generally accepted concept of gold standard, and more speciffically of international gold standard, and its historical limits in non-Marxist literature, are not valid within Marxist theory in order to derive conclusions about the maintenance or end of gold as the basis of the monetary system of capitalism. The aim, however, is not to discuss the concept of the gold standard in itself, but instead to point out the implications of the adoption of this concept in the assessment of the consistency Marx's theory of money.

This paper is based on three basic assumptions, all of them admittedly polemical: first, it is assumed that in Marx's theory money has of logical necessity to be a commodity. This does not imply the assumption that Marx's theory is correct on this topic, which requires further demonstration, the same being valid for the opposite position, i.e., that money does not need to be a commodity. Second, it is assumed that it has so far not been demonstrated, on the basis of Marx's theory, that gold has in fact stopped to be the basis of contemporary standards of money. This also requires more research and consistent demonstration. Therefore a final statement about the subject, in the realms of Marxism, seems for the moment to be groundless. Third, the authors who have argued that Marx's theory is in part or even totally mistaken about the material character of money present two deficiencies: one of them is the lack of a closer examination of Marx's theory, and the other is of having adopted as valid conclusions about the historical features of the monetary system, derived from theories divergent from Marx's. The later gap can only be closed by the analysis of the historical development of the monetary system since Marx's days, but based on his theory, in order to achieve to conclusions consistent with the later about the nature of money in contemporary capitalism.

The 'gold standard'

The concept 'gold standard' has been frequently used - although not always explicitly - in Marxist writings that oppose the thesis that in Marx's theory money has of logical necessity to be a commodity. The concept is usefull in this debate because it seems to corroborate the argument that the gold standard came to and end with the outbreak of World War I, hence allowing the conclusion that the capitalist economy has either been working for about 80 years without counting on a commodity performing as money and being the basis of the standard of money or, at least, that the role of gold became less important[7]. Even the fact that the value of the dollar has been set with reference to gold, in 1934, at US$ 35 an ounce, which held until 1971, is not generally accepted as an argument in favor of the notion that gold went on being the basis of the monetary system until that time. This conclusion is implicitly based on the concept of the gold standard as a system where gold has in effect to circulate in the economy. Thus, as gold stopped circulating in coin form after World War I, it has been concluded that the monetary function of gold has come to an end as well. However, those are concepts and criteria about the money standard that are actually not derived from Marx's theory of money, a fact that is not taken into account in the writings mentioned.

[7] "During this period, even the fetishised form of appearance of any absolute standard of value was gradually eroded by the removal of the pound's aconvertibility in 1931, the Bretton-Woods agreement in 1944, the postwar expansion of foreign holdings of US dollars by private banks, the collapse of the Bretton-Woods parities in 1971 when dollar-convertibility was suspended ..." (Reuten & Williams, p. 200 and passim). "In the twentieth century the evolution of monetary systems has been away from a commodity money system and toward a system in which the general equivalent is an abstract unit of account, like the 'dollar' ..." (Foley, 1986, p. 20 e passim). "We could revise Marx's theory by arguing that what has happened in the twentieth century is that the links between money in different countries and between money and gold have become looser and looser ..."; "The most obvious source of these difficulties is the institutional desappearance of the gold standard in advanced capitalist society in the twentieth century" (Idem, 1983, p.5 and 8, homepage D.K.Foley; see also Foley, 1987, p. 255-6). "Dans les conditions supposés de la monnaie-or, cet argument de Marx est parfaitement valable. Il rend compte d'aspects essentiels (...) jusqu'au début du XX[e] siècle. (...) Mais de nos jours, il semble bien que, même dans les rapports internatiionaux, l'échange final de signe monétaire contre una monnaie marchandise, l'or, n'ait plus jamais lieu" (Lipietz, 1983, p. 135-6).

In spite of the relevance attributed to the concept of the 'gold standard' as a criterion of the validity of the notion that gold has been the basis of the monetary system of capitalism only until 1914, one does not see an effort, in the Marxist literature, in order to more closely characterize the connection of the concept of the 'gold standard' with Marx's theory of money. This paper intends to demonstrate that the concept, in the way it is formulated in the non Marxist literature, is inadequate to characterize the monetary role of gold and the period of its validity on the basis of Marx's theory.

The 'gold standard' as a historical concept

It seems advisable to begin by attempting to better identify what the concept of the gold standard designates. It seems, in the first place, to have two different meanings in the current literature, one of them being primarily historic and descriptive, therefore concrete, whereas the second one possesses a more theoretical content. As a historical concept - which is here more relevant - it attemps to characterize a certain form of the capitalist monetary system, at two different levels - national and international -, which present a number os distinctive features[8]. However, it seems that the expression is more commonly used to designate specifically the international monetary system in the way it existed in the period 1880-1914[9]. For this reason, and also in order to distinguish it from its meaning at the national level, and further because the expression is also used in order to designate a precise theory of money, it seems preferable to designate it in the way it has been used by earlier authors, who used to call it 'international gold standard', instead of simply 'gold standard'[10].

In the second place, what provides the 'international gold standard' a specific character is its international dimension, rather than the fact that gold had become the common base of the money standards. The monetary role of gold actually precedes by millenea the period to which the historic concept of gold standard refers, either within regional or national boundaries or in the international exchange. In England, which became the centre of the system in its historical meaning, gold became the official basis of the monetary system as soon as 1717, which is a good deal in anticipation of the existence of the international system that receives its name. Thus, what seems to characterize the 'international gold standard' is not the fact that gold for the first time became the material of the money standard, but that it became the world money for the first time. Is it an exaggeration to interpret this as the historical realization of Marx's indication that in capitalism money becomes world money?

Thirdly, although the expression 'gold standard' is usually also employed to designate the monetary system of a country, when based on gold, its meaning becomes dubious once the international gold standard has been set on place. In this case the fact that a country was on the gold standard could have two meanings: either that gold circulated as money within the country, or that the country in question was a part of the 'international gold standard'. In the later case, it could however happen that the country did not have internal circulation of gold money and even that its money standard was not defined directly in terms of gold. These circumstances derived from the internally differentiated and more complex structure of the international gold standard.

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[8] "The gold standard can be viewed as both a domestic and an international standard. As a domestic standard, it pertains to the arragements regulating the domestic money supply or, treating the world as a closed economy, the arrangements regulating the world money supply. As an international standard it pertains to the arrangements regulating the external value of a country's vurrency" (Bordo, 1992, p. 267).

[9] There are disagreements among the authors who write about the subject, about the date of the beginning of the standard, but not about its end. Goodhart et al, for instance, place its beginning in 1873, because "it marks the beginning of the period when the gold standard formally became established as the main exchange rate regime for much of the industrialized world" (Goodhart et al, p. 10).

[10] Keynes discussed the subject in its international dimension, though also referring critically to the problems of the performance of monetary functions by gold, in the *Treatise on Money* (Keynes, 1979b, cap. 35); Hansen, in discussing the role of gold, refers to the 'old international gold standard' (Hansen, p. 222 ff.), and the same does Bloomfield (Bloomfield, 1970, p. 1 passim).

The actual complexity of the system contrasts with the simplification of conceiving it merely as a system where gold circulates directly as money, and at the same time stresses the narrowness of the underlying concept of money. This is the reason why the expression ‘gold’ standard looses much of its effectiveness, within the Marxist debate, once the structure of the monetary system as a whole, built upon gold, is taken into account. De Cecco, for instance, reminds that

> “... what commonly goes under the name of the International Gold Standard was (...) a complex system composed of a monometallist and a bimetallist part, where the importance of the former was not greater, for the functioning of the whole system, than that of the latter. (...) the smooth functioning of the Gold Standard essentially required the existence of a bimetallist periphery which surrounded the monometallist centre” (De Cecco, 1987, p. 540).

Eichengreen, on the other hand, calls attention to the fact that, although gold provided the name of the standard, the circulating medium and the composition of the external reserves of the nations that belonged to the system were quite varied. According to him

> “Only four countries - England, Germany, France, and the United States - maintained pure gold standards in the sense that money circulating internally took the form of gold coin; and to the extent that paper currency and subsidiary coin also circulated, they kept additional gold in the vaults of their central banks or national treasuries into which those media could be converted. (...) In other countries, money in circulation took the form mainly of paper, silver, and token coin. Those countries were on the gold standard in that their governments stood ready to convert their monies into gold at a fixed price on demand” (Eichengreen, 1996, p. 20-22).

Eichengreen also emphasizes that in several countries that belonged to the system, the international reserves, which should be strictly formed by gold, were in effect made up of titles of credit against countries whose currencies were convertible into gold (Ibidem, p. 22-23).

Those features, pointed out by the authors just quoted as elements of heterogeneity, deviating from an assumed purity of the gold-based monetary system, seem in effect to constitute the characteristics of a conformation of the sphere of capitalist circulation that the concept of the gold standard is too limited to apprehend. Given its limitation, the concept seems equally unable to explain the changes under way in the monetary system as capitalism develops more and more complex forms of existence. The emergence of the characteristics adduced above should be seen as symptoms of a process of change which sets the economic and institutional bases of the so called gold exchange standard, which follows the gold standard after World War I and sets the bases of the gold-dollar standard[11], after the World War II. The basic change to be mentioned is the maturation of the national credit systems and the beginning of the development of credit relations at the international level[12]. Those changes, not always seen as components of the process of development of the monetary system by the non-Marxist writers about the subject, are the basis of Marx’s theory of the monetary system of capitalism, which he calls the credit system.

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[11] The concepts of both the ‘gold-exchange’ and the ‘gold-dollar’ standards would also deserve a critical assessment, which cannot, however, be attempted here.

[12] Here the attention is directed to the replacement of credit money for money at the international level. In this case the currencies convertible into gold - sterling and dollar, f.i. - (in would be better to say the bills of credit denominated in those currencies) are equivalent to the banknotes at the national level in the beginnings of capitalism, where banknotes represented rights to gold. So do the currencies convertible into gold internationally. The gold centers, i.e., the countries that issue convertible currencies, work in a similar manner as did the banks that issued banknotes. As they centralize the gold reserve and issue banknotes, they multiply the ability of a given gold reserve to function as means of circulation and of payment, i.e., a given quantity of gold is able to support the circulation of a larger value of commodities in the same period of time.

In view of the complexity attained by the monetary system of capitalism as it reaches world wide integration from the last quarter of the nineteenth century on, it would seem that the characterization of a gold standard at national levels would no longer make sense, since the monetary systems of countries that belong to the international gold standard do not show the features attributed to the gold standard. However, it seems that non-Marxist economics still conceptualizes the gold standard in a strict sense, hence its international dimension is merely defined as an amplified national standard with the same characteristics. In spite of the heterogeneity of the literature about the subject, the following definition, taken from the MIT dictionary of economics, may be accepted as a synthesis of the dominant concept of the gold standard:

> "Gold standard. The system of monetary organizations under which the value of a country's money is legally defined as a fixed quantity of gold, and domestic currency takes the form of gold coin and/or notes convertible on demand into gold at legally determined rates. For a full gold standard to exist requires two basic conditions: the obligation of the monetary authority to exchange domestic currency for gold to any amount at the specified rates (this includes the unrestricted minting of gold coin from bullion brought to it) and the freedom of individuals to import and export gold" (Pearce, p. 171-2).

The 'gold standard' as a theoretical concept

The accounts of the gold standard, in non-Marxist literature, focus on polemics around problems that are more of practical than of theoretical character, concealing the fact that the common theoretical basis, underlying the debate about the non-Marxist concept of 'gold-standard', is the quantity theory of money, largely dominant in this field since at least David Hume. Thus De Cecco calls attention to the fact that the debates about the nature of money, since its origin in the mercantilist period, divided the opinions about different aspects of the subject. The metalists, for example, were the majority but were divided between the adherents to a monometalist and a bimetalist system, and among the former there were the adherents to gold or to silver [ver original para melhor redação] (De Cecco, 1987, p. 539). Schumpeter, in a similar way, divides the debate about the nature of money into two groups: the metalists group asserted the need that money had an objective basis, i.e., that it be a commodity, specifically a metal, and chartalist group, which postulated the opposite. Schumpeter, however, goes ahead to focus the theoretical dimension of the debate, suggesting that the metalist group should in fact be divided into two sub-groups, which differ about the arguments for defending the adoption of an objective basis for money. One of these sub-groups, which he called 'theoretical metalism' grounds its position on the notion that money has of necessity to be a commodity in the merchant system. The other sub-group is the 'practical metalism', whose claim for an objective basis for money is not grounded on a logical necessity, but represents the most efficient way of preventing the depreciation of the money standard resulting from an excess of issue by irresponsible governments (Schumpeter, 1954, p. 288).

Along this line Schumpeter characterized Marx as a theoretical metalist, which seems acceptable within the strict terms of his definitions (Ibidem, p. 274), but is not the characterization most compatible with Marx's theory of money, since the latter requires money to be a commodity, but this one does not need to be a metal[13]. To the extent that Schumpeter's account concentrates on the variety of supporters and opponents of metalism, it conceals the basic opposition between what he calls practical metalism and chartalism, which represent the quantity theory, according to which commodities and money enter circulation deprived of value of their own, and Marx's theory, according to which commodities and money possess both values and prices previously to entering the circulation.

[13] On this subject see the accurate critic by De Brunhoff (1979. p. 66-7).

It is necessary to show how the historical and theoretical concepts of the gold standard, in non-Marxist economics, combine into a concept of the international gold standard which results incompatible with Marxist theory, and hence unapplicable as a criterion to assess the role of gold within the monetary system of capitalism on the basis of Marx's theory. It has already been shown that the essence of the bourgeois concept of the international gold standard is the fact that gold became world money. The concept of money at the international level is the same as at the national level for the quantity theory, i.e., money is gold for practical reasons, not as an intrinsic necessity of the system.

The non-Marxist accounts of the structure of the so called gold standard are based on chartalism, i.e., the notion that money is an arbitrary creation of the State. Such a concept is essential to the quantity theory, for which money does not have intrinsic value, which is a condition for the price level to be determined by an arbitrary amount of money. As a necessary condition for this result, this theory conceives of money as a mere means of circulation, with the exclusion of the function of means of hoarding or store of value. This means that all the money present in the economy is kept circulating, a result that would be impossible had money value of its own, in which case its quantity at a given time would have to be determined by the relation between the total value of commodities to be circulated and the value of money, thus requiring the existence of another conceptual element, hoarding, i.e., a reservoir to which money flows when in excess, and from where it flows back to circulation in the opposite case. To the extent that the change in the quantity of the circulating medium is seen as the cause of a change in prices, this is the reason why the control of the issue of money represents the major concern of the quantitativist authors. Keynesian theory is also chartalist. Although Keynes opposed the quantity theory in introducing the function of store of value of money, Keynes adhered enthusiastically to chartalism (Keynes, 1979a, cap. 1). Similarly to Ricardo and a great part of the supporters of quantitativism, it seemed initially convenient to Keynes too that the value of money was linked to an objective standard, as the most effective practical assurance of its stability.

Thus, for both theories the link between the money standard and gold derives from a merely practical reason. Therefore, no theoretical reason prevents them from accepting the abandonment of gold as the basis for the definition of the value of money, nor is there any reason for them to oppose the replacement of a purely abstract form of money - or 'fiat money' - for money based on gold. On the other hand, as already metioned, the quantity theory defines an object as money once it functions as means of circulation. For this reason, once the money standard is no more defined as a given quantity of gold and gold does no more circulate as currency, and once, therefore, the circulating medium became inconvertible either into gold or into any other object possessing value, it seems obvious that, according to those theories, money has nothing more to do with gold[14]. In this sense the gold standard has come to an end.

However, to the discomfort of non-Marxist theories, although gold had been totally withdrawn from circulation after World War I, it went on performing monetary functions and was at the ground of the monetary system worked out at Bretton Woods, both as the basis of the value of the dollar and as the basic international reserve currency, functions which gold explicitly performed until 1971. Given the quantity theory's strict definition of the gold standard, mentioned above, the monetary systems of post World War I set non-Marxist economics into great confusion, since gold did not circulate anymore but the money standards were still defined in terms of gold. There are no convincing explanations in the non-Marxist theories about the transition from the international gold

[14] Money being only a means of circulation, according to the quantity theory, it folows that gold will be money as long as it circulates in the form of coin, but as soon as it stops doing so, it will stop being money as well, since by definition money is the circulating medium. For the same reason any object able to function as means of circulation, f.i. paper money, is *ipso facto* reckonned to be money. Keynes distinguishes himself from the quantity theory for postulating the function of store of value of money, but conflates hoarded money with reserves of money capital, which is regulated by the interest rate, being a category of capital instead of money.

standard to the gold exchange standard and to its classical version, the gold-dollar standard prevalent after World War II[15]. The orthodox supporters of the classical gold standard see the gold-exchange standard of post World War I as an "... adulterated version of the gold standard" (Heilperin, 1970, p. 364), revealing their limited understanding of the credit system and its development. It seems however that most authors withdraw to a more prudent though dubious view of the role of gold in the monetary system during that period as gradually declining until a final abolition. For this rather inductivist view - which merely attempts to rationalize an appearance without explaining it - the enforcement of the inconvertibility of the dollar in 1971 and the following official abandonment of gold as the basis of the money standards, are celebrated as the historical corroboration of their interpretation. In spite of that, however, gold continues to be a fundamental component of the monetary reserves of the main advanced capitalist countries.

According to the above, the mere acknowledgement of the fact that gold went on playing an active role in the monetary system of capitalism, at least until 1971, permits to say that, in a first instance, what ended in 1914 was not the monetary role of gold, but barely the specific configuration of the international capitalist system where gold had been active as world money and circulated personally in the domestic spheres as well. In addition to that, the observed difficulty faced by the non-Marxist theories in order to explain the character of the monetary system that followed the gold standard suggests more caution in the adoption of theoretical criteria stated by them, particularly in the assessment of the Marxian theory of commodity-money. This obviously applies also to Marxist authors who question the commodity nature of money based on the argument that the gold standard ended in 1914. We now focus the elements provided by Marx's theory of money in order to assess the evolution of the monetary role of gold.

The role of money (=gold) in Marx's theoretical system

In the first place, Marx's theory of money radically contrasts with the chartalist view both in the quantity as in the Keynesian accounts. Money has not and cannot be created arbitrarily by the State, it is rather sponteneously generated throughout the constitution of the merchant economy. Money is not exclusively, nor predominantly a means of circulation, neither does its importance exhaust itself with the addition of the function of means of hoarding or store of value. The basic and essential function of money is to be the general equivalent of value and as such provide the material for the independent expression of value (i.e., dissociated from the ordinary commodities to whose bodies it is united when produced). Once this has been accomplished, the values of the commodities are expressed into money (=gold) as prices in a purely ideal way, i.e., just declared by voice or writing, and the function of means of circulation may be performed by a simple piece of paper or some other material, printed with different values expressed in monetary units based on the general equivalent. These substitutes of money in the function of means of circulation are symbols of value.

It is paradoxical that Marx's theory of money, which categorically states that only a commodity can become money, which came to be gold in capitalism, at the same time demonstrates that, with the development of capitalism the functions of money (=gold) in the circulation are taken up by instruments derived from money up to the point of gold being altogether eliminated from circulation. The money commodity can not, however, be replaced in the function of general equivalent of value. Thus, symbols of value may be replaced for money, as indicated above, in the function of means of circulation. In capitalism, however, money in this function is preponderantly replaced by bills of credit, to the extent that commercial credit expands as a result of the expansion of the merchant character of the economy. Hence the function of means of payment becomes more and more important and finally predominant. But in this function too money is replaced by the

[15] Black, referring to the Bretton Woods system, states that "under this system, which was a form of gold exchange standard, countries declared their par values in terms of the United States dollar, which was convertible into gold at $ 35 an ounce" (Black, 1992, p. 485).

cancelling out of mutual debts, leaving to money (=gold) only the payment of the remaining balances. The banking system expands and takes over the functions of money dealing and of the management of the capitalists' balances of money capital, which are gold balances, converting them into banknotes, used in the place of money for the payment of balances due. Thus a scale of forms of credit money of rising grade arises, starting with commercial credit bills, whose balances due are covered with money (=gold); then, on this basis, banknotes issued by individual banks, which replace money in the payment of the debit balances of commercial bills, with the remaining balances between banks being paid with money (=gold). Finally, the central banknotes replace money in the payment of the balances due among banks, and what remains for money to perform is the function of means of payment in the international trade, i.e., the payment of international trade deficits. In this way a series of successive titles of credit in ascendant ranks replaced money in the function of means of payment and turned out to be the center line of what Marx called the credit system[16].

The above paragraph clarifies the indication by Marx, in a frequently quoted passage, but whose implications seem not to have been plainly understood, that money (=gold) could be totally withdrawn from the internal circulation, remaining, at the same time, essential in the international trade[17], which does not imply the abolition of gold as the basis of the monetary system of capitalism. It follows that the dismissal of gold from monetary functions in the internal circulation cannot be interpreted, in the terms of Marx's theory, as an indication that money does not have to be commodity anymore. Thence the so called 'end of the gold standard' at the outbreak of World War I should not be admitted, in the realms of Marxism, as the starting point of the prevalence of ideal or symbolic money. What initially happened, on that occasion, was the familiar defensive attitude of countries in wartime, of suspending specie payments in order to protect their gold reserves. The money standards, however, were still defined in terms of gold. It is strange that this important detail has not been observed, in the Marxist writings examined so far, since if it were it would no longer be reasonable to argue that gold stopped performing relevant monetary functions since World War I.

More important, however, is the fact that what came to be known as the 'gold exchange standard'[18], which materialized in a classical shape in the gold-dollar standard after World War II, corresponds essentially to what Marx succinctly discribed in the quotation transcribed above, since from World War II through 1971 the "metal [was] indeed required only for the balancing of international commerce, whenever its equilibrium [was] momentarily disturbed". The direct involvement of gold performing monetary functions in the internal circulation was gradually abolished after the end of World War I, in the advanced capitalist countries[19]. Even the private holding of monetary gold has

[16] It is to be noted that several Marxist authors nowadays reckon present forms of credit money to be money in the full sense. Credit money appeared at first in the form of banknotes, whereas at present its predominant form is of bank deposits. The presentation made above shows that the different forms of credit money are bills of debt, i.e., mere formal promises to pay values that represent prices of commodities, whose values must have been measured beforehand by money. Thus a title of debt cannot be a measure of value, but it can function as means of circulation and of payment, in the place of money, through transfer among creditors.

[17] "The entire history of modern industry shows that metal would indeed be reuqired only for the balancing of international commerce, whenever its equilibrium is momentarily disturbed, if only domestic production were organized. That the domestic market does not need any metal even now is shown by the suspension of the cash payments of the so-called national banks, which resort to this expedient in all extreme cases as the sole relief" (C3, 1967, p. 517).

[18] The general framework of this standard has been officially instituted at the Genoa Conference, in 1922 (Niveau, 1969, p. 286-8).

[19] "The century that ended with World War I saw the gradual replacement of the *international* money-commodity (gold and silver) by *national* fiduciary currencies (...) which circulated only within the frontiers of each country. This process came to completion in the 1920s and the beginning of the 30s, with the *universal disappearance of gold* (...) from active monetary circulation and even from the cash reserves of commercial and deposit banks" (Triffin, 1972, p. 61, emphases added). "... It is no more necessary to keep reserves for conversion of bank deposits and banknotes into gold

been interdicted and became a monopoly of the central banks[20]. In the gold exchange standard, as is well known, gold was supplemented by the leading country's money standard as international reserve currency for the other countries, performing alongside gold the function of balancing international trade. In the gold-dollar standard, effective after World War II, this role has been performed by the dollar in a more than complementary way. Should this fact be taken as invalidating Marx's point of view, presented above?

The use of the the money standard of the leading country as a worldwide standard represented an innovation of the utmost importance, which appeared still under the working of the so called international gold standard and became an essential feature of the new international monetary system and even a part of its designation - the gold 'exchange' standard (Eichengreen, 1996, p. 61). This innovation does not seem to affect the nature of the system, it rather specifies it, since the leading money standard is expressed in terms of and convertible into gold, which means that the assets denominated in that standard represent gold able of being drawn at any time[21]. A simple example is enough to ilustrate the matter: the dollar was the leading monetary standard, defined in terms of money (=gold) in the proportion of US$ 35 an ounce, i.e., each dollar was equivalent to aproximately 0.9 g gold. The USA would ensure the convertibility of the dollar into gold, according to the standard, for international transactions. The money standards from the other countries were equivalent to fixed amounts of gold according to their rates of exchange to the dollar. Let's take the German mark as an example. If its exchange rate were US$ 1 = DM 1.80, its equivalence to gold would be of DM 1.00 = 0.5 g gold. Abstracting commercial restrictions among countries, it seems obvious that nominal prices, in the gold-dollar international system, were based on gold as the general equivalent, as measure of value and as basis of the standard of prices or money standard. This is the reason why the maintenance of fixed exchange rates between different money standards had to be enforced in order to ensure the link of all to gold (Bordo, 1992, p. 267; Wood, 1992. p. 256).

This indicates that the relevant process, from the point of view of Marxist analysis, is not the 'end of the gold standard', but is instead the underlying process of development of the credit system at the international level, which speeded up after World War I, and without which the monetary functions of gold could not have been performed, at that level, by forms of credit money. At a first instance gold has been withdrawn from internal circulation, initially only in coin form and then also as bullion. Later the hoarding of gold has been interdicted for individuals and declared state monopoly[22], but gold retained the role of direct basis of the leading money standard and indirect basis of the standards of the other countries, whose exchange rates into the leading standard defined its equivalence in gold. The functions of money (=gold) as both the basis of the money standards and international means of payment are not affected, but the ascent of one national standard to world standard represents an event of the utmost importance, because it reflects the beginning of the putting up of the credit system at the international level[23]. It is easy to see that assets denominated

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concerning internal circulation. *The present decrease in reserves is associated solely with external deficits in the balance of payments of the country*" (Triffin, 1970, p. 36, emphases added. Translated from the Spanish edition).

[20] The interdiction of private holdings of monetary gold took place in 1933 in the USA, having been reversed in 1975 (Aggarwal, 1992, p. 257).

[21] "... the adjective *convertible* in the postwar period meant, with one vital exception, 'convertible into American dollars'. The exception was the American dollar itself: the american authorities have been ready not only to buy gold from anyone at a price of $ 35 an ounce, but also to convert *official* dollar holdings at practically the same price" (Tew, p. 148, translated from the Spanish edition).

[22] A demonstration that the legal interdiction of private hoarding of gold not only does not contradict the internal laws of capitalism, but is instead thoroughly compatible with them, has been attempted by the author in a paper already mentioned (Germer, 1998a, p. 350-3).

[23] Eichengreen shows the appearance, still before World War I, of international monetary events that deviated from what was to be expected on the basis of Hume's model, and which anticipated the so-called 'gold exchange standard' (Eichengreen, 1996, p. 25-8). In 1913 Keynes, in a chapter with the title 'gold exchange standard' already stated that this was the system that expressed the tendencies of the future international monetary system (Keynes, 1971, cap. 2). In

in the leading standard held by another country represent rights to money (=gold), in a way intirely analogous to the banknotes in their initial stages, where they explicitly represented gold deposited at the banks.

It follows from the above exposition that the process of gradual withdrawal of money (=gold) from internal circulation, until its completion, represents the realization of a deduction derived from Marx's theory, and it is remarkable that non-Marxist authors were only able to take notice of the phenomenon *ex post facto*[24], without having previously provided a theoretical anticipation. If the predictive power is a criterion of theoretical consistency, this aspect of Marx's theory is an undeniable illustration. In this case as in others, Marx anticipated future developments of capitalism, which were still absent at his time, reflecting the degree at which his theory was capable of accurately capturing the laws of motion of capitalism. The non-Marxist authors, who understandably stick to the aspects of Marx's theory whose adherence to the facts is less palpable, in order to declare it invalid, obviously overlook those aspects, like the one just presented, which suggest the theoretical consistency of Marx's system. It is surprising, in this respect, that Marxist writings not unfrequently surrender to the agenda set by Marx's critics, and make hard attempts in order to justify the aspects under critic, sometimes agreeing unjustifiably with the criticisms, at the same time that they fail to aknowledge other relevant aspects, like the object of the present paper, where Marx's theory was not only correct but has additionally anticipated important events.

Is there a Marxian 'gold standard'?

The gold standard in non-Marxist theories is a concrete historical category, whose theoretical foundation is essentially the quantity theory of money in Ricardian terms. Marx's theories of money and credit money, in contrast, are theoretical constructs which start at a high level of abstraction and become more and more concrete as more concrete elements of reality are successively added. Thus the theory of credit money, to the extent that it pressuposes commercial credit and a developed banking system, among other elements, is a more concrete piece of theory than the theory of money, which refers to the buyer/seller relation, abstracting all other economic relations. It is fair to say that the theory of credit money is a remarkable example of the logical-historical connection attributed to Marx's method: at the same time as that theory rests on history, which is its starting point, it derives from it highly abstract categories in order to be able to gradually approach the historical concrete. Thus, instead of the later being a mere description of the observed chaotic reality, it is clearly a reconstruction of reality by way of theoretical thinking.

Being more explicit, this means that the representation of the monetary system, provided by Marx, should not be approached as a description of something imediately observed, but as a deduction based on the theory which represents it according to its internal laws of motion. The fact of Marx having been able to accurately anticipate the evolution of the monetary role of gold in capitalism, in the way just presented, indicates that he has been able to devise what we may call the laws of motion of capital in the sphere of circulation. These laws make up the framework of what Marx called credit system. In Marxist theory the concepts of credit money and credit system have so far not been worked out with the necessary accuracy, which is presumably one of the reasons of its

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the same book Keynes underlined that the system already proposed by Ricardo corresponded to a gold exchange standard (Ibidem, p. 22). Bordo, in the same direction: "A third variant, proposed in 1816 by David Ricardo, was a gold bullion standard. To further economize on gold, coins would not circulate at all but fiduciary currency would be convertible into gold bullion. Such a standard prevailed in the twentieth century during the interwar period" (Bordo, 1992, p. 267).

[24] Niveau's presentation ilustrates the method of describing the facts after their occurrence, without however offering a theoretical explanation for them. Thus, according to him, in 1936 France, England and the USA "in attempting to enhance the stability of the exchange rates, ... signed an agreement ... which established the convertibility into gold only for central banks ... The general direction was gradually towards a system where gold would used be exclusively as international money" (Niveau, 1969, p. 317, emphases added).

inability to confront other rival theories about the interpretation of the evolution and working of the international monetary system. Thus, the 'international gold standard' could eventually come to be a meaningfull concrete category within a marxist interpretation of this process, but just as a part of a general theory of the development of the credit system, at first at a more abstract level, and only then introducing successively both national and international levels, which are concrete elements.

In view of the preliminary nature of the present approach to the international monetary system based on Marx's theory, it would hardly be possible to provide more than a rough outline of some of the features that a theory of the credit system should have. We will at this point present a few components which at this moment seem essential to such an undertaking. In the first place, it should be pointed out that the concept of a 'gold standard', understood as a national monetary system having the characteristics presented above, is not a category in Marx's theory. It could be remotely associated to what Marx called 'monetary system', already hinted at, in which he abstracts capital and works out the buyer/seller relation and the circulation of money in the form of coin, but where commercial credit is present only in the elementary form of promises of deffered payment, with money (=gold) in this case functioning as means of payment. The gold standard as described by bourgeois theories contrasts in this respect with Marx's in that it is supposed to correspond to developed capitalism, in which case Marx uses the concept of credit system, where the circulating medium is preponderantly credit money rather than money (=gold). In this sense the bourgeois theories are remarkably unable to explain consistently the way in which credit and credit money fit into their interpretations, which leads to the notion, already mentioned, of the gold exchange standard as a 'distorted version of the gold standard', while it would seem more suitable to characterize it as an advanced stage of the credit system, as it spreads out to the international level[25]. Second, from the point of view of the nature of money in capitalism, the expression 'gold standard' could in Marx's theory only fit the notion that gold "is" money from the beginning, throughout the entire history of capitalism (abstracting the role played by silver), i.e., from the point of view of money, capitalism 'is' a gold standard. To that extent the expression 'gold standard' coincides with the Marxian definition of money (=gold), being therefore meaningless at the theoretical level, since it would be unable to designate a definite historical stage of capitalism.

In view of the relevance of credit in Marx's theory of money in capitalism, it is essential to show, theoretically, that the credit relations, upon which the credit system is founded, have their origin in the actual funcioning of the merchant economy, rather than in subjective aspects like trust or others frequent in non-Marxist theories. The structural character of the credit system derives from the structural character of commercial credit, as will be briefly shown. The demonstration requires capital to be abstracted, since commercial credit precedes it. The merchant economy pressuposes the social division of labor, which implies specialized producers who exchange the products of their labor with the mediation of money. Each producer can only buy after having received the proceeds of the sale of his own product. What is remarkable, however, is that the periods of production of the different commodities are as a rule not coincident, for technical reasons. Thus, when one producer's commodity comes to the market, several of his potential buyers have not yet completed and sold theirs, therefore still don't have the money for their purchases. The solution of the problem is the sale against the promise of future payment, i.e., commercial credit, which expands in pace with the merchant economy[26]. Commercial credit represents a new economic relation, the debtor/creditor relation, which adds to the buyer/seller relation.

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[25] This difficulty certainly derives from the fact that Hume's model, which is at the origin of non-Marxist theories, did not take into account the banking and credit system, which are essential elements of the monetary system of advanced capitalism (Eichengreen, 1996, p. 25).

[26] "Commercial credit is the adjustment mechanism of the merchant economy in this aspect, because it ensures the connection of the different particular processes of production into one global structure of social division of labor. Without that, many commodities would not be sold because their potential buyers, not having finished the production of their commodities, would not yet have sold and would hence be unable to buy" (Germer, 1996, p. 173).

The spreading of commercial credit accross the economy implies that the function of means of circulation has been taken over increasingly by commercial bills, while money (=gold) preponderantly performs the function of means of payment, as already indicated. It must be underlined, at this point, that Marx emphasysed that commercial bills worked, since the very beginning of capitalism, as ‘commercial money proper’, i.e., in the payments among capitalists, which means that the circulation of such bills predominated over the circulation of gold from the start[27]. This stresses the fact that, in Marx’s theory, the circumstance of money being gold does not require the later to perform the function of means of circulation in person. Commercial bills, instead of gold, in the functions of means of circulation and of payment among capitalists represent the primitive or original form of credit money, the former being, therefore, ‘the’ typical form of the circulating medium in capitalism. Gold, however, does not stop being the general equivalent, i.e., money, in the functions of measure of value and standard of prices, and thus the basis upon which credit money develops. The development of commercial credit and its connection to banking credit, as well as the development of the banking system up to the central bank are, among others, elements which make up the credit system of capitalism, i.e., the capitalist sphere of circulation.

As has already been mentioned, the axis of the credit system consists of a chain of forms of credit money in upward ranking starting from commercial bills. At each new and higher form of credit money, the volume of circulation able to be supported by a certain amount of money (=gold) expands, confining the later to the top of the chain of forms of credit money. Thus the suggestions that the maintenance of gold as money has become untenable because of a supposed shortage of gold, or else that the reserves of monetary gold should have to expand at the same rate as the production of commodities, etc., are baseless. Marx’s presentation leads to the obvious conclusion that the performance of monetary functions by bills of credit, that gave rise to different forms of credit money, not only do not invalidate the commodity nature of money, but can only be explained on the basis of the later’s existence. It should further be stressed that for the debtor/creditor relation to come up it is enough that the values of the commodities have been expressed in terms of money, regardlees of the nature or definition of the later. Thus the suggestion, not unfrequently made, that the commodity nature of money represents an obstacle to the full development of the credit system, is a mistake[28]. In effect, the historical proof in opposition of this suggestion is highly convincing, since the modern credit system has developed splendidly - and even excessively, according to many writers - under the prevalence of the money-commodity (=gold), since the beginning up to at least 1971.

On the basis of the presentation above, it is possible to suggest a way of conceptualizing the credit system as a totality, according to Marx’s theory. The credit system is made up of two basic elements, money (=gold) and the commercial credit relation. The later gives rise to a chain of successive forms of credit money in rising ranks. On this basis it is reasonable to suggest a conceptual representation of the material framework of the credit system as a combination of money (=gold) and the ordered set of forms of credit money. This framework can be represented as a pyramid[29], where money (=gold) appears at both ends, at the bottom and the top. At the bottom of

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[27] According to Marx, commercial bills represented the commercial money proper, and were the ‘foundation of credit money’. Therefore the different forms of credit money “do not rest upont the circulation of money, be it metallic or government-issued paper money issued by the state, but rather upon the circulation of bills of bills of exchange” (Marx, 1967, vol. 3, p. 400-1) which are bills of credit.

[28] Some post-Keynesian writers sustain that commodity-money is incompatible with the development of credit money (Rogers, 1989, p. 8-10, 171-6, who inaccurately atributes this view to Marx; Wray, 1990, ch. 1-2; Moore, 1988, ch. 1).

[29] The representation of the monetary system in the form of a pyramid has been suggested by several authors. De Brunhoff’s suggestion - apparently the earliest one among Marxists - has been adopted in an altered form. De Brunhoff’s suggestion concerns only the structure of credit money, divided into three levels, corresponding to a rising chain of forms of credit money: private credit money (banks-enterprises relation) at the bottom, national money at the center, and international money on the top (De Brunhoff, 1985, p. 43 ff.). Foley develops the idea more thoroughly, but applies it both to a monetary system based on gold and on purely abstract money (Foley, 1987, p. 249). Moore states that, according to Hicks, in *Critical Essays* (1967), “the development of banking builds upont the base of metallic

the pyramid it performs the function of measure of value, and at the top the function of final means of payment. Between the two, making up the body of the pyramid, there is a succession of stages corresponding to the different forms of credit money in rising ranks.

Conclusions

This investigation indicated that the concept of the 'gold standard' expresses a quantitativist account of the monetary system of capitalism, defining it as the one where gold directly performs monetary functions in the circulation. Since in Marx's theory gold is the money of capitalism from the start, the expression 'gold standard' cannot be applied to a limited period of capitalism. It has been attempted to show that, to that extent, the expression does not find an equivalent in Marxian theory, and fails both to contribute to the understanding of any relevant aspect of capitalism, or to add new insights possibly missing in Marx's system. On the other hand, the concept of the 'international gold standard', although a mere extension of the concept of the gold standard to the international sphere, points to a relevant aspect of the development of capitalism, without analizing it though, namely the making up of a worldwide capitalist structure with greater technical and economic integration under the hegemony of England. It should be reminded that Marxist authors like Lenin and Bukharin have defined this system as monopoly capitalism or imperialism.

On the other hand, to the extent that the concept of the 'international gold standard' corresponds to the ascent of gold to the condition of basis of the money standards in the capitalist countries, it presents itself as a historical proof of Marx's thesis that in capitalism money (=gold) becomes world money. However, in the way it is presented the concept of the international gold standard is mistaken, since it limits itself to characterize the money grounding of the system - gold - which is actually a trivial aspect. It further failes to acknowledge the essential component of the monetary system of advanced capitalism, the credit system, which should explicitly be introduced in the analysis of the monetary system of that period. In this respect, it seems intuitive to suggest that the development of the international monetary system should be assessed, from the point of view of Marxist theory, as a structure in gradual evolution towards the framing of an international credit system, through the establishment of a widening network of credit links among countries. This is a complex matter, since it entails several countries and their national credit systems, which are in a process of development and completion at the same time as the international credit system sets its foundations, having the national systems as building blocks. The paper ends by suggesting a conceptual frameword for the credit system of advanced capitalism, following Marx's indications, which integrates money (=gold) and a hierarchy of forms of credit money.

It has been attempted to show that the acceptance of the concept of the 'gold standard' by Marxist authors, both in its theoretical and historical aspects, as an argument in the debate on the validity of Marx's theory of the commodity nature of monney is untenable. According to the definition of the concept, the 'gold standard' is believed to have had an end with the outbreak of World War I because gold stopped circulating as currency. However, according to the Marxian concept of money, gold has not stopped performing monetary functions at that date, but went on as the basis of the monetary system of capitalism explicitly at least until 1971. There has not been a gradual process of extinction of the monetary role of gold, as is suggested by several authors, but of building up of the credit system, both at national and international levels, which has not dispensed with the need of gold performing the functions of measure of value and means of payment. The

money a pyramid of money substitutes" (Moore, 1988, p. 10). The omission of the page of the quotation made it impossible to confirm it. Desai mentions a similar reference by Kaldor (Desai, 1989, p. 173). Samuelson illustrates the 'pyramid of credit' with actual figures, in the seventh edition of his book (Samuelson, 1967, p. 311).

analysis presented in this paper has attempted to provide an additional subsidy to the Marxist debate about the nature, the functions and the forms of existence of money at present.

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