

Chapter 26: Accumulation of Money Capital, and Its Influence on the Rate of Interest

This chapter is one of the more underwritten of this section; in his introduction to the volume, Engels comments thus on the difficulties he had in reconstructing this part of the book:

There [...] followed, in the manuscript, a long section headed ‘The Confusion’, consisting simply of extracts from the parliamentary reports on the crises of 1848 and 1857, in which the statements of some twenty-three businessmen and economic writers, particularly on the subjects of money and capital, the drain of gold, over-speculation, etc., were collected, with the occasional addition of brief humorous comments. Here, in one way or another, more or less all views then current on the relationship between money and capital were represented, and Marx intended to deal in a critical and satirical manner with the ensuing ‘confusion’ about what was money on the money market and what was capital. After several attempts, I came to the conclusion that it was impossible to produce this chapter; the material in question has been put in where the context provided the opportunity, especially the material with Marx’s own comments.¹

This chapter is evidently composed principally of material from ‘The Confusion’.

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Given that Marx will direct a good part of his attention to the 1844 Bank Act (which granted to the Bank of England the sole right to print new banknotes, and set limits, in function of bullion held and state debt, to the quantity of banknotes allowed to circulate) it will be of use to reproduce here comments made by Marx on the Act and the circumstances of its appearance made elsewhere.

Marx writing in 1853² on the 1844 Bank Act:

As the Bank Act of 1844 is generally misunderstood, and as its working will become, in the approaching crisis, of paramount importance not only to England but to the whole commercial world, I propose briefly to explain the tendency of the act.

Peel’s Bank Act of 1844 proceeds on the assumption that the metallic circulation is the normal one; that the amount of the currency regulates prices; that in the case of a purely metallic circulation, the currency would expand with a favourable exchange and with an influx of bullion, while it would be contracted by an adverse exchange and a drain of bullion; that a circulation of bank notes has exactly to imitate the metallic circulation; that accordingly there had to be a degree of correspondence between the variations in the amount of bullion in the vaults of the Bank of England and the variations in the quantity of its notes circulating among the public; that the issue of notes must be expanded with a favourable, and contracted with an unfavourable exchange; lastly, that the Bank of England had the control over the amount of its notes in circulation.

Now there is not one of these premises which is not utterly fallacious and contradictory to facts. Suppose even a purely metallic circulation, the amount of currency could not determine prices, no more than it could determine the amount of commercial and industrial transactions; but prices on the contrary would determine the amount of currency in circulation. Unfavourable exchanges, and a drain of bullion, would not contract even purely metallic circulation, as they would not affect the amount of currency in circulation, but the amount of currency in reserve, sleeping in the banks as deposits, or in private hoards. On the other hand, a favourable exchange and a concomitant influx of bullion, would augment, not the currency in circulation, but the currency deposited with bankers or hoarded by private individuals.

¹ Karl Marx, *Capital* volume 3 (Harmondsworth, 1981) [hereafter C3], p. 95.

² Marx in fact wrote the notebooks from which Engels extracted volume 3 of *Capital* in two main bursts, from, approximately, the summer to December of 1864, and then from mid-1865 until the year’s end (in the interruption Marx wrote a draft of volume 2). See Enrique Dussel, ‘The Four Drafts of *Capital*: Towards a New Interpretation of the Dialectical Thought of Marx’, <<https://www.mtholyoke.edu/~fmoseley/Dussel.pdf>>.

The Peel Act, therefore, starting upon a false conception of a purely metallic circulation, naturally arrives at a false imitation of it by a paper circulation. The idea itself, that a bank of issue has a control over the amount of its outstanding notes, is utterly preposterous. A bank issuing convertible notes or advancing notes generally on commercial securities, has neither the power of augmenting the natural level of circulation nor the power to cripple it by one single note. A bank may certainly issue notes to any amount its customers will accept; but, if not wanted for circulation, the notes will be returned to it in the form of deposits, or in payment for debts, or in exchange for metal. On the other hand, if a bank intends to forcibly contract its issues, its deposits would be withdrawn to the amount needed for filling up the *vacuum* created in the circulation. Thus a bank has no power whatever over the quantity of circulation, whatever may be its power for the abuse of other people's capital. [...]

But the main fallacy rests on the supposition that demand for pecuniary accommodation, i.e. loan of capital, must converge with demand for additional means of circulation; as if the greater amount of commercial transactions were not effected by bills, checks, book-credits, clearing-houses, and other forms of credit quite unconnected with the so-called circulation. There can exist no better mode of verifying the facility of bank-accommodations than the market rate of interest, and no more efficient means for ascertaining the amount of business actually done by a bank than the return of bills under discount. Let us proceed on this two-fold scale of measurement. Between March and September, 1845, when with the speculation mania the fictitious capital reached its utmost height and the country was inundated with all possible enterprises on an immense scale, the rate of interest being nearly 2 ½ per cent., the circulation of bank notes remained nearly stationary, while at a later period in 1847, the rate of interest being 4 ½ per cent., the price of shares having sunk to the lowest ebb, and discredit spreading in all directions, the circulation of bank notes reached its maximum.

[...]

Having exposed the general principles of Peel's Bank Act, I come now to its practical details. It assumes that £14,000,000 of bank notes form the necessary minimum amount of circulation. All notes issued by the Bank of England beyond that amount shall be represented by bullion. Sir Robert Peel imagined he had discovered a self-acting principle for the issue of notes, which would determine with mechanical accuracy the amount of the circulation, and which would increase or diminish [it] in the precise degree in which the bullion increased or decreased. In order to put this principle into practice, the Bank was divided into two departments, the Issue Department and the Banking Department, the former a mere fabric [factory] of notes, the latter the true Bank, receiving the deposits of the State and of the public, paying the dividends, discounting bills, advancing loans, and performing in general the business with the public, on the principles of every other banking concern. The Issue Department makes over its notes to the Banking Department to the amount of £14,000,000, plus the amount of bullion in the vaults of the Bank. The Banking Department negotiates those notes with the public. The amount of bullion necessary to cover the notes beyond £14,000,000, remains in the Issue Department, the rest being surrendered to the Banking Department. If the amount of bullion diminish beneath the circulation exceeding £14,000,000, the notes returning to the Banking Department in discharge of its advances, or under the form of deposits, are not reissued nor replaced, but annihilated. If there were a circulation of £20,000,000, with a metallic reserve of £7,000,000, and if the Bank were further drained by an efflux of £1,000,000, all the bullion would be requested by the Issue Department, and there would not remain one sovereign in the Banking Department.

Now everybody will understand that this entire machinery is illusory on the one hand, and of the most pernicious character on the other hand. Take, for instance, the Bank returns in last Friday's *Gazette*. There you find, under the head of the Issue Department, the amount of notes in circulation stated to be £30,531,650, i.e., £14,000,000 + £16,962,918 – the latter sum corresponding to the bullion reserve of last week. But, turning to the head of Banking Department, you will find £7,755,345 in notes in its assets. This is the portion of the £30,531,650 not accepted by the public. Thus the self-acting principle determines only the £30,531,650 in notes to be transported from the Issue Department to the Banking Department. But there they remain. As soon as the Banking Department comes into contact with the public, the amount of circulation is regulated, not by Peel's Act, but by the wants of business. The self-acting principle, accordingly, extends its operation not beyond the vaults of the Bank premises.

On the other hand, there occur moments, when the Bank of England, by her exceptional position, exercises a real influence, not only on English commerce, but on the commerce of the world.

This happens in moments of general discredit. In such moments the Bank may, by raising in accordance with the Peel Act its minimum rate of interest, correspondingly with the efflux of bullion, and by refusing her accommodation, depreciate the public securities, lower the prices of all commodities, and enormously aggravate the disasters of a commercial crisis. It may, in order to stop the efflux of bullion and to turn the exchanges, transform every commercial stagnation into a monetary peril. And in this manner the Bank of England has acted and was forced to act by the Peel Act in 1847. [...]

Now, while the Act of Peel regulates the amount of bullion to be held in reserve for the convertibility of notes, it leaves Directors the power to do with the deposits as they please. Yea, more. The very regulations of this act, as I have shown, may force the Banking Department to stop the payment of the deposits and of the dividends, while bullion to any amount may lie in the vaults of the Issue Department. This happened, indeed, in 1847. The Issue Department being yet possessed of £61,000,000 of bullion, the Banking Department was not saved from bankruptcy but by the interference of Government suspending, on their responsibility, the Peel Act, on 25th Oct., 1847.

Thus the result of the Peel Act has been that the Bank of England changed its rate of interest thirteen times during the crisis of 1847, having changed it only twice during the crisis of 1825; that it created amid the real crisis a series of money panics in April and October, 1847; and that the Banking Department would have been obliged to stop but for the stoppage of the act itself. There can, therefore, exist no doubt that the Peel Act will aggravate the incidents and severity of the approaching crisis.³

Marx, in November 1857, on the 1844 Bank Act:

On the 5th inst, the Bank of England raised its minimum rate of discount from 8 per cent, at which it was fixed on October 19, to 9 per cent. This enhancement, unprecedented as it is in the history of the Bank since the resumption of its cash payments, has, we presume, not yet reached its highest point. It is brought about by a drain of bullion, and by a decrease in what is called the reserve of notes. The drain of bullion acts in opposite directions – gold being shipped to this country⁴ in consequence of our bankruptcy, and silver to the East, in consequence of the decline of the export trade to China and India, and the direct Government remittances made for account of the East India Company. In exchange for the silver thus wanted, gold must be sent to the continent of Europe.

As to the reserve of notes and the influential part it plays in the London money market, it is necessary to refer briefly to Sir Robert Peel's Bank act of 1844, which affects not only England, but also the United States, and the whole market of the world. Sir Robert Peel, backed by the banker Lloyd, now Lord Overstone, and a number of influential men beside, proposed by his act to put into practice a self-acting principle for the circulation of paper money, according to which the latter would exactly conform in its movements of expansion and contraction to the laws of a purely metallic circulation; and all monetary crises, as he and his partisans affirmed, would thus be warded off for all time to come. The Bank of England is divided into two departments – the issuing department and the banking department; the former being a simple manufactory of notes and the latter the real bank. The issuing department is by law empowered to issue notes to the amount of fourteen millions sterling, a sum supposed to indicate the lowest point, beneath which the actual circulation will never fall, the security for which is found in the debt due by the British Government to the Bank. Beyond these fourteen millions, no note can be issued which is not represented in the vaults of the issuing department by bullion to the same amount. The aggregate mass of notes thus limited is made over to the banking department, which throws them into circulation. Consequently, if the bullion reserve in the vaults of the issuing department amounts to ten millions, it can issue notes to the amount of twenty-four millions, which are made over to the banking department. If the actual circulation amounts to twenty millions only, the four millions remaining in the till of the banking department forms its reserve of notes, which, in fact, constitutes the only security for the deposits confided by private individuals, and by the State to the banking department.

Suppose now that a drain of bullion sets in, and successively abstracts various quantities of bullion from the issuing department, withdrawing, for instance, the amount of four millions of gold. In this case four millions

³ Karl Marx, 'The Vienna Note', *Collected Works*, volume 13, pp. 296-300.

⁴ The United States.

of notes will be cancelled; the amount of notes issued by the issuing department will then exactly equal the amount of notes in circulation, and the reserve of disposable notes in the till of the banking department will have altogether disappeared. The banking department, therefore, will not have a single farthing left to meet the claims of its depositors, and consequently will be compelled to declare itself insolvent; an act affecting its public as well as its private deposits, and therefore involving the suspension of the payment of the quarterly dividends due to the holders of public funds. The banking department might thus become bankrupt, while six millions of bullion were still heaped up in the vaults of the issuing department. This is not a mere supposition. On October 30, 1847, the reserve of the banking department had sunk to £1,600,000 while the deposits amounted to £13,000,000. With a few more days of the prevailing alarm, which was only allayed by a financial *coup d'état* on the part of the Government, the Bank reserve would have been exhausted and the banking department would have been compelled to stop payments, while more than six millions of bullion lay still in the vaults of the issuing department.

It is self-evident then that the drain of bullion and the decrease of the reserve of notes act mutually on each other. While the withdrawal of bullion from the vaults of the issuing department directly produces a decrease in the reserve of the banking department, the directors of the Bank, apprehensive lest the banking department should be driven to insolvency, put on the screw and raise the rate of discount. But the rise in the rate of discount induces part of the depositors to withdraw their deposits from the banking department, and lend them out at the current high rate of interest, while the steady decrease of the reserve intimidates other depositors, and induces them to withdraw their notes from the same department. Thus the very measures taken to keep up the reserve, tend to exhaust it. From this explanation the reader will understand the anxiety with which the decrease of the Bank reserve is watched in England, and the gross fallacy propounded in the money article of a recent number of *The London Times*. It says: 'The old opponents of the Bank Charter Act are beginning to bustle in the storm, and it is impossible to feel certain on any point. One of their great modes of creating fright is by pointing to the low state of the reserve of unemployed notes, as if when that is exhausted the Bank would be obliged to cease discounting altogether.' As a bankrupt, under the existing law it would be, in fact, obliged to do so. 'But the fact is that the Bank could, under such circumstances, still continue the discounts on as great a scale as ever, since their bills receivable each day of course, on the average, bring in as large a total as they are ordinarily asked to let out. They could not increase the scale, but no one will suppose that, with a contraction of business in all quarters, any increase can be required. There is, consequently, not the shadow of a pretext for government palliatives.'

The sleight-of-hand on which this argument rests is this: that the depositors are deliberately kept out of view. It needs no peculiar exertion of thought to understand that if the banking department had once declared itself bankrupt in regard to its lenders, it could not go on making advances by way of discounts or loans to its borrowers. Taken all-in-all, Sir Robert Peel's much vaunted Bank law does not act at all in common times; adds in difficult times a monetary panic created by law to the monetary panic resulting from the commercial crisis; and at the very moment when, according to its principles, its beneficial effects should set in, it must be suspended by Government interference. In ordinary times, the maximum of notes which the Bank may legally issue is never absorbed by the actual circulation – a fact sufficiently proved by the continued existence in such periods of a reserve of notes in the till of the banking department. You may prove this truth by comparing the reports of the Bank of England from 1847 to 1857, or even by comparing the amount of notes which actually circulated from 1819 till 1847, with that which might have circulated according to the maximum legally fixed. In difficult times, as in 1847, and at present by the arbitrary and absolute division between the two departments of the same concern, the effects of a drain of bullion are artificially aggravated, the rise of interest is artificially accelerated, the prospect of insolvency is held out not in consequence of the real insolvency of the Bank, but of the fictitious insolvency of one of its departments.

When the real monetary distress has thus been aggravated by an artificial panic, and in its wake the sufficient number of victims has been immolated, public pressure grows too strong for the Government, and the law is suspended exactly at the period for the weathering of which it was created, and during the course of which it is alone able to produce any effect at all. Thus, on Oct. 23, 1847, the principal bankers of London resorted to Downing street, there to ask relief by a suspension of Peel's Act. Lord John Russell and Sir Charles Wood consequently directed a letter to the Governor and Deputy Governor of the Bank of England, recommending them to enlarge their issue of notes, and thus to exceed the legal maximum of circulation, while they took upon themselves the responsibility for the violation of the law of 1844, and declared themselves prepared to propose to Parliament, on its meeting, a bill of indemnity. The same farce will be

again enacted this time, after the state of things has come up to the standard of the week ending on Oct. 23, 1847, when a total suspension of all business and of all payments seemed imminent. The only advantage, then, derived from the Peel Act is this: that the whole community is placed in a thorough dependence on an aristocratic Government – on the pleasure of a reckless individual like Palmerston, for instance. Hence the Ministerial predilections for the act of 1844; investing them with an influence on private fortunes they were never before possessed of.⁵

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We can return to *Capital*.

Marx begins the chapter by quoting one Thomas Corbett to the following effect. ‘Wealth’, says Corbett, is accumulated (and this amounts to a ‘surplus of capital’); and this accumulated wealth, in the form of money, must be deployed so that either interest or profit be accrued: the ‘surplus wealth’ needs to be absorbed. Some was ‘absorbed’ by the national debt (i.e. was lent to the government). Beyond this, large-scale capital intensive enterprises have been necessary. The accumulation of wealth prompts speculation.

Next Marx quotes one J G Hubbard. Imagine a bad harvest, says Hubbard. Bullion flows out of the country. Bank deposits and reserves will fall; there will be a reduction in the amount of ‘unemployed capital’ present. Credit will be more highly valued, and interest rates will rise. But now imagine the converse, a good harvest, and a generalised fall in prices. Money returns to deposits; the amount of unemployed capital rises, and interest rates fall.

Now Marx turns his attention to the Reports of the Parliamentary Committees on the effects of the 1847-8 and 1858 financial crises. He quotes the evidence of a certain Mr Norman, a director of the Bank of England.

[...] ‘You stated, that you consider that the rate of interest depends, not upon the amount of notes, but upon the supply and demand of capital. Will you state what you include in “capital”, besides notes and coin?’ – ‘I believe that the ordinary definition of ‘capital’ is commodities or services used in production.’

[...] ‘Do you mean to include all commodities in the word “capital” when you speak of the rate of interest?’ – ‘All commodities used in production.’ [...] ‘You include all that in the word “capital”, when you speak of what regulates the rate of interest?’ – ‘Yes. Supposing a cotton manufacturer to want cotton for his factory, the way in which he goes to work to obtain it is, probably, by getting an advance from his banker, and with the notes so obtained he goes to Liverpool, and makes a purchase. What he really wants is the cotton; he does not want the notes or the gold, except as a means of getting the cotton.’ [...] ‘But interest is paid for the money?’ – ‘It is, in the first instance; but take another case. Supposing he buys the cotton on credit, without going to the bank for an advance, then the difference between the ready-money price and the credit price at the time at which he is to pay for it is the measure of the interest. Interest would exist if there was no money at all.’⁶

Interest, then, is not the responsibility of the banking system; Marx comments thus:

This complacent rubbish is entirely worthy of this pillar of the Currency Principle.⁷ [...] He is faced with the correct remark, ‘But interest is paid for the money’, which of course implies the question: What has the interest that the banker receives without in any way dealing in commodities got to do with these

⁵ Karl Marx, ‘[The Bank Act of 1844 and the Monetary Crisis in England]’, *Collected Works*, volume 15, pp. 379-82.

⁶ C3, pp. 546-7.

⁷ During the Napoleonic Wars, when the government suspended the convertibility of Bank of England notes into gold, a debate was provoked among political economists over the value or not of the state limiting the quantity of banknotes in circulation (convertibility was restored in 1819). On the one side stood the ‘Currency School’, who argued, basing themselves on Ricardo, that the general level of prices depended on the quantity of money in circulation. Opposing them were the ‘Banking School’, who held that, on the contrary, the quantity of money in circulation was determined by the general level of prices. The 1844 Bank Act was directly inspired by the theories of the Currency School.

commodities? And do not manufacturers receive the same rate of interest for money they put out in completely different markets, i.e. in markets where there is a quite different relationship between the demand and supply of the commodities needed for production? To this question, [he] [...] replies that, if the manufacturer buys cotton on credit, then 'the difference between the ready-money price and the credit price at the time at which he is to pay for it is the measure of the interest'. Quite the opposite. *The prevailing rate of interest is the measure of the difference between the cash price and the price on credit.* First of all, the cotton is for sale at its cash price. This is determined by the market price, which is itself governed by the state of demand and supply [for and of the product]. Say that the price is £1,000. This concludes the transaction between the manufacturer and the cotton broker, as far as buying and selling is concerned. But now there is a second transaction as well. This is one between lender and borrower. The value of £1,000 is advanced to the manufacturer in cotton, and he has to pay it back in money, say in three months' time. *The interest on £1,000 for three months, as determined by the market rate of interest, then forms the extra charge over and above the cash price.* The price of cotton is determined by supply and demand [of and for cotton]. But the price for the advance of the cotton's value for three months, for the £1,000, is determined by the rate of interest [which is determined by the supply of and demand for loan capital]. [...] There is no doubt at all that the rate of profit forms a general limit to the rate of interest. But what Mr Norman is supposed to tell us is just how this limit is determined. And it is determined. by the demand and supply for money capital *as distinct* from other forms of capital.⁸

Now Marx considers the evidence of Lord Overstone (formerly Samuel Jones Lloyd), a prominent member of the Currency School, and key instigator of the 1844 Bank Act).

'The fluctuations in the rate of interest arise from one of two causes: an alteration in the value of capital [...] or an alteration in the amount of money in the country. All great fluctuations of interest, great either in their duration or in the extent of the fluctuation, may be distinctly traced to alterations in the value of capital. Two more striking practical illustrations of that fact cannot be furnished than the rise in the rate of interest in 1847 and during the last two years (1855-6); the minor fluctuations in the rate of interest, which arise from an alteration in the quantity of money, are small both in extent and in duration. They are frequent, and the more rapid and frequent they are, the more effectual they are for accomplishing their destined purpose [...].'⁹

Marx notes that a rise in the rate of interest arising from a rise in the 'value of capital' is a tautology, for the rate of interest *is* the 'value of capital'. However, Marx allows that Overstone might mean by 'value of capital' a rise in the profit rate as a cause of the rise in the rate of interest; but this is false, for, both theoretically and in fact, '[t]he demand for money capital, and thus the "value of capital", can rise even though profit is falling; as soon as the relative supply of money capital falls, its "value" rises.'¹⁰

What happened in October 1848, Marx argues, was that a higher demand for money capital pushed up the rate of interest. The increased demand for money capital was the product of a number of factors:

Dearer corn, rising cotton prices, the unsaleability of sugar on account of overproduction, railway speculation and crash, the flooding of foreign markets with cotton goods, the forcible export and import trade with India [...] All these things, overproduction in industry as well as underproduction in agriculture, i.e. quite different reasons, led to a rise in the demand for money capital, i.e. for credit and money. *The increased demand for money capital had its origins in the course of the production process itself.*¹¹

But,

⁸ C3, pp. 547-8 (italicisation added). Marx's next comment strongly implies the difference of class interest between money-lending and industrial capitalists, and that the Bank Act is an artifice constructed by the former for their own material gain. 'Instead of enlightening us on this subject, Norman offers us the wisdom that the demand for money capital is not identical with the demand for money as such; and this only because Overstone, he, and the other currency prophets always have at the back of their minds a bad conscience about the way they are seeking by way of artificial legislative intervention to make the means of circulation into capital as such, and to raise the rate of interest.'

⁹ C3, p. 549.

¹⁰ C3, p. 550.

¹¹ C3, p. 550 (italicisation added).

[W]hatever the cause, it was the demand for *money* capital that made the rate of interest, the value of money capital, rise. [...]. What people who had bought corn at 120 shillings per quarter lacked, when the price fell to 60 shillings, was the 60 shillings too much which they had paid, and the corresponding credit for this in loans with the corn as security. It was in no way a lack of banknotes that prevented them from converting their corn into money at the former price of 120 shillings. [...] [T]his enhanced value of money capital corresponded directly to the fallen monetary value of real capital (commodity capital and productive capital). The value of capital in the one form rose, because the value of capital in the other form fell.¹²

Overstone continues, and confirms his confusion of rate of interest and rate of profit:

‘That idea of the profits of trade being destroyed by a rise in the rate of interest is most erroneous; in the first place, a rise in the rate of interest is seldom of any long duration; in the second place, if it is of long duration, and of great extent, it is really a rise in the value of capital, and why does value of capital rise? Because the rate of profit is increased. [...] The rise in the rate of interest has been in consequence of the great increase in the trade of the country, and the great rise in the rate of profits; and to complain of the rise in the rate of interest as being destructive of the two things, which have been its own cause, is a sort of logical absurdity, which one does not know how to deal with.’¹³

Whence this confusion?

‘Supposing the average rate of profit to be, say, from 7 to 10 per cent, a variation of from 2 to 7 or 8 per cent in the rate of discount must materially affect the rate of profit, must it not?’ – ‘In the first place parties will not pay a rate of discount which seriously interrupts their profits; they will discontinue their business rather than do that. [...] What is the meaning of discount? Why does a person discount a bill? ... Because he wants to obtain the command of a greater quantity of capital.’ [...] And why does he want to obtain the command of a greater quantity of capital? Because he wants to employ that capital; and why does he want to employ that capital? Because it is profitable to him to do so; it would not be profitable to him to do so if the discount destroyed his profit.’¹⁴

No, says Marx.

The first assumption is false. The ordinary businessman discounts his bills to anticipate the money form of his capital and in this way keep the reproduction process going; not to expand his business or spend additional capital, but rather to balance the credit he gives with the credit he takes. If he does want to expand his business on credit, it is little use to him to get bills of exchange discounted, as this simply converts money capital that he already has from one form to another; he would rather take out a fixed loan for a longer period. The credit swindler, however, gets his accommodation bills discounted to expand his business and to cover one squalid deal with another; not to make profit, but to get his hands on other people’s capital.¹⁵

Later, Overstone discusses the relation between the quantity of money in circulation and the prevailing rate of interest.

‘The variations in the rate of discount have no doubt a very close relation to the state of the [Bank of England’s reserve [...]] because the state of the reserve is the indicator of the increase or the decrease of the quantity of money in the country; and in proportion as the money in the country increases or decreases, the value of that money will increase or decrease, and the bank-rate of discount will conform to that change.’¹⁶

Marx counters:

¹² C3, pp. 550-51. ‘What Overstone is trying to prove is that the crisis of 1847, and the high rate of interest that accompanied it, had nothing to do with the ‘quantity of money’ present, i.e. with the provisions of the 1844 Bank Act which he had inspired; although it actually did have something to do with it, as soon as fear of exhaustion of the Bank’s reserve (and this was a creation of Overstone’s) added monetary panic to the 1847-8 crisis.’

¹³ C3, pp. 551-2. Marx: ‘[T]o complain that the rise in prices destroys its own cause, i.e. speculation, is a logical absurdity, etc. Only for a usurer enamoured of his high rate of interest is it a logical absurdity that a thing can ultimately destroy its own cause.’

¹⁴ C3, p. 554.

¹⁵ C3, p. 555.

¹⁶ C3, p. 563.

What he says about this is false. The reserve can decline because the money in circulation in the country increases. This is the case if the public accept more notes and there is no decline in the metal reserve. But then the interest rate rises, because the banking capital of the Bank of England is limited by the Act of 1844.¹⁷

Overstone: 'A high rate of profit will always create a great demand for capital; a great demand for capital will raise the value of it.'¹⁸

Marx:

Here [...] we have the connection between the high profit rate and the demand for capital, as Overstone conceives it. [...] [I]n 1844-5 [...] there was a high rate of profit in the cotton industry, since raw cotton was cheap [...]. The value of capital [...], i.e. in this case the value of the raw cotton, was not increased for the manufacturers. Now the high rate of profit may have caused many cotton manufacturers to expand their businesses. In this way their demand for *money* capital would rise, but not for anything else.¹⁹

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In summary, the main points, in order of appearance here, of this chapter are:

- The quantity of money in circulation does not determine the level of prices, but the total of prices determines the amount of money in circulation; banknotes not necessary for exchange in circulation are returned to the issuing bank in the form of deposits.
- The demand for money *capital* does not coincide with the demand for money for circulation, as the disincidence of the rate(s) of interest and the amount of currency in circulation shows.
- The practical operation of the Bank Act means that in cases of a monetary crisis (an outflow of bullion and a reduction of the number of banknotes in circulation) leads to a rise of interest rates, which in turn exacerbates the crisis by encouraging depositors to withdraw their funds in order to loan them out.
- Interest rates fall in function of the quantity of money existing in deposits, and *vice versa*. But it is not the demand for money for circulation that pushes up the rate of interest, but the demand for money as *capital*.
- The demand for money capital, demand for credit and money, is in the end determined by conditions prevailing in the production process: fluctuations in prices, overproduction, underproduction, etc.
- The 1844 Bank Act is an artifice which allows money-lending capitalists to benefit from the artificial (i.e. unnecessary) raising of interest rates in monetary crises, by placing artificial limits on the quantity of banknotes available for circulation.

¹⁷ C3, p. 563.

¹⁸ C3, p. 563.

¹⁹ C3, p. 563.