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GOLD: THE DURABILITY OF A BARBAROUS RELIC

PETER COCHRANE

THE POSSIBILITY OF REMOVING GOLD from the international monetary system has been on the agenda for more than a decade. It is an option which has been vigorously advocated by the American government, whose talk of "barbarous relics" only thinly disguises the desire to reinforce its balance of payments deficit by extending its credit abroad indefinitely.

The case for demonetization is, in other words, prompted by the specific, sectional interests of the major western power. Other major powers, however, have different interests and are inclined to defend rather than to attack gold. The Soviet Union is a major gold producer and therefore supports a monetary role for gold; so does South Africa, the world's leading producer. Similarly Europe and Japan are currently exhibiting a partiality for the metal in monetary circles and are stockpiling gold.

The following analysis suggests that gold cannot be demonetized: i.e., the monetary system cannot totally disengage itself from the commodity character of money. It moves from an examination of Marx's theory of money and the problems facing that theory in contemporary capitalism to a brief outline of relevant developments in the international gold market and western gold policy in the light of the preceding elaboration.

Gold has been a bone of great contention among the leading capitalist powers in recent years. Their conflicting trade and financial positions have prevented an enduring collective interest here and, specifically, have driven a wedge between Europe and the United States. The U.S. has been noisily heralding the death of monetary gold, while Europe has been quietly constituting itself as the center of a new gold bloc, and proclaiming the enduring charm of this barbarous relic.

Gold as Money

Since money has its origins in antiquity, Marx began his analysis by developing a general (i.e., historically non-specific) theory of money. The theory of money operating in a capitalist society followed from this. The general theory was established at an abstract level of analysis under assumed conditions of simple reproduction. (The assumptions were: gold as the money-form; commodities exchanging at their value; free market conditions).

The purpose of this method was to identify the essential features and aspects of monetary phenomena and on this basis to work towards an adequate approximation of the complex nature and workings of monetary phenomena at the level of concrete reality. What the general theory attempted to do was to establish the origins and essential nature of money and to discuss its various functions, including the interrelations and the contradictions between them. This is an approach which contrasts sharply with current "shopping list" accounts of the functions of money; that is, accounts which merely itemize these functions of money.

Marx takes equatability as the essential condition for exchange. The equatability of commodities resides in their embodied exchange-value. Money enters into the picture, then, only to facilitate exchange. Money follows from the inherent equatability of commodities; it does not cause it. But as a medium of exchange, money must in the first instance take the commodity form itself for the same reasons. Money exchanges commodities because commodities are in the first place exchangeable. As such its first function is that of measure of value. That one particular commodity (gold) becomes the accepted measure of value and medium of exchange derives accidentally from its physical characteristics, which happen to be especially suited to the role of money: its high labor to weight ratio; its perfect divisibility; its limited industrial usage; its physical durability. Thus for Marx gold or commodity money is real money, and paper currency is derivative and symbolic. Money has its origins in the commodity form and these origins are inescapable.¹ The elimination of gold

¹ Contrast this view with non-Marxist monetary theory, which regards paper currency as a superior money form which has superseded all forms of commodity money; e.g., Samuelson, Hancock and Wallace, who argue "all forms of commodity money have the deficiency that they are assets of intrinsic value," and, "the essence of money — its

from circulation and its replacement by paper currency — a phenomenon which was well under way in the 1850s, when Marx was developing his general theory — did not constitute an escape from these origins; rather, in Marx's view, it merely complicated the way in which gold continued to act as the measure of value, now at one remove in the exchange process.

In both the *Contribution to the Critique of Political Economy* and in *Capital* the functions of money which do not require money in the commodity form are separated from the functions which do. Only the latter are discussed under the sub-title "money," meaning money proper.² Hoarding occupies a special place in the later discussion, for it is in the hoarding function that the commodity nature of money is periodically reasserted.

It is then in the essential commodity character of money and the derivative, symbolic character of subsequent money forms that Marx's commitment to the continuing role of gold in even the most advanced monetary economy originates.

Money as Measure of Value

In the general theory commodity money is able to function as a medium of exchange because in the first instance it is a measure of value. Exchange presupposes equatability and money as the equating medium — the measure of value.

The debate concerning the role of (commodity) money as a measure of value is an incredibly thorny one in which, it is argued here, Marx's position is usually misinterpreted in ways that underrate his contribution in this area. The common misinterpretation consists of the view that his general theory was historically specific, derived from the gold-based monetary system of his period — a period in which gold still functioned as a medium of circulation (albeit in conjunction with paper currency). It is sufficient to point out here that: i) the general theory was not historically specific; ii) the possibility of notes (paper currency) replacing gold in circulation had historical origins, identified by Marx, in much earlier periods when the debasement of coinage effectively separated the real from the nominal

intrinsic nature — is typified by a paper currency without any commodity backing." *Economics* (Sydney, 1973), 339.

² K. Marx, *A Contribution to the Critique of Political Economy* (Moscow, 1970), Ch. 2. K. Marx, *Capital* (New York, 1970), Vol. I, Ch. 3.

value of circulating money; iii) the theoretical implications of this replacement process for the theory of money as a measure of value was specifically confronted in Marx's major tracts on money.

However, Marx's account deals largely with a gold currency and only briefly with more recent money forms such as paper currency. It is arguable that this was inevitable in his analysis wherein gold (commodity money) was logically and historically prior to other money forms. The account deals separately with two entirely different situations: firstly, with an economy in which gold is the medium of circulation, and, secondly, with an economy in which paper currency has replaced gold as the medium of circulation. These are dealt with consecutively: i) Money had its origins in the commodity form and was itself a commodity embodying exchange-value and, in circulation, acting as a measure of value. (Supply and demand ensured that the money commodity, like all other commodities, would exchange *on average* for its value.) Assuming a given value for gold, the amount of gold in circulation will depend on the sum of the prices of commodities divided by the velocity of money. A shortage or excess of gold as determined by movements in these variables will simply draw on or add to gold outside of the circulation process (hoards). ii) The introduction of paper money and its manipulation by the state complicate the picture. As long as paper currency represents gold on a one-to-one basis, nothing changes. However, it is possible for the state to thrust any arbitrary amount of paper currency into circulation and imprint upon it any monetary domination (\$1, 20¢, etc). Yet the power of the state ceases at this point according to Marx: "As soon as the token of value or paper money enters the sphere of circulation it is subject to the inherent laws of this sphere."³ That is to say, if the state prints paper money beyond the needs of circulation, then the paper money will depreciate in relation to gold until it represents the quantity of gold that would have been required to circulate the goods on the market, were gold the medium of circulation. As a result prices rise because the value of commodities is now expressed in money terms by a symbol which is worth less. Prices have risen, not because there is more money in circulation (the monetarist position), but because the

³ *Critique of Political Economy*, p. 119.

increase in the money supply means that each individual paper token now represents a smaller fraction of the gold, or the value embodied in the money-commodity, required to circulate the goods. In this view the rise in price is only the mode in which the circulation process forces the paper to be the symbol of the gold value necessary for the circulation of commodities.⁴ The same mechanism works in the opposite direction in the case of a shortage of paper currency.

Paper currency here merely represents or stands in for gold (commodity money). It can only represent that amount of gold (value) necessary to circulate a given sum of prices at a given velocity of money. Thus in the case of paper money its worth is not determined directly through or against commodities in the marketplace (as in the quantity theory and in monetarist thought), but rather, in a circuitous way, through gold.

Demonetization

At this point two issues are running together: one concerns the question of the enduring character of gold in the monetary system. This is the demonetization issue by another name. The other concerns the role of gold or money as a measure of value in contemporary society, in which gold is no longer the medium of circulation.

The demonetization issue is dealt with first since any monetary role for gold necessarily presupposes the continued existence of monetary gold.

In the abstract analysis of simple reproduction, i.e., in the general theory of money, the necessary connection between commodity-money and the monetary system resides in the commodity character of money itself, and thus in the derivative and symbolic character of subsequent (and more sophisticated) money forms. The usefulness of a theory established at a high level of abstraction, however, depends on the movement from that level, wherein the essential features and contradictions of monetary phenomena are established, to the "real world" level at which those features and contradictions express themselves within and are subject to a definite set of historical/social relations.

⁴ *Ibid.*

Marx dealt with this movement (the "bridging" problem) only cursorily, partly because his work was not completed and partly because under the given monetary circumstances of his time this line of inquiry did not demand the attention which it does today. Nevertheless, the rudiments of a theory of the *necessary connection* between monetary gold (i.e., commodity-money) and capitalism are to be found in his works. This theory, outlined below, maintains that the presence of gold in the monetary system is guaranteed by the commodity character of gold and only its *prominence* in that system is subject to variation. Its prominence is basically a function of the trade cycle. After outlining this theory, I will argue, in the final part of this section, that the agent or medium of gold's movement into and out of prominence at different points in the contemporary trade cycle is inter-imperialist rivalry.

Gold in the Trade Cycle

Late in the trade cycle credit is in short supply and dear. The stagnation of production has set in. Long-term credit in particular becomes most difficult to acquire due to the risks involved. The credit system at its weakest spots threatens to break down. International credit runs thin as national economic problems deepen. Pressure mounts on deficit nations. Loans to cover deficits dry up and the demand for and movement of gold proceed at a quicker pace. Market pressure forces the price of gold skyward, at least in terms of weak currencies; its concomitant is the falling price of other commodities.

But the problem is not the appreciation of gold — as Darimond (one of Marx's early sparring partners) and others have imagined. It is, rather, the perpetual cycle of price — the depreciation of gold followed by its appreciation, then again by depreciation, and so on.⁵ Bourgeois monetary thought had considered, at least until the 1930s, that the cause of crises was unstable prices, and the solution, therefore, was stabilization. But price instability only mirrored the periodic rise and fall of the production process in capitalist economy, a movement which was not rooted in monetary phenomena.

Marx, on the other hand, had a definite and contrasting

5 K. Marx, *Grundrisse* (Harmondsworth, 1973), p. 134.

view of the activity of gold through the ups and downs of the production cycle. He argued, firstly, that the need to extend capitalist production beyond its "realistic" limits by means of credit entailed recurring attempts to eliminate or escape from the discipline of gold in the monetary system. This was so since gold was a restraint on credit — in a sense, its antithesis. Thus the upswing of the business cycle was associated with an apparent trend towards demonetization in one form or another:

in the development of society not only the symbol (paper) but likewise the material corresponding to the symbol (gold) are worked out — a material from which society later tries to disentangle itself.⁶

and

So long as production is in a state of flux this is forgotten. Credit, likewise a social form of wealth, crowds out money (gold) and usurps its place. It is faith in the social character of production which allows the money form of products to assume the aspect of something which is only evanescent and ideal.⁷

But secondly, when the limits of production become apparent and credit falters, there is a rush for hard cash. The demand for gold rises in direct response to the stagnation of production and the freezing up of the credit system — the immobilization of both creditors and borrowers:

But as soon as credit is shaken — and this phase of necessity always appears in the modern industrial cycle — all the real wealth is to be actually and suddenly transformed into money, into gold and silver — a mad demand which, however, grows necessarily out of the system itself.⁸

For the two movements, the attempted escape from gold and the cap-in-hand return to it, there is this summary description:

with the development of the credit system capitalist production continually strives to overcome the metal barrier, which is simultaneously a material and imaginative barrier of wealth and its movement, but again and again it breaks its back on this barrier.⁹

6 *Ibid.*, p. 145.

7 *Capital*, Vol. III, pp. 573-4.

8 *Ibid.*, p. 574.

9 *Ibid.* See also *Critique of Political Economy*, p. 159.

Marx repeatedly refers to the persistence of mercantilist characteristics in the capitalist system, since mercantilism was a period in which the accumulation of precious metals was an end in itself. Such references reaffirmed his belief in the unbreakable connection between commodity-money and capitalism.¹⁰

Thus, on the eve of the crisis gold makes a triumphant return; a return that is related inversely to the state of the loan market (Keynes also shared this view).¹¹ Some of the features which might be identified as constituting the reassertion of gold at such times are: central bank initiatives to stock up on monetary gold or to reduce claims on existing stocks; the drain of gold from the non-monetary to the monetary sphere; the drain of gold from debtor to creditor nations; and, ultimately, the abandonment of gold standards in order to defend national gold stocks.

Gold in Imperialist Rivalry

The permanent replacement of gold as a medium of circulation by symbolic money, paper currency, is possible only on a national level, since, there, symbols can adequately perform the function of effecting the exchange of commodities from seller to buyer, and moreover, the state can *enforce* its currency as legal tender. The stress is laid on the *enforced* character of the social acceptability of these symbols:

One thing, however, is requisite; this token must have an objective social validity of its own, and this the paper symbol acquires by its *forced* currency. The compulsory action of the state can take effect only within that inner sphere of circulation which is co-terminous with the territories of the community (*Emphasis added*).¹²

This national limitation described by Marx is significant only because in the nineteenth century the agent of enforcement in the monetary sphere was, exclusively, the nation-state. (Internationally, gold was the universally accepted means of payment. It

¹⁰ For examples see *Grundrisse*, pp. 127, 227, 232.

¹¹ Royal Institute of International Affairs, *The International Gold Problem: Collected Papers* (Oxford, 1932), p. 188. "Gold comes in as a symptom; as a sort of barometer; but you will not get real stability unless you cast your eyes beyond gold to the irregularity of the loan market" (Keynes).

¹² *Capital*, Vol. I, p. 129.

was "world money"). Theoretically, then, there is no barrier in this analysis to the elimination of gold as an international medium of circulation. When, internationally, a world power exists strong enough to impose the same condition of circulation as does the nation-state (enforced acceptability of a certain paper currency), then gold may (largely) disappear from international *circulation*.

But this disappearance is conditional and superficial. "Superficial" because gold stocks continue to be guarded jealously by the nation-states (central bankers in particular). And "conditional" because the absence of gold from circulation depends for its duration not on the force of government edict — for there is no international government — but rather on the fragile economic circumstances which make world monetary cooperation under the hegemony of a leading power possible. These circumstances are themselves temporary. Their disappearance late in the business cycle sharpens the contradiction between nation-states. As recession deepens, closing off benevolent options and spurring on economic rivalry and nationalism, the conditional character of the disappearance of gold becomes evident. The "barbarous relic" can once again acquire appeal to even the most civilized of central bankers.

Gold as a Measure of Value?

A fully operative measure of value presumes a free market in gold. That is because it is through the market price that paper currency adjusts its worth in order to represent the gold (value) required to circulate the sum of prices to be realized on that market.

This condition is assumed in Marx's analysis of simple circulation. Through the market, gold (value) acquires an independent form (price). Through the free market, supply and demand ensures that the price of gold will oscillate around its value.¹³ If gold is overpriced, then its supply increases and its price drops; if it is underpriced, then its supply drops and its price rises. Like any commodity, the link between the value and price of gold depends on the free market — that array of worldly pressures

¹³ Marx's discussion of value and price and the relationship between them is scattered throughout his works. See *Grundrisse*, pp. 134-41; *Capital*, Vol. I, Ch. 3, Section 2; *Critique of Political Economy*, Ch. 2, part I.

that casts "laws" as "tendencies" and "tendencies" as "latent forces," and then, when all hope of coherence seems lost, reverses the flow and nurtures the latter back to the consecrated state of law.

The basic question arising from this analysis is whether or not the international monetary system has changed to such an extent or in such ways as to render the analysis out of date or to prove it incorrect. Both classical and revisionist positions are evident in current writing on the subject. Yet, with few exceptions, both camps confront this question only incidentally and pass by it without argument or substantiation. The classical position asserts that nothing has really changed. The connection, gold-paper currency-price, as posited by Marx, is a more circuitous/indirect connection today. But it remains intact.¹⁴ None of the obvious problems here are raised: What are the essential conditions for the mechanism posited by Marx? Can its existence be established empirically? In what ways are its operations affected/distorted by its indirectness?

The revisionist position is slightly more provocative in that, by definition, it presumes problems of some sort with the application/validity of Marx's account. It posits changes which are alleged to invalidate or impair this account, *viz.*, the elimination of the gold base from the international monetary system — its removal from circulation; its replacement as the means of international exchange and payment; the abolition of formal ties between gold and paper currency.¹⁵

There are other, real problems that can be raised in this area. For instance, the absence of a free market in gold through which the worth of paper currency is adjusted according to Marx's mechanism is evident. It can be argued, to reiterate, that the mechanism was uncovered at a level of abstraction under assumed conditions which do not hold, nor were they meant to hold, in reality. Therefore the expression of this mechanism would necessarily be tortuous, distorted, colored by the myriad of economic and political forces at work in the real world. But

14 See M. Linder, *Anti-Samuelson*, Vol. 2, pp. 15–25; P. Bullock and D. Yaffe, "Inflation, the Crisis and the Post-War Boom," *Revolutionary Communist*, 3–4, November, 1975, p. 14; S. DeBrunhoff, *Marx on Money* (New York, 1976), pp. 35–38.

15 D. Foley, "Towards a Marxist Theory of Money: Technical Report No. 181 (September 1975), *The Economic Series*. Institute for Mathematical Studies in the Social Sciences, Stanford University.

questions still arise from such a rejoinder: how unfree must the market become in order to render inoperable the gold-paper currency-price mechanism? What constitutes a *sufficiently* free market? By what criteria do we distinguish between the free variables and the unfree ones — what sort of weighting should each carry for this inquiry?

A second line of disputation suggested here concerns the current relationship between the international monetary system and domestic price structures: in the nineteenth century the international gold standard subordinated the latter to the former. That is, international equilibrium (balancing the nation's external accounts) held sway over national equilibrium. Thus while the gold standard was operative, domestic price structures were manifestly responsive to movements in national gold stocks, *i.e.*, to external exchange relations. It was at least plausible, under these conditions, that the gold-paper currency-price mechanism might express itself/operate through this framework, though such a loose, apparent compatibility hardly constitutes an argument. Nevertheless the situation is less adaptable and more complex today than it was in the nineteenth century. Since the 1930s monetary policy has operated in the opposite direction, with nation-states placing domestic price stability over international equilibrium. The domestic price structure has been apparently cut adrift from its disciplining connection with gold movements in international exchange.

The two areas of dispute are in fact located on the same ground since the contemporary autonomy of national price structures is effected by the artificial manipulation of exchange rates — which happens to be one of the chief impediments to a free money market. However, the reassertion of monetary gold in the late part of the business cycle appears to correspond to a significant revival of free market conditions for gold, and thus two separate lines of inquiry — the return of gold and the role of gold as a measure of value — may be fused in the one historical process. This takes its most dramatic form in the failure of western central bankers to sustain an official (deflated) price for gold since the early 1960s. Through a series of decisions the official gold price progressively gave ground and the concept was finally abandoned in September 1975.

The chief obstacles to a free market in gold are state mone-

tary policy (artificial floating of exchange rates, etc); the uneven international distribution of gold, plus the supply policies of the major producers — South Africa and the Soviet Union; and international cooperation in the manipulation of gold and paper currency markets, principally to sustain the nominal value of the major paper currency reserve asset, the dollar. This takes place on an international basis due to the dependence of most nations' foreign exchange stocks on the dollar. Thus we have the phenomenon of international creditor nations (e.g., West Germany, Japan) taking losses in the form of "light" (depreciating) money (dollars), whose nominal value is artificially sustained to some extent by the fact that economic rivals share some mutual ground. But the limits of this global generosity are, in the last analysis, fixed firmly by the dictates of the domestic creditor economies; i.e., by their ability to carry these concessions as determined politically.

Briefly, the situation can be expressed as follows: the nation-state can eliminate by degree and indefinitely the free market in gold. But this is possible only within the realm of the nation-state. It is not possible internationally. Internationally it can be eliminated by *public* cartel arrangements which attempt to manipulate gold markets and thus the price of the precious metal (e.g., the I.M.F., 1961–75), but as in all cartel arrangements nothing is binding; they are based on good will (honor among thieves) which, in the absence of a state to enforce this good will, tends to run very thin in times of economic downturn.

The departure from value resulting from the unfree market necessarily entails "cheating on the market." It entails the separation of nominal value from real value. Creditor nations, for instance, might be paid in a foreign paper currency whose nominal value does not correspond to (exceeds) its real value. Thus creditors are paid in "light" money, and the durability of such an arrangement may depend in the short term on superstructural factors — e.g., political/military ties — but in the long term definite limits are imposed by the needs of the creditor economies. It is here that we find our central bankers plotting retribution in hard cash.

Thus the free market in the international arena can be eclipsed, but it cannot be eclipsed by law. That is to say, the managed market conditions survive on a fragile basis. It is in the

international arena that the law of value reasserts itself; the public cartel crumbles and the market prevails — to a degree determined at the international political level.

Below, the major developments in the international monetary arena, chiefly over the last decade, are discussed in the light of the foregoing theoretical elaboration.

Official Intervention and The Private Market

The role of the dollar in the world economy has been simultaneously part of the set of common economic interests which bind the West together, and (increasingly) has been an element in the rift between Europe and the U.S. As the dollar constitutes a significant proportion of their own reserves, many countries have a large stake in sustaining it as the world's chief reserve asset. (They have done this through official intervention — buying and selling — on the gold markets of the world.) On the other hand, the dollar is not being sustained, and so the question of abandoning it arises. Many nation-states are weighing this dilemma in the light of their own peculiar and immediate sets of interests. It is, however, a very real dilemma, and thus it should not be surprising that movement in either direction is cautious, disjointed, punctuated by indecisive policy, etc.

The steps thus far taken culminated in the formation of the European Monetary System in 1978, which in effect marked the dollar's demise as an international reserve asset. Associated with this development is the reassertion of monetary gold in the international monetary system.

Two camps have clearly emerged in recent years on the demonetization question: one is Europe, along with the chief gold-producing nations, the Soviet Union and South Africa; the other is the U.S., and Britain (also a chronic debtor). Several milestones mark the rising prominence of gold in the European monetary system and in international banking activity in recent years, bringing to light the widening gulf between the two camps and the new monetary significance of gold:

1. The failure of Western central bankers to sustain an official (deflated) gold price in the face of mounting private market pressure since the early '60s. Through a series of decisions the official gold price progressively gave ground and the concept

was finally abandoned in September 1975.¹⁶

2. The re-entry of the European central banks into the gold market as buyers, following a meeting of the E.E.C. finance ministers in April 1974.¹⁷

3. The decision of the E.E.C. finance ministers on June 11 1974, to use gold as collateral in future loans between central banks — valued at market prices.¹⁸

4. The demands of European central bankers for the return of IMF gold deposits to its claimants, followed by a series of concessions in this direction by the IMF.¹⁹

5. The revival of the pro-gold European-based Bank for International Settlements as a central bankers' bank for Europe and South Africa, signaling the fragmentation of western monetary unity around the IMF. The B.I.S. now operates as a gold buyer on the open market on behalf of European central banks.²⁰

6. The failure of Special Drawing Rights (S.D.R.'s), a new form of paper credit promoted by the IMF and the U.S. Treasury, as a means of extending U.S. credit indefinitely. S.D.R.'s have not been able to acquire a significant share of world foreign exchange reserves since first introduced in 1970. They are viewed from Europe and elsewhere with the same caution as are dollars.²¹

7. The total failure of U.S. and IMF gold sales to drive down the market price of gold. If anything, these sales have merely provided a predictable market supply for what appears at present to be an insatiable demand.²²

8. The formation of the European Monetary System. This followed the Bremen Conference of July 1978, and was a milestone in the reorganization of the international monetary set-up

16 This is discussed in F. Block, *The Origins of International Economic Disorder. A Study of the United States International Monetary Policy from World War II to the Present* (Berkeley, 1977).

17 A.C. Sutton, *The War on Gold* (San Francisco, 1977), p. 153.

18 *Ibid.*

19 *Ibid.*, p. 155.

20 *Ibid.*, p. 156.

21 M. Hudson, *Super Imperialism*, p. 237. See also B.J. Cohen, *Organising the World's Money. The Political Economy of International Monetary Relations* (London, 1978), Chapter 4, and *IMF Survey*, September 18, 1978, p. 301.

22 Sutton, *op. cit.*, pp. 179-80.

to accommodate and reflect the tattered reserve status of the dollar. It brought European currencies closer together under the leadership of the West German mark, and it provided for the establishment of a European reserve asset, the ECU. Though the System's viability has been in question, it remains evidence of the intensifying rift within the western bloc.²³

9. Official gold movements over the last two decades. These affirm Europe's mounting interest in acquiring the metal. The main official outflows of gold have come from Britain and the United States and this has been balanced largely by the inflow of gold into the central banks of continental Europe. Between 1960 and 1970 an equivalent of about $\frac{3}{4}$ of the Anglo-American outflow was acquired by the latter in the form of official gold holdings. Since then the trend has continued. Between 1970 and 1975 central bank gold holdings in West Germany increased by 40.8%; in Switzerland by 48%; in France by 23%; in Holland by 47.4%; and in Japan, by 115.4% (calculations based on a fixed gold value of \$35 an ounce).²⁴

Conclusion

The realignment underlying these changes marks a deepening gulf between the gold suppliers (South Africa and the Soviet Union) and the European central banks on the one hand, and the U.S., supported by Britain, which has similar balance of payments problems, on the other. The Third World naturally accepts the idea of IMF gold sales since part of the proceeds are taking the form of AID — a bailing out process to sustain that part of the world economy. But from the Third World perspective gold sales at the maximum price are desirable, whereas the objective of the sales has been to create the opposite effect. The U.S., then, is very much isolated on the gold issue.

The rapid reorganization of the international monetary system amidst the currency turmoil of recent years has highlighted the real issues behind the demonetization programs (gold sales) of the IMF and the U.S. Treasury. The program, as an ideologi-

23 *The Guardian*, July 16, 1978, p. 10; *Euromoney*, January 1979.

24 U.S. Department of Commerce, *Statistical Abstract of the United States, 1972*, Washington, D.C.: Bureau of Census, 1972, p. 833. Also IMF, *International Financial Statistics*, December 1975 (Washington, D.C.), Vol. 28, No. 12.

cal exercise, is the last-ditch effort in the U.S. fifteen-year battle to sustain the dollar and extend its credit abroad. The current western monetary set-up reflects the mounting but as yet indecisive tendency towards abandonment of the dollar, constrained by the huge stake which the leading creditor nations have in the dollar's value due to its preponderant share in their foreign exchange reserves. The acceptance of a paper credit world in which, as Kisch had hoped in 1930, virtue and trust would pass current in the place of silver and gold, has disintegrated under a march in the direction of a monetary *cordon sanitaire* for Europe, as implemented after the Bremen Conference, and a gold-based banking system.²⁵

While the U.S. Treasury and the IMF have railed about the barbarous, outmoded character of gold, European central banks have been busy stocking up on it, as gold movements and policy changes over the last two decades show.

The rift over gold within the western bloc is constrained by the bloc's politico-military unity and economic interdependence. The further revival of economic nationalism, fueled by deepening recession, would press these ties to their limit. The status of the dollar as an international reserve currency has dropped not because it is paper currency and, as such, unacceptable in times of recession, but rather because it is a paper currency that no longer has a tenable connection to value in exchange. The reemergence of a variety of monetary functions for gold is evidence of the inverse relationship between the monetary prominence of gold and the state of the international credit system, as we saw earlier. But this is not to suggest that gold has a new future as a circulating medium. (It may have an expanded but nonetheless limited future in this area.) Rather, if economic nationalism is to drastically change the present monetary order, gold would be most likely to exercise its monetary importance within newly formed and contending currency spheres, as occurred in the 1930s.

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²⁵ C.H. Kisch, "Central Bank Reserves," in Royal Institute of International Affairs, *The International Gold Problem. Collected Papers* (Oxford, 1932), p. 153.

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To illustrate
versy over depend
Emmanuel, Amin
of neo-colonies (t

¹ This controversy wa
contained Paul Swee
Maurice Dobb's book
as a reply by Dobb. I
most important arti
Capitalism, R. Hilton

² This is particularly t
followers. See, for i
collection, *For Marx*