Andrei V. Anikin

FROM GOLD TO MONEY

J. K. Galbraith begins his book on the history and current problems of money with the following statement: "There is much that is diverting in the history of money, but even more that provides a rich reflection of human behavior and human folly." [1]

This, of course, is a fair statement. However, the development of money reflects something more—the evolution of human society, and the socio-economic structures through which this evolution has passed. Capitalism, which may in some sense be considered as a "money civilization," naturally brings money to a high stage of development. It is through money that economic laws express themselves, and that the socio-political tendencies of capitalism as a class society are realised. Incidentally, the science of political economy, which has developed along with capitalism, has many roots in the observation and study of money and monetary relations. As I. A. Trachtenberg commented, "It is no exaggeration to state that economic science has grown out of money." [2]

Capitalism has inherited from its predecessors, the slave-owning and feudal societies, a mainly metallic form of money. Robert

Translated by Nicolas Slater.

[1] J. K. Galbraith, *Money. Whence it Came, Where it Went*, Boston, 1975, p. 3.

[2] I. A. Trachtenberg, "Paper Money" (1924), published in his book *Monetary Relations and Credit under Capitalism*, Moscow, USSR Acadamy of Sciences, 1962, p. 27.

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Triffin estimates that in 1815, in England, the USA and France, precious gold and silver coins accounted for 67% of all money in circulation, while a variety of paper and credit notes, and base metal money (copper and brass) made up the remaining 33%.[3] It must be noted that we are here speaking of the most developed countries, and these were already at a fairly mature stage of capitalism—at the stage of the Industrial Revolution. According to his assessment, gold and silver occupied more or less equivalent positions in the monetary systems of the countries named.

The further development of the monetary system of capitalism was characterised, first, by a gradual ousting of silver and its de-facto and de-jure demonetarisation, and secondly by the enormous absolute and relative increase in the volume of credit money (bank notes and bank deposits managed by written order). At a certain stage, the decrease in the relative volume of gold as part of the total money mass (in 1913, 10% in the three countries)[4] was accompanied by an increase in its role as the basis of the whole monetary and credit systems and the international currency system. Gold reached the peak of its power about the beginning of the first World War.

The subsequent period, during which capitalism underwent major economic and socio-political upheavals, was characterised in the monetary and credit sphere by the ousting of gold, and the limitation of its monetary functions. Inflation became a permanent feature and an acute problem of capitalism. But inflation and gold money are incompatible. The present paper will first briefly analyse the main stages in the conversion of gold into the principal form of money, and the features of the gold standard, i.e. the gold-based monetary system of the 19th and 20th centuries. The author will then give his own views of the objective causes of the decrease in the monetary functions of gold under twentieth-century capitalism, on the development and transformation of these functions, on the connection between the "demonetarization" of gold and the currency crisis of the last few years, and finally on the general economic and monetary outlook for gold.

[3] R. Triffin, *The Evolution of the International Monetary System; Historical Reappraisal and Future Perpectives,* Princeton, University Press, 1964, p. 58-59.
[4] *Ibid.*

The process of "monetarisation" of gold, i.e., the acquisition of the function of money by this yellow metal, was one that took several milennia. It took a long time for its attractive natural properties to gain for it the function of money. A reading of the literature on the history of economic life and the history of money shows that it would be hard to think of a commodity that has not at some time and in some place had to some extent the function of money. Sea shells, animal furs, fish, cocoa beans, cattle, salt, amber, and even human beings (slaves), have all fulfilled the functions of money. The German monetary historian Schurtz (late nineteenth century) tells us that in the Western Sudan the slave was the unit of value, with a fixed conversion rate against other commodities. One slave is worth, and exchangeable for, 300 pieces of canvas of a particular size, or six oxen, or ten Spanish dollars of a particular mintage. "The African natives," one traveller tells us, "will often answer, when asked how much a particular horse is worth, 'three prisoners,' while an ox is worth 'half a prisoner.' Of course the prisoner was not chopped in half; but a sick or weak prisoner was accounted as one half. The highest monetary value was attached to a fine looking, healthy young man or a healthy girl in the bloom of her youth.[5]

Of course, this may be regarded as nothing but a paradox of barbarism. A less repellent, but quite cumbersome custom, was the use of head of cattle as a unit of currency; this was reflected in the Latin and a number of modern languages; the Latin word *pecunia* (money) comes from the word *pecus* (cattle).

But even in the earliest stages of social development, certain metals, particularly copper, silver and gold, came to be used as money. The advantages of precious metals as money are well known; their constant nature and properties; their durability and safety of storage, easy divisibility, high value per unit of weight, and relatively constant value. Apart from this, the precious metals, particularly gold, are aesthetically attractive and beautiful. A feeling for color is one of the most basic and early-developed

[5] H. Schurtz, *Grundriss einer Enstehungsgeschichte des Geldes*, Weimar, 1898, p. 82.

characteristics of man. In the Indo-European languages, the word *gold* comes from the name of the yellow color. This is true in particular of the Russian and other Slavonic languages. Gold was used very early on for the production of decorations, various symbols of wealth, power and prestige. The economic importance of gold increases in line with the development of a society in which there are classes and class contradictions. Both as a raw material for the making of ornaments, and as money, gold (and silver) began to be widely used in the better developed slave-owning civilisations of Egypt, Mesopotamia, Palestine, Asia Minor and Greece (third to first millennia B.C.).

Gold reaches its highest development as money in the form of coins representing a particular weight of the metal, with a traditional shape, guaranteed as regards weight and purity by the government or some other authority. Herodotus (I, 94) tells us that the first people to mint money (probably from a natural alloy of gold and silver) were the Lydians, a people living in western Asia Minor and having close relations with the Hellenes. The beginning of minting in Lydia is generally dated to the seventh century B.C. We do not have any reason to doubt this statement from the father of historians, although there were very likely more primitive forms of coinage (stamped metal bars) even earlier in other locations (in ancient Babylon in particular).[6]

In classical Greece and Rome, gold and silver were already the predominant forms of money; brass played an auxiliary role, and the monetary system had reached quite a high level of development. In the early middle ages, trade and the circulation of money were much reduced, and for several centuries the mining and minting of gold almost ceased. But the very first awakening of the renaissance in Northern Italy in the thirteenth to fourteenth centuries was accompanied by a growth in the role of money. In the centuries that followed there was a gradual development of capitalism in western Europe, accompanied by the penetration of monetary relations into all strata of society. The shortage of precious metals forced the Europeans to seek them in distant lands. In the words of F. Engels, "the discovery of America was

[6] P. Einzig, *Primitive Money in its Ethnological, Historical and Economic Aspects*, Oxford, 1966, p. 205.

brought about by the thirst for gold, which even before this had sent the Portuguese to Africa... because the highly developed European industries of the fourteenth and fifteenth centuries and the trade that went with them required more means of exchange than Germany—the great source of silver from 1450 to 1550—could provide." [7]

The cruel deeds perpetrated by the Europeans in the conquest of America and other parts of the world in their search for gold have been described many times. For the sake of gold, tens of millions of natives of the New World were destroyed, and the rebirth of slavery in modern times was largely related to the search for gold. Gold and violent death go hand in hand in the history of the human race. Gold has been responsible for mass murders of people and of whole nations, racial oppression and exploitation. This phenomenen may be called gold genocide. Of course, in the civilized nineteenth and twentieth centuries the extreme forms of gold genocide, such as occured during the conquest of America, are less common. But even today, gold and the struggle for it bring death, oppression, and the destruction of cultural values in their train. Of course, it is not the metal itself that is responsible; it is merely a chemical element with particular properties, similar in this respect to other elements; it is the social circumstances that have turned it into money, the embodiment of value, an object of insatiable greed.

The adoration of the golden calf has become the religion of bourgeois society. In Balzac's tale, the money-lender and philosopher Gobseck says: "What is life? A machine which is worked by money... Gold—gold is the spiritual essence of all modern society." The liberation of people from the power of gold has always been the dream of utopian socialists, from Thomas More to Fourier and Owen. Although the world production of gold gradually increased in the sixteenth to eighteenth centuries (in Brazil, Russia, West Africa), a new era in the history of the yellow metal, and particularly of its role as money, begins with the discovery of the Californian and Australian gold fields in the mid nineteenth century. The sudden rise in the amount of gold reaching

[7] F. Engels, Letter to K. Schmidt, 27 October 1890, in K. Marx and F. Engels, *Works*, Vol. 37, p. 415.

western Europe and north America played an important part in the sudden development of capitalism in these areas during the second half of the nineteenth century. The flow of gold provided a basis for increased credit, the formation of share companies and banks, and this in its turn stimulated industry, promoted the building of railways, and the development of sea transport. This effect of gold was bound up with the confirmation of its role as the basis of the national monetary systems and of the international currency system. The economic importance of gold in the development of capitalism and its productive forces is thus different in principal from the importance of any other commodity (iron, coal, cotton, or oil), however great this might be. But along with the effectiveness and dynamism of capitalist civilization, gold is also a sort of symbol of its inhumanity and economic anarchy.

In the 1880's, gold was discovered in South Africa. Here, unlike its other countries of origin, gold was mined almost from the beginning by capitalist companies, which gradually united into major concerns and finance groups. Local and foreign (mainly English and American) capital took part together. Some 400,000 hired workers and officials are now employed in the South African gold industry and ninety per cent are Africans. The mean wage for an African is about twenty times less than that of a white worker. According to a recent survey, in 1969 the real wage of an African was no higher than in 1911. The low wages enable the companies to save on mechanisation. The accident rate is high; about 500 workers die every year.[8]

The rapid increase in world gold production at the turn of the century stimulated the extension of the gold standard to all developed countries, including the USA and Russia. The Victorian age, the "golden age" of capitalism was crowned with the glitter of new money.

THE CLASSICAL GOLD STANDARD

There is an enormous literature on the gold standard—not only on what it was, but also what it *was not*. The latter point is

[8] T. Green, *The World of Gold Today*, London, 1973, Ch. 3.

explained by the fact that nostalgia for the "good old days" has given rise to many illusions and legends about the smoothness, harmony and automatic regulation of this monetary system.

At the beginning of the present century it must certainly have seemed likely to many people that there had at last been created an ideal monetary system both for internal use within the major nations, and for use on the international arena. Yet it soon became apparent that this was no more than a short lived episode in the history of money and currency relations. The gold standard in its classical, absolute form existed only about half a century—around the end of the nineteenth and the beginning of the twentieth century. Moreover it did not apply by any means throughout the world, but only in a group of industrially developed countries. The remainder were obliged willy-nilly to adapt to the order laid down by the strong ones of this world.

The classical gold standard included the following principal elements: the circulation of gold coins as the basic form of money, in relation to which paper and credit money and money made of other metal played a functionally subordinate role; the convertibility of all types of internal money into gold, this convertibility as a rule being guaranteed by the central bank of the country, which also guaranteed its gold reserve; the support of the hard gold content of the currency, and the consequent stability of the relations between currencies (currency parities); the free interconvertibility of currencies according to exchange rates which only varied within narrow limits from the parities; the freedom of export and import of gold and its constant use for the settlement of international payments.

The gold reserve of a central bank was the pivot of the whole monetary and credit system, insuring as it did both the internal convertibility of all fiduciary forms of money (bank notes, bank deposits, treasury bills, change), and the external convertibility of the currency: if, for example, the Bank of France had insufficient reserves of foreign exchange to change its clients' francs into pounds sterling, it would pay the Bank of England gold in exchange for pounds.

This system functioned with amazingly modest gold reserves. The gold reserve of the Bank of England, which was at the center of the whole international system of the gold standard, consisted throughout the nineteenth century of no more than a few tens of millions of pounds sterling. There were several reasons for this: the automatic mechanisms for correction of balances of payments did not allow of any serious and prolonged imbalance, which might have caused a major exodus of gold from the country; the central banks were watchful and carried on an active monetary policy (mainly a discount policy), aimed at conserving their gold reserves; and in normal circumstances (in the absence of trade or financial crisis) there was a considerable degree of confidence in the paper and credit money and a smoothly functioning system of international short-term credit.

The correcting and the balancing mechanisms under the gold standard, their effectiveness, development and consequences are the subject of an extensive specialist literature and extensive discussions. The author cannot concern himself with this question.[9] In any case one may say that at a particular stage of development of capitalism, gold money and the international gold standard aided the growth of productive forces and economic and technological progress.

But it would of course be an absurd piece of fetishism to credit the yellow metal itself with all the successes of industry, technology and science in the era of the gold standard. These successes are explained by an incomparably more complex concentration of factors. Furthermore, it would be impossible to maintain that the gold standard was entirely beneficial in its effects. It was a highly inelastic monetary system, which could in certain circumstances hold back economic growth, and in particular exacerbate cyclical swings, aggravating crises in money and credit and in industry and commerce. The tight bond linking the whole monetary system to gold, the direct dependence of the money supply on the gold reserves of the central bank decreased the possibilities of adapting the monetary system to changing circumstances. The expansion and contraction of the volume of money and credit was an elemental process. The short fall of money in a period of acute crisis aggravated the situation and added to the wave of bankruptcies among firms and banks. In England, the issue of Bank of England

[9] For the lay French reader the features of the gold standard, and the problems of gold in general are well treated in the book: Eric Chanel, *L'or*, P. Retz, 1974.

notes not 100% covered by gold was strictly limited by law (the so-called Sir Robert Peel Act, after the Chancellor of the Exchequer in the 1840's). In almost every crisis the workings of this law had to be suspended by a special Act of Parliament. What sort of a law was this, then, that had to be suspended precisely at those times when it might have seemed that its positive qualities should be to the fore?

On the social plane, the gold standard was a symbol and a factor in the economic inequality between people, classes and nations. If gold left a country, then in theory it was necessary to lower wages and in practice this did occur, so as to increase the competitiveness of the country's goods on the foreign market, thus liquidating the balance of payments deficit and eventually returning the gold to the cellars of the central bank. The means of lowering wages was unemployment, which was altogether considered a natural and beneficial force in the economy. It was this age that produced the million-dollar fortunes which continue today to be the basis of the fantastic wealth of a few oligarchic families in western Europe and the USA. In Arthur Hailey's novel *The Money-Changers*, which takes place in the present day, a radically-minded female lawyer and mistress of a modern progressive banker, Margot Bracken, argues with the convinced conservative Lewis D'Orsey who dreams of a return to the gold standard: "Under the gold standard even fewer people than now would own an even greater proportion of the world's wealth, and the rest of the human race would go bare-legged." [10]

I would like to conclude this section with a brief look at Karl Marx's approach to the problem of gold and the gold standard (a term which did not yet exist in his day).

In the first volume of *Das Kapital*, Marx takes an abstract look at the foundations of capitalist production, and shows the economic laws that have led to the emergence of gold as the principal form of money, and the stages that this process has followed. He mentions the possibility of gold being replaced by paper money, a possibility arising from the specific function of money in circulation, but he does not specifically follow up this question: "in

[10] Arthur Hailey, *The Money-Changers*, New York, Bantam Books, 1975, p. 145.

this work, I everywhere suppose for simplicity's sake that the money commodity in question is gold." [11]

He is not concerned here with the advantages and disadvantages of gold as money, although in his section on commodity fetishism he notes that it is in money (i.e., in gold) that the characteristic bourgeois fetishistic attitude to social relations reaches its apogee.

But when he passes on in his investigation to the more concrete phenomena of capitalist economics, particularly to credit, the world market and economic crises (mainly in the third volume of *Das Kapital*), Marx also considers the role of gold in these contexts. Using the material of the 1850's-1860's, mainly in England, he acutely observes the weak points of the gold standard, its tendency to aggravate crises and monetary panic. In this connection he produces an acid critique of the English legislation mentioned above, and shows what lay behind it: the struggle between the selfish interests of various groups of the wealthy bourgeoisie. The economists, he writes, "recognize the need for enormous sacrifices in real wealth for the purpose of preserving the metallic basis in moments of crisis." [12] He also shows that these sacrifices in the form of unemployment, loss of production, dumping of goods abroad, etc., were actually made. He writes about the monstrosity of a situation in which the fate of the whole monetary and credit system and the whole economy of a country depend on the gold reserves of its central bank.

In regarding capitalism not as a natural and eternal order, but merely as one of the successive stages in the development of human society, Marx also applied this approach to the monetary and credit system that capitalism created. He considered that its highest form was embodied in the great banks and in the mechanism that they created for exercising the essentially social function of recording and monitoring production. Marx considered that the mechanism created by the banks could be taken over as it stood and used by socialism for the benefit of society as a whole, rather than for the benefit of the capitalist class as in the old world.

[11] Karl Marx, *Das Kapital*, vol. 1, in K. Marx and F. Engels, *Works*, vol. 23, p. 104 (Russian edition).

[12] K. Marx, *Das Kapital*, vol. 3; in K. Marx and F. Engels, *Works*, vol. 25 part II, p. 120 (Russian edition).

Let us run over the basic stages in the diminution and liquidation of the monetary functions of gold in recent decades. The first World War led to the abolition, in almost all participating countries, of the convertibility of bank notes (and deposits) into gold. In the 1920's this convertibility was restored in a number of capitalist countries, in a truncated form (so called gold-bullion and gold-exchange standard); in many countries, particularly France, the currency acquired a lower parity in terms of gold. Gold coins were already practically not being circulated. The world economic crisis of 1929-33 (the "Great Depression") put an end to the remains of the gold standard in internal monetary circulation. Gold kept its position on the world market as the material of international reserves and accounts, but the effects produced by its movement from one country to another upon their economies was reduced. The Bretton Woods agreement gave a juridical framework to this state of affairs, reserving to gold the further function of a standard of value for the various currencies. The post-war period saw a gradual erosion of the function of gold as money. The USA legally abolished gold coverage of credit money. From the end of the 1960's, international movements of gold practically ceased and the gold reserves of the central banks and government bodies were frozen. The last link binding paper and credit money to gold was broken when the USA in 1971 abolished the convertibility of dollars into gold for foreign official holders. Finally, the partial reform of the international currency system now being carried out, on the basis of the Kingston, Jamaica, agreement of 1976, abolishes the old parities of the various currencies, permits central banks to operate with gold as with any other commodity, at market rates, and envisages the liquidation of the gold reserve of the International Monetary Fund (IMF).

In summing up this historical process and evaluating it, the Soviet economists writing in the latest text book for students in economics faculties at the universities, state: "in the context of contemporary capitalism, there is an increasing tendency towards the *demonetarization* of gold, i.e. to the gradual loss by gold of its function as a monetary commodity... Gold money does not satisfy the economic requirements of state-monopoly capitalism.

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It has become a sort of 'golden chain,' holding up the expansion of the monopolies and the use of inflation as a means of regulating the economy... the process of demonetarization of gold reflects the present level of development and socialization of production, and the adaptation of the monetary sphere to the requirements of state-monopoly capitalism."[13]

The author is in agreement with this general conclusion, and intends to give a concrete exposition of those factors that make the preservation of the gold standard incompatible with contemporary capitalism. It would be reasonable to separate out three groups of such factors.

The first and most important group of factors is related to the transition from capitalism based on free competition to monopoly and state-monopoly capitalism. The sudden and irregular rise in prices at the beginning of the twentieth century, caused by the growth of the great corporations (from 1896-1913, prices rose by 49% in the USA, by 32% in Great Britain and by 41% in Germany and France),[14] produced certain strains in the system of the classical gold standard, and in particular caused a sudden and economically irrational devaluation of gold: after all, the gold parities and the price of gold in the main currencies (which was the same thing) were preserved, according to the "rules of the game," at a constant level. The increased economic role of the state is an objectively well-founded and regular process. But is it thinkable, in the context of the strict discipline of the gold standard, to "pump" money into the economy, as is generally done nowadays to treat the symptoms of economic decline? Even more inconceivable, in these circumstances, is the uncontrolled spending of vast sums of money on armaments.

The impossibility of a gold standard is also, in the second place, linked to the increasing complexity of the structure of the economy. The gold standard was only suitable for relatively simple economies, which could to a large extent adapt themselves to fluctuations in the monetary sphere.

It is theoretically conceivable to have a purely international gold

[13] *Money Circulation and Credit in Capitalist Countries*, Ed. L. N. Krasavina, Moscow, "*Finance*," 1977, p. 20.
[14] R. Triffin, *Op. cit.*, p. 13.

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standard without its internal economic components: and with some reservations such a system did operate. However the forces that act on the international arena (this is the third group of factors) made even this truncated variant unworkable. The sharp fluctuations in balances of payment, the mass movements of "hot money," economic nationalism and the use of exchange rates as a weapon of economic competition—all this first complicates and then renders impossible the functioning of such a pseudo-gold standard as the Bretton Woods system. In any case, so little was by now left of the gold standard that, as Galbraith observes, when the last link between the dollar and gold was broken in 1971, nobody spoke of any abandonment of the gold standard. "Instead, people spoke of a golden window being closed. Nobody could get particularly worked up about the closing of a window. Nobody paid any particular attention to the fact that the fragile Bretton Woods system was by now dead. It was not intended, and was unable, to cope with the large and varied movements of prices and currencies that were now commonplace." [15]

The abandonment of gold was by no means a smooth and calm process. It was not the result of any conscious planned action, of international agreements or economic theories, although all these elements were present and played a part. The political and juridical facts that embodied the abandonment of gold were forced on the various governments by irresistible economic forces, and they had practically no choice in the matter. It is typical that the critical steps in the demonetarization of gold were generally carried out in the extreme emergency conditions of world wars and economic crises. In the 1970's, the attempts to produce a planned and organized reform also failed. Instead, the Kingston agreement largely freezes the situation that had already come about under the influence of the sudden exacerbations of the currency crisis during the first half of this decade.

The policies of the major capitalist countries in the matter of gold are formulated in the light of the position of the country and the economic interest of its ruling class. As is well known, the chief supporter of the exclusion of gold from the international currency system in recent years has been the United States govern-

[15] J. K. Galbraith, *Money*, p. 296.

ment. The chief supporter of the preservation of a role for gold in this system is France. I have elsewhere tried to show the economic and political basis and the historic inevitability of this disposition of forces.[16]

Here I would merely like to make a comment on the Kingston agreement as an important fact in the evolution of gold. As D.V. Smyslov rightly comments, "each side in this confrontation is attempting to interpret and use the agreement that has been reached in such a way as to serve its own long-term strategic aims."[17] The United States is attempting to use this compromise to enforce the shaky position of the dollar, to keep the possibility of extinguishing its balance of payments deficit with paper dollars, and to lay on other countries the burden of measures for evening out payment balances. France considers that the abolition of an official price for gold and the legalization of free market operations with gold on the part of the central banks strengthens the role of the gold reserves and in fact, if not in law, gives gold the role of an international means of settling accounts, and a form in which reserves can be held. If the USA sells gold on the open market, France buys it. France has, furthermore, revalued its gold reserves on the basis of the market price.

The process of ousting gold from the monetary system is a complex and contradictory one. It affects the material and other interests of people, social groups and nations, and is a source of discord as well as an object of compromise.

GOLD AND THE FUNCTIONS OF MONEY

The evolution of gold is partly linked with the withering away of its monetary functions, and partly with their modification. Some functions disappear earlier, while others remain and obstinately refuse to leave the stage. The situation is particularly clear in respect of gold's role as an instrument of circulation. Gold has ceased to circulate in the form of money (whether as coins or in

[16] A. V. Anikin, *The Currency Crisis in the West.* Moscow, "Science" ("Nauka"), 1975, p. 81 et seq.

[17] D. V. Smyslov, "The Crisis in the Capitalist Currency System and the Search for a Solution," In *World Economics and International Relations*, 1976, No. 9, p. 39.

any other shape) since the first World War, or at all events since the beginning of the 1930's. Isolated examples of the use of gold coins as the most efficient instrument of payment in particular circumstances (e.g. the use of English sovereigns in the Persian Gulf principalities, etc.) only serve to emphasize the general truth. Of course, even under the gold standard gold was by no means circulating everywhere in significant quantities. But it was always potentially able to enter into circulation, it stood behind paper and credit money, which acted only as its representatives. Now there is no longer anything of the sort. Gold coins, which are bought and sold on the free market at varying rates in considerable quantities, are not money at all, but rather a special commodity with its own market, its own price-fixing mechanisms etc. What circulates as money, meanwhile, is of course banknotes, or bank deposits in the appropriate currency.

In the same way, gold has lost its function as a means of payment (a means of settling deferred debts). In the early stages of capitalism paper and credit money of various types had not yet fully established themselves, and payment in these forms was not regarded as definitive, as unconditionally extinguishing an obligation. Only gold could fulfill this role. Under the gold standard, payment in paper or credit money was only regarded as definitive in so far as this money was exchangeable into gold at a fixed rate. In present circumstances, however, gold is never regarded by the parties to a contract as the definitive means of extinguishing obligation, and all due debts are definitively extinguished with paper or credit money.

Money changes the value of goods and provides a means of measuring this change. Under the gold standard, this instrument of measurement was gold, and the scale of measurement was provided by fixing the gold content of units of money. "Gold" and "paper" prices were identical. If paper and credit money were not convertible into gold, they could lose their value in relation to it. Goods would then acquire two prices—a price in gold and a price in paper or credit money; although the former was the definitive price, while the latter merely reflected the devaluation of this sort of money in relation to gold.

In the classical works of early nineteenth-century Russian literature (in Gogol, Pushkin and other writers) we find situations in which the price of certain commodities (including such very unusual commodities as the dead souls of serfs) were given in silver and in banknotes. Here the prices in banknotes were usually two to three times higher, and this difference was variable. In Russia, the main money metal was silver, and the unit of money was the silver ruble; in addition, banknotes exchangeable for silver were in circulation (this was a special sort of paper money, first issued under the empress Catherine II); however, nobody dreamed of regarding banknotes as the basic form of money or as a true measure of the value of goods. A paper ruble was merely a half or a third of a full silver ruble, and the size of this ratio depended on the amount of banknotes issued, the degree of confidence in them, the economic situation of the country and other factors. The fact that one is here dealing with silver rather than gold does not, of course, make any essential difference.

Clearly, the situation is different when metallic money does not circulate at all, when prices of goods are not expressed in terms of metal money and when there is even no fixed metallic content of the unit of money; yet this is the situation we are now dealing with.

As is known, between 1934 and 1971 the official price of gold in terms of dollars was maintained at a constant level, while the prices of all the remaining mass of commodities increased on average about three times. Gold became significantly "cheaper," although there were no economic reasons for this: the cost of producing it did not fall at all in relation to the cost of producing other goods, and its supply to the world market did not significantly increase. Formally speaking, the "gold" prices of goods did not deviate under these circumstances from their paper dollar prices, but all could see that this coincidence was a fiction, the fact being that there had been a significant inflational devaluation of the dollar.

After the dollar devaluations of 1971-1973 it became possible to reckon the "gold" prices of commodities either on the basis of the new official gold price (42.2 dollars an ounce, as against the 1934-1971 price of 35 dollars an ounce), or on the basis of its much higher market price. In any case, however, these "gold" prices did not represent a genuine economic phenomenon but merely a curious statistical calculation, an analytic tool. Economic

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reality is based on the prices of goods in paper money and their relative proportions (relative prices).

Since time immemorial, gold has also carried out the function of a reserve of value, a monetary treasure. Under the gold standard, this function was closely bound up with the actual circulation of gold: as the economy came to need gold money less, gold was either hoarded in the cellars of the central bank, or in the hands of private individuals, to emerge when the need arose.

This function has undergone a significant transformation in our day. As a result of the disappearance of gold from circulation, all gold (except that used in industry) has become concentrated in a variety of storehouses—from Fort Knox in America to the old lady's stocking in the French peasant's house and the young Indian girl's casket of bracelets. It comes out of these storehouses not so much in the form of money as such, but rather in the form of a particularly liquid commodity, and it does not go to the mint or into circulation, but comes onto the market.

One cannot say that gold has quite lost the function of a money treasure for storage purposes. After all, one could in a sense say that the most liquid commodity of all is money itself; this could quite clearly be one of the definitions of money. Gold in the state's central reserve keeps its power of extinguishing international debts, while the abolition of an official price and the international legalisation of its sale on the free market in the 1970's have increased its potential buying and paying power.

In another sense, gold in private hands also preserves certain features of a treasure store of money. In the face of constant inflation and devaluation of money, stores of gold acquire the specific function of preserving a relatively stable source of buying power.

The existence of enormous hoards of stored gold (both in the hands of the state and in private hands) itself accounts for its special position among other commodities. There is not a single other commodity that even approaches gold in the volume that is hoarded away. The amount produced each year adds only a tiny fraction to what is already stored.

The monetary functions of gold are more stably preserved in the sphere of international economic relations, where gold fulfills the specific function of world money. This is quite natural, since

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the replacement of gold by paper and credit money in a situation where national state jurisdictions do not hold sway is particularly difficult and in present circumstances impossible in any full sense. I will return to this question later; here I would only note the important fact of the development and discovery of new sides to the social utility of gold.

One could say that in present circumstances gold has a triple social utility. The word utility is to be understood, of course, in the economic rather than the ethical or physiological sense. From the economic point of view, 'utility' is a property possessed by e.g. narcotic drugs as well.

Firstly, gold preserves a certain utility as money, particularly on the world market.

Secondly, gold has no serious competitors as a 'commodity for hoarding,' an insurance against inflation etc.

Thirdly, the role of gold as an industrial raw material in various processes and applications is increasing. Besides its traditional uses in jewelry and dentistry, important consumers of gold in the last few years have included the electronics and electrotechnical industries, the aerospace industry, the pharmaceutical industry and others. A special type of demand for gold is provided by numismatics.[18]

GOLD IN THE INTERNATIONAL CURRENCY SYSTEM

In the Bretton Woods currency system gold was, as we have said, given an important role. This was due to a number of factors: the real need on the part of international trade for a precious material for reserves, accounts and for the valuation of currencies; the powerful and still quite recent tradition of a gold standard; the position of the USA, which played a decisive role in the preparation of the IMF agreement and which at that time concentrated in its hands up to two-thirds of the central gold reserves of all capitalist countries.

[18] In Soviet Literature, the idea of the modification and limitation of the monetary functions of gold is most profoundly studied in C. M. Borissov's book *Gold in the Economy of Contemporary Capitalism*, Moscow, 'Finance,' 1968.

The crisis of the Bretton Woods system, i.e., the gold-exchange standard, which gradually became apparent during the 1960's and became serious at the beginning of the 1970's, was not a crisis of gold but a crisis of reserve currencies. Above all, this was a crisis of the dollar, as became quite clear in the abolition of the convertibility of the dollar into gold (for central banks), in the two successive official devaluations of the dollar, the 'unlinking' of other currencies from the dollar and in the increasingly widespread use of floating rates of exchange.

It may be considered paradoxical that in these circumstances there was a further ousting of gold from the official currency system. However this is a real-life paradox, based on the fact that contemporary capitalist economics cannot return to the hard discipline of gold. Governments fuel inflation not out of ill-will (though even this is possible), but because modern capitalism cannot develop in any other way.

The notorious slogan 'a dollar is as good as gold' now has an ironic ring. Anyone can see that gold is better than the dollar. But capitalism is incapable of returning to a better basis for an international currency system. The United States are attempting to turn this objective truth of historical development to their own ends. If gold can *already* no longer play the role of the chief reserve substance (a substance to be accumulated and used for its international buying and paying power), while Special Drawing Rights (SDR, 'paper gold', or international credit money) are *not yet* capable of fulfilling this function, and it is not clear whether they ever will be, then the only real alternative is to make sure that the dollar preserves this central position. Indeed, the forced accumulation of dollars by other countries continued beyond 1971. The system of floating exchange rates only introduced more 'flexibility' into this system: whereas in a system of fixed parities an excess of dollars on the international currency market was bound to be absorbed by the central banks of other countries, it will now rather lead to a fall in the exchange rate of the dollar, and this will diminish the excess of dollars through normal market mechanisms. Nonetheless, for a number of reasons, particularly the accumulation of dollars by oil exporting countries, the total mass of dollars in foreigners' accounts continues to grow. The system has continued to be unstable, and only its form has changed: sudden fluctuations in exchange rates have now become an essential part of it.

It is considered in principle that with a system of floating exchange rates the demand for reserves of international means of payment is decreased, and would indeed disappear altogether at the logical extreme of totally free fluctuations. The problem of international liquidity, i.e. a sufficient volume of such reserves, ought therefore to disappear, particularly in view of the proposed further issue of SDR. However, the truth is very far from these hopes and calculations, which are particularly close to the heart of American economists and politicians.

The 'free floating' of currencies has turned out to be practically impossible, since not a single country is prepared to abandon the fate of its own currency to the blind force of the elements. A number of Western European countries are attempting, in the framework of the 'currency snake,' to preserve a fixed relation between their own currencies and to regulate their common float against the dollar. All this requires the presence of a considerable volume of currency reserves.

However, the reasons for this requirement are deeper and depend on basic economic factors. In a context of general economic and financial instability on the one hand, and of great and increasing dependence of nations on external markets on the other, the maintenance of large and strong currency reserves is mandatory. And here, once again, the yellow metal enters the scene—for all that it has been denounced as a survival from barbaric times, and seemingly expelled from polite society. Gold has not found a suitable replacement in its role as a reserve for international payments, and one is entitled to doubt whether a substitute will ever be found without radical changes in the world economic and political system of capitalism.

Any other form of reserves represents, in economic terms, a credit resource. Accumulation of resources in reserve currencies amounts to short-term debts of the United States or other national states, and goes together with all the disadvantages of this fact—a tendency to inflation and devaluation, the possibility of being frozen, dependence on political factors, etc. There is a paradox in the world of finance: if you owe someone five dollars and have no means of paying your debt you are in your creditor's hands;

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but if you owe five billion dollars then your creditor is in your hands. At the present time, the role of this debtor, on whom his creditors are heavily dependent, is played by the USA; it owes the rest of the world more than one hundred billion dollars.

A new phenomenon in the post-war period in the currency world has been the creation of different forms of international reserves. These are unconditional rights to the ordinary reserves of the IMF, officially registered as part of a country's reserves, and special drawing rights (SDR). To this one may add previously agreed credit limits, laid down by agreement between the central banks. Experience has however shown the inadequacy and inefficiency of such 'lines of currency defence,' in a situation where a currency crisis is periodically exploding. The scale of economic nationalism, the acuteness of the contradictions between countries, are in conflict with the present stage of economic and financial interdependence. The supra-national regulation and coordination of policies encounters insuperable obstacles, arising from the very nature of capitalism as a system. This is very clear in the sphere of international credit and currency cooperation. Even if such collaboration is to some extent effective in countering relatively traditional manifestations of international imbalance (such as an external trade deficit), there is no prospect of its ever being able to cope with the enormous, feverish movements of short-term capital. Robert Triffin wrote "It is a striking fact that the integration of capital markets in the private sectors of the economy has far outstripped the integration of official policies and official institutions. As a result they are not in a position to cope with the problems that arise from this integration. If we want to eliminate one of the chief causes of international currency crises and instability, we must adapt the national frameworks of state policies to this situation, and create combined policies and institutions capable of carrying out such policies successfully." [19] These factors create an objective requirement for the maintenance of gold as the basis of international reserves. The experience of recent years has shown that not one country is prepared to follow the United States in selling part of their central gold reserves on the open market. Even on the part of the USA, this is more of a

[19] *The Banker*, February 1973, p. 138.

demonstration, a sort of currency display, rather than a policy carried out to its logical conclusion. It would appear that the striving to possess gold and the struggle for it are not weakening in the slightest in line with its formal and juridical demonetarization. Every government continues to sit on its chests of hoarded gold and shows no disposition to part with it, although an increase in the free price to a level three to four times higher than the recent official dollar price would make this more of a rational idea.

The fictitious quality of the price of gold in the last few years, and its abolition at the present time, have a significance which is rather ambiguous and not yet entirely clear. On the one hand, this is of course a further step, and an important one, towards diminishing the role of gold as the basis of the monetary and currency systems. On the other hand, it opens new prospects for gold to become a specific 'quasi-monetary' commodity with a far higher buying and paying power than it had a few years ago. Having been, as it were, thrown out of the front door, gold is now returning through the tradesmen's entrance. Although there is at present no real movement of gold between the central banks on the basis of a free price, cases have already occured where gold has been used as security for international loans, and has been priced at its market value (in particular, the loan obtained by Italy from Federal Germany in 1974). It is clear that such operations are likely to continue in the future. It is also possible that central banks may sell one another gold at the free market price as part of the settlement of a positive balance of payments. Even as a potential reserve, gold that is kept in a central store and valued at the market rate (as in France) has a definite influence on the economic situation.

The demand for gold for central reserves can also increase, or arise afresh, in countries which are having difficulty utilising or investing large monetary capital. The London journal 'The Banker' writes: "It is known that the Arab oil-producing countries are disturbed by the devaluation of the dollar, and there is a very real possibility that they may increase their gold reserves which they have traditionally kept at a low level." [20]

[20] *The Banker,* March 1975, p. 11.

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At the first IMF meeting after the Kingston agreement, in autumn 1976, the Executive Director of the Fund, J. Witterveen, made a cautious statement on the future of gold, admitting that it would probably continue to play the role of a reserve in the international currency system. Such a view appears to be realistic.

Under the gold standard, the price of gold was fixed; while the demand for gold at this price was practically unlimited, since the central banks were always prepared to buy. In present circumstances, the demand may show abrupt short-term fluctuations, in view of the major role (in recent years, a decisive one) played by private speculation and hoarding, as well as by industrial use, in which the possibility always exists that gold may be replaced by some other material. On present estimates, the demand for gold on the part of the jewelry trade fell by a factor of almost four between 1972 and 1974, in view of the rise in the price of gold; the demand in other industries decreased by some fifteen per cent, and the developing countries saw a significant degree of un-hoarding (the release of gold from private hoards and its entry on to the market.) [21]

This stopped the rise in the price of gold and caused a slight fall from the maximum it had reached (about 200 dollars an ounce).

In the long term, however, the demand for gold would appear to be stable and ultimately rather inelastic as regards price, in view of what has already been expounded. It is typical that as early as 1976-1977 the jewelry trade, the largest consumer of the yellow metal, increased its purchases at current market rates.

The production of gold by the capitalist countries, 75-80 per cent of which comes from the South African Republic, has notably decreased in recent years. In 1976, almost 25 per cent less gold was mined than in 1970, when production reached its peak (1273 tons). This was mainly due to the fact that the increase in the price of gold enabled the gold industry to develop poorer seams, while maintaining or even improving its profitability. The fall in production may be partly a temporary factor. However, there are also long term factors which make it impossible to count on any sort of significant increase in the mining of gold in the South African Republic, or in the capitalist world as a whole. A

[21] *Ibid.*

large modern mine takes five to six years to set up in South Africa, and requires an investment of several hundred million dollars. At the present time the South African Republic is only building three medium sized mines. There is no real prospect of any major increase in production in other countries either. Most specialist prognoses reckon that the production of gold by capitalist countries will not again reach the 1970 level in the foreseeable future.

The future of the gold industry and the gold market largely depends on the course of events in Southern Africa, where racialism and colonialism are under increasing attack from the national liberation movements. The goldmining industry has traditionally been a bastion of apartheid, of racial discrimination and harsh exploitation of the Africans.

THE ECONOMIC AND MONETARY IMPORTANCE OF GOLD

In the *New Encyclopaedic Dictionary* (the best Russian encyclopaedia of pre-Soviet times, published just before the first World War), the article on Gold begins as follows: "The economic importance of gold is enormous. Leaving aside its technical uses, gold is the foundation of the monetary systems of almost the whole world, now more than ever before. There are reasons for supposing that this function of gold, and the quantity being produced, are now close to their apogee." [22]

The authors' prediction regarding the monetary role of gold has turned out to be unexpectedly accurate, although the production of gold between 1913 and 1970 approximately doubled.

In the narrow sense, the monetary importance of gold has decreased and undergone a marked change since that time. It is far harder, indeed probably impossible, to give an answer to the question whether the economic importance of gold as a whole, in the broad sense, has diminished. As we have seen, together with the disappearance of certain erstwhile uses for gold, new forms have appeared, partly due to the development of production and

[22] *New Encyclopaedic Dictionary*, ed. F. A. Brockhaus and I. A. Yefron, vol. 18, St. Petersburg, 1914, p. 795.

technology, partly as a result of specific features in the development of the economy and of the whole social structure of capitalism. It is often hard to draw the line between these two factors. Thus, the expansion in the use of gold by the jewelry trade reflects the regular development of the consumer structure in an industrial society, but at the same time it shows features of the bourgeois way of life: a tendency towards ostentation and prestige, an outward sign of class distinctions. This is typical of the bourgeoisie both in the old industrial countries and in certain newly developing backward countries. As Gunnar Myrdal once noted, if an honored guest is offered dinner on gold plates, this is most likely to be somewhere in the "Third World."

The role of gold as an object of capital investment results from constant and increasing inflation. This role tends indeed to increase, since the conversion of money capital into gold (or into a variety of valuable paper, acting as the counterpart of gold) has become commonplace in recent years among certain circles of the high bourgeoisie, where previously this would have been regarded as odd and irrational behaviour. In Arthur Hailey's novel *The Money-Changers*, already quoted above, Lewis D'Orsey, the publisher of a financial bulletin for a narrow circle of rich people, is infuriated at the mention by important Washington officials of Keynes's famous phrase about the 'barbarous relic,' and himself recommends to his clients that they should invest 40 per cent of their funds in gold bars, gold coins and gold shares.[23]

The old-fashioned habit of hoarding, typical of the middle social strata in the West and in certain developing countries, is also encouraged by inflation and other features of the economic and sociopolitical state of instability.

Sudden changes take place in the function of gold in the international currency system, but their direction and meaning, as we have said, are not clear.

Contemporary capitalism is very different from the capitalism of the last century. It would be strange if the essential economic role of gold, in all its manifestations, had not also changed. It would appear that the vast literature on gold as a money metal is destined to expand yet further.

[23] Arthur Hailey, *The Money-Changers*, page 323.