The Crisis of the International Monetary System

Ernest Mandel

Rows Collection

Ernest Mandel

The Crisis of the International Monetary System

(December 1968)

From **International Socialist Review**, Vol.30 No.2, March-April 1969, pp.
Transcribed by Daniel Gaido.
Marked up by Einde O'Callaghan for the **Marxists' Internet Archive**.

The crisis in the international monetary system – foreseen by Marxists at a time when the apologists for neocapitalism were convinced that the capitalist mode of production had solved its basic contradictions [1] – is now taking the form of convulsions that follow each other with increasing rapidity: the crisis of the pound sterling, followed by its devaluation in November 1967; the crisis of the dollar in March 1968, followed by the establishment of the "two tier" price system for gold; the crisis of the French franc, accompanied by its masked devaluation, a masked revaluation of the German mark, and a new sterling crisis in

November 1968. It is necessary to examine the nature and functioning of the international monetary system founded on the gold exchange standard and to relate its crisis to the fundamental contradictions rending the world capitalist system in our epoch.

Gold, the gold standard and paper money

Precious metals in general and gold in particular can serve as means of exchange and means of payment because they have value, since they are products of human labor. The equation "a ton of copper is worth a kilo of gold" means that it takes the same number of hours of labor of average productivity to produce these two quantities of metal. In a monetary system based on the gold standard, the prices of goods express equivalences of the same kind. In such a system, if $1 equals 0.5 grams of gold, the statement that an average car is worth $5,000 means that as many hours oflabor are required to produce a car as to produce 2.5 kg. of gold.

A feature of the capitalist system is the unceasing upheaval in labor techniques, the manifold revolutions in the productivity of labor. These upheavals come about through the *uneven* development of different industrial

enterprises and different industrial sectors. Through capitalist competition and the equalization of the profit rate, those enterprises and industrial branches in which labor productivity rises above the social average, appropriate a part of the surplus value produced in other enterprises or industrial branches in which work is done below the social average of productivity.

The concrete mechanism for transferring surplus value from one enterprise or industrial branch to another is the formation of market prices. The technically advanced enterprises and branches realize superprofits when selling at market prices because their production costs are lower than those of their competitors, but it is their competitors who determine these prices. The technically backward enterprises and branches do not realize the average profit, or they even sell at a loss, because their production costs are greater than those of their competitors, who operate at social average productivity and determine market prices.

However this rule does not operate in the same way with the production of gold. The use of gold as the general equivalent, the fact that the use value of this commodity makes it sought after by *all* owners of commodities, results in a demand for this commodity which is – up to a certain point – *independent* of fluctuations in its own cost of production.

Ordinarily when an industrial branch becomes technically backward relative to the social average, when it “wastes social labor” in the course of current production, a part of its production will find no buyers, despite a considerable drop in price. A part of its productive capacity may even be shut down (a conspicuous case is the coal mining industry in the past

decade). But when the capitalist economy is generally expanding, the need for gold increases as a *function of this expansion,* independently of fluctuations in the productivity of labor in the gold mines compared with other industry. [2]

The implication of this for owners of gold mines is that they will secure a substantial return (big superprofit) during periods of general expansion in capitalist production, if labor productivity in the mines lags behind productivity in the rest of industry, which has obviously been the case since the beginning of the century.

For a monetary system based on a gold standard, this means that the "secular" decline in the value of commodities is strongly accentuated. Let us assume the equation, 1 car equals 2.5 kg. of gold, equals $5,000, equals 500 hours of labor. If the productivity of labor doubles in the automobile industry *while remaining constant in the gold industry,* this formula becomes 1 car equals 250 hours of labor, equals 1.25 kg. of gold equals $2,500.

We reach a conclusion which at first sight seems paradoxical: a gold standard system condemns prices to drop very sharply as long as the gap continues to increase between relatively stagnant labor productivity in the gold mines and rapid expansion of labor productivity in the rest of industry. What would really paralyze capitalist expansion is not the "low price of gold," as Rueff and Co. believe, or the "lack of international liquidity," but the abnormally high value of gold, and the ever lower price in gold for most commodities. [3]

The paradox is purely superficial. The moment one leaves the regime of a gold standard and enters that of paper money, it is necessary to relate the monetary total

to the gold total before one can understand the evolution of commodity prices relative to the precious metal. Now the quantity theory of money, which Marx rejected in connection with metallic money, is partially applicable to paper money. Paper money consists of *monetary tokens*. If a national currency is covered by 1,000 tons of gold and its monetary circulation increases from 35 billion to 50 billion (dollars, francs, etc.), this means that each monetary unit no longer represents 0.03 grams of gold but only 0.02 grams, that is, it has lost a third of its value.

The expression “price of gold,” which is obviously meaningless under a pure gold standard, takes on an indirect meaning in a paper money system, where it registers fluctuations in the monetary” total and variations in the values of various national currencies in terms of fluctuations of this total. [4] If we disregard the tremendous inflation which has taken place on a universal scale during the past half century, we see that the prices of most commodities hi terms of gold prices have really declined considerably.

Does this mean that, under a system of paper money tied to the gold standard, every expansion of the monetary total automatically causes an increase in prices? That would be true only if total production and the productivity of labor remained stable. As soon as production and productivity increase, the monetary total can expand considerably without an increase in prices.

Suppose a national production represented by 1 billion commodity units, whose production has cost 1 billion hours of labor, and which is exchanged for $35 billion, is equivalent to 1,000 tons of gold. If production increases in ten years to 1.5 billion commodity units, produced in

1.5 billion hours of labor, the monetary total may go from $35 billion to $52.5 billion, with a stable gold reserve, and the unit commodity price will remain unchanged.

It is true that each dollar will no longer represent 0.03 grams of gold but only slightly less than 0.02 grams. However, if at the same time labor productivity in all industries except gold has increased by 50 per cent, this depreciation of the dollar by 33 per cent relative to gold will not represent a decline in purchasing power. It merely expresses the fact that the totality of commodities which are exchanged against the same quantity of dollars (and gold) is now produced in 50 percent of the labor time that was socially necessary in former times. [5] The value of paper money in gold and its value in purchasing power are therefore not necessarily identical. They can evolve in opposite directions.

The gold exchange standard, balance of payments and economic crises

What is characteristic of every system based on the gold standard – whether it is a purely metallic system or a paper money system tied to gold – is *the requirement of adjusting the monetary total to the metallic total, to the "exchange reserves."* If the legal gold cover for the dollar is 25 per cent and the exchange reserves do not exceed 25 per cent of the total bank notes, every reduction in these reserves leads to a contraction of the monetary total. In effect, it implies a decrease in the quantity of bank notes in circulation. As for credit money, it is ultimately dependent on the amount of bank notes. The whole monetary system becomes an inverted pyramid which is automatically reduced as soon as its base – the gold resting in the vaults of the central bank – contracts.

Experience has shown the capitalists and their economists that a relationship does exist between the total currency in circulation and the rhythm of concentration in general economic activity. The relationship is not a causal one, as many bourgeois schools of political economy incorrectly assume. Every expansion of economic activity is necessarily accompanied by an expansion of monetary income (both wages and profits) under capitalism. Every contraction of economic activity (recession or more serious crisis) leads to a deflation of monetary income (total or partial unemployment reduces the monetary total; profits decline, etc.). If, independently of the economic cycle, the state puts supplementary means of payment into circulation (by increasing unemployment insurance, credits and subsidies to industry, state purchases, etc.), then the effect of the recession or crisis is attenuated. However, if, independently of the economic cycle, the state *reinforces* the deflation through monetary means (by reducing salaries of public employees, unemployment insurance and credit to capitalists), then obviously the effect on the recession or crisis is aggravated.

In the first case, total buying power declines less than employment and industrial production; in the second case, total buying power declines more than employment and production. One of the reasons the crisis of 1929-32 was so violent was that, in several key capitalist countries (particularly the United States, Great Britain and Germany), a governmental policy of deflation coincided with a drop in production and employment, which already existed.

However, in a system of paper money tied to the gold standard, the central banks and capitalist governments are compelled to restrict currency circulation as soon as their exchange reserves decline. All that is needed, then, is that the onset of a recession coincide with a serious deficit in the balance of payments, compelling a government to apply a policy of deflation, for an extremely grave economic crisis to erupt. If the imperialist governments had followed Rueff s advice and returned to the gold standard, the massive flight of exchange reserves from France in May-June would have *imposed* a policy of deflation on the French government as early as that day, independently of the rise in wages and costs. France would have quickly experienced tens of thousands of bankruptcies and over a million unemployed.

It was mainly the experience of the 1929-32 crisis and the fear of a recurrence of such a cataclysm that motivated the representatives of most of the capitalist countries to go over to the "gold exchange standard" system at Bretton Woods in 1944. *In this system, the automatic adjustment of the monetary total to gold reserves* – and consequently, the automatic variation of total liquid purchasing power to variations in gold reserves – *is eliminated.*

As a matter of fact, in the new system the exchange reserve of each central bank no longer consists of gold alone; it includes gold and a certain number of favored currencies, particularly the dollar and pound sterling. A complicated mechanism, guaranteed by the International Monetary Fund, operates so that when the gold reserves of a country decrease, this can be compensated for by

“reserve moneys” (dollars and pounds), or by international credits, or a combination of both.

Within each national imperialist economy, the system is completed through control of the monetary total by the central bank by means of various instruments: manipulation of discount and interest rates; control of bank credit (one of the principal sources of the creation of money in the capitalist system) through regulating the ratio of liquid assets to current liabilities, etc.

Losses of gold – balance of payments deficits – can result mainly from two movements, at least so far as the imperialist countries are concerned. They can result from an unfavorable trade balance when the deficit is not made up by “invisible” income (interest and dividends on capital invested abroad; international maritime and aviation revenue; income from tourists, etc.). They can result from an export of capital which exceeds a *surplus* in the balance of trade. The first case is true of Great Britain, the second of the United States. The first case indicates that the imperialist country is “living beyond its means,” that it is liquidating its reserves. The second indicates that the imperialist country is attempting, on the contrary, to transform – in a disproportionate way – its current revenues and resources currently being produced into long-term investments. [6]

When a country is afflicted with an unfavorable balance of payments, it must liquidate its reserves and go increasingly into debt, all the more multiplying its problems. When the imperialist countries which supply the reserve funds, themselves face a chronic unfavorable balance of payments and settle their deficit by means of their own currency, two reactions in other countries are possible. These latter may need dollars and pounds for

trade or military purposes, or may simply find it impossible to refuse this influx of exchange reserves of a particular kind [7]; in this event, the system will function without too much trouble. That was the case with the pound prior to Suez and with the dollar between the Suez crisis and 1964-65. Here the role of money as *means of exchange* (on the political level as well) outweighs its role as *means of payment*.

But if the imperialist countries believe that the influx of exchange reserves is symptomatic of the *inflation* reigning in the United States; that exchange currencies are losing their standing and are constantly losing a part of their purchasing power; that the accumulation of dollar exchange reserves will result in the long run in a substantial loss in the value of their reserves [8], because its depreciation makes a devaluation of the dollar in terms of gold inevitable. Then they will seek to convert increasing amounts of dollars which they hold as exchange

reserves into gold, and the whole monetary system will be plunged into crisis. In this case, the role of reserve money as a *means of payment* and as a *stockpile of value* (reserve) overshadows its role as a *means of exchange*.

Countries whose currencies are not reserve currencies must settle deficits in their balance of payment in gold or in dollars; consequently the total of "international liquidities" stays the same. But the United States can settle its balance of payments deficits in dollars. The influx of these dollars into the other imperialist countries immediately widens the base of the inverted pyramid (exactly the same way as an influx of gold in a gold standard system would). Consequently, dollar inflation

increases monetary circulation in all the imperialist countries; it feeds and amplifies universal inflation.

But we can never forget that in the final analysis the cause of this inflation is the combination of neocapitalist techniques aimed at avoiding a catastrophic crisis like the one in 1929-32. The cause of dollar inflation is the armament and war policy, the credit bubble in the private sector, growing state, business and private indebtedness. [9] But, catastrophic economic crisis in the United States would automatically spread to all the imperialist countries, so that "choking off" American inflation at any cost would be a remedy worse than the disease for these countries. That is why it can be predicted with certainty that the inflation will persist. The whole debate relates exclusively to its extent and how its costs are to be distributed among the various powers.

There is consequently an inextricable contradiction between the dollar as a weapon of struggle against a crisis in the United States and the capitalist world, on one hand, and as a reserve money in the international monetary system, on the other hand. This contradiction is intensified by a second contradiction, that between the dollar as an international means of exchange and as an international means of payment. In the first role, the dollar should be as abundant as possible, which means in practice that its supply should be "flexible" and its value, consequently, unstable. In its second role, the dollar should be as stable as possible, which means that its supply should rigidly conform to needs, since every oversupply of token money automatically undermines its value.

This contradiction reflects a conflict of interests within the world bourgeoisie. Those who buy and sell products to the United States, the principal sector of the world market, are interested in an abundant, even inflationary, supply of dollars; fluctuations in its purchasing power (except for short-term fluctuations) are of little concern to them. But those who hold dollar credits, public and private bonds, large bank deposits, large insurance policies, are obviously interested in maximum stability of the dollar's purchasing power. The central banks on a world scale and most private banks are in the second category; a good number of industrial trusts are in the first (especially if they are heavily indebted in dollars!).

International capital movements

When a balance of payments deficit is the result of an unfavorable trade balance, there can hardly be any question about the causes for losses in exchange reserves. We should note in passing, however, that such a balance of trade deficit does not necessarily reflect a basic weakness in a capitalist economy. In the nineteenth century, British capitalism could permit itself the luxury of unfavorable trade balances for long periods; its exports of industrial products were chronically lower than its imports of foodstuffs and raw materials. But this deficit was more than compensated for by "invisible" returns, above all from the profits of British foreign investments.

The sudden appearance of balance of payments deficits in countries which do not have chronic trade deficits can have various causes:

a. It can result from a sudden inflation that outstrips the inflation rate of its major imperialist trading partners. There is a sudden deficit in the trade balance, causing a deficit in the balance of payments. This was the case in Italy in 1963 and Japan in 1963-64.
b. It can result from "invisible" expenses which cause chronic deficits. This is one of the causes of the chronic deficits of the United States. Among such "invisible" expenses, the foreign military spending of this imperialist power must be mentioned first.
c. It can result from a chronic excess of capital exports relative to a still favorable balance of trade, but not sufficiently favorable to finance such exports. This is in part the present situation of the United States. [10]
d. It can result from a sudden movement of short-term capital.

In the fourth category we must distinguish between two types of capital movement. The first reflects the general phenomenon of "overcapitalization" of the imperialist countries, the existence of several

billions of dollars which are not invested on a long-term basis, which are looking for quick gains, and which are quickly transferred from one country to the next on the basis of two criteria: the going interest rate, and forecasts of fluctuations in the purchasing power (the "value") of various national currencies. "Hot money movements in and out of London have been widely cited to explain the numerous "squalls" which have hit the pound since the end of the second world war.

The second type of capital movement is linked to the appearance of big multinational trusts, the *multinational corporation*. Since, by definition, it has ramifications in a great many countries and its dimensions are gigantic (the annual transactions may well pass the state budget of a capitalist nation of average importance), it may have reasons for single transfers involving tens of millions of dollars from one country to another. Such capital movements can provoke important fluctuations in foreign exchange rates, which oscillate around official exchange rates in accordance with the law of supply and demand.

Moreover, these world trusts possess important reserves of liquid funds and are consequently interested in the rapid transfer of these reserves from one country to another when the slightest threat of monetary depreciation appears on the horizon. Even a fluctuation in exchange rates on the order of 2 per cent can represent a gain or loss of half a million dollars to a firm having liquid reserves of $25 million distributed in five important countries. Clearly the first type of capital

movement – ”speculation” – and the second type, which is directly connected with the international concentration of capital, are not entirely different from each other but have a tendency to be interdependent. [11]

Further these two types of capital movement cannot be considered as being independent of the fundamental situation in each of the imperialist powers and of the capitalist system as a whole. In the final analysis what takes place in the sphere of circulation reflects what is happening in the sphere of production. The “mistrust” the “speculators” have in a currency expresses their judgment – usually with some foundation – on the future evolution of the balance of payments, that is, on the future solidity of a given currency. Foreseeing the depreciation of a given currency, large holders get rid of it, possibly precipitating its collapse, or at least undermining it in foreign exchange markets. Anticipation of the movement of currencies, accelerates it. But in the last analysis it is not the anticipation which causes the collapse but the movement itself.

This was perfectly illustrated by the recent speculation around the French franc and the German mark. While the sudden movement of capital (surpassing in volume the equivalent of $3 billion between Paris and Zurich and between Paris and Frankfurt, alone) *precipitated* the monetary crisis of November 1968, it was not at all the *cause* of the crisis; its causes are far deeper.

Since May, the competitive position of French industry has seriously deteriorated because of increased wage costs as well as more rapid inflation. This made a sharp deficit in the balance of trade inevitable, and that is the real source of the “mistrust,” along with the bad humor of the big capitalists at the increase in estate duties and

certain taxes affecting the bourgeoisie (which the bourgeois press, with its sublime sense of the appropriate, characterized after the event as "clumsy".

In contrast, the West German economy finds itself in a triply favorable situation following the 1966-67 recession. Prices are relatively stable, with its competitive position improving not only in respect to "natural" competitors like Great Britain, Japan, France and Italy, but even in respect to the United States (from June 1965 to June 1968, the consumer price index increased 7 points in West Germany, 9 points in Italy, 10 points in the US, 12 points in France, and 14 points in Great Britain). The growth rate of the total currency, from 1962 to the end of 1967, remained only 5 per cent above the growth rate of the gross national product in West Germany, whereas in France the difference rose to 15 per cent. Military and unproductive charges weighing down the budget are lighter in West Germany than in any other imperialist power, so that the internal mechanism of automatic inflation works more moderately there than elsewhere. Finally, the mark is not a reserve currency and will not become one, so that it is more sheltered from speculation on its future movement than other foreign exchange. That is the real reason why capital, which turned away from the French franc and the pound sterling, moved toward Germany.

Moreover, it can be stated that in the last analysis – without giving this formula a mechanical meaning – the relationship of forces in the foreign exchange of the imperialist countries (the average and long-term fluctuations of their exchange rates) reflects the relationship of real economic strength, the different levels of their productivity, their competitive capacity on

the world market. The weakening of the dollar, whatever its contradictory aspects, and we will come back to these, is a fair reflection of a relative decline in the power of US imperialism within the world capitalist system, above all compared to its close competitors (and allies).

Reforms of the international monetary system

The world bourgeoisie is obviously not passive in face of the constant deterioration of its international monetary system. Over the years, one reform project after another has been tried. Various projects have been discussed at semigovernmental and governmental levels, a particularly noteworthy occasion being the last annual meeting of the International Monetary Fund in September-October in Washington (on the eve of the November 1968 squall, which, let us note in passing, was not foreseen at all). An analysis of these various reform projects will permit us to get a closer look at the contradictions afflicting the whole international capitalist economy as well as its inter-imperialist contradictions.

1. *Return to the gold standard*. This is the thesis propounded by Jacques Rueff in France and supported by the Gaullist regime. We have already indicated its

dangers, which big capital and its economists are fully aware of. There is no chance whatever that this reform would be acceptable to the international bourgeoisie, beginning with the Anglo-American capitalists. De Gaulle displays the mentality of a conservative petty stockholder in his blind confidence in the "metal of unchanging value." It is the voice of his peasant ancestors, stuffing gold coins in woolen socks in the process of primitive accumulation.

It has been more than a century since the industrial capitalists, as opposed to usurers and rentiers, found out, in Marx's terms, that the quantity of social labor serving to produce the metallic means of exchange and payment represents nothing more than an overhead cost in social production, consequently reducing the real productive forces. It is in the interest of the system to reduce this quantity rather than increase it. [12]

2. *The revaluation of gold*. In the spirit of Rueff's proposition, a to the gold standard would have to be accompanied by an increase in the price of gold, possibly to double its present price (from $35 to $70 an ounce). On one

hand this would stimulate gold production and cause it to flow into the vaults of the central banks. [13] On the other hand, it would allow these banks to eliminate the use of reserve money since the entire present monetary circulation of the imperialist powers, and even a new expansion of these means of circulation, could rest on the present mass of gold, substantially revaluated. Clearly this solution, without the accompaniment of a return to the gold standard, is highly tempting to the imperialist powers. Undoubtedly it is the road being taken, in stages. Establishment of the two-price system for gold (one price on the private free market and one paid by central banks), in March 1968, marks a step toward abandoning the price of $35 an ounce established in 1934.

What would such a reform mean? It would simply express the general inflation, without in the slightest degree eliminating the basic forces and causes and without even masking them. For thirty years, we are told, all prices have risen (in paper money) while the price of gold has remained stable. They forget rather quickly that in the same period

there has been a prodigious upsurge in labor productivity in virtually every industrial branch, while nothing equivalent to this has happened in the gold industry. [14] Expressed as values, that is, as quantities of labor socially necessary to produce both categories, the relationship between gold and other goods has therefore developed strongly in the direction of a *drop in value* for goods, as expressed in terms of gold.

By revaluating the "price of gold," we would undoubtedly wind up with a closer view of the relative relationships between the value of gold and that of other goods. But the end result would be to "legalize" the rise in prices, after a fashion, and even to stimulate this rise. (There is hardly any doubt that a rise in the price of gold would launch a process of general increase in the monetary total.) *The decline in the value of commodities* – relative to that of gold – *would therefore be expressed in a sharp increase in their price*. There is no better way of saying that the means of exchange – paper money – is being greatly inflated.

Let us add, also, that while gold is

obviously undervalued under present circumstances, no one can authoritatively state what the normal market price of the metal would be if there were no official price set by the central banks. The present prices on the free market are heavily tainted by speculation in anticipation of a raise in the price of gold by the central banks. A real comparison of its value – a calculation of the quantity of labor, at worldwide average productivity, necessary to produce an ounce of gold – could provoke quite a few surprises. [15]

3. *Devaluation of the dollar*. Increasing the "price of gold" would really signify a general devaluation of all currencies attached to the same gold exchange standard. But if such a devaluation occurred, the reciprocal relationships between the imperialist currencies might be reviewed. For instance, it might be the occasion for US imperialism to put through a devaluation of the dollar, particularly in relation to certain currencies like the mark, the Swiss franc, the florin, even the yen and the lira. The industrial section of the American bourgeoisie could in this way reduce the enormous spread in wage costs relative to those of

its immediate competitors. This would arrest the disquieting rise of imports on the American market, and at the same time stimulate American exports. In reciprocity, the competitors of American imperialism are obviously reluctant to do this. Reluctance shifts to indignation when projects of this kind are suggested to those bourgeois – bankers or rentiers – who possess large holdings of obligations payable in dollars.

4. *The unification of the Common Market currencies and their use as reserve money*. The creation of a "Eurofranc" has been under study for a long time. If it is to become a reality, more than unification of exchange reserves on a European scale is necessary; the establishment of a European state power is also required. Both are inconceivable in the absence of a far more advanced stage of European interpenetration of capital. For European capitalists to surrender the idea of "national sovereignty" and the use of the national state as an instrument in the defense and guarantee of monopoly profits, it is essential that their interests, the property of these monopolies, should

first be Europeanized.

On the occasion of the devaluation of the pound, the possibility was brought up of a fusion between the pound and this "Eurofranc." The new currency would take over the functions of reserve money which the pound is fulfilling in an increasingly unsatisfactory way. This obviously presupposes the entry of Great Britain into the Common Market and the participation of the British bourgeoisie in the creation of great European monopolies to confront their American competitors.

But even if these conditions were fulfilled, and if the Eurofranc, as a consequence of the preponderant position which Western Europe would again occupy on the world market [16], could really fill the role of reserve currency for small imperialist countries (such as the Scandinavian countries, Australia, New Zealand) and for semicolonial countries particularly, this would only mark a return to the situation at the beginning of the nineteen-fifties, which would wind up with the same result after a certain period. For the Eurofranc would be

implacably subjected to inflation, unless the European capitalists would prefer a crash of the depth of 1929. And inflation of the monetary reserve would trigger the mechanism of a crisis in the international monetary system.

5. *The creation of a world paper money, "central bank money."* The crisis in the gold exchange standard system stems from the unavoidable inflation which attacks currency reserves, *by virtue of their function as countercyclical instruments* within the imperialist nations which issue them (and when we say "countercyclical," we obviously also imply "instruments of permanent war spending," etc.). To avoid this congenital flaw, some economists have thought up a very simple solution: Why not create a reserve money which would *have no circulation* in any national economy at all but would only be a "central bank currency"?

   This money would stand outside national inflationary pressures. It would be administered by a world council of central bank governors (or ministers of finance), who would exercise strict discipline: Its issuance would depend exclusively on the requirements of

> world trade and not upon the particular needs of some national power. It would be "as good as gold," because of its issue in strictly limited and measured quantities. It would solve the problem of scarcity in international liquidities and would avoid all the crises of the present system. In other words, it is a project to create a "world money." And the famous "special drawing rights" thought up last March are a first step, a rather modest one it is true, along this road.
>
> The first important proposal along these lines was made by Keynes in 1943; he had even found a name for this world money, "*the bancor*." At Bretton Woods the Americans again advanced the proposal, which had been forgotten until the crisis in the international monetary system brought it up again twenty years later.

These proposals run into two insurmountable difficulties. In the first place, it is not true that such a system would be freed from the inflation of various "national" currencies. In reality, if the balance of payments of a country is unfavorable, and if it rejects deflation as the means for avoiding

> economic crisis, it will wind up by losing all of its gold, if it does not secure a supplementary quantity of “world reserve money.” Universal inflation would wind up driving gold out of the exchange reserves of the principal debtor countries. Their reserves would begin to consist, more and more exclusively, of “world money”; the quantity of this money issued would in turn increase in a greater proportion than world exchanges, under the threat of forcing imperialist countries into deflation which they would certainly reject. The inflation of “national” currencies would therefore have repercussions on the “world money”.

Also, such a “world money,” administered by a “world council,” presupposes a group of experts “independent” of every government and every specific imperialist power, which is a fiction, or presupposes a total and unfailing solidarity among the imperialist powers, which is a fantasy.

Unquestionably a certain *degree* of solidarity exists among the powers in face of a “common danger” (not only the bureaucratized workers’ states, or the socialist revolution, as in May 1968 in France, but also the danger of a crash of the whole international monetary system). The real situation, however, is more complex; it is a *dialectical unity of solidarity and of competition among imperialist powers*. So long as there are divergent interests and competition, the “neutrality” of an “administrative council” is completely illusory; it could only reflect the relationship of forces among powers, a relationship, moreover, which is always in flux. An

"administrative council of world money above the fray" (the fray of interimperialist conflicts being meant here, not the conflicts between antagonistic social forces) really presupposes a "world government," that is, "super-imperialism," a fusion of imperialist interests through co-ownership of the principal monopolies on a world scale. We are far from that state of affairs.

The conclusion is clear: *all* of the applicable reforms of the world monetary system represent nothing but extensions of international inflation. The latter can really be suppressed only at the price of a return to the orthodox gold standard, at the price of a new economic crisis of extreme gravity. The reforms are directed at best toward attenuating the crisis in the international monetary system, not to eliminating it. This crisis will endure as long as the capitalist mode of production still manages to survive.

Significance of the international monetary crisis

On the historic scale, development of the productive forces is increasingly rebelling not only against private property in the means of production but also against the narrow limits of the national state, in which this development is being increasingly stifled. Like interimperialist wars – virtually impossible today because of the threats hanging over the whole system – the attempt at economic integration of capitalist Europe, the

propaganda for the “Atlantic community,” the appearance of institutions such as the “Group of Ten” (which unites the major imperialist powers), or the “gold pool,” agitation favoring a world money – all of these represent the efforts of the imperialist bourgeoisie to resolve these contradictions in its own way. At the same time they reflect the impossibility of reaching stable results along this road.

The world is ripe for economic planning on a global scale. This implies a single world money, which can eliminate in a major way the overhead cost involved in the production of gold for monetary ends. But only socialism is capable of realizing these possibilities and the promises they contain. For capitalism, they will remain an eternal mirage.

One cannot plan world money on a global scale, that is, the sphere of circulation, without simultaneously planning production. The combination of a “controlled money and anarchy in production has wound up in a permanent inflation in each imperialist nation. It is hard to see why it would wind up differently on the international level.

Private property in the means of production, meaning decentralization of important investment decisions, implies the inevitability of economic swings and anarchy in production. The irreducible spread between the increase in the capacity of social production implicit in capitalism and the limits which it imposes on the capacity for consumption by the masses, gives these fluctuations and this anarchy its periodic crises of

overproduction. Neocapitalism, the third stage in the development of capitalism, cannot evade these fluctuations and these crises any more than could free competitive capitalism or classical imperialism. It can only amortize the most serious crises into more moderate recessions, at the cost of permanent inflation.

While inflation – so long as it remains moderate – is not incompatible with a more or less normal functioning of monopoly capitalism in the principal imperialist countries, it contains the danger of increasingly disturbing the world exchanges as soon as it provokes a serious crisis in the international monetary system through the inflation of international reserve currencies. This is the stage now making its debut in the history of neocapitalism. The imperialist powers will search for and apply partial remedies. Each of the remedies will reflect, apart from any desire to reform the system itself, the special competitive interests existing at each specific stage. Inflation itself will not be throttled.

The privileged position that the dollar occupied in the international monetary system for two decades reflected the exceptional situation of the American economy and the power of American imperialism within the international capitalist system. This situation has gradually changed; this power is in relative decline. Every reform of the international monetary system, however unviable it may be, will therefore necessarily reflect the new relationship of forces within the system; it will greatly reduce or even eliminate the role of the pound, reduce the role of the dollar, and win also reduce the role of gold. These relationships of forces will finally settle the question whether it will be a unified European foreign exchange or partial experiments with "world

money” which will be substituted for the declining roles of gold, the pound and even the dollar, in their character as international means of payment. [17]

Every adjustment of the international monetary system, as well as every change in national monetary parities, is not only a weapon in interimperialist competition; it is also an instrument in the national and international class struggle. Big capital always concentrates its efforts on getting the workers to bear the expenses of monetary inflation and of its “reform.” The crisis of the international monetary system therefore *tends to sharpen class conflicts within the imperialist countries*, since it reflects an exacerbation of interimperialist competition – with each bourgeois class attempting to “put its own house in order,” that is, improve its own competitive position at the expense of its own workers. Manifestations of this trend have multiplied in Europe during the past four or five years; they will soon cross the Atlantic to hit the United States and Canada, then Japan.

The question whether in the long run all the artifices that keep the colossal inverted pyramid of credits, debts and inflated paper money standing will cave in, and whether recessions will wind up in a new crash like 1929, is not of major interest to the revolutionary movement at this stage. Marxism never tied the perspective of socialist revolution to one of an economic crisis of exceptional gravity such as the 1929 crisis (truly unique in the entire history of capital). It has simply related this perspective to the economic and social contradictions of the system. These contradictions, including the impossibility of avoiding economic crises and fluctuations, are visible and palpable today as they were yesterday, even if the

crises are less serious than that of 1929 or 1937 (recessions are just that – less serious crises than those two, particularly in the number of unemployed they create).

By intensifying social conflicts, the international monetary crisis reveals the sickness of the whole system. At the same time it creates increasingly favorable situations for class struggles opening up pre-revolutionary periods, such as those which France experienced in May-June 1968. [18] It is up to revolutionaries to utilize these contradictions, struggles, and recessions in order to bring about the overthrow of capitalism, which is objectively possible. To spout about a "great crash like 1929" too often covers a refusal to understand the possibilities already existing and a refusal to take advantage of them.

December 1, 1968

Top of the page

Footnotes

1. "The dilemma confronting the state in the period of capitalist decline is that of choosing between crisis and inflation. The former cannot be avoided without accentuating the latter ... Monetary stability – which by definition is limited in time – thus appears as the insurmountable barrier against which the moderating intervention of the state in the economic cycle must collide over the long term. The contradiction between the dollar as a countercyclical instrument within the United States and the dollar as money of account on the world market has become insurmountable,"

we wrote in 1961. (**Traité d'Economie Marxiste**, Vol.II. pp.192-193.)

2. See Karl Marx, **Capital**, Vol.II, Part I, Chapter 6, Section 3. In periods of acute economic crisis, when the need for gold shrinks drastically and the precious metal flows out of the market into hoards, this trend is obviously interrupted. At such times, many so-called marginal mines may be closed, as was the case during the 1929-33 crisis.

3. "A general fall in prices can result only from a fall in the value of commodities – the value of money [of gold – *E.M.*] remaining constant ..." (Karl Marx, **Capital**, Vol.I, Part I, Chapter 3, Section I, p.99, Progress Publishers, Moscow 1965.)

4. Under a gold standard system, gold is the instrument for measuring prices; these are expressed relative to a precise quantity of gold, for example, a pound. Under these conditions, the "price of gold" would be expressed in the following way: 1 gram of gold is worth .002 pounds of gold, which is obviously tautological. Under a paper money system, tied to gold, this would still be true. If by definition $1 equals 1 gram of gold, the expression "the price of gold is $28 an ounce (of 28 grams)" is meaningless; it is not a question of price but the result of a fixed gold coverage of paper money. It is obviously no longer the same thing when bank notes are issued in a larger amount fhan the total gold held at the central bank. When monetary tokens are involved, their value relative to gold is a measure of their quantity. The "price of gold" under these conditions would be the reciprocal of the value of the paper money. Under the actual regime of a gold-exchange standard, the "price of gold" represents the value of the dollar in terms of gold, fixed by the Federal Reserve System of the United States.

5. We are obviously simplifying. The monetary total does not serve solely as a means of exchange for commodities; it also serves as a means of payment.

6. A current deficit in the balance of payments always indicates an inflationary situation. Total circulating buying

power in the country is greater than the value of goods and services being offered. The excess buying power attracts supplementary foreign products into such a country.

7. We should not forget that following the second world war the imperialist countries did not complain about the inflation of dollars but about their short supply on the world market. The unfavorable balance of payments of the United States – especially created by a flow of dollars to Europe and Asia in the form of "foreign aid" – made it possible to overcome this shortage and increase exchange reserves by a much larger amount than the annual production of gold could possibly have furnished. As for the semi-colonial countries, which are tributaries of the imperialist countries experiencing generally even more serious inflation than that of the dollar, their bourgeoisie, even today, considers the dollar as real stuff – not 'wallpaper money!'

8. This mishap occurred to several semicolonial governments in the sphere of influence of British imperialism, particularly several Arab countries which are large oil exporters. When the pound was devalued in November 1967, the value of their accumulated exchange reserves was sharply reduced.

9. One must not confuse the sources of monetary inflation with the causes of a rising cost of living; the latter are not reducible to the former. Here the pricing policies of the big monopolies must be taken into consideration (what they call "administered prices" and "pricing investment") whereby the monopolies utilize every increase inwages wrested from them by the workers to increase their profit margins.

10. We say "in part" because an important percentage of US capital invested abroad, both in Western Europe and in the semicoloniol countries, does not entail any real transfer of capital from the United States, but is financed by capital borrowed in those countries. The "capital account" of the United States is practically in equilibrium. The effective export of capital, causing on actual flow of dollars out of the US is

balanced by an equivalent return in interest and dividends on previously invested capital.

11. On the question of the international concentration of capital, the multinational corporation and their relationship to the growing instability of the international monetary system, see my small book **The Common Market and European-American Competition**. This book, which was published in German last year by Europäische Verlagsanstalt in Frankfurt, will shortly be issued in French by Editions Maspero and in English by the New Left Review Publications in London and the Monthly Review Press in New York.

12. "The entire amount of labor power and social means of production expended in the annual production of gold and silver intended as mstruments of circulation constitutes a bulky item of the *faux frais* of the capitalist mode of production, of the production of commodities in general. It is an equivalent abstraction from social utilization of as many additional means of production and consumption as possible, i.e., of real wealth. To the extent that the costs of this expensive machinery of circulation are decreased, the given scale of production or the given degree of its extension remaining constant, the productive powerofsocial labor is *eo ipso* increased. Hence, so far as the expediences developing with the credit system have this effect, they increase capitalist wealth directly ..." (Karl Marx, **Capital**, Vol.II, Part II, Chapter 17. Section 2, p.350, Progress Publishers, Moscow 1967.)

13. The attempt to increase the "price of gold" (devalue the dollar) has been a strong stimulus for gold hoarding over the past few years. In 1966 and 1967, the equivalent of the entire production of gold in the capitalist world wound up in the strong boxes of speculators rather than in the reserves of central banks. It is interesting to note that Marx, in the paragraph following the one cited in footnote 12, indicates that without the development of the credit system and of monetary tokens (credit money), the capitalist system would have

reached a limit based on the volume of production of the precious metals.

14. It is true that a constant rise in production costs, while the sale price has remained stable for more than thirty years, has spurred the capitalists exploiting gold mines to increase the rationalization of labor and to close marginal mines, so that the average productivity of labor in this sector has also increased.

15. On several occasions, American imperialist leaders have threatened to "demonetize gold." They believe that if the central banks stop buying gold and throw their complete stocks on the market, the price of gold – which would then be purchased only for industrial use – would slump. This would have been a far more realistic proposal in the period when the United States possessed two-thirds of the world's gold; it is no accident that they did not make it then. Today there is no chance at all the capitalist governments (let alone the workers' states) would accept such a proposal. From now on, any "demonetization" could only be partial, and with the help of the inflation of paper money, gold would continue to be bought, both by governments and individuals, as a guaranty against periodic devaluations of foreign exchange currencies.

16. The capitalist countries of Europe have over 50 per cent of world exports lo their credit. Even if the internal Common Market exchanges are eliminated from this figure land there is no justification whatsoever for such a subtraction), the figure would still be above 40 per cent.

17. We must emphasize that the international capitalist economy is going through a real "crisis in international liquidity" which is striking the semicolonial countries even more heavily than the imperialist ones. Prior to 1940, the total amount of exchange reserves for all countries was more or less equal to the value of annual world imports. In 1964, these reserves (only 60 per cent of which were in gold) represented merely 43 per cent of world imports.

18. While students played the role of detonator in the the May-June 1968 explosion in France, we must not forget that the detonator could operate only because the explosive material was present. This explosive material was made up in a very precise way, apart from the general causes which are products of neocapitatism but do not explain why this explosion took place now and not in 1961 or in 1973. Its constituent elements were the residue of unsatisfied workers' demands resulting from the "stabilization plan" of Giscard d'Estaing, the recession which that provoked in 1964, and its "renewal" in the ordinances of 1967; also, by the rise in unemployment among the youth for a year. These two phenomena are tightly linked to inflation and the attempts to restrain it within the framework of interimperialist competition. In this connection, see Daniel Bensaid and Henri Weber, **May 1968: A General Rehearsal**, Maspero, Paris 1968, pp.147-151.

Rows Collection