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HIGH COST of LIVING

by
Karl Kautsky

Forgotten Books

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Changes in Gold Production and the Rise in Prices

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Translator's Introduction

THE following is Kautsky's chief contribution to a much discussed matter. The whole question of prices is very vexed, for, as Kautsky says: "It is no mere academic question, since anticipations as to the continuance of the rise in prices, as well as the operation of their causes, are very evidently dependent upon the point of view as to the reason of the rise in prices."

We find everywhere, moreover, approximately the same differences of opinion which causes Kautsky to attack the conclusions of Varga. In England, for example, Professor Hobson has recently published a work entitled *Gold, Prices and Wages*. His thesis is that the recent increase in the supply of gold is not the main reason of the rise in prices; in fact, he is doubtful if it is a contributory reason. He attacks the idea that gold is the basis of credit and industry that asserts that credit is not based upon gold but upon goods. Professor Hobson incidentally makes an attack upon Professor Ashley's statement that "the most direct and immediate way in which an influx of gold affects trade is by causing the banks to make advances on easier terms, so stimulating enterprise and causing an increase in the demand for commodities and services, and consequently a rise in prices."

The work of Professor Hobson was subjected to a very clever and searching criticism in the *New Age* (London), May 15, 1913, from which we take the following extracts as being clearly to the point in this controversy. It will be noted that they tend very strongly to support the position taken by Kautsky:

If Professor Hobson had been at all familiar with banking methods he would have known that bills and vendible goods are accepted as banking security only because they are believed to be readily exchangeable for gold. Everyone knows that bankers grade collateral, from what are known as ‘gilt-edge’ securities, downwards, depending upon their convertibility; and bills and goods not readily convertible are ruled out.

> “Sir Edward Holden probably knows as much about bank credit as any living man. In his address to the Liverpool Bankers’ Institute in 1907 he said: ‘You here see the direct connection between trade on the one hand and gold on the other, and that it is not so much the production of gold, as the amount of gold, which can be obtained for the purpose of increasing bankers’ reserves. I venture to think that the above explanation will enable you to come to the conclusion that if the gold base of the triangle cannot be increased, then the danger spot is the loan.
>
> “‘I want you to remember that the banking system based on country has its triangle, and that the principles enunciated above exist in every triangle of every banking system based on gold in the world. That being so, it is clear, generally speaking, that the business of the world is carried on by means of loans, that loans create credits, that the stand-by for the protection of the credits is gold, and that therefore gold controls trade.’
>
> “What has recently happened is this. The great increase in the gold supplies has enabled bankers to give credit facilities to a much larger class than heretofore, and to accept securities which formerly were inadmissible. It is not merely an increase in the bank reserves which enables them to do this, but the knowledge that there exists a much greater volume of gold which would be forthcoming, if these securities had to be sold. The more gold there is available the more readily can goods and securities be exchanged, and hence the safer they become as banking security for loans.
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> “Professor Ashley’s statement is quite correct. If I can now borrow on goods which formerly were regarded as insecure, it is correct to say that credit can now be obtained on ‘easier’ terms.”

It is quite safe to say that, but for the great increase in the gold supplies, there would have been no such increase in credit facilities as we have witnessed, and hence no corresponding advance in prices.

Irving Fisher, Professor of Political Economy at Yale, in the *Review of Reviews* for February, 1910, says:

> "Have not short crops, inventions, labor unions, trusts, and numerous other conditions some effect, not only on particular prices, but on the general level of prices? To this question an affirmative answer may be made without surrendering the proposition, that the only influences affecting the price level are three: Currency, its velocity and business volume, for all other causes produce their effects through these three. Short crops will decrease and inventions increase the volume of business. Inventions affording more rapid transportation and communication tend to increase the velocity of circulation of money and checks. Inventions in metallurgy tend to increase the volume of credit substitutes for money. The substitution of corporations for partnerships, by increasing the volume of stocks and bonds which can be used as collateral securities for loans, likewise tend to increase bank deposits based on these loans; and bank deposits are the chief substitute for money.
>
> "Similarly labor unions and trusts, if they actually restrain trade in the aggregate, will tend to increase the price level. This effect, however, is of quite a different kind from a direct raising of particular prices. From no point of view can the conclusion be justified that the main cause of the present rise in cost of living is due to labor unions. This rise in cost is world-wide, being felt in Europe and India, where American lobar unions and labor leaders cannot, by the utmost stretch of imagination, be supposed to dominate the situation. Moreover, so far as American statistics show, such as those of Bradstreet and the Department of Commerce and Labor, wages have risen only about half as fast as the cost of living. If it were true that the increasing demands of labor unions, by increasing the cost of producing commodities, had resulted in a general increase of prices, these would surely have risen more slowly than wages. The facts, however, show that the cost of living has increased about twice as fast as wages, and this seems to be approximately the rule during any period of rising prices. In other words, during rising prices the laborer is the loser. In fact, his strikes and insistent demands for higher wages represent a belated

> attempt to overtake the advancing cost of living. Labor disputes and demands are thus an almost invariable accompaniment of rising prices, but they are effects of rising prices, not causes."

The interesting point in all the above is that the much abused and ridiculed Marxian labor theory of value is again forcing itself upon the notice of the professional economists.

Alexander Noyes, writing in the *Atlantic Monthly* of October, 1907, says:

> "If, however, inflation of prices in every market, absorption of capital on a scale of unthinking recklessness, the use of ill-secured credit to make good deficiencies in the supply of ready capital, are resumed on the scale of the past few years, it is highly probable that not even constantly increasing gold production will save the markets which have indulged in such excess from a complete and prolonged collapse. The strain upon capital and credit may be eased sufficiently to restore equilibrium in financial and commercial markets; but if the strain continues beyond a certain point, a breakdown of credit follows, and with it forced liquidation of the whole position on which the existing level of prices was built up. This was the history of the periods immediately preceding 1857 and 1873."

It will be noted that there is much similarity between the conclusions here set forth and those of Kautsky, the latter maintaining that to keep the ball rolling, more and even greater quantities of gold must be produced, not only actually but relatively to the volume of trade. Unless these quantities are produced the movement slows down, credits break, the inevitable crash takes place.

In the present instance, as Kautsky points out, recovery is bound to be harder, and the effects upon the working class more severe, because of the high prices reached by agricultural products, etc. The secondary factors tending to a rise in prices make themselves more conspicuously felt. Under these circumstances, as Kautsky says, the rise in prices completely changes its character. "As long as the influence of increased production brought with it increased demand it was welcomed as an accompanying phenomenon of growing prosperity. Since the flow of increased gold production has receded and the other factors of increase in prices are still existent and all together have not had the effect of increasing demand but of diminishing supply, this increase takes on a more disturbing character. From a phenomenon accompanying prosperity it becomes a tense of growing misery, and no longer of mere social relative misery, increased exploitation, but of absolute physical misery."

And that prices do rise and continue to rise we have undoubted proof

The *Bulletin of the U.S. Bureau of Labor Statistics* No.174, dated April 4th, 1913, says, in the general summary with which it introduces the volume

> "Wholesale prices in 1912 advanced sharply during the first five months, and a strong upward tendency was maintained to the end of the year. The most important features in the movement of prices during the year was the marked increase in the great groups of farm products, food, fuel and lighting, metal and implements.
>
> "The average of wholesale prices in 1912, as measured by the prices of 255 commodities, was 3.4 per cent higher than the average for 1911, and with this advance the level was 1.5 per cent above the high average of 1910 prices. Wholesale prices during 1912 were 18.3 per cent higher than in 1890; 20.9 per cent higher than in 1900; 48.9 per cent higher than in 1897, the year of lowest prices in the 23-year period from 1890 to 1912; and 83.6 per cent higher than the average price for the 10 years 1890 to 1899.
>
> "The upward movement of prices which began July, 1905, reached its highest point in 1907 in October, from which month there was a general decline until August, 1908. Beginning with September, 1908, wholesale prices increased without a break in any month up

to March, 1910; from this time to December, 1910, prices declined slightly. Prices in January, 1911, showed p slight declin2 from those of December, 1910, but through the year 1911 the fluctuation from mostly to month was small. During the first months of 1912 prices rose rapidly until May, when slight recessions occurred during June and August. In September and October prices were again higher, reaching the level of May in November, with a loss in December, 1912, of loss than one-fourth of 1 per cent.

"Wholesale prices in May and November, 1913, were higher than at any other time in the 23-year period from 1890 to 1912, being 18.5 per cent, higher than in July, 1905; 3.4 per cent higher than in October, 1907; 11.5 per cent higher than in August, 1908, and 1.8 per cent higher than in March, 1910. Wholesale prices in December, 1912, were 12.8 per cent higher than in December, 1905; 4.6 per cent higher than in December, 1910, and 4.6 per pent. higher than in December, 1911.

"Wholesale prices for 1912, as stated above, were higher than for any other year of the 23-year period, 1890 to 1912, covered by the bureau of Labor Statistics price reports, and they were also higher than for any year since 1883."

The following table, taken from the same report, shows the Relative Prices of Commodities by Groups (1890-1910), and January to December, 1912:

Average price from 1890-1899, 100.0

Year	Farm Products	Food etc.	Cloths and clothing	Fuel and lighting	Metals and implements
1890	110.0	112.4	113.5	104.7	119.2
1891	121.5	115.7	111.3	102.7	111.7
1892	111.7	103.6	109.0	101.1	106.0
1893	10 7.9	110.2	107.2	100.0	100.7
1894	95.9	99.8	96.1	92.4	90.7
1895	93.3	94.6	92.1	98.1	92.0
1896	78.3	83.8	91.3	104.3	93.7
1897	85.2	87.7	91.1	96.4	86.6

1898	96.1	94.4	93.4	95.4	86.4
1899	100.0	98.3	96.7	105.0	114.7
1900	109.5	104.2	106.8	120.9	120.5
1901	116.9	105.9	101.0	119.5	111.9
1902	130.5	111.3	102.0	134.3	117.2
1903	118.8	107.1	106.6	149.3	117.6
1904	126.2	107.3	109.8	132.6	109.6
1905	124.2	108.7	112.0	128.8	122.5
1906	123.6	112.6	120.0	131.9	125.2
1907	137.1	117.8	126.7	135.0	143.4
1908	133.1	120.6	116.9	130.8	125.4
1909	153.1	124.7	119.6	129.3	124.8
1910	164.6	128.7	123.7	125.4	128.5
1911	162.0	131.3	119.6	122.4	119.4
1912	171.3	139.5	120.7	133.9	126.1
			1912		
Jan.	171.6	140.7	115.7	125.8	121.0
Feb.	171.7	140.3	115.3	128.4	121.0
Mar.	179.8	142.3	117.4	128.7	121.4
Apr.	189.0	146.5	119.1	133.6	122.5
May	189.8	144.7	120.4	134.0	123.4
June	176.6	143.2	121.1	132.4	124.2
July	171.3	142.0	121.7	133.5	125.8
Aug.	164.1	138.4	122.6	133.0	126.9
Sept.	166.3	138.6	123.1	133.6	128.9
Oct.	164.7	138.7	123.4	136.8	131.9
Nov.	158.6	138.5	123.8	142.2	132.8
Dec.	157.8	135.6	125.0	144.8	132.8

Average price from 1890-1899, 100.0

Year	**Lumber and build. materials**	**Drugs and chemicals**	**House furnishing goods**	**Miscellaneous**	**All commodities**
1890	111.0	110.2	111.1	110.3	112.9
1891	108.4	103.6	110.2	109.4	111.7
1892	102.8	102.9	106.5	106.2	106.1
1893	101.9	100.5	105.9	105.9	105.6
1894	96.3	89.8	100.1	99.8	96.1
1895	94.1	87.9	96.5	94.5	93.6
1896	93.4	92.6	94.0	91.4	90.4
1897	90.4	94.4	89.8	92.1	89.7
1898	95.8	106.6	92.0	92.4	93.4
1899	105.3	111.3	95.1	97.7	101.7
1900	115.7	115.7	106.1	109.8	110.5
1901	116.7	115.2	110.9	107.4	108.5
1902	118.8	114.2	112.2	114.1	112.9
1903	121.4	112.6	113.0	113.6	113.6
1904	122.7	110.0	111.7	111.7	113.0
1905	127.7	109.1	109.1	112.8	116.9
1906	140.1	101.2	111.0	121.1	122.5
1907	146.9	109.6	118.5	127.1	129.5
1908	133.1	110.4	114.0	119.9	122.8
1909	138.4	112.4	111.7	125.9	126.5
1910	153.2	117.0	111.6	133.1	131.6
1911	151.4	120.3	111.1	131.2	129.2
1912	148.2	122.9	113.7	133.2	133.6

1912

Jan.	145.1	121.8	113.0	127.8	130.5
Feb.	144.3	121.8	113.0	129.9	130.7
Mar.	145.0	121.5	113.4	132.7	132.3
Apr.	146.0	118.4	113.6	134.3	134.8
May	146.6	123.4	113.6	136.6	135.4
June	146.8	122.7	113.6	134.5	134.3
July	149.5	123.1	113.6	132.3	134.4
Aug.	150.4	122.5	113.6	132.3	133.7
Sept.	152.1	125.5	113.6	133.8	184.7
Oct.	150.7	125.6	113.6	134.4	135.2
Nov.	151.0	125.3	114.4	135.1	135.4
Dec.	150.5	124.1	114.4	134.8	135.1

The *Bulletin of the United States Bureau of Labor Statistics*, Number 115, April 8th, 1913, is a study of the variations in the retail prices of fifteen staple commodities, as follows:

Sirloin steak; round steak; rib steak; pork chops; bacon, smoked; ham, smoked; lard, pure; flour; wheat; corn meal; eggs, strictly fresh; butter, creamery; potatoes, Irish; sugar, granulated; milk, fresh.

A table giving the relative retail prices of the foregoing articles of food from 1890 to February, 1913, yields the following general results according to the table in question:

> "In 1891 prices advanced to 103.4; in 1892 them was a slight decline to 101.6; in 1898 an advance to 104.1. After this there was a gradual decline until the lowest price (95.2) in the 23 years and 2 months covered by this report was reached in 1896. From that time each year showed an advance until 144.1 was reached in 1910. The price (143.0) in 1911 showed a slight decline from 1910, but the price (154.2) in 1912 was far above that of any other year during

> the 23-year period. The monthly relative price in January, 1911, was 145.0. There was a decline until 135.3 was reached in April; then an advance each month until January, 1912, when the relative price was 153.5; a decline during each of the next two months; then an advance until 154.6 was reached in May; then a slight decline to 154.1 in June, a further decline to 151.8 in July, then an advance each month to 159.5 in November, and then a decline each month to 155.8 in February, 1913."

A table showing the per cent of increase or decrease in wholesale prices, comparing the average for 1912 with the average for each of the preceding twenty-two years, gives the following general results:

> "The greatest advance in any group was in farm products, in which the price in 1912 was 118.8 per cent higher than the 1896 price making the price in 1918 more than twice that in 1896. This group was 5.7 per cent higher than in 1911.. Food, etc., in the year 1912, was 66.5 per cent higher than in 1896, and 6.2 per cent higher than the average price for 1911. The cloths and clothing group in 1912 was 32.5 per cent higher than in 1897, 0.9 per cent higher than in 1911, and 2.4 per cent lower than in 1910."

No comment is made upon the foregoing figures by the translator because no comment is necessary. They show only, too clearly the actual deterioration in wages as regards purchasing .power. Relatively we have lost ground, and when the time of stress due to what Kautsky regards as the inevitable stagnation comes, the suffering will be all the more intense and the feelings of class antagonism all the more acute.

Kautsky looks optimistically into the future, well satisfied with the work done in the past. He says of the German worker: "He may confidently enter upon the conflict which the new era of capitalism has for us." Such confidence can only spring from the possession of a strong organisation and widespread education in Socialist theory. Such are the essentials of advance in this country as well as in Germany. Organization and education are still the master words.

I. Simple Production of Commodities

One of the most discussed points of economic theory at the present time is whether changes in the production of gold have any connection with the present rise in prices. It is no mere academic question, since anticipations as to the continuance of the rise in prices, as well as the operation of their causes, are very evidently dependent upon the point of view as to the reason of the rise in prices.

In our own party this matter is also much argued. This discussion, considering the importance of the question, would be much more keen if it were not for the fact that a popular presentation of the matter is very difficult. I hope, however, to make the main points generally clear. If the reader, however, in spite of my efforts, meets with difficulties, it will be for the most part at the beginning of the work. The closing chapter is intelligible in itself without knowledge of the matter preceding it.

Comrade Varga published, more than a year ago, an article in the *Neue Zeit* on *Gold Production and the Rise in Prices*, in which he set forth the theory that changes in the production of gold are not accountable for the present in prices, and furthermore that such change would never cause a fall in the value of gold but only a rise of ground rents in mining.

He has recently sought to support this view, which was contested by Otto Bauer, J.V.G. and myself. Whatever one may think about Varga’s views, they have unquestionably presented an important problem which had not been formerly stated. The statement of a new problem, moreover, constitutes a service to science, when, as in this instance, it is not haphazard, but proceeds from a complete knowledge of the subject.

Varga said in his first article: "In *Capital* we find no analysis of the method by which changes in the method of the production of gold affect prices."

Otto Bauer undertook an investigation of the entire modern production-process, but in it he took up a problem which is peculiar to the simple pre-capitalistic handicraft method of production and which must therefore be solved by itself.

Varga declares the system of banking to be the reason why changes in the production of gold do not automatically operate to produce changes in the value of gold. Because the central banks corner all the gold which comes into the world market no lowering of the value o£ gold can take place. So it would appear from this as if the problem were a different one under the modern capitalistic system than under a system in which goods are simply produced. But in reality the banks play no part in the economic role of gold in connection with this question, as I have already shown in a former article.

But in the simple system of producing commodities there is no limit to the hoarding of gold and silver respectively and particularly cash, because money is a commodity, and the only commodity of which one can never have enough. As for the simple method of production of commodities, Marx said: "The impulse to collect treasure is measureless." (*Capital*, Vol.I. Charles H. Kerr & Company, Chicago.) The existence of banks was not necessary to develop this, and the capitalistic method of employing money makes no change in the immeasurability of the tendency to accumulate.

In its very notion money seems to be a commodity different from all other commodities, in that it can be used in every case and under all circumstances. Thus the money-commodity becomes money.

If Varga concludes from this that changes in the method of producing gold cannot make changes in the prices of commodities, he proves too much, since such changes have been of frequent occurrence in history, and conspicuously so in the sixteenth century, after the discovery of America.

The fact established, the problem remains merely to discover in what fashion the change in the value of gold appears in the market and expresses itself in prices.

In mere commodity-exchange without the intervention of gold, each of the two commodities to be exchanged, for example a table and a coat, represents a supply and a demand. The owner of the table offers it to acquire a coat. He only effects an exchange when a tailor appears on the market who offers a coat and wants a table far it.

As soon as a commodity becomes a money-commodity a change tales place. The table, the commodity, represents only an offer. It may find no one who wants it. At the other pole of wares is money, which is the thing desired, and not the thing offered.

The amount of demand for a given commodity depends upon the mass of the owners of money who feel a desire to acquire it for a given price, and upon the quantity of money which they have. The mass of money at a given time on the market constitutes the maximum possible demand, for commodities at that time – we are here investigating simple cases, merely, and take no account of credit. The more money people have, the greater the demand for commodities under the same circumstances. The greater the demand, the higher the price of commodities under the same circumstances.

One may picture the matter naturally as the whole mass of money, on the one hand, and, on the other, as the whole mass of commodities, and prices as being fixed by their mutual relations; or as if the owners of money and the owners of commodities were two different classes face to face.

But the former owner of a commodity becomes the owner of money when he has sold his wares, and the demand for commodities which he is now able to make becomes all the greater. The more goods he formerly sold the greater his ability to demand. Inside the circle of the production of goods none can buy unless he has first sold, and no one can demand without first having offered. On the other hand, no one who has made a sale is compelled to expend the money, so set free, in the purchase of new commodities. He can hoard it, and when he chooses he can buy a commodity directly with the money which he has saved, without selling anything in the interval.

The conditions of supply and demand may be exceedingly varied in the beginning of the production of commodities, depending upon manifold conditions.

A certain step in the extension of the production of commodities requires a certain amount of money – gold or silver – to bring about the circulation of wares – buying and selling. A further development of the production of commodities goes hand in hand with a corresponding production of the precious metals, which increases the amount in existence. But the conditions of the amount of money offered and the amount of goods demanded at a given time, and therefore the height of the price of commodities, depends not on the total amount of available money-metal, but upon the numerous circumstances which cause, sometimes, a larger, and, sometimes, a smaller amount of this money to be offered on the market.

There is, however, a point in the production of commodities which may be quite independent of these conditions; that is, the production of gold. I am speaking now of the production of gold alone. Where the use of silver predominates, the same is implied of silver.

If the producer of gold does not sell his product as industrial raw material, but transforms it into money, he is the only producer in the realm of commodities who enters the market, not with an offer, but with a demand. The demand which he makes is quite independent of the conditions of the market in so far as he is the only producer who does not need to have sold in order to be able to buy.

Increase of its production implies under all conditions increase of demand on the commodity market. And this increase is by no means limited to the amount of its production. If the producer of gold buys wares with his product, these possessors of wares are thereby placed in a position to buy wares themselves, and so on. Additional gold becomes the starting-point and the impetus to an additional circulation of commodities in which again arise new demands and commodities. This additional circulation is involved in the circulation already existing, influences it, and is influenced by it. Its speed is therefore to a great extent dependent upon the same circumstances as those on which the old circulation depends. However it may shape itself, the amount of demand which the additional gold develops is on every occasion a multiple of the sum of values of the gold itself.

If, for example, the yearly gold production is one hundred thousand pounds of gold, one hundred and forty million marks, this sum forms, if entirely transformed into money, an increased demand for commodities to the extent of 700 million marks a year. This occurs if the entire circulation of commodities is such that each piece of gold on an average makes five purchases a year. On the other hand, if circulation is so rapid that each piece of gold makes ten purchases, the additional demand will be 1,400 million marks. Every time it will be much higher than the sum of the values of the gold produced.

According to what has been said, it will not be very difficult to estimate how a change in the conditions of producing gold will result.

Let us take a society, in the next place, with simple, that is to say, pre-capitalistic, production of commodities, such as handicraft shows, for example. Every worker owns his own means of production. No one produces for himself, but each makes wares for the market. There are no machines and no industrial reserve army. All the forces of labor are at work and distributed through various branches of production, so that none of these branches can push ahead of the other unless labor leaves the latter to go into it.

This does not mean, by any means, that the same amount will be produced every year (simple reproduction). An enlargement of production is possible and very necessary, even in the simple production of wares to provide for increased population. But a sudden increase of production is, under the conditions of simple production of commodities, impossible. It can only grow steadily and evenly from year to year. The circulation of commodities follows the rule of the law of value. The product of an hour of labor is bought with gold to whose production an hour of labor is necessary.

Now let us consider the increase of gold production in the given society. For example, suppose it is possible by means of gold discoveries to double the production of gold in the same mines with an equal expenditure of labor, instead of one hundred thousand pounds (140 million marks), 200,000 pounds a year.

Productivity in other branches remains the same, therefore the amount of commodities for the market does not grow in proportion to the amount of gold. The demand for commodities therefore grows stronger than the supply. The prices for commodities must therefore necessarily rise, even if there is not the least change in the disposition of the social labor forces.

How high the prices will rise is, however, not solely fixed by the yearly increase in the production of gold. We have seen that the additional demand for commodities arising through every increase is dependent upon many varying conditions in the circulation of commodities.

In the extreme cases which we have taken, that the productivity of gold production is suddenly doubled, there will arise a violent new demand for commodities, which cannot be satisfied at the old prices. Every commodity which comes into the market can find a buyer as the circulation of commodities is accelerated, but thereupon also the demand for commodities is still further increased in proportion to the newly furnished increase in the amount of gold.

The result will be a doubling of the prices of commodities. If this is not so, gold production will have a particular power of attraction for the labor-force of society. The gold digger could then buy for the product of an hour's labor more than the product of an hour's labor. He would have to work less hard than the laborers in other pursuits in order to live as well, or he could live better with the same expenditure of labor-power. So that numbers of workers in other branches of industry would leave these and take to gold mining. That means that under given conditions the production of commodities would be limited, and that of gold increased still further. Again, the demand for commodities would be increased until workers in the gold mines cannot live any better than those in other branches of labor and until the compelling force to gold digging ceases, that is, until with the product of one hour's labor the product of one hour's labor can be bought, and the law of values has been realized.

A diminution of industry and of agriculture through excessive direction of labor power into the production of the precious metals in the simple stage of the production of commodities is no merely theoretical hypothesis, but can be observed many times in history.

In Spain, after the discovery of rich gold and silver fields in America in the sixteenth century, the forces of labor flocked to them. A mass of precious metals was thrown upon the Spanish market, and at the same time the industry of the country went backward. The old historian Anderson, in his history of trade, has cited a set of Spanish statistics for the year 1588, according to which there was then in Spain not more than a million male adults, and therefore a total number of five millions of people. As causes of depopulation and economic decay, he cites the driving out of the Moors and the Jews, the numerous European wars of Charles V and Philip II, and. finally the emigration of the stronger elements to the American Lands.

Where mere increase of demand for commodities does not operate to restore the equality of exchange of similar values which have been disturbed by a change in the value of gold in the simple production of commodities, the limitation of supply accomplished the same result.

It is probably an obvious objection that a mere increase in the amount of gold money will have the effect of increasing demand, and therefore raise the prices of commodities even without any diminution in the value of gold.

I have already postulated that the yearly production of gold is doubled by reason of an improvement in technique which has allowed as much gold to be produced by half an hour's labor as formerly took an hour's labor to produce. One might now take an instance of the discovery of new gold fields which were not richer but just as rich as those hitherto existing, and which, with the same amount of labor, produced the same amount of gold as before. In this case, too, the yearly amount of gold is doubled, and the demand for commodities and their prices are enormously increased without any changes in the value of gold.

This would be correct if gold fields alone, and not men, were necessary to the production of gold. According to the first hypothesis, the production of gold required no more labor power than formerly in order to double the production of gold. In the case we are now considering, twice as many men would be necessary. Whence will they come? Simple commodity production has no industrial reserve army. They must be taken from their present occupations. But what will induce them to take up the production of gold? They earn no more in their new occupation than in the old. Indeed, since the increase in the amount of gold brought about an increase in the price of commodities, while the amount of gold which each miner produced remained the same, they would be better off by engaging in the production of other commodities than mining gold. There would therefore not be the least inducement to put additional labor power into the production of gold and to double that production.

Still new discoveries of gold lead to an increase in the production of gold. The condition remains stable provided that all gold fields are equally productive. This is well known not to be the case. Some are enormously rich and yield great returns for little labor, and there are others whose product barely maintains the miner. Similar differences mark both the new and the old gold discoveries. The richest would be sure to attract the greatest amount of labor power. The increased production increases prices and thereby does away with the possibility of maintaining the old gold fields. Their workers can no longer buy the same amount of commodities with the product of their labor, cannot live, in fact.

The result would not be a doubling of the labor time in gold mining, but a shifting of the time heretofore spent in the labor of gold mining. Only the rich mines would be worked and so the same amount of labor time would then produce an increased amount of gold, whose sum would be of the same value as that of the gold formerly produced. The value of a given amount of gold, e, g., of a pound of gold or a specific piece of gold coin, has therefore fallen.

Here we find a mutual adjustment between the value of gold and the prices of commodities, though the method of adjustment is here different. Both are mutually dependent, and cannot remain independent of each other.

This does not mean, however, that the prices of commodities always reflect the relation of commodity value and gold value. This is not true for single market transactions. Also it is not true, as an average, if we disregard the modification of the law of value by the adjustment of the rate of profit where we consider the pre-capitalistic methods of production. Marx says of gold: “Jacob doubted if gold was ever paid for at its full value. This is still more true of diamonds.” (*Capital*, I)

In other words, the commodity prices expressed in gold are always higher than should correspond with the full value of the gold. Marx has, unfortunately, not told us how this happens.

I see the under-valuation of gold, particularly in this, that it not merely displays a great amount of value in a small compass, but that the creation of such an amount of value is frequently a disturbing element.

In a diamond or gold district a worker may find a rich diamond or a gold nugget without much seeking; he will then be hailed by the opponents of the Marxian theory as the complete demolisher of that theory. The critics forget, however, that many other diamond and gold seekers, who have sought the desired treasure vainly, or with trivial success, have been repaid poorly, or not at all. But the gold seekers are like the vulgar economists; they see only the nuggets of the one and not the failures of the others, and they go off to the mines in which, as a whole, they expend more labor than they get values. That means that, as a whole, their standard of living is poorer than that of the generality. We are not speaking of wages. It must be remembered that we are still concerned with the period of simple production of commodities, in which the worker works with his own tools and is the master of his product, not yet being a wage worker. In the production of gold this stage lasts a long time. Even in the middle of the last century the gold miners in California and Australia were independent producers. In the Klondyke they are for the most part so to-day. This has been in part the cause and in part the result of the long technical backwardness in getting gold. The great privations which the mass of miners endure are well known. In spite of this, it is the hunt for the fabled nuggets which impels them. It is the same with the production of silver.

Adam Smith, in *The Wealth of Nations*, in the eleventh chapter of the first book, says

> "Neither are the profits of the undertakers of silver mines commonly very great in Peru. The same most respectable and well-informed authors acquaint us that when any person undertakes to work a new mine in Peru, he is universally looked upon as a man destined to bankruptcy and ruin, and is upon that account shunned and avoided by everybody. Mining, it seems, is considered there in the same light as here, as a lottery, in which the prizes do not compensate the blanks, though the greatness of some tempts many adventurers to throw away their fortune in such unprosperous projects."

The fact that lotteries which do not pay find a ready market does not abolish the rule that all money capitalists are in pursuit of interest, neither does the fact that gold does not exchange for its full value do away with the law of value. This law not only says that all goods at a given time exchange for the amount of socially necessary labor incorporated in them, but that the value of a commodity and, therefore, its exchange value, as compared with other goods, changes when the amount of social labor necessary to its reproduction changes, that is, rises and falls proportionately.

In this sense the law of value applies to such goods as for one reason or another regularly exchange above or below their real value.

Varga says that the improvement in the methods of getting gold must result in an increase in the differential rent of gold-mining. If, at the present time, in the poorest mines, two pounds of gold can be got with the same amount of labor, let us say one week's labor, per man where formerly only one pound could be had people will now exploit gold mines which formerly did not pay. A mine which only produced half a pound of gold for a week's labor would now yield a pound with a similar amount of labor and thus be worth working. Mines which up to the present produced only a pound a man per week and so yielded no differential rent, could now pay the rent of a pound of gold per man per week. The least productive mine, costing the most to operate, is, however, the one which fixes the value of gold. This, therefore, will not sink, while the least productive mine produces a pound per man per week. The socially necessary amount of labor for the production of the gold and therefore its value remains the same.

This method of proof would be unimpeachable, save for the fact that it merely states that which it seeks to prove, namely, that prices do not rise because of the increased production of gold. Varga says:

> "owing to the cheaper working of ores a kilogramme of gold metal can now be had by the expenditure of a smaller quantity of minted gold."

But gold is not produced by means of gold, out by the expenditure of human labor.

When, as a result of the increased demand which the increased gold production causes, the prices of commodities rise, the cost of the means of life and the tools required by the gold miners also rise. These will rise first and to the greatest extent, because the increase in gold production especially increases the demand for them. The higher the price of these the greater the tendency to save labor power in gold mining, and the less the possibility of taking up new mines.

If Varga's theory were correct, the ground rents for mining the precious metals would, in the course of time, become higher than in any other method of exploiting land. But Adam Smith declares that in no other form of industry are ground rents so low, and Marx supports him. He quotes the following extract from Smith's *Wealth of Nations*, in his *Theories of Surplus Value*:

> "The price, therefore, of the coarse, and still more that of the precious metals at the most fertile mines in the world, must necessarily more or less affect their price at every other in it.
>
> "The price of every metal, at every time, therefore, being regulated in some measure by its price at the most fertile mine in the world that is actually wrought, it can, at the greater part of mines, do very little more than pay the expense of working, and can seldom afford a very high rent to the landlord. Rent, accordingly, seems at the greater part of mines to have but a small share in the price of the coarse, and a still smaller in that of the precious metals. Labor and profit make up the greater part of both.
>
> "As the price, both of the precious metals and of the precious stones, is regulated all over the world by their price at the most fertile mine in it, the rent which a mine of either can afford to its proprietor is in proportion, not to its absolute, but to what may be called its relative fertility, or to its superiority over other mines of the same kind. If new mines were discovered, as much superior to those of Potosi as they were superior to those of Europe, the value of silver might be so much degraded as to render even the mines of Potosi not worth the working."

Ricardo differs from this opinion, but Marx, on the other hand, agrees with it. He only thinks Smith makes a mistake in that he attributes the special combinations of the market to the general market. But as he expressed himself: "His reasoning is on the whole correct, and Ricardo is wrong."

The "special combinations" under which the Smith proposition proceeds is that development is not from the exploitation of richer mines to poorer, and therefore just the combination which our investigation overturns.

Thus, according to Marx, there is no rise in differential rent, but an increase in the yield of a few rich mines following on the discovery of new rich gold and silver fields.

This is not a mere theoretical conclusion. In the sixteenth century, when the great stream of precious metals, gold and silver, from the newly discovered lands of America, came to Europe, there were gold mines in the Alps. Will anyone declare that they all became exhausted simultaneously? Why was not the rise in prices, due to the precious metals of America, the universal reason which transformed the working of all these mines at one and the same time into a losing business? Ground rents, as far as concerns the gold mines of the Austrian Alps, were at that time not only not raised, but for the most part entirely destroyed.

Of the silver mines, Smith says in this much quoted chapter:

> "After the discovery of the mines of Peru the silver mines of Europe were the greater part of them abandoned. The value of silver was so much reduced that their produce could no longer pay the expense of working them or replace with a profit the food, clothes, lodging and other necessaries which were concerned in that operation. This was the case, too, with the mines of Cuba and St. Domingo, and even with the ancient mines of Peru."

The same fate happened to the gold and silver mines of Europe, at least in Germany. They had brought into being quite an important Protestant power in Saxony and Bohemia and the Alpine countries. The decline in the mining of silver weakened Saxony, the cradle of Protestantism, and Bohemia, where Calvinism was followed by the Hussites. In the Alpine countries again the discontinuance of gold mining lost Protestantism its position.

> "The downfall of mining, following the competition of the precious metals from America, broke the resistance of the miners in the mountains. In the Alpine countries, Tyrol, Salzburg, Steiermark, etc., mining was completely stopped, and with it was lost the only progressive thinking element in those regions. The districts which had, in 1525, risen victoriously against the noble and the priest, became the stronghold of ecclesiasticism and absolutism; some districts of Austria which had taken a vigorous part in the revolution of 1525 became an Austrian Vendée, in which changes the decline of the mines was in each instance the preponderating factor." (Kautsky, *The Miners' and Peasants' War*, *Neue Zeit*, 1889).

Thus even religious reform is dependent upon gold. One can see how transformations in the methods of producing gold cause transformations in price, in the method of producing goods, and finally in the relative strength of classes.

What has been said hitherto applies only to the condition of the simple production of commodities. How do these matters stand as regards the capitalistic method of production?

II. Capitalistic Method of Production

To get at scientific results we must set out the material facts as simply as possible and investigate them. When the interrelations of things are learned by pursuing this method, we can grasp the more complicated and superficial facts with greater ease. If we begin by investigating the latter we become lost in a labyrinth and the issues are obscured.

Let us, therefore, put the case as simply as possible. So far, we have considered gold as the only money metal, and have ignored silver. We have also considered all the gold produced as being made into money. Finally, is the last chapter, we considered gold as produced under the universal conditions of simple production of commodities. Let us now examine the effect which changes in its production make upon prices, under the conditions of universal capitalistic production. In reality, however, there are numerous intermediate stages. For example, in the mines in the Alps gold was produced capitalistically by entrepreneurs who employed laborers, in the midst of a society in which simple production of commodities was the dominant form, and which went hand in hand with an extension of production for use. In Spanish America, on the other hand, the workers in the gold and silver mines were Indian slaves. In California and Australia, again, for half a century gold mining was carried on under the conditions of the simple production of commodities by free producers, who owned their own tools and land. This latter system of producing gold was, however, a substantial portion of a very highly developed capitalistic method of production.

We shall have to ignore these intermediate stages. Let us now look at the capitalistic method of producing gold in a capitalistic society. How does a change in the method of producing gold operate – a lessening of the amount of social labor necessary to the production of a given quantity of gold? Since we are concerned with the question of the rise in prices we shall merely keep in view the results of a diminution in the quantity of labor, and shall here leave out of consideration any increase in the amount of labor necessary to produce gold owing to a decline in the productivity of the mines.

The gold mines are possessed by the capitalists. So also is the equipment and machinery necessary to work them and get the gold. The workers are wage workers. They are paid like other hired workers. The question of the productivity of labor is therefore immaterial to them. If the production of a pound of gold formerly took two weeks' work of one man, but now only takes one, it does not mean that his weekly pay will be doubled. That remains the same, as long as the increased gold production does not change the price of the necessaries of life. The extra pound of gold which the two weeks' work produces does not imply any increased cost of production. It is pure profit to the capitalist who owns and works the mine.

This condition, however, cannot long continue. It must result that if the annual gold supply is doubled, there will be an increased demand for commodities at the current prices.

The results on the market are, at the beginning at least, identical with those in the case of the simple production of commodities. The gold is not any longer delivered by the diggers, but by the exploiter of diggers. The increased amount of gold may be used by him in two different ways. He can buy articles of consumption or means of production to increase his business. He can loan it directly or indirectly in the form of interest-bearing government securities or obligations, or take shares in other businesses.

The more capitalism develops the more will these last forms of expenditure of newly acquired gold be employed. And thus, by those means, the gold leaves the possession of the gold producers to spread itself over the world.

In this way a remarkable phenomenon is explained to which the Director of the United States Mint, in his report for the year 1911, alludes, a report which contains a wealth of material on the gold question. The phenomenon is the fact that the majority of mines in the world belong to England, and yet only a minimum of the gold taken from them goes to England. From December, 1899, to December, 1910, there went to the English banks less than ten millions, against fifty-three and one half millions to Austria, one hundred and sixty-two millions to Italy, one hundred and ninety-five millions to Russia and over forty-eight millions to the Balkan states, etc. Of course the wealth of these States did not increase so much more than that of England. It was chiefly a movement of gold coins which caused such a quantity of gold to go to Eastern and Southern Europe. This movement, however, chiefly appeared in the form of loans.

In whatever way the owners of the gold may use the additional gold, it serves like other gold to buy goods, means of consumption, means of production, means of destruction. Demand for goods is increased thereby and prices rise.

If this increased demand showed no rise at all, or no corresponding rise in prices, the greater productivity of the mines in proportion to the capital invested in them would raise the profits of capital invested in gold mining above the average rate of profits in the world of capital, and there would be a tendency to invest in them similar to that which occurred, under like circumstances in the system of simple production of goods. Only, formerly, the higher productivity in gold-production directly stimulated increased labor to that industry. This occurs now, but the increased profit does not go to the worker. Still, this increased profit causes an increased stream of capital to flow into gold mining, which under these conditions yields a greater profit than the average. The increased capital then attracts increased labor power, without which, indeed, it cannot be applied.

Therefore new capital and new labor power go to the gold fields. If, in spite of the increased demand, the prices of commodities do not rise sufficiently high to equalize the difference in the rates of profit, the additional capital and labor power produce new additional quantities of gold which on their part again create a greater demand for commodities and drive prices higher.

The stream of new capital to the gold fields will last until the use in the price of commodities has reached such a point that the extra profits of gold-producing cease and the rate of profit is the same as in other branches of production. Indeed, it can go so far as to reduce the average rate of profit in gold-mining below the general rate of profit upon the same grounds according to which the selling-price of gold is beneath its exchange value. The lottery character which belongs to gold mining, even under the capitalistic method, impels numerous capitalists to it, who invest in mines whose rentability is very low. Varga in his argument has given some strong examples of this. Just compare the dividends in the two following samples of South African gold mining:

1901	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Ferreira	100	287½	250	262½	300	300	300	600	300
General mining	10	10		20				5	15

Results vary in one year from 0 to 600 per cent.

As you see, it is quite a lottery.

In the special report on mining from the American Census Bureau of 1900 (*Special Report on Mines and Quarries*, 100, Washington, 1905) Dr. J. Hourwich discussed *Gold and Silver* (pp.500-580).

Dr. Hourwich gives the following figures for 1,079 companies engaged in gold and silver mining in the United States:

	Paying Dividends	**Not paying dividends**	
		In full work	**Developing**
No. of companies	136	614	329
Output for labor in dollars	13,200,000	19,400,000	3,600,000
Other cost of working in dollars	7,500,000	10,000,000	1,600,000
Value o£ product in dollars	35,300,000	31,600,000	1,100,000

Therefore only a small number of companies paid dividends. They were indeed the largest. They produced more than one-half of the whole. Those not paying, however, employed more labor than those paying. Similar conditions could be found in no other industry.

Just as in lotteries, it is the small people who are robbed of their money by promoters. Shares may be valued and offered at the smallest possible sums. According to this report, the dividends o£ the paying companies have no less than 94,700,000 shares at an average of two dollars a share. There is democratization of capital for you! Every workingman can become a capitalist, the owner of gold mines.

The sums paid out in dividends on these shares amounted to ten and a half million dollars, or a little more than five per cent on the amount invested.

There is, however, the enormous number of 516,000,000 shares of those companies which paid no dividends. The democratization of capital was still further advanced. The average nominal value of a share was one dollar and sixty cents. The glittering gleam of gold which is so universally attractive emptied the pockets of its pursuers to the extent of $834,000,000, leaving them merely paper which paid no dividends, and the mines produced riches only for the promoters and agents.

On the whole in 1902 four billions of marks were invested in American gold and silver mines and fifty million marks were distributed as dividends, about one per cent.

Altogether the capital in mining in the United Mates consists of shares representing 2900 millions of dollars on which dividends to the amount of 72 million dollars were paid in 1892.

Therefore we find:

	Gold and silver mines	**Other mines**
Share capital in dollars	1,017 million	1,886 million
Amount of dividends in dollars	10 million	62 million
Average per cent in dividend	1 per cent	3½ per cent

That shows that the profit rate in the production of gold and silver is far below the average.

So far we have been considering the effect of changes in the method of producing gold under the capitalistic system of production. They are analogous to those under the simple production of commodities. But the effects of an increased production of gold upon industrial production are quite different under capitalistic conditions.

Stability is one of the marks of the simple production of commodities. It proceeds year by year in the same course undisturbed by surplus goods which come from general over-production or too rash extension. Each handicraft develops its different classes of work differentiated by long training and which cannot invade each other. Besides under this method, while there is a considerable out-of-work proletariat, it is an inferior proletariat, which, under the given technical conditions cannot be involved in the production process. This is prevented not only by the requirements of educated craftsmanship but owing also to the lack of the extra means of production for extra skilled labor.

The capitalist system is different. . Marx explains in *Capital* the methods by which on the one hand an industrial reserve army is formed, and, on the other, enormous speed is added to the accumulation of capital and through both of them together the most rapid extension of production is rendered possible and this extension, owing to the accumulation of products, becomes a necessity for the entire capitalistic method of production.

I have predicated the method of arriving at these conclusions as well known.

Under these circumstances the extension of gold-production operates differently than under the simple method of producing commodities. A rise in production under the latter brings with it an increase of prices on the market without stimulating the production of commodities and often indeed with the effect of stopping and limiting it.

Under the capitalistic method of production, on the other hand, every increase in the demand for goods acts as a spur to extend production, a spur which the process of production immediately and readily obeys.

The increased amount of gold which appears upon the market and causes an increased demand for commodities, raises their price and hence the profit to be had from their production. So, not only the production of gold but all the other branches of industry, incited by it, require new capital and additional labor power. The capitalist method of production is well equipped and the extension of the production of gold does not by any means drain the reserve industrial army.

One might imagine that the increased demand of gold would soon be met by an increased supply of commodities and that the earlier standard of prices would be restored. That would imply nothing less than a restoration of the extraordinary profit-rate of gold mining.

As a result increased capital would again flow to it, gold production would be extended afresh, demand for commodities would be again in creased, and prices would again rise which would give a new impetus to the production of commodities and so forth. If the addition to the production of gold is not transitional, but continuous, it must have the greatest possible influence on the process of production.

Suppose that the increased quantities of gold only increased the demand for machinery (for the new mines), for palaces for the gold upstarts, for wine and beer and loom-products for men and women servants, and the wage workers in the gold mines. This means again an increased demand for iron and coal and wool and cotton, for brick and stone, for machinery for spinning and weaving, for malt and hops and corn and butchers' meat, etc. The profit and the sums expended in wages in all of these industries must consequently rise. Besides, they make new demands for means of consumption and production of all kinds. If this process lasts for some time and there is steadily, as we have said, more gold put on the market, we have a thoroughgoing era of prosperity steadily marked by a general rise in prices.

This rise in prices now appears, if it is universal, to operate against the increase of the profit rate in industry in that it increases the cost of raw material and wages, and thereby to restore the superior profit rate which existed at the beginning of the improvement in the conditions of production before the rise of prices. As long as profit depends upon prices it is shown by the difference between buying and selling price.

If accordingly the price of a manufactured commodity rises and simultaneously with it the price of raw material, of machinery and of labor power, profits do not increase, they may even diminish if the price of the latter factors increase more rapidly than that of the completed product.

So the rate of profit depends not alone on the difference in prices. It is reckoned by the year according to the total amount of profit which comes from a given amount of capital in the course of the year. This total amount depends not only upon the amount of the profit which the capitalist gets from any single piece of business but upon all the pieces of business which he transacts in the course of the year. If the capitalist does not let his goods lie long but sells them quickly and gets his money for them, he turns over his capital quickly and thereby increases the annual amount of his rate of profit, even if the profit realized on each turn over remains the same. It may even increase where the profit on each separate transaction decreases.

Let us suppose that the capitalist makes ten per cent on each turn-over of his capital, and that he turns over his capital twice a year, that means a yearly profit of twenty per cent. Let us suppose too that increase in the cost of raw materials and the price of labor reduce his profit on each turn-over of his capital to five per cent, but the speedy movement of business lets him turn over his capital six times a year, his yearly profit will be thirty per cent.

An increased demand for commodities brings with it this rapid movement in business and quick turn-over of capital and thus increases profits in spite of the general increase in prices.

In the production of gold it is impossible to increase the rate of profits by a quick turn-over of capital since the turn-over depends upon the condition of the market and not on technique. The transformation of money into commodities and of commodities into money upon the market does not exist for gold, as long as it functions as gold. The rate of profit in gold mining depends exclusively upon the conditions of production and not on the speed of the circulation of commodities. Gold is money as soon as it is produced, that is to say, placed on the market. It does not have to wait for any buyer to transform it into money.

The rise in the rate of profit through the speed in the circulation of commodities pertains therefore exclusively to capital invested in the production of commodities. Therefore the flow of capital to gold mining is kept within certain limits. As soon as the production of a new amount of gold begins, a brisk demand for goods appears and awakens the production as well as the sale of goods. This awakening, this speed in the production of goods, goes hand in hand with a rise in prices as each period of prosperity shows. The occurrence of such an epoch of prosperity and with it an increase in the price of goods, is the method by which, under capitalistic conditions, the law of value establishes itself in gold mining, by lessening the amount of labor time socially necessary to the production of a certain quantity of gold. If this method is not sufficient then the movement of capital in gold production towards the equalization of the profit rate completes it.

It does not therefore militate against the contention that changes in the method of producing gold have contributed to the present rise in prices, when Varga shows that the production of commodities throughout the world has been enormously increased in the last decade. For example, that iron has been increased fifty per cent, coal thirty-five per cent, and on the other hand that the products of gold-mining have only risen thirty-two per cent in the same period. This is a good argument against the quantity theory which seeks to explain the rise in prices by a mere comparison between the price of commodities and the amount of gold, but it does not attack my contention that in the capitalistic method of production which makes prosperity dependent upon an increase in demand, prices and profit rates correspond with the conditions of production and establish the law of value for gold.

Varga would explain that the periods of prosperity which we enjoyed for nearly twenty years lave nothing to do with the changes in the production of gold but are dependent upon entirely different factors.

If he wants to show that the law of value does not apply to the money-commodity, he must prove that an increase in the demand which arises from increased gold-production has no influence on commodity prices, commodity exchange, or commodity production. He would find this hard to prove.

I believe that I have shown, theoretically, how increased gold production must operate in these connections. The actual statistics support my theoretical conclusions. From 1800 to 1850, we give the figures for decades, not for single years. So we do not show the yearly variations, but only the general tendency of the decade. Besides gold-getting, silver-getting had its share in the operation of the production of the precious metals on economic life. We ignore this so as not to complicate the exposition but we shall deal with it later.

Till the middle of the seventies there was no change in the relative value of gold and silver during the nineteenth century, not even in the fifties at the time of the rising production of gold. Gold steadily remained fifteen times as valuable as silver. There was a speedy change in the seventies following upon a rapid change in the method of producing silver. In 1870 the ratio was 15.57 to 1, 1879 about 18.89 to 1, 1889 about 22.10, 1889 35.03, 1909 19.74, 1910 38.82, finally 1911 38.33 to 1. [1]

Under these circumstances it was impossible to retain both silver and gold as standards of value. All states which were involved in world commerce and up to that time had a silver of a double standard have found themselves practically, if not admittedly, obliged during the last quarter of the last century to adopt the gold standard.

Silver money was not thereby abolished. It was merely reduced to the role of inferior money. Silver money no longer functioned as the representative of its value in silver but of a certain gold value established by law. Like paper-money silver can only fulfil this function as long as its output is confined within certain limits. But these are very broad. The demonetization of silver, the discontinuance of its role as money proper, has not ended the coining of silver money. It has merely brought it about that silver money realizes the actual value of its metal and therefore implies a given amount of gold. The value of a single piece of silver, its ability to demand, has therefore not by any means diminished in proportion to the reduction in the value of silver but only in proportion to the reduction in the value of gold.

The demand for small money grows with the development of capitalism, partly through the development of the wage system, by which the number of those in receipt of wages increased and at the same time money payment takes the place of payment in kind. Both cause the sum of money payments to grow enormously and these are for the most part made in inferior money.

Thus for example in the United States from 1880 to 1910 the number of industrial wage workers alone increased from 2,700,000 to 6,600,000 and the annual amount of their wages from 950 millions to 3400 million dollars.

The increase in the sum of the wages paid alone causes an increase instead of a decrease in the amount of silver money in spite of its demonetization.

We can learn the amounts of silver money which have been newly coined since its demonetization from a review by the Director of the United States Mint in his recently published report. In the last thirty-eight years 877 millions of dollars gold have been minted in the entire capitalistic world, and silver coins, as well, of a mint value of 540 millions of dollars. Herein is included a great deal of reminting of old coins or minting of old metal. The amount of existing supply of money-metal must be valued at much less. The report gives the amount of money lying in the banks for the most important countries in the world at, in round numbers, five billions of dollars.

Through the demonetization of silver the mass of metal which it represented has not lost its purchasing power, its economic existence. It cannot, therefore, be declared that this phenomenon has worked against and retarded the economic influence of increased gold production.

If we examine the chart we shall find a rapid movement soon after 1850, as a result of the discovery of gold in California and Australia. These discoveries began to operate on the English labor world immediately after the disillusionment of 1848. They quickly attracted the energetic and irreconcilable elements, who went off to the gold fields, and by this Chartism was conspicuously weakened, just as the Reformation lost its most important positions in Germany, owing to the gold and silver discoveries in Spanish America. On both occasions gold strengthened the counter-revolution. Contemporaneously, changes in the production of gold had their economic influence in the production of commodities.

Marx and Engels were the first to point out the significance of the California gold discoveries. About 1850 they declared the discovery of these mines to be “more important than the February Revolution.” It brought to England “that amazing increase in wealth and power” of which Gladstone spoke in his speech on the Budget; and which Marx one year later quoted in his inaugural address to the International. This was the brilliant period of the French Empire. A rain of gold seemed to pour on “good society.” We find simultaneously a glittering movement in business and a fever of promotion and speculation. Finally, that period laid the foundation stone for the development of the great industry of Germany which from that time developed rapidly.

From 1860 the rise in the production of gold came to a stop, but began again some time after. From 1870 to 1874 we find a marked falling off in gold production, a fall in prices notably followed and, then, with, the stagnation in gold output to the beginning of the nineties a period of lower prices and continued dullness in trade that caused many of us, I admit that I was one, to think that the capitalistic system had already fallen into a condition of chronic overproduction.

But suddenly arose a new development of gold production such as was never seen in the world before. In the year 1886 the first mine in the South African Rand was opened. In 1890 the cyanide process was introduced, in 1891 the gold fields of the Yukon in Alaska were discovered. In proportion as this advance in the production of gold made itself felt, stagnation waned, prices began to rise, and capitalism entered with full force upon a brilliant phase of its development. The mutual connection of these phenomena is obvious to-day.

Sauerbeck has calculated the prices of a series of staples on the London market since 1818. If we fix the price between 1891 and 1900 at 100, we get the following series [2]:

1820	169	1839	155
1821	160	1814	155
1822	152	1815	151
1823	155	1816	137
1824	160	1817	15?
1825	177	1818	131
1829	110	1819	158

The High Cost of Living

1857	158	1884	114
1858	137	1885	108
1859	142	1886	104
1860	149	1887	103
1861	168	1888	106
1862	152	1889	109
1863	155	1890	108
1864	158	1891	108
1865	152	1892	103
1866	154	1893	103
1867	151	1894	95
1868	149	1895	94
1869	148	1896	92
1870	145	1897	93
1871	151	1898	97
1872	164	1899	102
1873	167	1900	113
1874	154	1901	106
1875	145	1902	105
1876	143	1903	105
1877	142	1904	106
1878	131	1905	109
1879	125	1906	116
1880	132	1907	120
1881	127	1908	110
1882	126	1909	112
1883	124	1910	117

We see here how, up to 1849, under a static condition of gold production, prices sink universally, with interruptions in times of prosperity. From 1849 prices rise, at first not remarkably, and then rapidly from 1853 to 1861.

Then they remain about the same to 1873, falling in times of crisis, rising during the period of economic movement from 1871 to 1873. Again we have a fall in prices coincident with the stagnant and occasionally falling gold production to 1896. Since that time a rise in prices occurred which exists to the present day.

One cannot escape noticing, with the change in the production of gold, a corresponding change of prosperity and depression involved with the change in these phenomena, which stands out during the cycle of the industrial years. This latter series of changes is the necessary form of the working out of the capitalistic process of production; the individual phases of this series must repeat themselves at regular periods of time, The first change on the other hand depends on a series of accidents and makes no series, its different phases are not bound up in a given recurrence. Both movements are in their origin independent of each other, but they cross, intermingle and influence each other in a most complicated fashion. The progress of gold production is of great significance for shaping the industrial crisis cycle. If the development of gold production stands still or becomes less, the periods of trade activity become shorter and continually less energetic. On the other hand, the periods of crisis grow longer. This acquires a tendency to take on a chronic character. This happened in the two decades after 1878. It is quite otherwise in the older period of developing gold production. The prosperity that it produces does not abolish the crisis, but it lengthens the periods of trade activity, makes them more energetic, while it shortens the periods of crisis and depression and makes the termination of them easier. This is the picture of the industrial cycle of the last two decades.

Notes by transcriber

1. These figures are clearly muddled but have been accurately reproduced.

2. These figures were corrupted by the OCR process, but an attempt has been made to correct them

III. The Circulation of Money

We must now consider the question – how is it possible that changes in the condition of the production of gold make such tremendous changes in the entire economic life, seeing that the production of gold, as compared with the entire body of production in the world is only an insignificant factor? The entire annual production of gold is to-day about two billions of marks; Varga calculates the entire value of the world's products at 124 billions. Therefore the ratio of gold produced is about one and one half per cent. of the total product. This is quite an insignificant factor.

Gold production seems to be small. But does the operation of the law of value on a commodity depend upon the relative position of that commodity to the total product? Why should gold be an exception? Is it because it is a commodity of a different kind?

There arc differences that cause changes in the production of gold to have a. greater significance for economic life than the proportion of its amount to the amount of the total product would lead one to expect.

One of the distinctive features of the commodity, money, we have already examined. It consists in this, that it is a commodity which has a use value for everyone under all conditions, as Varga announces in his statement that the central banks regularly corner gold.

But the money-commodity is not differentiated from all others only in this respect. There is another very substantial difference. If we ignore the factor of transportation, which merely obscures but does not alter our present problem, goods merely make a trip through the market, they change their owners, leave the market, cease to be commodities and are sooner or later consumed. The producer sells them to the consumer; they play no further role in the market for commodities.

It is otherwise with gold. Once on the market it does not leave it. Its movement inside the capitalist mode of production is therefore a double one. Some of the money is spent as revenue as the income of capitalists and wage workers, for the satisfaction of their personal needs. In this way the money expended does not return to its original source. Another portion of money is expended as capital by the capitalists, either for the forwarding of their own undertakings, or as loans to entrepreneurs. This money has the distinctive quality of returning to its original source, with an increase. Diverse as these two different, forms of the movement of money may be, they are constantly at work on the market. Disregarding waste, there is an unceasing process by which goods, once bought by their consumers, become means of production or consumption and are eternally withdrawn from the market.

It therefore does not happen that the yearly production of gold is set off against the yearly production of wares, and that the significance of the former can be measured by comparison of its size with that of the latter. The yearly production of gold, on the one hand, produces a much greater demand for commodities than its mere size would imply since the yearly production of goods is withdrawn from the market, in the course of the year, to make, way for new products, while the mass of money which caused the mass of goads to circulate remains on the market, increased by the year's gold product.

Let us take an example of simple reproduction, that is, when the same amount of goods are produced, year by year. Here the production of new money would be entirely superfluous, if we disregard the insignificant amount required to make up for wear and tear of coins, jewelry, vessels, watches, and the like, with which we are not at present concerned. The yearly production of wealth would be so immense, and the yearly production of new gold for the making of money so diminished, that the increased demand for commodities would come into conflict with the static supply, and there would be a rise in the price of goods which would soon put an end to the production of gold.

Ignoring the industrial use of gold, and considering general production as static, gold must be reproduced in growing amounts from year to year in order to keep at the same value.

If one wants to compare the yearly production of gold with the yearly production of commodities, it would not seem that the annual production of gold is comparable with the mass of commodities produced in the same year, except by ignoring the amounts of gold hoarded or consumed industrially, and comparing the balance with the increase in the production of goods in the year under consideration over the preceding year. When this is done the yearly amount of gold produced ceases to appear as a vanishing amount in the world product.

It is impossible, under the present state of statistics, to calculate the yearly world-production of commodities, but merely as an illustration we can take the figures of the world trade, which are larger every year, and we can deduce therefrom that they grow in the same measure as the increase in production. The total trade of the world in 1910 was about 146 billions of marks. This number is double what it should be, as what appears as exports from one country appears also as imports into another. It must be halved. So that in the year 1910 the world's trade was in the neighborhood of “l3 billions. In the year 1902 the world’s trade was about 48 billions. From 1902 to 1910 there was an increase of 25 billions, about three billions a year on the average. Varga reckons the world production to-day at 124 billions, a little less than twice the present world commerce. If we put it at twice the amount of world commerce we put it very high. We cannot put the yearly increase in world production at higher than six billions a year. Over against this is a yearly gold production of two billions, a third.

We are here, as we have said, simply calculating, and not making new illustrations, and so we reach these figures.

That the significance of the annual production of gold is quite other if it is compared with the yearly increase in production and not with the standard of the total yearly production is perfectly clear and needs no proof. But it cannot be denied that the proportionate significance of gold production may be made too much of by this comparison, as the figures furnished are quite uncertain.

So we do not make use of a comparison of the yearly increase in the world’s trade or the world’s production with the yearly production of gold. We know already that things are not so simple as appears according to the quantity theory of placing the mass of gold on one side and the mass of commodities on the other, and saying that price is a comparison between the two.

The market demand depends not merely on the amount of gold which comes with it, but also on the speed with which it changes hands. The total amount of gold will produce quite different effects where it makes a purchase ten times a year, than where it makes one only twice. A hundred marks will in the first case create a demand of a thousand marks a year, in the second case of only two hundred.

The increased demand for goods which arises from an increase in the production of gold is a very significant factor in establishing the total demand and the total amount of production, but it is not the only factor that works to that end.

Are there any peculiar circumstances in the course of the last twenty years which have tended to develop or weaken increased gold production?

We know already that the intensity of these conditions depends upon the speed of the circulation of commodities, a speed which, again, is dependent partly upon technique and partly upon economic causes. Means of transportation play a great role in this respect. Its late great developments require no demonstration.

A further movement, increased by the speed of circulation of commodities, is the use of money as a means of payment. Up to this point, we have proceeded upon the statement that commodities always exchange for money, that is are sold for a cash payment. But at another stage in the circulation of commodities other tendencies exist which allow me to buy another man’s goods and not pay until I have sold my own goods and got my money for them. I buy the other man’s goods for a mere undertaking to pay, the carrying out of which wilt occur at some future time, three or six months hence. It is clear that the circulation of goods can be accelerated very much in this way. It is true that when I make my final payment I again use money. But when numerous accounts are concentrated at a single point in the money relations it soon happens that they may offset each other and they can be canceled without any real money passing. However, one cannot at his pleasure separate very far from the metal money in circulation which remains steadily the foundation of payments. This is so because all obligations to pay are not of the same nature. He who has only to pay and has nothing to demand, or who has more to pay than he has to demand, must pay cash. Besides all this mechanism of obligation and offset militates against disturbance and tends to produce entire tranquillity in the circulation of commodities, which comes all the more easily the less the present stocks of gold are able to equalize the payments due. Business based on promises to pay and their offsets cannot therefore make cash money superfluous. But if we have up to the present discovered that the extension of the production and circulation of goods under similar circumstances produces a corresponding increase in the amount of gold in circulation, we now learn to know the other side. The more solidified and concentrated the obligations to pay, the more offsets there will be, and the less real gold is needed for the entire circulation of goods and the less can the existing mass of gold come within the circle of the circulation of commodities. The mass of gold declines not absolutely but relatively; the scope of the circulation of commodities can grow more rapidly and does grow more rapidly than the mass of money. The economic effect of the existing mass of gold will be increased, and thereby the impetus towards demand which every additional mass of gold lends to the production and circulation of commodities is strengthened.

It is well known that a great extension of the mechanism of credit has taken place in the latter decades.

Just as important are the conditions of the market. They, too, have been particularly favorable during the last twenty years. With the growth of the mass of gold and impelled by it, as we have seen, an era of prosperity has occurred in which the circulation of goods has been tremendously developed, and by which the fact of increased masses of gold has still more fully developed demand. The rapidity of the circulation of goods takes place as a result of increased gold production, not in opposition to it. It works in harmony with and intensifies its tendencies.

And the same has occurred with reference to the other conditions which influence the degree of the production of gold.

Not the whole product of the gold mines is converted into money. A portion enters industry as raw material and becomes not money, but goods. This portion develops no demand for commodities, it is itself a commodity which seeks a purchaser and will be exchanged for money. The greater the portion of the annual gold yield used industrially, the smaller the portion which will be made into money, and proportionately smaller, conditions being equal, the effect of gold production on the condition of the market and the rise in prices.

But that does not in the least imply that in the last twenty years a change has occurred which has lessened the share of the annual gold production converted into money. Quite the contrary.

Before the arrival of the production of commodities the working of gold and the money metals into articles of use was naturally their only use. This was predominant also at the beginning of the production of commodities. The function of gold as money proceeds from this, in that it has everywhere a desired use value, which is not transformed into use. The collection of gold and silver jewelry and utensils is, in the form of simple production, no mere luxury, but also a form of collecting treasure. The capitalistic method is the first to transform money into capital which brings profit, so that every piece of gold which one does not use as money is regarded as lost. So that the industrial employment of gold thus becomes exceedingly limited.

To-day the opening of new regions, particularly in Asia, with its pre-capitalistic method of production, goes on apace. That means nothing else than that the process of transforming the industrial use of gold into the money form is being accomplished.

There is a tendency against this on the other hand, namely, the increase in the exploitation of the proletariat, the increase in the mass of surplus value, and at the same time of the fund for consumption and of the revenues of the capitalists, which increases this demand for articles of luxury. But the capitalist does not live in a style so luxurious as to diminish the money-commodity, the life-giving blood of the capitalistic body.

Finally, there is still another movement to be observed. Gold as money is capable of indefinite employment and extension. Gold worked industrially is on the other hand a commodity whose sale is dependent upon desires which can for the most part be estimated by custom and are not quickly changed. A sudden extension of gold production will increase its use for industrial purposes less than its use for money, and on the other hand a diminution in the production of gold will diminish the quantity used for industrial purposes, less than that used as money.

Year	Gold Production Value in millions of dollars	Industrial use of gold in millions of dollars	Percentage of industrial use of gold
1890	119	50	42.0
1891	131	50	38.5
1892	147	50	34.0
1893	157	51	32.5
1894	181	53	29.2
1895	199	59	29.6
1896	202	60	29.7
1897	236	60	25.4
1898	287	66	22.9
1899	307	73	23.8
1900	255	76	29.7
1901	261	79	30.2
1902	297	76	25.6
1903	328	75	22.9
1904	347	78	22.5
1905	380	93	24.4
1906	403	93	23.0
1907	413	97	23.4
1908	442	89	20.1
1909	454	101	22.2
1910	455	112	24.6

All these considerations lead to the belief that the use of gold as money has developed in the last twenty years more than gold production itself.

The statistical proof of this is not easy to furnish, since, for this purpose, one must have the figures for the different kinds of use of gold in the world. There being none such, we are driven to estimates. These, However, substantiate our expectations based on the theoretical hypothesis.

Neumann Spallart has reckoned the gold production for the years 1881 to 188 at 746,000 kilogrammes, of which the greater portion, 44,000 kilogrammes, was destined for industrial use in the lands of capitalistic civilization. Soetbeer came to the same conclusion. The already frequently quoted report of the director of the United States Mint investigates the industrial employment of gold for every year since 1890; I have reckoned according to his figures the percentage of the amount of gold annually produced which is employed industrially.

Industrial use, therefore, grows unquestionably, but not at the same rate as the general production of gold. At the beginning of the eighties it was still the larger half, in 1890 still more than two-fifths, in 1907 only one-fifth. Since that time it has grown, a little, to one-fourth. While the production of gold has quadrupled, the industrial use of gold has only doubled. We can see that it has a much more conservative tendency than the production of gold increased .in 1900 and 1901 as it did earlier though at that time the Boer War conspicuously diminished the production of gold. In recent years the speed of gold production increased, but on the other hand its employment in industry showed no acceleration so that its proportion to the total production since 1908 remains about the same or even not so much as in 1900.

The proportion of its use as treasure or as circulating coins is no less important as regards the economic conditions of the annual production of gold, than the proportion of its use as industrial raw material or money.

At a certain stage it rests with the owner of money whether he will spend his money and thereby create a demand for goods or put it in his pocket and pile it up in his chest as treasure. The more that he does the latter just so much the less will the existing amount of gold stimulate the demand for commodities and raise prices.

Thus it does not depend altogether upon the wish of the owner of gold whether he will spend his money or not. It is an economically necessary tool. When the workman gets his wages he must spend his money or go hungry, however much the bourgeois economist may urge him to save. Even the entrepreneur has no freedom of choice as to whether he will spend the money which he pays to-day for commodities or save it. He must, like his workman, expend some to get the means of life. He must dispense another portion for tools and raw materials and wages and he must keep on producing and bringing new goods into the market if he is to keep on living.

The necessity of the rapid spending of money received is, on the whole, much less in the simple than in the capitalistic method of production, because where the former is dominant it is not the general method, but appears as an attendant circumstance to the predominating system of natural exchange. If the peasant for the most part produces the goods which he consumes, the artisan for the most part does some farming. Taxes paid to the government are mostly paid in natural products. The compulsion to spend money, gold or silver, for the consumption or for the development of production is not so great as in the capitalistic method of production; on the other hand, the possibilities of the profitable laying out of money are less. Still, the control of the money metal, even at that stage, gives great power. Hence under primitive conditions there is an eagerness to pile up treasure in the form of vessels and ornaments which can be converted into money or in the form of actual cash.

These are two ways of getting possession of such treasure, the one peaceful, by the exchange of goods for money which one does not spend, the other, the forcible one of robbery. In simple production the first method is as a rule slow since in simple production, the surplus which a man can get by his labor is small. Not only the worker but the man who robs him under such circumstances gets only the small sums saved. Plunder is quite different. The strong may get the accumulated treasures of numerous plunderers and accumulate great riches.

Under capitalistic conditions the reverse is true. The productivity of labor has so increased that the surplus which a single laborer produces over and above the cost of his maintenance is quite an item. At the same time, the opportunities for individual exploiters to get more and more from the workers are continually more numerous. By peacefully buying labor power it is possible to make an indefinitely large income.

In proportion as capitalism grows, the power of the state also grows, security of property grows, and the chance of getting treasure by violent means is diminished. Thereupon there comes change in the moral estimation of the two methods.

In the period of simple production of commodities the peaceful accumulation of treasure was despised as miserliness. Booty obtained by valor in war was highly regarded. To-day, he who relies on his personal physical prowess is considered a criminal, and the capitalist is highly respected who gets billions from the overworked and underfed workers.

Marx once justly remarked that theft is no method of production. But it has long constituted a strong economic factor, particularly where it has been carried on, not by individual highwaymen, but by the armies of whole nations. By war and plunder immense masses of money can be transferred from one country to another. In the sixteenth and seventeenth centuries enormous amounts of the precious metals overflowed Europe and caused a revolution in prices, but the discovery of very rich finds in America, of which we have already spoken, was only one of the causes thereof. The other, at times more important than the real cause, was the plundering of great treasures of gold and silver which had been piled up by the labor of centuries in certain places of the newly discovered districts.

If gold and silver production in South America depopulated Spain and reduced its industrial labor power, as we have already shown, it only lasted for the short time that the Spaniards were miners in America. The miners in the Spanish colonies were not the descendants of natives of the mother country, but were native Americans. But the occupying and mastering of the colonies, the plundering and the division of the booty, cost so many men that the rich stream of golden metal obtained in this fashion resulted in a diminution of industry and destroyed it, rendering it unfruitful.

We find numerous similar examples in the simple production of commodities. The most conspicuous example is furnished by ancient Rome, into which flowed the gold and silver treasure of the whole world. But they caused no extension of new industry in Italy. They flowed off after the most highly developed industries of the countries which profited thereby in the last instance. Roman spoliation deprived Spain and Gaul of their gold, not to hold it, but to buy Asiatic luxuries with as much of it as was not needed for the payment of German mercenaries.

After Rome's power in arms was gone and its ability for fresh spoliation came to an end it quickly grew poor in precious metals.

It is quite otherwise if such treasures as have been collected under the pre-capitalistic industry are brought by robbery into states in which the capitalistic industry has been established. Then they become a means of developing these more quickly than the mere development of gold production would permit. The precious metals of Spain, gained in America, came by means of trade into France, England and Holland, so far as they did not get into the hands of the people of these countries by piracy. Again the spoliation of the East Indies was the means of bringing a vast amount of treasure into England. The Indian manufacturers of luxuries had ever since the time of the Roman Empire exchanged uninterruptedly their wares for gold and silver, and the Indian lords had for one and a half thousand years steadily piled up the money received into mighty treasuries which were now all at once brought back to Europe.

When Clive by the battle of Plassey, 1757, founded British power in the East Indies, the treasures of Bengal were as Macaulay describes exposed before him.

The Reformation and the French Revolution also transferred the gold and silver obtained from the plunder of churches and monasteries into money.

These methods of spoliation which created masses of circulating money out of the treasures and which thereby, by extending the demand for commodities, were a factor in establishing the capitalistic method of production, have ceased in the course of the nineteenth century. This is not because respect for the property of a nation defeated in war has increased, but because all the great stores of treasure to be found outside the capitalistic method of production have been plundered.

An affair like the spoiling of Pekin in the Boxer rising is insignificant since all it brought was a little pocket money to the robbers.

Big money indemnities today pass from one nation to another, the largest of which was the war indemnity which France had to pay Germany, in 1871. The five French billions gave a colossal impetus to German industry, but the mass of money which circulated in the world market was not much increased thereby. On the other hand French loans served to set in circulation the existing hoards of money. The old method in any case transferred treasures of the precious metals got by plunder into circulating money. Today this tendency is less and steadily diminishing.

In proportion as this method declines, on the other hand, the more does the peaceful capitalistic method draw the money treasures from their hiding places and throw them into the stream of circulation.

If the simple method of producing commodities develops a tendency towards the measureless storing of gold and silver, the capitalistic method of production produces a hunger for gold by means of a hunger for profits. Masses of idle treasure in money are now regarded as the sin against the Holy Ghost of capitalism. The first duty of the possessor of money appears to lie in the expenditure of money but only for purposes of production, by which the capitalist understands making profits.

But the capitalist dare not place all the money he has in the circulation-process of commodities. The production-process itself impels him to save some of it. Capitalism creates in place of the old eagerness to store up gold and silver new conditions and desires for creating stores of treasure.

Let us consider a factory. The machines in it cost 100,000 marks. Experience shows that they must be renewed after ten years' use. In order to do this the capitalist must put away 10,000 marks a year for ten years out of his income.

Or let us take the agricultural industry. In autumn the farmer sells his crop. But he cannot expend the money received all at once. He must cultivate for the next crop, pay wages, etc. He must therefore store his money in the autumn to pay it out during the rest of the year. In other ways also savings for consumption on a smaller scale and of a less tangible nature are also necessary. The workman who buys a winter coat for fifty marks in the fall must set aside two marks a week for twenty-five weeks out of his weekly wages. If he gets his pay quarterly he must therefore make a "hoard" Owing also to the insecurity of his position it is in the highest degree advisable for him to save a hundred marks or so, so that in case of sickness or loss of employment he is not confronted by blank destitution so long as he has no union or sick benefit fund to protect him.

The more the capitalist method of production develops and destroys the exchange of natural commodities, so much the greater is the number of people and households needing a greater or less amount of savings. Thereby again great masses of gold would be drawn from circulation and prevented from developing the demand for commodities upon the market. But this new tendency is soon overcome and destroyed by a stronger one.

Let us again take the factory, for example, say a spinning factory which according to experience must buy 100,000 marks worth of machinery every ten years and for this purpose set aside 10,000 marks a year. Suppose that the factory owner has already been saving for five years when a neighbor, a brewer, needs money to extend his brewery. He borrows the 50,000 marks from the spinner who lends it to him on interest if the brewer undertakes to repay the loan in five years. All parties are helped by this plan. The brewer increases his trade and makes twenty per cent. a year on the 50,000 marks borrowed money, of which he pays five per cent. to the spinner. The latter gets five per cent. a year and has at the end of the ten years the whole of his capital to get new machinery. His accumulated store is for a portion of the time at least thrown into circulation and increases the demand for goods.

This use of savings is evidently only accidental. Not every industrial capitalist has the time and inclination for such incidental business. The method moreover cannot be used for small amounts.

But in the course of time there arise special enterprises, banks, for the purpose of collecting moneys of this sort and lending to entrepreneurs to start or extend their business. They are also a means of advancing state loans, the consideration of which we may pass by for the present. The collection of manifold greater and lesser savings and their conversion to the use of the capitalists are carried on by the banks as soon as credit is established.

Even the smallest sums of moneys are in capitalistic countries either as savings or shares – we called attention to the gold mine shares at two dollars each – invested with the expectation of earning interest. The expectation is frustrated in the matter of shares but there is no question about the fact of the transformation of savings into circulating money.

This development has made rapid strides in the last twenty years and has thus supported the great effect of the increased gold production upon the market. In a similar direction operates the improvement in intercommunication which permits a diminution in the amount of stocks which merchants need to carry and consequently the sums of money which they have to collect for that purpose.

Single banks indeed cannot exist without funds. If the outgo never exceeded the income at a given time the banking business, as far as it fulfills the function we are here discussing, could be carried on without any capital. As a rule there is an excess of receipts over payments made, if got by an individual bank, by the banking business as a whole, because the accumulation of capital and the collection of newer additional sums of money goes on uninterruptedly.

But there come times of stagnation when the movement of money takes an opposite course. The crisis comes which is bound up with a great mass of unemployment and the workers are compelled to draw on their savings instead of increasing them. At the same time those engaged in industry cannot dispose of their stocks. To live and to be able to produce still more they must withdraw their bank deposits or sell their shares. It is bad for the bank which under such conditions has put its capital into shares instead of having a stock of gold cash which admittedly draws no interest.

But even in good times periods come in which payments crowd and an unusual amount of ready money is needed. For such reasons the bank must have a large supply of cash in readiness.

But however much money the bank must keep to meet the sudden requirements and unexpected demands for money, the amount in hand is always much smaller than the amount of private savings which is taken and transferred into circulating money.

One must not imagine that the total amount o£ money which a bank collects functions as savings. The great amount of bank notes form an immense amount of money. For example according to the report of the American director of the Mint the amount of gold in millions of dollars was:

Year	Bank of England	Bank of France	Bank of Germany	Bank of Austria-Hungary
1889	87	246	60	26
1899	141	367	112	214
1910	151	633	159	267

But these great masses of gold are only to be regarded technically and not economically as mere treasure. Technically and economically are two very different things, just as is labor as a creator of values and as a maker of use values, a distinction of the greatest importance which Marx discovered but which up to the present has had no influence on bourgeois economy.

Money as gold technically remains in the bank vaults. But economically it circulates in the market in bills of exchange, in notes which the bank issues. The gold pieces function in the form of notes as money in circulation, indeed the employment of circulating money in the form of bank notes is much greater than that of the money metal in the banks.

The report of the American Director of the Mint gives the following figures for the 31st December, 1910, in millions of dollars:

	Bank of England	Bank of France	Bank of Germany	Bank of Austria-Hungary
Amount of gold	151	633	159	267
Circulating bank notes	241	1,024	391	477

The same report estimates the amount of gold in the great banks of Europe on December 31st, 1910, at 2,461 million dollars and the amount of circulating bank notes issued by them at 4,325 millions.

The significance of the bank note is peculiarly technical. It facilitates the transportation of very large sums of money. Besides it acts as a saving in so far as the gold coins lying in the bank are saved from the wear and tear of circulation.

But in addition to this technical function the bank note has also an economic function. It is regarded as a bank note or not according as it is realizable in gold or not.

The bank may issue notes representing much more money than it has treasure in the vaults. So long as they are the full representatives of the amount of money which they represent they fulfill the same functions and are actually of the same economic validity as real gold.

The gold treasure in the bank then serves substantially as a reserve fund for unusual occasions.

Marx distinguishes as follows:

1. Reserve funds for international payments. In a word reserve funds for world money. Reserve funds for the exchange of foreign and home-metallic currency. 3. What pertains to the function of banking and has nothing to do with money merely as money. 4. Reserve funds for the payment of deposits and converting of notes into money.

The gold stores of the great central banks therefore act quite differently than the private hoards which we have hitherto considered. The latter diminished the amount of money in circulation. The store of money in the banks increase it. The money in the banks grows ever more important in the development of the capitalist method of production but the economic importance of increasing gold-production is not thereby lessened but is immensely increased. The more money there is in the bank just so much more money is there in general circulation.

The tendency to banking has no more influence than any of the other factors which we have mentioned in weakening the importance of the increase in the production of gold. The contrary is true. It is true that the measure and conditions of gold production are not alone in marking the height of the economic effect of additional money. But all factors which are determinative of it – speed in the circulation of goods, the industrial employment of gold as an intermediate between hoarding and circulating money, finally the introduction of substitutes for gold in the different functions of money and credit, have all developed in the last twenty years so as not to weaken but to strengthen the influence of the increased production of gold upon economic life and the prices of commodities.

IV. Increase in Prices and Poverty

WE have seen that the view that changes in methods of producing gold are ineffective to produce changes in the prices of commodities is untenable for the reason that changes of this kind are easy to discover.

We have further noted the process by which the law of value operates in the case of gold. The mode of operation is simply this, that given stable distribution of labor-power in the different spheres of production, increased gold production creates increased demand for goods a consequently causes a rise in prices.

In the first place if the change in prices thus produced does not avail to realize the law of value for gold and if its production under the capitalistic conditions yields an extra profit for a considerable length of time, equalization of profit rates manifests itself as a regulating element which brings more capital and more labor to the gold mines until the equality of the profit rate is restored – a law which is somewhat modified by the distinctive lottery character of gold mining which always tends to keep the rate of profit in this industry below the average.

The rise in prices of commodities which is caused by the increase in gold-production may under certain circumstances be so large that the value of gold is not fully realized in exchange. If the limits which exist owing to the admittedly lottery character of gold-production were overstepped, the least productive mine would not only not yield any ground rent but it would yield no profit whereby to hold capital. Then some of the mines would be abandoned and capital would leave the production of gold until there was an equalization of the profit rate.

The fulfilling of the law of value for gold does not fail under all conditions of the movement of capital, and it may reach a higher price owing to improvements in the method of getting gold or the discovery of richer gold fields as well as a dislocation of capital which militates against the gold mining industry.

Varga is wrong, then, when he says that the present rise in prices cannot be the result of changes in the production of gold, because, through this means, the movements of capital are quite unimportant.

The theoretical possibility that the present rise in prices is involved in the rise in the amount of gold production seems to be undeniable. Another question is if the possibility is the actual truth. This can hardly be proved in figures in the present state of statistics. But all the probabilities are in that direction. I had assumed when I began to investigate the question of the rise in prices that the probabilities were in favor of the responsibility of gold for the rise. Varga's objections however set me investigating the question afresh and the more I did so, the more I was established in my conviction that changes in gold production had led to the rise in prices. It would be a real marvel if these changes had had no influence.

But I never said and certainly never maintained that gold is the only cause of the rise in prices.

The whole economic life of capital is reflected in the movement of prices. All its intercrossing and its tendencies, now rapid, now stagnant, operate on prices. One can and must separate, follow up and investigate each one of the tendencies scientifically. In the answer to the question of the reason of the rise in prices one must be able to present a composite picture of these tendencies.

The rise in prices in the last two decades would have corresponded in strength with the fall in prices in the preceding decades since 1873, if the change in gold production were alone responsible. In this case, as in the other, this would be advanced by another working in the same direction. To treat of every other movement completely at this time would extend the investigation indefinitely and would be of little use as they have been considered by other writers, including myself, on different occasions so that we should have nothing new. A few remarks in this regard may however be useful.

To the factors that caused prices to sink after 1873 there belonged in addition to the stagnation in the production of gold the improvement in the means of transportation as it brought with it in particular the development of the trans-oceanic steamships, as well as the building of railroads in America and Russia, by which great stretches of land up to the present exploited but little or entirely unused and still to a tremendous extent free from private ownership came into the closest relations with countries where the capitalist system was highly developed. This caused a fall in the cost of production of food stuffs and raw materials and thus a fall in prices which in its turn was reflected in the prices of industrial products.

But the same improvement in the means of transportation had also brought into intimate proximity those lands in which under the spur of increased gold production since 1851 the capitalistic industry had greatly extended its enormous forces of production in England, France, Germany and the Eastern portion of the United States. The wildest industrial competition broke out among them after the crisis of 1873 which, at times, reduced prices below the cost of production.

The industrial states with the exception of England, in order to meet this situation at the end of the seventies and in the course of the eighties set to work to limit this competition, at least, against foreigners, by protective tariffs. Germany began in 1879 a protective tariff which has been continually made more stringent, France followed in 1891. In the United States there was after 1870 an anti-tariff tendency, but a backward movement began in 1875 which finally reached an extreme with the McKinley tariff in 1890.

But a protective tariff although it may momentarily raise prices, and hold them higher than they would be without it, cannot throw off the depressing effect of a whole decade of falling of prices upon the world market. So the industrial capitalists sought a more practical means by abolishing competition among themselves and transforming falling into rising prices, by the creation of private monopolies, through combinations, syndicates, trusts. At the outset this was chiefly with respect to localities which have a sort of natural monopoly, petroleum, but particularly coal and iron, the life sources of modern industry.

These creations began in the eighties, but first attained economic importance in the nineties, and then quickly started from the beginning of the present century to get control of the whole process of production.

At the same time the causes which had reduced the cost of production in agriculture ceased to operate, so that a rise in prices for these took place, afterwards the various capitalistic countries, with the exception of England, introduced protection for agricultural products, simultaneously with industrial, and thereby in their districts had raised prices above those of the world market.

The virgin soil of the newly opened territory was, under capitalistic conditions, rapidly exhausted by imprudent farming. To restore its old fruitfulness or to increase it, now required tremendous expenditure. In addition in our century the freedom from the pressure of the private ownership of property is at an end, as it existed in American agriculture and by its competition reduced European ground-rents. Even in America every place has its landlord, and can only be built upon if it pays ground-rent; that means if the prices of the local products are sufficiently high.

Ground-rent, a mark of high prices of agricultural products, grows and becomes itself the cause of still further increase in those prices. Then, although it is surplus value, a portion of the excess of price over the cost of production, it belongs to the agriculturalist's cost of production. The higher the ground-rent, just so much more from the money derived from his harvest or his cattle, he must hand over to the support of the possessor of land or money, who is of no use in agriculture, instead of accumulating it as capital for the improvement and extension of his business. This happens practically today where the landlord is a leaseholder. He also feels it where he has to buy his place. Every change in possession increases the burden of landlordism so much the more, the higher the prices of agricultural products, and accordingly ground rent. And the more this increases the owner of land is correspondingly transformed into a speculator in land, and he sells his place the more readily, and change in ownership occurs the more frequently.

To all these causes of the raising of prices a new impetus is given by the emulation in armament of the great powers, through world politics, which tends to an increase in the military forces both on land and sea. The latter proceeds less by means of the increase in the number of combatants than by reason of the development and growth of the technical apparatus, which knows no limits and proceeds more rapidly than increase in the forces, and thereby the waste of productive forces is increased, since they are literally thrown into the sea, and the burdens of the people are much heavier, as appears today in the form of a steady increase in indirect taxation, and increasing the cost of the means of consumption of the masses. The capacity of gold production to raise prices is enormously increased by all of these movements.

We cannot however believe that each of these movements because it raises prices has the same influence on economic life as the others. A rise in prices can come from two sources, an increase in demand or a diminution of supply. We have seen how an increase in demand on the part of the owner of money operates. It signifies more active production, more active circulation, increased prosperity. Everywhere there is an increase in the price of commodities under these conditions. If all prices and wages rise in the same proportion and do not change their mutual relations, the condition of the worker is improved in so far as his yearly income, produced by steadiness of employment, arising from the more rapid development of capital, is greater than the rise in price of the commodities.

At the same time, still, the capitalist also considerably increases the yearly sum of his profits through the rapid movement of capital. He cannot consume more, he can only accumulate.

It appears therefore as if high prices were synonymous with economic prosperity, and as if the economic task of the state was to see that prices are high, which, to be candid, as we have seen, it anxiously provides for, by means of duties and indirect taxation.

But there is a difference between high prices and high prices. As we have seen, on the other hand, there is a rise in prices where there is no increase in demand but where there is a limitation in supply, a bad harvest for example. In this case the farmer charges a higher price per hundred weight, but the number of hundred weights he puts on the market is reduced. His total income does not grow. But his own family and his laborers have to pay more for flour and bread. He and his people have less money left over for the products of industry than formerly. The same is true of the rest of the people. The demand for industrial products is not increased, very frequently, indeed, it is diminished while the cost of living of the working class increases so that they must strive for an increase in wages. Then a tendency to rise in prices of raw material shows itself which increases the compulsion to a rise in prices of factory products, while the demand for them declines as we have seen. If the rise in prices succeeds, it must still further cripple the slow disposal of goods, and therefore the impulse of capital; if the rise in prices does not succeed, the prices of the products remain behind the raised cost of production. In both cases the profit rate sinks, there is, as a result, general stagnation and misery among the great masses of labor.

Finally international competition is still to be reckoned with in the question of the economic effect of a universal raising or lowering of prices. On the world market that nation gets ahead soonest which sells cheapest, and this can only be done by producing most cheaply.

Hence the praise of low prices sung by the school of free trade. This is not false, but it has no absolute, merely a relative, justification. But the absolute superiority of high prices favored by the tariff is still less justifiable. Only under very peculiar circumstances are higher prices synonymous with economic prosperity. Under these circumstances, the burdening of industry with high state taxes, such as a system of protective tariffs for all products, as well as for raw materials and the means of life, comes into existence.

Generally it may be said that a rise in prices which springs from an increase in demand is attended by conditions which signify heightened prosperity, and that on the other hand a rise in prices which causes a discontinuance or stopping of supply produces the greatest misery.

The results of increased gold production on social conditions are just the opposite to the results of the price raising factors here considered. Moreover these factors are not all simultaneously active in the same proportion. If one or the other of them dominated, social life would take on another character; the rise in prices would be welcome as a sign of prosperity or detestable as evidence of adversity.

Since 1894 the effects of gold production predominated and made themselves earlier and more powerfully felt than the other factors which caused increased prices with the exception of tariff's which only operated in a transitory fashion. Under these conditions there arose that view which we call revisionism, that theory, that the capitalistic method of production develops tendencies, to continually improve the condition of the proletariat, to limit the exploitation of it, and so to put an end to all the tendencies of misery, without a political revolution. Just as in the sixteenth century the force of Protestantism in Germany, and after 1848 of Chartism in England was weakened through the increase in the production of gold, so the revolutionary spirit of the entire working class was weakened throughout the capitalist system. But only briefly on this occasion.

The answer to this question depends very closely upon the expectations which we entertain of gold production.

The speed of its growth since 1890 may be found in the table.

It can be seen that the fact of the yearly increase in gold production is significant if we omit the time of the Boer War and its results (1899, 1900 and 1901). In 1897 in particular and 1898 the figures climbed rapidly owing to the discovery of the Alaskan gold fields.

Year	Production in thousand kilo	Addition over former years	
		Absolute in thousand kilo	Per cent
1890	179	–	–
1891	196	17	9.4
1892	221	25	12.7
1893	237	16	7.2
1894	273	36	15.1
1895	299	26	9.6
1896	304	5	1.7
1897	355	51	16.7
1898	432	77	21.6
1899	462	30	6.8
1900	383	79	17.1
1901	393	10	2.6
1902	446	53	13.5
1903	493	47	10.5
1904	523	30	6.0
1905	568	45	8.7
1906	605	37	6.5
1907	621	16	2.6
1908	666	45	7.2
1909	683	17	2.5
1910	684	1	0.1
1911	703	19	2.8

But since 1905 the percentage of the yearly product rose rapidly with the exception of 1908. The progress of the figures of amount of gold taken from single great regions of gold production is shown on pages 99 and 100.

In Australia therefore gold production has already begun to decline, in 1903 it reached its highest point. Since then it has fallen from 89 to 61 million dollars. In the United States it already appears to have reached its maximum. Since 1906 it has made only an insignificant advance. The falling off from 1910 in comparison with 1909 has been more evident in 1911. The new figures shown for 1909, 99,673,400 dollars; 1910, 96,269,100 dollars, and 1911, 96,233,000 dollars

Gold Production in Millions of Dollars

Year	Africa	United States	Australia	Other countries
1890	10	33	30	41
1891	16	33	31	50
1892	24	33	34	55
1893	29	36	36	57
1894	40	40	42	60
1895	45	47	45	63
1896	45	53	44	61
1897	59	57	53	67
1898	80	64	65	77
1899	73	71	79	83
1900	9	79	73	94
1901	9	79	77	99
1902	39	80	82	96
1903	68	74	89	97
1904	86	80	88	92
1905	113	88	86	93
1906	135	94	82	90
1907	152	90	76	95
1908	167	95	73	108
1909	171	100	71	112
1910	175	96	65	118
1911	191	96	64	125

In South Africa gold production now makes enormous strides. There is however no extension of the gold district, but a more complete exploitation of the existing stores at present which must consequently be all the more rapidly exhausted.

The Director of the Mint quotes a Johannesburg correspondent of the *Engineering and Mining Journal*, who says, "We are still far from being able to judge what the year 1911 means for the history of Rand Mining. It appears as if the best portion of the profitably worked ore on the mine was exhausted, as if mining here had reached the maximum output in a few years, and as if it had almost attained the maximum profit, if it has not already gone beyond it. In a few years we shall see many famous mines exhausted, like the Jubilee, the Salisbury, the Champ d'Or which produced nothing this year."

There remains now only the gold of "other countries," particularly Canada, India, Mexico, Russia. From Russia the *Engineering and Mining Journal* for 1911 reports a falling off in production from 43.2 to 40.6 million dollars, from Mexico from 24.1 to 19.5 million, from India from 12.1 to 10.5 million, from Canada a slight increase from 10.2 to 10.6 million dollars. In the meantime the gold production of the most important district of Canada, the Yukon district, has for several years lost its earlier significance. The production of gold in the Yukon district has been in millions of dollars since 1896:

1896	0.3	*1904*	10.5
1897	2.5	*1905*	7.9
1898	10.0	*1906*	5.6
1899	16.0	*1907*	3.2
1900	22.3	*1908*	3.6
1901	18.0	*1909*	3.9
1902	14.5	*1910*	4.6
1903	12.3		

Certainly a failure of the hitherto well known gold fields of the world in the sense that they yield absolutely no more gold profitably is not to be soon expected, but it is just as little to be expected that a development of the rapid increase in production at the rate of that from 1892 to 1905 will be maintained. It is of course not impossible that gold fields as rich as those in British South Africa will be discovered, but the probability of it grows continually less.

Gold has from time immemorial so aroused the desire of men that they have always sought it with the greatest eagerness. The discovery of gold fields no longer occurs in lands of developed civilization but only in the wilderness, newly discovered and for the first time accessible; at first, in the sixteenth century in Spanish America, then in Brazil where in 1680 mines were opened in Minas-Geraes. In Russia gold was found in the Ural Mountains in 1743, the discovery of Siberia was made known at the beginning of the nineteenth century with the gold fields there. In the middle of this century there follows as we have already said the discoveries in California and Australia, and at the end of the century those in South Africa and Alaska. There are yet, as we see, uncultivated districts in which new gold fields are to be found. But capitalistic civilization continually embraces the world; with giant strides it opens one place after another. Undiscovered lands capable of yielding gold became scarcer year by year. The number of places capable of surprising by new extraordinary gold discoveries, and by means of a new capital prize of putting bankrupt capitalism on its feet again becomes always smaller.

There exists a possibility of a wider extension of gold production, through the extraordinary technical advance, which has rendered possible the exploitation of well known gold fields with the expenditure of less labor power than hitherto or has obtained a greater amount of product with the same expenditure of labor power. This possibility is undeniably very probable in our times of unbroken technical revolution. But nothing justifies us in the opinion that this advance will proceed more rapidly in mining than in other branches of production. It would seem rather that, in view of the increasing difficulty of getting gold, resulting from the exhaustion of the upper strata and the necessity of going continually deeper, it will suffer so many obstacles that the rate of addition of the amount of gold obtained, even if maintained, will be kept within the average of the last twenty years. And hence we arrive at this conclusion: if gold production operates as a means of advancing prosperity, then it is not enough if it continue merely in the same measure as at present, or in a lessened degree. It must grow manifold and without interruption.

The capitalistic method of production itself develops the compulsion, the necessity not only of not standing still but also of a continual extension, in the proportion in which the accumulation of capital increases year by year, and, at the same time, the technique, the means by which the product of a given amount of labor power is continually increased. The break of this both through the increased productivity of labor as well as through the increase of capital brings enormous masses of products, the consumption and the progressive production of which, and, hence, social prosperity, depends upon there being an increase in demand commensurate with the increase in these factors, that is to say under these same conditions, upon an increase in the mass of money.

This is true only when conditions are the same. These may alter and the mass of gold once again be as at other times of comparatively small economic account.

But there is no ground to declare that they do not make for the necessity of an increase in the production of gold. The quicker or slower circulation of money is closely connected with the general advance of the process of production, it increases in times of prosperity, it diminishes in times of crisis. Nothing justifies us in expecting that a falling off in gold production will continue with increasing prosperity and that a smaller addition of gold will produce better results by more rapid circulation.

It is possible that in the Orient, particularly in Egypt, India and China, there is still much hoarded gold, which by the advance of capitalism, particularly of the banking system, might be transferred into circulating, demand-producing money.

We have already seen how the Orient, since the close of classic times, has continually received amounts of gold and silver which it has withdrawn from circulation and hoarded.These treasures have been plundered from time to time, but its foreign trade, the exports of which always exceed the imports, always permits of the collection of new treasures.

The *Bulletin of General Statistics of France* in its July number gives a table which shows well the economic rule of India.

According to the figures of trade balance, India must be continually getting richer, since the excess of exports grows strongly and uninterruptedly. But the lion’s share of this surplus goes without any diminution to England. So long as this surplus is not offset by the importation of precious metals, it comes under the head of British exploitation of India, and yet the hoard of precious metals increases. It produces gold (1910 – 17,826 kilo, value 22 million pounds sterling), and it still imports precious metals to the amount in round numbers of 500 million marks. In a lecture before the East India Association, Sir James Wilson put the excess importation of gold in India since 1890 at five billions of marks, a tenth of the world-production of gold in that period of time.

Year	**Goods**			**Precious Metals**		
	Imports	**Exports**	**Balance of exports**	**Gold im**	**Silver im**	**Excess of export**
				Excess over export		
1835-1839	118	264	146	–	50	96
1840-1844	183	328	145	–	55	90
1845-1849	217	378	156	–	42	114
1850-1854	263	453	190	27	63	100
1855-1859	371	593	222	60	187	25
1860-1864	571	1,003	432	140	232	50
1865-1869	754	1,330	576	139	237	200
1870-1874	786	1,339	553	73	86	94
1875-1879	843	1,324	481	15	140	326
1880-1884	1,035	1,631	596	85	128	383
1885-1889	1,138	1,682	504	58	165	281
1890-1894	1,200	1,779	579	39	206	384
1895-1899	1,121	2,635	514	38	95	381
1900-1904	1,423	2,099	676	104	138	434
1905-1909	2,015	2,872	767	157	284	326
1910	2,062	3,158	1,096	865	159	572
1911	2,248	3,519	1,271	403	146	722

Similar, if not so great, is the collection of gold treasures in Egypt.

It is quite impossible to reckon or even to estimate how much of the imported gold is used for industrial purposes, how much remains coin or is minted, or how much of it goes into circulation or is stored as treasure.

Foreign trade of Egypt

Yearly average in millions of francs

Year	**Goods**			**Precious Metals**		
	Imports	**Exports**	**Balance of exports**	**Gold im**	**Silver im**	**Excess of export**
				Excess over export		
1890-1894	227	363	136	18	0	118
1895-1899	262	375	113	41	2	70
1900-1901	418	517	100	70	5	25
1905-1909	610	680	70	51	5	14
1909	569	737	168	14	0	154
1910	603	829	226	151	1	74

The custom of using precious metals for jewelry, or collecting them as treasure, is still strong in every country. The director of the American Mint in 1909 asked the American Consul General in Cairo, what became of the gold that went to Egypt. The Consul related that in 1905 the stamp bureau of Cairo had under taken an inquiry in the gold bazaars which showed that in the year, gold to the value of two million pounds sterling had been worked up into jewelry. It is of course impossible to state exactly how much of this was newly imported gold and how much old material.

Certain typical facts which Lord Cromer mentioned in a speech in London are worth noting:

> “Several years ago I heard of an Egyptian who left at his death 80,000 pounds sterling in gold coin in his cellar. Then I heard of a certain well-to-do landlord who bought property for 25,000 pounds sterling. Half an hour after the signing of the agreement he

> appeared with a pack donkey, with the money, which he had had buried in a garden, on its back."

It is clear that in the Orient large quantities of gold still lie dead, which would be brought into circulation under the capitalistic system. But this process is not just beginning, it has been vigorously pressed for the last two decades. If it is to offset a diminished gold production it must not only go further, but at a swifter rate than hitherto. There is no justifiable expectation of this.

We must expect this process to be more slow also, as in the case of the unexplored districts, therefore the places in the Orient still closed to capitalism, which can furnish hitherto unused treasures, will grow less and less every year, and more and more limited in proportion as the scope of the capitalistic circulation process is extended and the quicker that railroads and banks are developed in the Orient.

So that the increased gold production, and along with it the auxiliary methods of increasing gold production, are ceasing to display those economic results which produce an increase in prices. But this is by no means all. It proceeds further and now becomes for the first time unpleasantly obvious. For now the other mentioned price-raising factors become not weaker but stronger,

Some of the figures are given here so that the present rise in prices may be recognized. They are taken from the table of price statistics of the American Labor Bureau in Washington. As a basis of the movement in prices, the yearly average of 1890 to 1899 is taken and set at 100. We first give the movement of the two great classes of raw materials and manufactured products, then some subdivisions, which are particularly informing as regards price movement.

See tables on this and the following page:

Year	Raw material	Manufactures	Agric. Products
1897	87.6	90.1	85.2
1898	94.0	93.3	96.1
1899	105.9	100.7	100.0
1900	111.9	110.2	109.5
1901	111.4	107.8	116.9
1902	122.4	110.6	130.5
1903	122.7	111.5	118.8
1904	119.7	111.3	126.2
1905	121.1	114.6	124.2
1906	126.5	122.6	123.6
1907	133.4	128.6	137.1
1908	125.5	122.2	133.1
1909	136.8	123.9	153.1
1910	139.7	129.6	164.6
1911	139.9	126.6	162.0

Year	Cotton	Cloth	Metal and furniture	Pine lumber
1897	92.2	91.1	86.8	93.7
1898	76.9	93.4	86.4	96.8
1899	84.7	96.7	114.7	107.9
1900	123.8	106.8	120.5	120.5
1901	111.1	101.0	111.9	119.4
1902	115.1	102.0	117.2	137.2
1903	144.7	106.6	117.6	141.9
1904	155.9	109.8	109.6	141.5
1905	123.1	112.0	122.5	150.7
1906	142.0	120.0	135.2	171.6
1907	153.0	126.7	143.4	187.0

1908	134.8	116.9	125.4	189.0
1909	156.0	119.6	124.8	194.4
1910	194.8	123.7	128.5	196.1
1911	168.0	119.6	199.4	201.9

Generally we can say that the prices of manufactured articles have fallen less than those of agricultural products, the harvest of which is so dependent on the weather. Next, it appears that the tendency to a rise in prices is much stronger in agricultural products than in industrial, and the tendency of prices in these to rise goes on in later years, the years of diminution of gold production, even to-day. Manufactured articles as a whole reach their highest point in 1901 with the figure 129.6. They go to 1910 with the figure 129.6 and in 1911 go below it to 126.9. Then clothes show the figures 1907, 126.7, 1911 119.6. Metals and furniture for 1901, 148.4, and 1911 119.4. On the other hand we find in agricultural products, 1901, 137.1, 1911 162.0. For cotton, 1908, 153.0, 1911 168.0, and afterwards, in 1912, it climbed to the incredible height of 194.8. Lumber climbs upward uninterruptedly. Even the crisis, especially in the years 1901 to 1908, which made a setback in prices, had no effect on the price of lumber.

Here appears perfectly evident the result of the capitalistic destruction of forests. In agriculture, too, we see the price-raising influence of private property.

The general character of price development since 1907 is this: steady rise in prices of the necessities of life for the worker, of the agricultural raw material of industry, slow addition to the demand for industrial products, stagnation in the wages of the industrial working class. This is true chiefly for America. In Europe there are no complete statistics of prices, but the picture is the same, as can be learnt in the statistics of prices.

And this development will proceed as long as the robber system of economy prevails, nay more, with the addition to the population and the extension of capitalism, private property extends its realm and its burdens become more onerous. The combination of industrial capitalists could paralyze the downward tendencies of these factors profitably, but would press with double weight upon the entrepreneurs not in the combinations and the working class.

And the attempt to offset the rise in the price of agricultural raw materials, such as cotton and of the means of life, by means of a colonial expansion policy, is no less detrimental to the working class. For the results on agriculture are remote and uncertain, and private property in land as well as the robber system of economics will continually drive prices higher. Besides, the colonial policy involves unavoidably rapid increase in naval armament and therefore taxes, which means a new burden on the working class, a strengthening of the tendency to a rise in prices.

The latter now completely changes its character. As long as the influence of increased production brought with it increased demand it was welcomed as an accompanying phenomenon of growing prosperity. Since the flow of increased gold production has receded and the other factors of increase in prices are still existent, and altogether leave not had the effect of increasing demand but of diminishing supply, this increase takes on a more disturbing character. From a phenomenon accompanying prosperity it becomes a cause of growing misery, and no longer of mere social relative misery, increased exploitation, but of absolute physical misery.

To the constant rise in the prices of the means of life a constantly growing lack of employment is the companion in proportion as the new tendencies gain force together with the most frantic license, and greatest intensification of those tendencies of the modern method of production, which the *Erfurter Program* recognizes in the words of *Capital* "a growing addition to the insecurity of existence, misery, oppression, slavery, degradation, exploitation," but with it also, as *Capital* further said: " The revolt of the steadily rising and united and organized working class trained by the mechanism of the capitalistic method of production itself."

The class war of the proletariat continually broadens, in times of rising or sinking prices, in times of growing prosperity as well as in those of growing need, since it proceeds front class antagonisms produced by capitalistic society under all circumstances. But the forms of the class war are one thing during times of industrial movement and another during economic stagnation.

The former permit the organization of the proletariat to strengthen its feeling of power and its power, but blunt the spur of class antagonism and weaken revolutionary compulsion to the overthrow of the whole capitalistic system and the power of the state which protects it.

The period of stagnation or increasing misery sharpens the spur of class antagonism and strengthens the revolutionary compulsion of the proletariat in proportion as the conditions are more unbearable.

Such times tend steadily to profound disturbances of the existing state and organization of society. From these the proletariat may derive great advantage; it may, by means of them, be able the earlier to deprive existing classes of new positions of power in the state, the more the preceding periods of prosperity made it capable of increasing its means of power and its class consciousness.

A look back over the last two decades impresses us that the party and the unions have done their duty. So we may confidently enter upon the conflict which the new era of capitalism has for us, in which no rapid addition to gold production can longer interfere with the sharpening of class antagonisms, in which capital extends its domain only at the expense of the growing misery of the mass of the population, and the latter is more and more compelled to cause the overthrow of the capitalist system on pain of its own destruction.