WHAT CAN WE LEARN FROM MARX'S CRITICISM OF QUANTITY THEORIES OF MONEY?

S. de Brunhoff, CNRS, France

There is an ongoing discussion about value, prices and money in Marx's theory among Marxist economists. It does not often concern criticism of current themes, such as monetarism, nor topics under discussion today, Fiat money, international money, or floating rates of exchange. Returning to the criticism of quantity theories of money in Marx's writings, I intend to make use of it in dealing with these topics.

A number of quotations are presented here, from Marx's "Contribution to the critique of political [1859] (1970) - here "Cr"; "Theories of surplus value" [1862-63] (1963), here "SV", and Capital volume 1, [1867] (1977) here K1 .

What matters here is following the process of Marx's thought, rather than stopping at the value-of-money problem. The theory of labour-value is the starting point, but not the only one, for criticizing the quantity theory of money. Otherwise it is difficult to understand Marx's criticism of Ricardo's theory of money and to introduce the Fiat money problem.

The present paper starts with a recapitulation of the labour-value theory of money (I) . Then it looks at the question of commodity circulation as a peculiar process of socialization (II) Afterwards it applies Marx's criticism of quantity theories to discussing present monetarist notions(III)

The subject of international-money is not tackled separately here. Some indications are given within the three parts of the paper. Others can be presented later.

I Money andthe labour value theory

The starting point of Marx's theory of money is well known . "Gold can only measure the value of cotton if gold and cotton as values possess a common factor" - that is if both are produced by labour. Here Marx agrees with Ricardo. To begin with, Ricardo determines the value of gold and silver like the values of all other commodities, by the quantity of labour-time materialized in them The value of other commodities is measured in terms of the precious metals, which are commodities of a determined value"(Cr. 170)

However if we stop here, we cannot on one hand understand why Ricardo presented a quantity theory and Marx did not. Nor can we know why Marx wrote against "Ricardo's falsely conceived problem of an invariable measure of value"(SV 3,137) and why according to Marx "variability is precisely the character of value

On the other hand, we cannot understand why Marx criticizes the notion of a "labour money proposed by John Gray (A. Saad-Filho 1993). According to Marx, there is no "organization of exchange " without "organization of labour" . The circulation of commodities and money cannot be confused with social organization of labour and exchanges, whatever the banking system and the state's intervention may be.

These points are the first connection between adoption of the labour theory of money and rejection of the quantity theory . "Commodities enter circulation with a price, and money with value" . "Prices cannot be determined by the quantity of the circulating medium". In commodity circulation there cannot be "an aliquot part of the medley of commodities exchanged for an aliquot part of the heap of precious metals" (K I 124). This is directed against Hume's quantity theory of money and the idea of use values exchange. Against Ricardo's quantity theory Marx goes further. He connects his value theory of money with forms and functions of money in the circulation process.

II The circulation process and socialization of commodities and money

The well known circulation process, C-M-C, (Commodities -Money-Commodities), combines two kinds of "socialization": "Private labour time contained in commodities becomes social labour time" . Money becomes "the standard of prices" fixed by legal means.

1. THE C-M-C PROCESS

Circulation of commodities presupposes "an advanced division of labour and therefore also a diversity of wants on the part of the individual (Cr 90). So it presupposes "an indefinite multitude of circuits" . Here "circuits" are different from the credit-money circuit where money lent by creditors comes back to them from debtors. settling their debts..

- C-M: The sale is a "metamorphosis" of a commodity into money, which involves a "transformation of private labour into social abstract labour" represented by money (D.Foley, 1986).

-C-C: There is no direct exchange of commodities, even if money is gold. And no barter as an exchange of use-values. Here Marx criticizes the quantity theory of money a la Hume

-C/M/C: There is separation and independence of the acts of purchase and sale. Marx criticizes Say's Law "The metaphysical equilibrium of purchases and sales is confined to the fact that every purchase is sale and every sale a purchase". Contrary to that, money can be hoarded into "reservoirs" , which regulates its flow. But hoarding can also disturb the circulation The separation between purchase and sale makes "monetary crises" possible.

The circulation process of commodities and money has contradictory features . Socialization of the private labour contained in commodities ,through C/M/C exchanges, is different from the social organization of production and circulation. Money is a specific constraint upon private exchanges of commodities produced by private labour.

2.MONEY, CURRENCY AND THE STATE

a) Within commodity circulation , the money's form cannot be a commodity as such. As a standard of prices within a country, it is a unit of account . Official coinage changes gold bullion into domestic coins. "Gold is minted according to the standard of the money of account.. Gold is a measure of value because its value is variable, it is the standard of prices because it has been established as an invariable unit of weight. Here...stability and exactitude of the proportions is essential"(Cr.72) . This transformation of money into currency occurs by "legal means", which involves "the power of the state, the concentrated and organised force of society" (KI 751). So "the designation of the unit of measure .15 on the one hand ,purely conventional, and on the other hand ,must be accepted as universal and indispensable within the sphere of circulation" (Cr. 72)

This is a second process of socialization, when money circulates as currency. Whatever the money form, metallic coin, or paper money, within a country money is coined or issued by the state according to a unit of account, x £ or x dollar being equal to y or z weight of gold. Now the value of gold is "given", and the amounts of means of circulation are determined by the prices of commodities (Cr 70). It means that when money becomes currency, the price of gold is fixed but its quantity is variable according to the exchanges needs. And there is no "equilibrium quantity " of money, within or outside a country , which is opposed to any quantity theory of money.

At the same time, money which circulates is thought to be a flow, not a stock. "The proportion of money in circulation to the total amount of money varies continuously (Cr 97). This too is opposed to quantity theories.

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b) Currency and "world money".

On "the world market", the shape of gold money is bullion , and not coins. Its value as a commodity depends on its costs of production (the labour time contained in it (Cr. 151). In Capital volume 3, Marx writes that "(t)he bullion trade itself{ the transfer of gold or silver from one country to another, is merely the result of trading in commodities. It is determined by the rate of exchange which expresses the standing of international payments and the interest rates in the different markets". (320). The international circulation of gold as bullion is different from the circulation of gold as currency coin s. Bullion is not a means of circulation, but only a means of purchase and payment between countries (Cr 1 50). The connection between these two circulations , international and domestic, is not clearly presented by Marx. But in both cases, there is no equilibrium quantity of money

Ricardo had an opposing view, for both currency and international movements of gold. Following Marx, Ricardo took into account "an international currency-equilibrium " .of gold distributed among countries. So within each country there is "a proper level" of gold , or an "equilibrium quantity " of gold supply. Marx disagrees with Ricardo's quantity theory of money. Whatever the sphere of circulation, between countries or within each of them, there is no equilibrium stock of money. And within a country, the unit of account is fixed by the state, but the quantity of money is not.

c) Marx leaves aside the ricardian problem of "an invariable measure of value" "Variability is precisely the characteristic of value" so that when gold's value rises or falls, the sum of the prices of commodities falls or rises ,and so does the quantity of money that circulates (K 1 11 7).But the value of money as a means of circulation is considered to be given, "as in fact it is momentarily whenever we consider the price of a commodity. On this supposition, then, the quantity of the medium of circulation is determined by the sum of the prices that have to be realised" (id.).

So the traditional quantity equation, M.V. -P.Q. , is disconnected from the quantity theory of money (Foley,1986). "The quantity of the circulating medium is determined by the sum of the prices of the commodities circulating, and the average velocity of currency" (K. T 123). This quantity equation has a second expression, when credit is included and money functions as a means of payment In both cases, M, the quantity of money as a flow, is determined by P.Q the amount Q of transactions with given prices of commodities, P.Q, V being given .This is the reverse of the quantity equation in the quantity theory of money in which a change of M (stock) has an effect upon prices P (V and Q being given). In Marx's quantity equation, an increase in the quantity of money is not equivalent to a change in the monetary unit :the value of money does not depend on its quantity

3. TWO PROBLEMS OF THE CIRCULATION PROCESS

a) The time problem

Any process , including what Marx calls "the social metabolic process of circulation". takes time. But not all "phases" or "stages" distinguished by Marx are "historical" time processes.

First, the process of circulation "presupposes that the value of gold is already given in the prices of commodities". Otherwise, "the relation of gold and commodities would be that of direct barter "(Cr 90). So the transformation of gold into money is "antecedent to circulation".But that transformation is also considered as "the first phase of circulation": then it is "a theoretical phase preparing to real circulation" (Cr. 64). And the simultaneity of prices' and of gold money;s determination, is a precondition for understanding the structure of monetary exchanges, and the "real" C-M-C circulation.

Second, within C-M-C circulation, there are numerous and ceaseless transformation processes . As "the labour time contained in commodities is not immediately social labour time" C-M-C involves some qualitative transformation of commodities into money . Where money is concerned , the measure of value "becomes " the standard or prices, money "becomes" currency within a country, and so on. But these processes are not really sequential, occurring in some historical time. The scope for transformation depends on the monetary structure of commodity circulation . There is "logical" rather than "historical" time. "Transformations" are mediations belonging to the structure of exchanges "Simultaneous" and "sequential" processes should be thought together, though they are different.

In the same way, when Marx comments on C-M, i.e. sale, he writes that that "sale is simultaneously a purchase, M-C" . But it is also an "independent isolated transaction" So "there is both unity and separation of purchase and sale" (Cr 94). Marx considers that Say's law is senseless.

b) The aggregate problem

M.Friedman (1987) calls the quantity equation presented above , M.V=P.Q, "the transaction form" (of the quantity theory of money), as distinct from "the income form", M.V"' p.Y' (the monetarist one). Marx reversed the first one, where P.Q means the total value of commodities that need to be circulated by money, that is bought and sold for money(Foley, 1986 24/25).

The time problem and the aggregate one are linked together, when the aggregate P.Q and the quantity of money circulating do not "correspond." "Money that represents commodities long withdrawn from circulation ,continues to be current. Commodities circulate, whose equivalent in money will not appear on the scene till some future day" (K, 1,139). However, the economic and institutional link between (coin and paper) money and credit(bank) money, is missing here. Usually nowadays different monetary aggregates are taken into account: H, high powered money issued by the Central Bank,, MI,M2,and so on) . These statistical aggregates are often held to be the true monetary ones .; and the growth of Ml or M2 are "monetary targets " for the stabilization policies of some Central Banks

For different reasons (not only historical ones), no "statistical" aggregate can be found in Marx's writings. What is important is that the quantity of money circulating as a flow is determined by the prices of commodities, whatever lags there may be. And when international exchanges are taken into account, there is no significant monetary aggregate, no "equilibrium quantity "a la Ricardo. According to Marx, as opposed to Ricardo, money does not have "the same value in all countries" even when common international costs of gold production are considered . There is no given stock of gold bullion to be distributed among countries as if "the amount of money in each country (were) commensurate with its wealth and industry" (Cr, 174-5) .The link between currencies and gold as universal money cannot be understood by the prevailing quantity theory of money.

Further analyses would be required to understand what an "international law of value" could mean (D.Bryan, 1995). Not only because to-day there is no longer a gold standard , but because of the former relation between gold and currencies.

III CRITICIZING MONETARISM: SOME LESSONS FROM MARX 'S THEORY

Monetarism is the main contemporary quantity theory of money. Keynesian economists criticize it (Tobin 1987). Marxist economists leave it aside. Two problems are interconnected:

the value problem -for all analysis of contemporary fiat money-;

the value- and -price problem discussed in Marxist analysis .

Here the second is enclosed in the first problem. Some keynesian criticisms of monetarism can help Marxists to clarify different statements

MONEY AND VALUE

Contemporary fiat money is not produced by labour, and per se it has no labour value. The absence of commodity value means that the common point of departure of Ricardo's and Marx's theories of money is missing. But subjective value (marginal utility) theories of money have no more initial value foundations: fiat money as such is not a useful good for consumption or production by individuals Is it the case for money in general ? Whatever the money form, commodity or fiat money, "money is an embarrassment to value theory" (Tobin, 1987). "The embarrassing puzzle is sharpest for fiat money", but it concerns also commodity money, as we saw in Ricardo's conception . "The distinction between commodity money and fiat money is not absolute"(Tobin, o.c.). However fiat money will now be examined.

Valueless money is sometimes considered as a social institution without intrinsic value (labour value or marginal utility value). Different kinds of numeraire are proposed. Either money as a unit of account and a means of payments is like a particular form of economic coordination between individual traders. Sometimes credit money, issued and destroyed by the banking system, whatever is its link with money issued by the state, is at the centre of analyses (circuit theories) Or, according to some economists, money is both some kind of social regulation and an expression of interindividual violence. Some Marxists insist on the class character of money as a social power, that is money-as-command. So from a purely economic point of view to "sociological " ones ,valueless fiat money has different interpretations.

It is not possible to discuss these views here. But in any case, it seems as difficult to understand the economic status of valueless money as it is to determine the value of money.

In what follows, M.Friedman's monetarism is presented and discussed according to different propositions: the value of money as a particular asset, the exogenous supply of nominal money, the monetarist policy of stable money.

2. MILTON.FRIEDMAN'S MONETARISM

M.Friedman seeks to propose a purely economic theory of money, with no sociological considerations (M.Friedman, 1987). He presents monetarism as the contemporary quantity theory of money. He replaces the "transaction form" in Fisher's traditional quantity equation, M.V"'P.Q, with an "income form", M.V"'P.y', where y' is the global net income at constant prices. In this "income form", money is a particular asset to be held, rather than a means of circulation to be transferred (M.Friedman, id..) . The purpose of M.Friedman is to enclose a demand for money within the quantity theory so that money has some subjective value for individual economic agents. And it would be a demand for fiat money, since gold money has disappeared

However in both quantity equations, M, the quantity of money, is a stock , and not a flow. When new money is issued, as "it spreads through the economy... (it) is merged with the old and is distributed in the same way. Contrary to the keynesian approach, which gives almost exclusive importance to the first-round effect by putting primary emphasis on flows of spending rather than on stocks of assets", the quantity approach "gives almost no importance to first-round effect" (Friedman 1987) Empirically the money stock is represented by the aggregate M2 (currency and deposits).

M.Friedman determines the value of money from a demand = supply equation for money by itself. Here money is an asset desired by individuals and held in cash balances. The demand for money, Md, is a stable function of real income and wealth. The supply of money, Ms, is the quantity of nominal money issued by the state (the Central Bank at the head of the banking system) . M.Friedman distinguishes two kinds of change of Ms. One is an increase of money "once for all", and is equivalent to a change in the monetary unit- a substitution of cents for dollars -, and it has an immediate offsetting effect on the price level. The other one is "the change in the rate of change of money" and prices -an increase of 5% instead of the past 3%. It affects the "cost of holding money ", hence the desired quantity of money to be held. But in spite of this distinction, in both cases the key nominal parameter is the quantity of fiat money, Md. And the "price of money" is the reverse of the general level of prices, that is = 1/P The equilibrium quantity of money is defined by the demand and supply equation, Ms = Md.

The main criticism addressed by different economists to these monetarist statements is the "dichotomy" approach. Real relative prices are disconnected from money prices, just as in Walrasian general equilibrium theory .Those real variables in turn are exogenous to the path of the price of money (Tobin 1987).But we should go further about money as a particular asset. The common question about (fiat) money is. "how can money have positive value in exchange?"(Tobin, 1987)It is posed by Milton Friedman within the framework of subjective value and equilibrium prices, where there are only individuals and goods. Money should be introduced in this real world, but it cannot be. Relative prices, the real rate of interest, and re sources allocation are determined without money. In the stable function of demand for money introduced by M.Friedman, money as an asset is not determined as a condition of commodity exchange and price determination. And aggregate demand for money is derived from the demand function of a representative wealth holder.

Thus the exogenous quantity of nominal money supplied by the state is balanced by the rise (or the decline) of monetary prices. Money prices are disconnected from relative prices . There is no distribution effect, except between the state issuing nominal money, and individuals. Inflation (any increase of prices) appears as a tax on economic agents (seignorage). The only irrational" economic behaviour is that of the state's expenditure. So the Central Bank should be constrained by "rules versus discretion" when it issues "high powered money "

Nominal money.

Concerning international money, contemporary currencies are no longer, since 1971, connected with an international commodity standard. Monetarism is unable to take account of the international hierarchy of currencies, at the top of which is the dollar. Following Friedman (1953), floating exchange rates are the best regime, since in the free market for currencies supply and demand generate an equilibrium price. Speculation is rational . Friedman applies to international monetary relations the evaluation of the "real" competitivity of countries, according to the Purchasing Power Parity proposed by Cassel ;as if there could be a real (non monetary) rate of exchange directly reflecting the relative situation of countries. The analysis of the international monetary system is one of the weakest points of monetarism, as it is in all contemporary economic theories.

A good deal of discussions are influenced by these statements. Thus M.Friedman took part in discussions about the "Phillips curve", and the allegedly stable inverse relation between unemployment and the rate of change of nominal wages (or prices). By contrast to keynesian interpretations of the Phillips curve, he distinguishes between real and nominal magnitudes: the quantity of labour demandded and supplied is a function of realy wages "Under any given set of circumstances, there is an equilibrium level of unemployment corresponding to an equilibrium structure of real wage rates"(M.Friedman,1987). So in the long run the Phillips curve will tend to be vertical at the natural rate of unemployment, and money is neutral. Only over short periods can a negatively sloping Phillips curve appear, if there is an unanticipated increase in inflation. So expansionary monetary and fiscal policies at best give only a temporary stimulus to employment and output and, if long continued would be reflected primarily in inflation"(id).

This is important for understanding recent discussions about the objectives of the Fed' 5 monetary policy (Brookings Papers, 1996, T) Keynesians want to maintain the objectives of employment and output, and to allow an increase of prices of about 3% . Monetarists say that the only suitable objective is the stability of prices, and if possible a zero inflation rate However, both parties agree to a theoretical compromise, about the relation between the rate of unemployment and the rate of inflation over short periods. Following some keynesian economists, there is a 1'non accelerating inflation rate of unemployment ",NAIRU, different from the monetarist "natural rate of unemployment, but including some reference to an empirical macroeconomic equilibrium.

3.WHICH ALTFRNATIVE TO MONETARISM?

The first step is to specify the criticism of monetarism from Marx's conception of money, which is different from the keynesian one. The second step would be to present a Marxist alternative for understanding contemporary fiat money within the framework determined by Marx for any kind of money

We have seen that the process of circulation includes some economic socialization of individual economic agents submitted to a social division of labour. Transactions between these agents include monetary and institutional coordination without social organization. Following all quantity theories, money as such is useless, and so is valueless. Following Marx , money is inherent in transactions There is no equilibrium quantity of money linked to some equilibrium prices, in domestic or in international circulation. These statements pave the way for analyses of money capital, finance, monetary crises, and the role of the state. "We started with money as the converted form of the commodity. What we arrived at is money as the converted form of capital" (Marx,Plv).

However, in contemporary Marxist analyses, the problem of money is scarcely that of fiat money, from Marx's indications. It is mixed with the value-and-prices-of production problem, so that money is from the beginning included in capitalism, and includes distribution relations. The "centennial debate" is going on, and so it comes back to Marx's theory of money rather than considering contemporary fiat money. I do not wish to take part in the debate, elsewhere I had discussions with sraffian economists (Brunhoff 1992). I will simply give a short comment on some papers written by marxist economists.

All of them consider money in capitalism, instead of money in the circulation of commodities. According to Roberts (1995), money is simply "an extension of the general form of value". And "given competitive capitalism, the process of formation of prices and the process of formation of abstract labour are the same process.. (P)r ices of production accomplish the commensurability of commodities as equivalent in terms of their worth in capitalist exchange; abstract labour accomplishes the commensurability of concrete labour as equivalent in terms of the value created in capitalist production". Money as such does not matter. That is the more "economic" interpretation

If abstract labour in capitalism is first considered as a social relation, including a class distinction, money which "represents" it is a social one too, including power. This interpretation of Marx's theory has recently been once again developed by J Holloway, W. Bonefeld, H. Cleaver(1996) who analyse money within capitalism from the beginning of Capital. Here there is no research about prices, or about money as such. Money is chiefly command over labour. "It is an expression of capital' 5 ability to impose work(abstract labour) through the commodity form of exchange value"(Bonnefeld,1996). The state is a political form "through which the social power of money subsists".Thus "the focus is on understanding money as class struggle, and how the hanging role of money is constituted by the antagonist social relations of capitalism. This is an area of discussion that has been largely neglected by Marxists as by others" (Bonefeld and Holloway 1996). Here the critique of political economy involves the "critique of money " and of politics of money. Historical analyses of keynesian and monetarist class policies are made, which consider both domestic and international monetary relations and finance. Theoretical problems of value and price, and of contemporary fiat money, are left aside

In both cases, the "purely economic" analysis a la Roberts, and the mainly "political" analysis a la Bonnefeld, there is a common point of departure. The relation between commodities and money in the circulation process is left aside. Labour as value creating is at the beginning, but exchange relations are disconnected from production of commodities. Distribution relations, or class relations, are directly included in money. Then the money-form, commodity or fiat money, does not matter.

Things are different in D.Foley's analysis(1986) Foley presents "the general equivalent" and the circulation process set out by Marx at the beginning of Capital. He shows how those statements pave the way for criticising all quantity theories of money and of barter relations of exchange. He tackles the contemporary fiat money problem. However, in the solution that he proposes, two problems are involved: that of the valueless fiat money, and that of value and prices of production, so that the solution includes "a sraffian bias". If that bias cannot be kept out, which effect has it on money value in Marx '5 Capital? and on the analyses of money markets, finance, and politics of money?

From these different contemporary marxist writings, I conclude that we don't yet have a theoretical marxist alternative for understanding the value and the economic role of fiat money. In Marx's Capital we find means to understand and criticize monetarism, not only as a class policy, but also as an economic theory of money and price. If money matters, the research for its signification is to be pursued.

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