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The Basic Theories of Karl Marx

# Marx's Theory of Money

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**In the same way as his theory of rent, Marx's theory of money is a straightforward application of the labour theory of value. As value is but the embodiment of socially necessary labour, commodities exchange with each other in proportion to the labour quanta they contain. This is true for the exchange of iron against wheat, as it is true for the exchange of iron against gold or silver.**

Marx's theory of money is therefore in the first place a commodity theory of money. A given commodity can play the role of universal medium of exchange, as well as fulfil all the other functions of money, precisely because it is a commodity, i.e. because it is itself the product of socially necessary labour. This applies to the precious metals in the same way it applies to all the various commodities which, throughout history, have played the role of money.

It follows that strong upheavals in the 'intrinsic' value of the money-commodity will cause strong upheavals in the general price level. In Marx's theory of money, (market) prices are nothing but the expression of the value of commodities in the value of the money commodity chosen as a monetary standard. If Â£1 sterling = 1/10 ounce of gold, the formula 'the price of 10 quarters of wheat is f 1' means that 10 quarters of wheat have been produced in the same socially necessary labour times as 1/10 ounce of gold. A strong decrease in the average productivity of labour in gold mining (as a result for example of a depletion of the richer gold veins) will lead to a general depression of the average price level, all other things remaining equal. Likewise, a sudden and radical increase in the average productivity of labour in gold mining, through the discovery of new rich gold fields (California after 1848; the Rand in South Africa in the 1890s) or through the application of new revolutionary technology, will lead to a general increase in the price level of all other commodities.

Leaving aside short-term oscillations, the general price level will move in medium and long-term periods according to the relation between the fluctuations of the productivity of labour in agriculture and industry on the one hand, and the fluctuations of the productivity of labour in gold mining (if gold is the money-commodity), on the other.

Basing himself on that commodity theory of money, Marx therefore criticized as inconsistent Ricardo's quantity theory. But for exactly the same reason of a consistent application of the labour theory of value, the quantity of money in circulation enters Marx's economic analysis when he deals with the phenomenon of paper money.

As gold has an intrinsic value, like all other commodities, there can be no 'gold inflation ', as little as there can be a 'steel inflation'. An abstraction made of short-term price fluctuations caused by fluctuations between supply and demand, a persistent decline of the value of gold (exactly as for all other commodities) can only be the result of a persistent increase in the average productivity of labour in gold mining and not of an 'excess' of circulation in gold. If the demand for gold falls consistently, this can only indirectly trigger a decline in the value of gold through causing the closure of the least productive old mines. But in the case of the money-commodity, such overproduction can hardly occur, given the special function of gold of serving as a universal reserve fund, nationally and internationally. It will always therefore find a buyer, be it not, of course, always at the same 'prices' (in Marx's economic theory, the concept of the 'price of gold' is meaningless. As the price of a commodity is precisely its expression in the value of gold, the 'price of gold' would be the expression of the value of gold in the value of gold).

Paper money, banks notes, are a money sign representing a given quantity of the money-commodity. Starting from the above-mentioned example, a banknote of Â£1 represents 1/10 ounce of gold. This is an objective 'fact of life', which no government or monetary authority can arbitrarily alter. It follows that any emission of paper money in excess of that given proportion will automatically lead to an increase in the general price level, always other things

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remaining equal. If Â£1 suddenly represents only 1/20 ounce of gold, because paper money circulation has doubled without a significant increase in the total labour time spent in the economy, then the price level will tend to double too. The value of 1/10 ounce of gold remains equal to the value of 10 quarters of wheat. But as 1/10 ounce of gold is now represented by Â£2 in paper banknotes instead of being represented by Â£1, the price of wheat will move from Â£1 to Â£2 for 10 quarters (from two shillings to four shillings a quarter before the introduction of the decimal system).

This does not mean that in the case of paper money, Marx himself has become an advocate of a quantity theory of money. While there are obvious analogies between his theory of paper money and the quantity theory, the main difference is the rejection by Marx of any mechanical automatism between the quantity of paper money emitted on the one hand, and the general dynamic of the economy (including on the price level) on the other.

In Marx's explanation of the movement of the capitalist economy in its totality, the formula ceteris paribus is meaningless. Excessive (or insufficient) emission of paper money never occurs in a vacuum. It always occurs at a given stage of the business cycle, and in a given phase of the longer-term historical evolution of capitalism. It is thereby always combined with given ups and downs of the rate of profit, of productivity of labour, of output, of market conditions (overproduction or insufficient production). Only in connection with these other fluctuations can the effect of paper money 'inflation' or 'deflation' be judged, including the effect on the general price level. The key variables are in the field of production. The key synthetic resultant is in the field of profit. Price moments are generally epiphenomena as much as they are signals. To untwine the tangle, more is necessary than a simple analysis of the fluctuations of the quantity of money.

Only in the case of extreme runaway inflation of paper money would this be otherwise; and even in that border case, relative price movements (different degrees of price increases for different commodities) would still confirm that, in the last analysis, the law of values rules, and not the arbitrary decision of the Central Banks or any other authority controlling or emitting paper money.

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