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Econ 106

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Econ 106

Jose Lenno' and Greg Burke /
Mike Orden's Notes on Money

Becker's Money Notes

Karen's Exam 106
Money

Question #5:

On the surface, money appears as an object of enrichment, an object of material wealth. As such, it is also perceived to be the source of the desire for wealth. At a second level, money is the embodiment of abstract wealth, a form of value. In capitalist society, it is a commodity representing a finite magnitude of value., a definite quantity of abstract labor. Like all other commodities, it has the material form of a use-value. But by virtue of its historical and logical development in the growth of the process of exchange, money is a particular commodity. It becomes the common form into which all commodities as exchange-values are transformed. It is also the first form of capital.

particular / is the universal equivalent

Historically, in early societies, the commodity that serves as the money form, i.e. exchanges for other commodities for the purposes of exchange rather than for use, is that object which is most frequently used in production and consumption. It is the predominant form of wealth in the society, such as cattle or slaves. The usefulness of this commodity in these two processes stamps it as money. In more advanced societies, money is the commodity which has the least utility as an object of consumption or production but which best serves the needs of exchange. It is the commodity that is most serviceable in exchange. Hence, the use-value of this commodity is now its exchangeability. Because of their particular qualities, the precious metals best fit this function, and they thus became the first form of money.

Logically, Marx showed how the money form is derived from the forms of value. Every commodity, as a product of labor, is the objectification of a definite amount of labor-time. Its value, equal to the quantity of labor time embodied in it, is realised when it is exchanged for other commodities embodying the same amounts of abstract labor. As values, all commodities are qualitatively equal but quantitatively different. Thus, value assumes an independent existence from the bodily-form, or use-value, of the commodity.

e.g. when related other C's

The germ for the development of the money form appears in the simplist value relation, in the elementary form of value. In a given equation, 2 commodities exchange for each other: 2 books = 1 steak. The value of the books is here expressed relatively in the value of the steak. In this position in the equation, the steak acts as the equivalent, and it is directly exchangeable for all other commodities having the same value. Although the steak also has a use-value as a steak, its value alone is what counts. The use value of any commodity in the position of the equivalent is the form of its opposite, value. Moreover, the steak is the result of concrete labor to produce it as such. However, in the position of the equivalent, the steak assumes the form of its opposite, abstract human labor. And finally, although the steak was produced by individual labor, in the equivalent position, it assumes the form of its opposite, social labor.

it ~~[illegible]~~ acts as its e-V expressing the value of the books.

The elementary form of value then is the first form historically in which a product of labor appears as a commodity and in which the value of this commodity obtains an independent and definite expression. It also contains all the contradictions, tensions between opposites, that will fully develop later in the money form and sow the seed for crisis.

The elementary form is, however, deficient. It is historical accident which determines where the connodity is placed in the equation. Moreover, when the commodity is in the relative form, there can exist only 1 other commodity to act as its equivalent. The equation, then, doesn't explain the relationship of this commodity to the world of commodities; it merely distinguishes use-value from value, concrete labor from abstract labor, and private labor from social labor.

Yes

From this beginning, a second value equation can be evolved, the expanded form of value. In a given equation, 2 books = 1 steak, 3 apples, 5 lbs. coffee, all the commodities on the right side of the equation mirror the value of the books. This equation is an improvement over the elementary form in that value here becomes distinctly undifferentiated human labor. The books now stand in relation to the world of other commodities. The accidental character has been abolished, and it is clear that the magnitude of the value regulates the exchange. Like the elementary form, however, this expanded form is also deficient. The interminability of the right side merely leads to fragmentary expressions of value, rather than a unity of expression.

particular ws of value cannot be compared

The expanded form of value thus gives way to the general form. In this third equation, 5 lbs. coffee, 3 apples, 1 steak = 2 books. One single commodity, here the books, is set apart to fulfill the role of a measure of equivalence, of exchange-value, for the world of commodities. They are finally all united in a single universal equivalent. The commodity in this position now becomes recognized by all others as the money-form, whose use-value is its value in exchange. Historically, gold monopolized this position and became the socially-established money form.

allows exchangeability of all C's in terms of common standard, and allows ever variance of values.

Once the money form is so established, it plays several roles in social production and exchange. Its first function is as a measure of value. In other words, money is the material expression of a commodity's value in a definite magnitude. It allows all commodities to be quantitatively comparable and it makes them qualitatively equal. As a measure of value, money is the price-form of value, although money itself has no price. Indeed if it did, it would have to act as its own equivalent, a senseless expression. Instead, its price is purely an ideal form, yet an ideal form under which "lurks hard cash."

This measure of value also expresses a social relation of production. It signifies the amount of socially-necessary labor time involved in the manufacture of each commodity. Once this commodity is converted into price, the production relation appears only as an accidental exchange-ratio between the commodity and the money commodity. This appearance masks that the exchange-ratio is really either the real magnitude of the commodity's value or the quantity of gold deviating from that value (due to several different reasons). The deviation

but the real magnitude is never expressed directly only the relative magnitude of price from value is inherent in the price form itself, and in fact, articles may have prices without having values.

Money as measure of value must be distinguished from money as standard of price. As the former, it converts value to price and serves as definite quantities of labor-time. As the latter, money functions as a fixed weight or magnitude of gold. The standard of price measures price in exact quantities of gold. (For simplicity, we assume that gold is the money commodity.) It thus requires an unvarying measure, for which stability and exact proportion are essential. And, although the value of gold may vary, this does not affect its functions as standard of price and measure of value, since different quantities of gold will always represent the same ratio of value with respect to one another.

The second function of money is as a medium of circulation. Simple circulation, represented by the C-M-C circuit, consists of two simultaneous acts, a sale and a purchase. A commodity begins and ends the circuit. It begins as a use-value, sheds this to become exchange-value, and then again dons a use-value. Once the commodity is sold, it drops out of circulation to be consumed by its purchaser. Money then, as a medium of circulation, mediates the transformation of commodities from use-values to exchange-value and vice-versa.

It is interesting to note that there are 2 antithetical movements in the circuit. The money and commodity switch places. Once they do, the commodity drops out to be consumed. Each commodity thus begins its second phase as money. It seems, then, that the movement of the metamorpohsized commodity is the movement of money continually changing places with fresh commodities. In this way, money acquires a movement of its own. The result is that in circulation, money functions to perpetually rotate commodities, to change their form, to realize their prices. Hence in this last sense, money also functions as a measure of value.

Since money is constantly in the sphere of circulation, the question arises as to how much will be absorbed. Marx assumes that before entering circulation, the prices of commodities are equated to definite quantities of money and that prices will be equal to value. The amount of money needed to circulate is determined, then, by the sum of the total prices of the commodities which are to circulate and by the average velocity of money in circulation. This velocity is determined by the (1) velocity of sales and purchases, the speed of the succession of transactions, and the speed that new commodities are placed in circulation to replace those consumed. The calculation of the sum of prices of commodities presupposes that the value of gold serving as a measure of value is given. The sum itself is dependent upon the price-level and the number of purchases and sales at given prices. From this, it can be seen that the amount of money in circulation is dependent upon the fluctuation of prices rather than the inverse.

(2) it really specifically (1), not an dependent reason.

not reversed this is a tautology not e statement of the prices & M are causally related

Although the C-M-C circuit represents a unity (each sale and purchase blends into one), it also represents a separation. Sales and purchases may occur separately rather than successively as we first assumed. There can be an interval between the two acts. When this split between sale and purchase becomes too great, the possibility of crisis appears. For Marx the tension between use-value and exchange value, concrete and abstract labor, private and social labor, all have the potential to "assert their modes of motion" in the antithetical phases of the transformation of a commodity and to develop into a crisis.

general, not bc.

The third function of money is as a hoard, or as a store of value. Money functions as a hoard when the exchange cycle is interrupted, when a sale is completed without a corresponding purchase. Money is sought after, withdrawn from circulation because it embodies exchange-value, abstract labor, wealth. Money in hoards can be converted to commodities at will. Hoarding is the result of insatiable greed.

As Marx notes, hoarding was more important in societies with less developed commodity production. In more advanced commodity producing societies, hoarding primarily contributes to the balance between the total amount of money in a country and the proportion of money in circulation. If prices decrease or the velocity of money increases, the money leaving circulation is absorbed by hoards. They thus can act as channels for the withdrawal of circulating money and as a reserve for future payments.

Finally, money functions as a means of payment. This occurs when the transfer of goods precedes the transfer of money and when the relation between buyer and seller is transformed to one of debtor and creditor. In this case, the change of position between money and commodities is not simultaneous. Money is simply a promise to pay in the first period, although it still functions as an ideal means of purchase to move commodities. Money only enters into circulation on the date it is due, as a means of payment, and it appears that the second phase of the circuit happens first. Money, then, is no longer the intermediary, but the final result.

On the assumption that the velocity of the means of circulation and means of payment are given, the quantity of money in circulation will be equal to the sum of the prices to be realized, plus the sum of the payments due, minus the payments that balance each other out, minus the number of circuits the same money travels. At this point, the mass of commodities circulating and the quantity of money circulating will not balance, since money will not appear until some future date. Nor will the debts contracted correspond to the payments due on the same day. Marx notes, however, that the quantity of the means of payment required for periodical payments will be in inverse proportion to the length of their periods.

[illegible] does [illegible] say minus?

Sometimes as means of payment, money need never be present. If payments and credits cancel each other out, then money becomes "nominal money of account." In this case, exchange value has no independent existence; it is merely ideal.

[illegible] Minus the price of C[illegible] debts cancelled as the same M counted as medium of circ + means of payment; all this is divided by the [illegible] of M [illegible] and the needed quantity of M.

The possibility of crisis is also immanent when money functions as means of payment. When payments have not been made over long periods of time, there will be a rush on money, a race to turn ideal money of account into hard cash. During these times, money again appears as the sole form of wealth and all other commodities appear useless. Marx refers to these crises as monetary crises, occuring in the sphere of banking and finance.

A very good answer, a fine exam.

. Greg Bischak

Outline of Answer to:

Compare the phenomena of Marx's theory of money as compared to the Classical Quantity Theory of money with respect to
a) the case where money consists of gold coins only
b) the case of convertible token money
c) the case of inconvertible token money

I shall begin by outlining the essentials of the classical theroy according to David Hume and David Ricardo. Then I will examine Marx's treatment of money and his criticisms of the classical theories.

Basic Propositions shared by Hume & Ricardo for a system of simple circulation (although they each sought to generalize this model to describe and explain bank notes and international trade).

$$MV=PT$$

Where (V is an average) :
M= quantity of denominated money(either paper or coin), given by social and technical factors
V= number of times that the stock of money would have to turnover in a given time to accomplish all transactio
P= price level based on an aggregate price index
T= number of sales transacted at this price index (assumes a fixed level of output)

David Hume elaborates his ideas on money in his essay "Of Money" (1752) His basic ideas are as follows:

1) "Commodity-prices in a given country are determined by the amount of money (real or token) existing therein." pp. 162 in Marx's Critique

2) "The money circulating in a given country represents all commodities which are in the country."

3) "If the volume of commodities increases or decreases then prices fall or rise while the value of money rises or falls. If the amount of money increases or decreases then, on the contrary, commodity-prices rise or fall, while the value of money falls or rises."

Before turning to Ricardo's treatment of the question I will briefly deal with James Steuart's contribution to the theory of money.

James Steuart was the first to pose the question as to whether prices of commodities are determined by the amount of money or whether the amount of money in circulation is determined by commodity-prices. He also was the first to note that commodity circulation requires a determinate amount of moneyto circulate the sum of commodity exchange-values. If there exists more money in circulation than would reflect the sum of commodity exchange-values then the excess of gold money will be held in hoardes. Finally and incidentally he was the first to note that currency based on credit would always reflux to its point of origin. Adam Smith merely repeated what Steuart said on money.

Ricardo's theory of money can be set forth in the following seven major propostions and derivative points.

1) The value of specie(gold and silver) is determined by the quantity of labour-time necessary to produce it.

2) The value of commodities is measured by precious metals in denominated money form.

Ricardo continued:

3) The quantity of circulating medium is determined by:
   a) the value of the standard of money, ie. specie money
   b) the value of the sum of the exchange-values of all commodities in circulation
      - Paper money or token money can, in principle, be substituted for gold if (given its denominated face value) it is issued in a quantity commensurate with the quantity of gold that it represents.
      - this proposition of Ricardo's stands in opposition to Hume. Hume held that gold had only nominal value, in essence it had no intrinsic value and hence its value, like that of paper or token money, is determined by the quantity in circulation.

4) Thus, if the value of gold is given, then the amount of money in circulation is determined by the prices of commodities in circulation.

5) Equilibrium balance holds when the sum of exchange-values in circulation equals the value of the amount of money in circulation
   a) If we vary the quantity of money, while holding the sum of commodity exchange-values in circulation constant, then:
      - if the supply of gold money rises above the sum of commodity exchange-values then gold will fall below its embodied value and prices will rise.
         - this will occur when the sum of exchange-values produced decreases or
         - the quantity of gold produced in mines increases.
      - if the quantity of gold falls below the sum of commodity exchange-values, then gold rises above its embodied value and commodity prices will fall
         - this will occur when the sum of exchange-values produced increases and when
         - the supply of gold extracted form mined is insufficient to replace the worn out gold coins.

6) Adjustment Process according to Ricardo:
   a) when the supply of gold money falls relative to the sum of exchange-values in circulation, then the demand for gold will increase. This in turn will stimulate production of gold. This new gold will then enter circulation and stem the rise of prices.
   b) when the supply of gold money rises above the sum of exchange-values in circulation then there will be a fall in the nominal value of gold(below the value of the embodied labour-time). This will lead to a decrease in the production of gold until the amount of money adjusts to the sum of exchange-values (by slowing the rate of replacement of old coins or if allows for growth in output of commodity exchange-values then a decrease in the rate of growth of the money supply would compensate).

7) Convertible and Inconvertible Notes: (note for Shaikh one should refer to inconvertible tokens not paper money)
   a) Laws of convertible notes are the same as those of gold.
   b) Inconvertible notes differ :
      - an excess of notes can be issued so that the face value of the notes represents a greater nominal value than the gold it replaced.
      - they can depreciate in the same manner as gold and convertible notes by overissuance with respect to the sum of exchange-values

Marx on Money:

From Marx's starting point of the commodity he deduces the quality and quantity of use and exchange-value of commodities. He then identifies the common property of all use-values as exchange-values, namely labor-time (socially necessary labor-time for the production of the commodity). Given this he proceeds to derive the forms of exchange-value: the simple, expanded, general and money forms of exchange-value. It is from the general form that Marx derives the notion of a general or universal equivalent which expresses th exchange-value of use-values in terms of a definite amount of some commodity that has been designated the universal equivalent. In order for a commodity to serve as the universal equivalent it must be recognized as such and it should be divisible. Once a particular commodity has been stamped as the socially valid universal equivalent then it is known as money. Gold and other precious metals have been historically recognized as the universally accepted general equivalent.

This whole movement, from the analysis of the commodity to the forms of private exchange, is grounded in a comparative historical anthropology of the forms social labor. This project is undertaken by a comparison of the forms of human community, the relation of the individual as a productive member of the community to the community through the social product,and the forms of social interaction among members of the community A comparison of bourgeois society to pre-modern society reveals the historical specificity of the forms of private exchange. Other forms of labor prove to be regulated by such natural particularities as age, sex, and family origin, both for the distribution of concrete labor and for the distribution of the product of labor. It is only in bourgeois society that the relations between man and man and man and nature are mediated by the forms of private exchange. With a system of generalized commodity exchange, money comes to mediate between all exchages. Through his analysis of the commodity and private exchange, Marx shows that money conceals the real relations among men. From this point he proceeds to lift this veil in his analysis of the func tions of money. But these functions of money and the analysis of the theory of simple circulation are to be the logical ~~path from~~ the abstract relations of exchange and circulation to the concrete relations of capitalist production. (note that Shaikh stresses that money is not simply a veil hiding real relations. analyse concretely

Money and the Simple Theory of Circulation: The animating principle for this whole section is the notion a general equivalent.

1) Money as Measure of Value:

a) as the general equivalent money becomes the social incarnation of human labor. It is used to establish the commensurability of all commodities and the exchange of equivalents. In this function one need only establish the particular measure of value ideally, ie. when gold is the measure of value one refers to the material substance of gold to establish the exchange-value of a commodity, but this calculation is only an ideal one.

b) as standard of price a definite weight and denomination is conventionally and legally set as the unit of measurement

-both of these functions together allow us to talk of relative prices while at the same time specifying the general price level through the money commodity.

-although money may represent the social incarnation of labor-time, money cannot directly represent labor-time. This is due to the fact that money represents exchange-value of use-val in terms of abstract homogeneous labor-time, thus a particular concrete labor cannot be presented as money in general. Moreover money must reflect the social character of labor in general and it does so through a reduction of skilled labor to simple labor and establishing the commensurability among private labors. Finally the exchange of the product of labor against money validates the product of labor as socially useful labor.

2) Money as Medium of Circulation· For Marx: Market Price= $P^* = \frac{\lambda}{\lambda\$} = \frac{\text{(sum of commodity values)}}{\text{(\$1 = 1/4 Oz. of gold)}}$

a) Marx abstracts from the function of money as a means of payment and measure of value to analyse its function as a means of circulation. He does so through an analysis of the circuit of simple exchange C-M-C. From this circuit one can analyse the movement of money and commodities and the unity of sale and purchase. Marx notes the fact that the displacement of commodities by money discribes a path which moves in the opposite direction from commodity circulation

b) The Theory of Money according to Marx: If the velocity of commodity transactions and the sum of commodity prices are taken as given then the quantity of gold in circulation depends on the value of gold.

- commodity prices are determined by their relative prices with respect to gold, this procedure also resolves the price level since gold has value and is the standard of price.
- the number of transactions (sales and purchases) is determined at a given price index
  - thus the amount of gold in circulation depends on the general price level and the number of commodity transactions.
  - a change in the labor-time necessary to produce gold will inversely affect the price level, ie. an increase in the labor-time to produce gold would lead to a fall in prices(assuming that the value of the commodities remains unchange

Coin and Tokens of Value: From the idea of mint price and market price Marx shows that coins through their gradual debasement in circulation come to lose part of their material substance and hence their value diminishes. Coins come to be mere symbols of their nominal value.

- this process of debasement of coin leads to the substitution less valuable metal tokens for the gold coins(eg. copper and silver)
- hence the symbolic meaning of the tokens shines through their materiality

Paper Tokens of Value: From the symbolic nature of tokens Marx intoduces the notion of the issuance of paper tokens for gold(both convertible and inconvertible).

- logically the function of the medium of circulation does not depend upon the intrinsic value of the money commodity, it merely represents the socially recognized medium of exchange.
- thus it may be replaced by a mere symbol of value .
- the paper token of value represents the value of the gold money, it is by virtue of this fact that it represents the gold money that the paper money can reflect the value of the commodities it exchanges against.
- paper money appears to directly reflect the value of commodities in exchange but in fact this reflection of value is mediated by the symbolic representation of the value of the gold by the paper money.
- social custom and convention secures the exchangability of tokens

Laws of Token Money Circulation: These laws are derived from the laws governing the circulation of gold money, but they differ in a definite way which should be clarified by the distinction:

- Two functions of money and the inversion of the real and ideal
  1) Standard of price or value as established by the general equivaler serves as the material referent for the measure of value but this need only be ideal, gold need not be physically present.
  2) the medium of circulation must be physically present to facilitate exchange, but it is not the material substance of money which matters, rather it is the symbolic functionthat counts, ie that it represents a definite quantity of value (gold).

Laws of Paper Money Circulation (continued):

-Paper money conforms to the laws of circulation for gold currency only when it directly replaces gold currency on a one to one basis.

-However when there is a discrepancy between the amount of paper currency (based on its nominal face value) relative to the amount of gold currency it replaced then different laws operate and the laws of the types of currency appear to be the reverse of eachother:

1) - gold circulates because it has value, whereas paper has value because it circulates

2) - The quantity of gold depends on its value(given the sum of commodity exchange -values and the velocity of circulation) whereas the value of paper money depends on the number of tokens in circulation relative to the gold it represnts.

3) - historically the quantity of gold in circulation has increased to keep pace with rising commodity prices, whereas the commodity-prices seem to rise and fall with an increase or decrease in the quantity of paper currency in circulation

4) - For gold currency, it can only exchange against a definite sum of exchange-values, whereas paper currency can be absorbed in any quantity by the sphere of circulation (with the resulting general price inflation or deflation).

5) - gold coin represents the value of commodities directly, whereas tokens of value seems to represent the value of commodities directly, but it in fact represents the value of gold , through which it expresses the value of the commodities.

6) - the value of gold acts as a center of gravity for the value of token money, when the issue of token money rises above the quantity of gold that it nomially represents then its unit value fa[lls] when it falls below more tokens must be issued or gold will enter

- thus the value of paper money (both convertible and inconvertible) depends on its quantity(given the sum of commodity exchange-values and turnover)
- but the degree to which its value changes is always assessed in terms of the gold it represents
- Gresham's Law holds that bad money drives out good money and this is what happens when too much paper money circulates relative to gold. Then the gold is hoarded and the paper continues to circulate

c) The Classical Theorists confined their analysis to money as a medium of circulation and thus did not analyse money as a store of value, namely money as money - the quintiessential expression of money as a general equivalent. They thereby held that money operated in a generally symbolic fashion This logic led to the reduction of coin to tokens This in turn meant that the prices of commodities depends on the quantity of money in circulation (given a constant velocity)

3) Money as Instrument of Hoarding: where the physical presence of money is what counts and hence the material of money is all important. Thus gold money is the best store of value. Marx derives form the circuit C-M-C the abstract possibility of crisis because money can be withdrawn form circulation and break the infinite chain of sale and purchase.

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ECONOMICS DEPT.
Honors M.A. Answers: March 30 & 31
1983.

Political Economy.

Q ①

Derive the concept of money from the forms of value. How much M is reqd. to circulate the social product? Does credit affect this amt.?

MA only

Money is indeed a derived concept in Marx's expositions. It is a form of value - the universal equivalent. As such it contains within it a logical chain of value relations. Value in use is one form of a commodity. Use value for Marx, however, is indicative of need, individual needs. However what one possesses is not necessarily that which one needs. If one therefore posits the existence of juridically free individuals in possession of objects and need needs taken on a social character. Use value becomes a use value for others. Exchange hence becomes the way in which individuals satisfy needs. Yet, in their satisfaction new needs are created and old needs must be fulfilled once again (reproduction of needs) through exchange. In that exchange is the exchange of objects this is not Marx's theory. Rather, it ~~is~~ is his advance over Smith and Ricardo to posit the abstract valuation via labor. Labor produces use values in doing so it is concrete, specific acts of labor (spinning, weaving). Assuming that the use values are socially needed they are use values for other, labor for others. Exchange makes potential comparison of use values possible. Abstract labor makes use values commensurable hence exchangeable. Abstract labor is just that, the character of laboring shorn of its concrete, useful object. Exchange value now exists in the object, as the object itself as it is brought to exchange. In fact, Marx goes on to say that it appears that the objects themselves exchange on the market and not people. This view of commodity fetishism is a powerful explanatory device for locating the determinants of the logic of capitalism. Hence, commodities possess exchange value (abstract labor) and in exchange, their purpose is individual need satisfaction via social relations.

The forms taken by value through this process can be divided into: simple, extended, general, and universal equivalent forms of value.

The simple value form equates the exchange value of objects directly in their physical quantity: eg. 20 yds. linen = 1 coat. Here the value of linen is <u>expressed</u> in coats. Coats act as the equivalent <u>for</u> linen. Marx states that linen's relative value is expressed in its equivalent in coats. Coats exist here for the purpose of equivalence.

The extended form of value expresses the relative form in the physical quanties of the world of commodity values. That is to say

20 yds of linen = 1 coat
= 5 hats
= 10 gloves
= 2 chairs

Or $xA = \begin{matrix} yB \\ zC \\ qD \\ \vdots \end{matrix}$ The relative value of a commodity is hence expressed as its equivalent of multiple equivalents. (It should be noted that the possibility of <u>unequal</u> exchange is also a possibility here.

The general form of value expresses all relative value in the form of a single equivalent; it is the equivalent for the world of commodities. Hence instead of engaging in a multitude of separate and distinct equivalent value determinations a single commodity can stand as that unique equivalent through which the value of commodities (other than itself) can be equated. As such it is the universal equivalent form of value. Money acts as the socially sanctioned universal equivalent form of value.

As such M allows all CV of to be compared.

commodities
x A
y B > = Universal Equivalent (money)
z C
⋮

Money is itself a commodity, it must be if it is to function in its role as equivalent value form. The expression of the magnitude of exchange value in money terms is called the price of a commodity. Money, consequently, has no price. Its use-value (beside its useful form commodity) is its exchangeability; the ability to circulate commodity.

Hence we see that money itself has various functions: Form of value, measure of exchange value (price), means of circulation. The latter function requires that money circulate commodities. The circuit C_1-M-C_2 exemplifies this role of money where C_1 and C_2 are different commodity use-values. Money (M) interposes itself so as to complete the circuit. C_1-M indicates the act of buying while M-C denotes the act of selling. Money facilitates both poles of the circuit. In that money is generalised in use and has diffused beyond the boundaries of territories from whence Marx indicated it originally sprang, money acts to circulate the social product, the sum of commodity value produced in a period of time. Marx, as de Brunhoff has correctly re-iterated, sought to debunk the quantity theory of money which simply stated

No selling & buying

... in using ... it is ... specific

that the quantity of money in circulation determined the level of prices; conversely stated. $M = \frac{TP}{\text{Velocity of money}}$ where TP = total prices and velocity referred to the number transactions which a single unit of money could engage in during a given period. Marx proffered a value determinant such that

$$\text{Money}_{\text{necessary}} = \frac{\lambda_i}{\lambda_g} \frac{1}{k} \cdot Q$$

whereby the money necessary to circulate the total product was equal to the value of commodity product / value of gold times the reciprocal of the # turnovers of money times the number of commodities to be realized. The determinants of $M_{\text{necessary}}$ were hence: avg. productivity of labor in commodities (other than money commodity), productivity of labor in gold production sector, velocity of money, and quantity of commodities to be realized (sold). Hence, ceteris paribus, only if the productivity of labor in the gold producing sector rose could prices rise, if this was offset by an equal rise in total labor productivity or

No - Mills
u ret the quty, the form or its resp...

a decrease in the turnover time of money or an increase in the # commodities to be realized then prices need not rise.

We have, however, yet to introduce money as it functions as a means of payment, as money (hoard), as world money.

As a means of payment money acts as money without its physical presence. Money circulates commodities as promises to pay or as payments in advance. Hence in many cases purchase M-C preceeds sale C-M (the opposite is also the case. M here is M_{ideal}. As long as the purchaser (debtor) turns M_{ideal} into M then the circuit is unaffected in its function. The problem exists if the debtor (purchaser) is unable to exchange without purchasing so as to pay back his/her creditor (original seller). Here the temporal lag using M_{ideal} (money as a means of payment) introduces the possibility of crisis. In that money as a means of payment is nascent credit money one can envision ... in doing so it is concrete, specific

M a MP in repayment of debt.

Time of all exchange?

a chain of these purchases without sales such that one person relies on the promise to pay from another in order to purchase something himself using money as a means of payment. If this chain is extended over a large sphere of commodity relations, the circuit M-C is generalized and the circuit of (C-M) sellers is unable to be fulfilled. Hence a generalized crisis of realization is posited. Even a small realization crisis (buyers are not extant for a particular use-value) can be compounded due to these credit-like relations.

With money as a hoard Money acts as money; its form as money has some intrinsic value beside its exchangeability. The character trait of a miser is evinced here, yet so too is the character of the kist who engages in the capital circuit $M_1 - C - M_2$ because $M_2 > M_1$, $M_2 = M_1 + \Delta M$. That is to say money becomes self-expanding value, capital, for the capitalist, rather in Kist production where labor-power is a commodity capable of

? being?

Future exch'ty?

? Howpurchased and employed in production for the creation of surplus-value. Acknowledging that money hoards exist, any attempt to calculate the quantity of money necessary to circulate the commodity product must take care to recognize the volatile nature of the money hoard. In capitalist production money can act as a depreciation fund and an accumulation fund so as to temporally tie up money as well. To say $M_{nec} + M_{hoards} = \Sigma M$ I believe is incomplete for one needs to state that means of payment falling due are an added variable along with means of payment which balance each other out. Duncan Foley re-defines the problematic, I believe constructively, by asking not what quantity of money is necessary but rather what are the institutional structures forming and controlling money hoards and how is money indicative of production cycles.

Yes, but how does this enter in determining M req'd?

II

NOTES ON MONEY - RICAIDIAN QUANTITY THEORY MARX'S THEORY OF MONEY

INTRO: 18th century debates between Hume Stuart and the pamplateers formed the basis for the specification of the Classical Quantity Theory of Money by Ricardo.

The British currency crisis of 1797-1809, where an excess of tokens were issued market price of gold mint price-price of commodities Bank of England suspended payments in cold-formed the historical backdrop to Ricardos theory.

As Marx underscores the simultaneous inc supply of tokens and the price level so colored Ricardos thinking that he forgot his own Labor Theory of Value in his analysis of money.

I. So Ricaido saw the inc the supply of tokens causing a general rise in the price level

$\overrightarrow{MV = PT}$ - causality quantity of money to price level

M = supply of money in circulation

V = the average # of turnovers of each token.

P = aggregate price level

T = number of transactions necessary to circulate the sum of commodities at that price level.

A. Gold Money - Ricardo believed that the value of gold money is determined by the # of labor embodied in it, thus the value of commodities was determined in proportion to the unit value of gold.

B. The Quantity of money in circulation was determined by the unit value of gold, relative to the sum of commodity values.

equilibrium conditions

In equilibrium the sum of commodity values formed a fixed ratio with sum of the value of money in circulation [assuming velocity as constant] - which was the quantity of money necessary to circulate the sum of commodity values.

C. If the supply of gold $\uparrow$ relative to the sum of commodity values the nominal price of gold would fall below its embodied value - gold would devalue itself prices would $\uparrow$.

dis-equilibrium condition

D. If the supply of gold decreased relative to the sum of commodity values, nominal price would rise above the embodied value of gold, prices could $\downarrow$

hence the causality

$\uparrow\downarrow$ supply of gold $\uparrow\downarrow$ in the price level.

E. Equilibrium conditions would reestablish themselves - deviations in sphere of exchange would be resolved through their effects on gold production.

1. If supply of gold ↑ above the requirements of circulation nominal price of gold fell below the value embodied - certain gold production would become unprofitable - supply would fall.

2. If supply gold ↓ below the requirements of circulation, nominal price rose above the value embodied in gold more gold would be produced.

So process of circulation could be regularized and the proper magnitudes restored - but Ricairdos equlibrium mechanics are deficient.

II. Ricaidos ideas about convertible and inconvertible tokens

A. Part of the problem with Ricardos Q.T.M. is in not specifying the different properties of gold - convertable - inconvertable tokens.

B. Ricardo argued for the use of convertable tokens because their cost of circulation was less than gold coins - at a fixed exchange rate convertable tokens would retain all the characteristics of gold - the

the immediate equilibrium mechanism was different - an overissue of convertable tokens relative to the sum of commodity values in circulation would cause a run on the Bank to convert the depreciated tokens into gold.

C. Ricardo didn't specify any unique qualities accrewing to inconvertable tokens - he is in general nervous about them because their face value can deviate from the amount of gold they represent without an immediate mechanism of adjustment so ↑ inconv. notes only led to ↑ in prices.

III. Inconsistencies in Ricaidos theory of Money

A. Ricaido develops amnesia about his own labor theory of value in his analysis of money - the value of gold is determined by the amount of labor embodied in it - it cannot devalue itself.

1. If supply fo gold ↑ relative to the sum of commodity values in circulation the value of gold would not change - the value of tokens may fall relative to the sum of comm. values but not gold.

2. If supply of gold and relative to the sum of commodity values in circulation the value of

gold remains the same - the nominal value of gold can't raise above its embodied value - people would just melt it down.

3. Fundamentally Ricardo conflates price with value when talking about money and therefore suffers the illusion that $\uparrow$ supply of money causes $\uparrow$ in the price level and not vise versa.

B. Also Ricardo only saw money functioning as a medium of circulation he saw no other uses for money - so he believed that any amount of money must circulate.

Marx

- Marx had a more comprehensive and detailed analysis of money and thereby avoided Ricaidos pitfalls.

- Marx shows how the specific commodity money must differentiate itself from all other commodities to become the general equivalent

  - thus he traces the development of money through the development and genesis of commodity production.

I. Marx examines the three main functions of money and shows how they are all necessary to preserve the character of the general equivalent.

A. Money as a measure of value emerges from the process of the formation of money itself.

> "Because all commodities, as values, are objectified human labor, and therefore in themselves commensurable there values can be communually measured in one and the same specific commodity, and this commodity can be converted into the common measure of their values that is into money."

1. Its use value is in its ability to stand against the entire world of commodity -- it need not be physically present but only ideally.

2. Historical identification of money commodity is gold.

   a. in early societies based on production for use, money was always a most useful commodity.

   b. in a society which production of commodities dominate money becomes a least useful commodity its use is restricted to its ability to express equivalence.

3. As a <u>standard of price</u> the labor time in the money commodity is compared to the labor time in all other commodities in a value ration it becomes a unit of value - the money commodity thus becomes a unit of the natural substance - say gold - 1 oz. weight name set according legal custom

a. the weight name becomes separated from the money name.

£ = $\frac{1}{4}$oz. of gold

Since this is based on legal convention, it is subject to change.

5. What is important in this first function is value -- the ideal comparison of labor embodied which contains the contradiction of exchange value and use value through qualitative and quantitative commensurability -- "Money is a measure only because it is labor time materialized in a specific substance hence itself value."

B. Money a medium of circulation -- As a standard of price, money actually enters into circulation to turn over commodities in the actual process of exchange C-M-C

1. In its function as a medium of circulation only quantity matters because money becomes a mere token or symbol of values -- Even gold coin becomes a token because part of its value expressed in its material substance is worn away in the physical process of circulation.

a. its mint price deviated from its market price debasement of currency

£ = 1/4oz. gold £ 1/6 oz. gold

2. The sphere of circulation is variable in the sense that this is where the adjustment of descrepencies among private produces appears -- the forcible articulation of social production and social need.

   - hence monetary requirements do vary as the economy expands and contracts.

3. At any given time the general price level is determined $\frac{\text{sum of commodity values}}{\text{per unit value of gold}}$

So, a change in the price level can only be brought about by changes in the sum value of commodities or changes in the value of gold of course these value changes can only occur in production, if gold production becomes more efficient-socially necessary labor time decreases. While the sum of commodity vlaues remains the same, the general price level will ↑ and visa versa. The average price level is determined by the relation of the value of commodities to the value of gold -- not on the quantity of money.

4. Three factors which can change the level of prices

   a. Δ value of commodity output

   b. Δ relationship of standard of price

   c. Δ in the value of gold

   1+3 regulated by conditions of production

   2 regulated by state – ~~convertible token only~~

C. Monetary requirements in Marx's theory of money -- case of money as gold coin

i $\# \bar{P} = \frac{\lambda}{\lambda g}$

ii $TP = \bar{P}Q = \frac{\lambda}{\lambda g}(Q)$ – $M_{nec} = \frac{TP}{K}$ K = velocity of money

λ - level of value of commodities

λg = value of unit of gold

Q = Quantity of commodities

iii $M_{nec}\ (\frac{\lambda}{\lambda g})\ (\frac{1}{K}) \cdot Q$

D. Money as a hoard or money as money - reconciles the value function with the quantity function. All Q.T. Ricardo to Friedman believe that the entire supply of money must circulate hence saw no place for hoards.

1. Money as money requires that money be a commodity -- instrument of hoarding because it is a store of value can exchange for the world of commodities and is ideal abstract wealth.

2. For Marx M = Mnec + Mhoard

F QTM Mh = 0

3. Concrete necessity of hoards -- Reserves

   a. Money hoarded for business transaction day to day.

   b. necessary to bring into circulation to deal with variation of activity.

   c. Necessity for money reserves to use for expanded reproduction

      - new investment

   Not meant for entrance into circulation per se.

E. Convertible inconcontable tokens - Marx

1. Convertible refers to the states promise to pay or redeem a fixed amount of gold for token hence to the nominal price of tokens will fluctuate around the market price of gold.

2. Token of value defined as a coin that does not embody the same metallic value as the gold coin it replaces; becomes a symbol of value guaranteed by the state.

3. This token may replace the same amount of gold coin which would be necessary for the requirements of circulation. Greshams law:

Bad money drives out good.

4. Once the limits of circulation requirements are exceeded, token money is withdrawn from circulation and converted into gold.
5. Thus convertable tokens are regulated by the requirements of circulation and by their convertability into gold.
6. Inconvertable tokesn - no immediate regulation as with commodity money.

   ↑ in supply of tokens will

   a. ↑ the price of gold in terms of tokens
   b. raise the price of commodities in terms of tokens but not gold.

F. Differences between Marx and QTM in the case of token money

   1. An ↑ in tokens above the necessary requirements -- above circulation requirements -- will lead to ↑ token prices but not in prices with respect to gold.
   2. The hoard absorbs certain amounts of money above circulation requirements.

Examples of Differences

1. Supply of gold $\uparrow$ supply of tokens $\uparrow$ sum of commodity values stays the same, QTM would see only (supply of tokens) causing $\uparrow$ in price because all money must circulate -- Marx would argue that $\uparrow$ in supply of money above the needs of circulation would go into hoards with no effect on price level.

   are money

Wouldn't there be a nominal rise in prices to respect to tokens only.

2. Supply of gold constant # tokens $\uparrow$ commodity values constant $\bar{V}$ Both Marx and QTM would see a rise in prices. But QTM would see an absolute rise in prices while Marx would only see a nominal rise in prices with respect to tokens not with respect to gold.

3. Supply of gold $\uparrow$ #tokens fixed commodity values constant, $\bar{V}$ QTM would see $\uparrow$ supply $\uparrow$ P, For Marx the nominal price may fall. — $\uparrow$ in supply of gold means $\uparrow$ in the sum of commodities values due to $\uparrow$ in overall output so if # of tokens was fixed supply of gold $\uparrow$ out put $\uparrow$ the tokens [value] [illegible] relėtive to that output would rise, prices <u>could</u> fall.

inc gold ⇒ inc tokens ⇒ inc production ⇒ inc sum of factors)

4 tokens = 1 oz ↑ — 1# = $\frac{1}{4}$ oz

[illegible] = 2 oz ↑ 1# = $\frac{1}{2}$ oz

3. Questions
i) Nature of money.

ii) Laws and functions of money and mechanisms.

iii) Evolution of monetary systems.

4. ~~Outline of presentation~~ Theoretical Connections.

i) Money ~ price ~ value ~ abstract labor - comm.

ii) Money ~ Capital ~ circuits ~ reproduction

iii) Money ~ capital ~ credit ~ interest ~ cycle

iv) Money ~ prices ~ transformation problem ~ rent

v) Money ~ exchange rates ~ international trade ~ balance of payment.

(Definitely, I won't deal with issue #. IV, ii,

5. Outline of Presentation.

i) The problem $\underline{MV = PT}$ (or Cambridge formula)

$M \to P$ OR $P \to M$

ii) The nature of the identity. $MV = PT$

iii) Ricardo's version

iv) General Equilibrium's version

v) Marx' presentation: First Case

Second Case.

vi) ~~Marx~~' laws of money under Capital.

vii] Interpretation by Marxists.

Orals.

A. Adv. Pol. Ec.

MONEY

1. Purpose.

Develop and analize a Marxian critique of the quantitative theory of money in Ricardo's version and, if possible, in a Neoclassical version (Patinkin, Clower, Friedman?). I'll consider two general cases: first, the case of convertible paper money, ~~which control~~ and second, the case of legal tender; the first case covers essentially the case of gold circulating money and the second covers the case of inconvertible paper money. [provide an explanation of both systems and verify that this distinction is adequate]

2. Real Issues.

i) How is the relation of causality between money and prices? Does the monetary expantion cause price variations or Does variations in prices & production cause variations in monetary magnitudes?. More specifically, the contention that the cause of inflation [definition of inflation from dictionary, quotes] is the expansion of money supply. (tight monetary policy) Bus. Week, Nov 23, 1981; girations in the rate of money growth; B.W. May 18, 1981

later specify this for international trade

ii) Stagflation as a result of mismanagement of the economy or as the operation of laws of capital?

iii) Gold standard OR dematerialized money.

ii) & iii) not treated.

Questions in theory of money. (This goes with point 3)

What is the need for money to be a comm? or to be related to a com?

I What is the most basic feature of money? money as commodity or money as universal equivalent as form of value). It seems that Shaikh relies more in money as related to gold as the true money. Why not take into consideration the social validation or social sanction of paper money within a state. Still the link with other currencies. If there was a suppranational state, no need for gold as money.

clarify this distinction

d Is there such a thing as pure paper money? . Shaikh puts out that there is always a gold market. But How is the interaction?

II) Laws of money and mechanisms. Laws providing the mechanisms? Does Marx mention mechanisms? Does he agree with Ricardo's mechanism in gold production? mechanisms or functions of money?

mechanisms at a more concrete level?

III Money as credit relation? or credit as money phenomenon? Schumpeter's distinction.

IV How is there an increase in the supply of money? How the special form in which money is created affect the price phenomena, prices, output, . ?

i) Stocks & flows.

Market of money in ortodox theory? nominal concept or real market?

V) How does money function as measure of value in the actual monetary system? What is the material function for that measure? Ideal price in terms of gold?

VI) What are the changes in the laws of money when we come to the circulation of capital M-C-M'?

VII. A money theory of credit or a credit theory of money.

1) One disadvantage of a theory that established that all credit relation gives rise to money & that money is no more than a credit relation ~~misses~~ is that it misses the different importance of different means of payment and of circulation in the industrial cycle – Hierarchy of forms of money – Shaikh, De Brunhoff.

4) It doesn't explain money comm. as during the XIX & previous centuries or no the role of money (precious metals) as still means of payment.

VIII Why is there a transition (historically) from convertible money to inconvertible? 1] Crisis & reserve problems, 2] Crisis & adequate money policies

Readings.

V. VII.] Capital I. 1,2,3
III. Part V; Part VII, ch 48; Part III

Contribution.
Rosdolski
Brunhoff
Hilferding
Aggletta
Mandel. Late Capitalism.
Sweezy.

VI] Capital I; Part II, ch 5,6; Part III, ch 8; Part VI [pp 535-565]
II; Part I; Part II, ch 7-9 & 12-16
III; Part V, Part VII, ch 48; Part III.

Readings on Money.

1. Capital. I, III. (See a guide in Mandel's Late Capitalism)
2. Grundrisse. Chapter on Money pp 116 - 238.
3. Hilferding.
4. S. de Brunhoff
5. Aglietta
6. Mandel. Late Capitalism
7. Ricardo. Works.
8. Contribution
9. Rosdolsky
10. Capital II. On Reproduction pp 473 - 483. Gold production,

Questions and comments.

II. Laws of money and mechanisms.

How to locate the mechanisms of transmission of changes in monetary magnitudes like quantity of money (stock supply of money), velocity of circulation of money, rate of interest, .. ?

Does the analysis of these mechanisms require the previous development of the analysis of the forms and functions of money and even of the laws of money?

My answer is that:

those mechanisms refer to a more concrete analysis of a monetary economy. Previous to that is necessary, for Marx, to analyse the functions of money in the most abstract level of simple circulation and the derivation of money from value categories; money functioning as measure of value, means of circulation, as money etc. would be extremely valuable for a a more concrete analysis of monetary effects. It is also necessary to develop the analysis of money and its transformation to Capital and ~~these its~~ the contradictions of its movement: turnover time, reserves of money, commercial credit, ...

So, it is only after having developed these intermediate developments that one can correctly understand & analyze the concrete mechanisms such that:

This is an important progress for my understanding of Marx procedure because up to now I was stormed with the question: How is it possible that Marx talks about the laws of money without even mentioning the mechanisms?

An analogy comes to my mind that helps me to understand: In Physics you can develop the laws of termodinamis before somebody could develop a mechanism for transforming wanter into ice.

Mechanisms are by their nature real mechanisms and therefore they have prerequisites in a more abstract level.

Now the question is:

Does Patinkin analyse the mechanisms of monetary changes?

V. How does money functions as measure of value in the actual monetary systems?

Suzanne de Brunhoff's ~~ap~~ answer is that ~~money do~~ fiat money systems does not provide with this function but only with the function of standard of price.

~~Cannot we say that this function~~

If money functions as measure of value, either it has to have intrinsic value or it has to be "related" to a material with " " " like gold? (only gold? or also other comm.).

Now, if we assume that there is a market for gold which is "related" to the monetary system, then we could say that money still functions as measure of value?

But, the question is

How is that relation between the monetary system & the market for gold? What are the functions performed by gold?

Jose Aritis

(3)

Cronalogy - Banking System in England

1694. The Bank of England was founded. It was authorized to issue bank notes. The purpose was to lend money to Guillermo III. (After the Estuardo). p39.
The Bank notes of the Bank of England & of private banks "circulated together" and private banks could hold part of their reserves in bank notes of the Bank of England. p41

1797. Bank Restriction Act. It was issued by the government prohibiting the convertibility in gold of the bank notes. The cause was the drained of gold reserves as result of the war with France. p41.

1810. Bullion Comitee Statement. (The Quantitative Theory of Money)
(Reprinted in Works & Correspondence of D. Ricardo vol 3,4 edited by Sraffa)

1811. Revueltas Luditas contra las maquinas. p45

1814. Napoleon loses the war. The pound regains strength after Napoleons defeat.

* 1821. Convertibility (full) was ~~reinstated~~ restored. p47

* 1825 Crisis apparently caused by overissue of bank notes

1836 " " "

1839 " " "

** 1844. Peel Bank Act. [Currency School]. The Bank of England was split into two departments: The Department of Issuing and the Banking Department. p58.
The Dept of Issuing was authorized to issue bank notes up to 14 mill of pounds. Issues above this must be backed by 100% in gold. p58

* - See Marx. Contribution p225 ** p69

Questions.

1] What are the conditions, or requirements, for a gold standard system, i.e., for convertibility? reserves of gold? economic stability?, ...
And their limitations?
liquidity?

2] What is included under the category of money?
Coins, banknotes, deposits

How does Marx treat this issue in his discussion of that period in the "Contribution".

3] What does Marx say about the anticyclical monetary policy?

David Ricardo. The Principles. ch. XXVII.

→ Money and labor theory of value

"Gold and silver, like all other comm., are valuable only in proportion to the quantity of labor necessary to produce them and bring them to market. Gold is about fifteen times dearer than silver, not because there is a greater demand for it, nor because the supply of silver is fifteen times greater than that of gold, but solely because fifteen ~ the quantity of labour is necessary to procure a given quantity of it" p238

→ "principle of limitation of quantity"

"The quantity of money that can be employed in a country must depend on its value" p238

→ "On these principles, it will be seen that it is not necessary that paper money should be payable in specie to secure its value; it is only necessary that its quantity should be regulated according to the value of the metal which is declared to be the standard" p239

"It is on this principle that paper money circulates: the whole charge for paper money may be considered as seignorage. Though it has no intrinsic value, yet, by limiting its quantity, its value in exchange is as great as an equal denomination of coin, or of bullion in that coin. On the same principle, too, namely, by a limitation of its quantity, a debased coin would circulate at the value it should bear if it were of the legal weight and fineness, and not at the value of the quantity of metal which it actually contained" p238

Questions

1. Does Ricardo maintain a consistency in a distinction between value and price?
where and How does he confuse both?
what are the implications of that?

2. Why is it that Ricardo who has a concept of value - intrinsic value - determined in production - not by simply supply and demand - doesn't derive the same causality as Marx does in the quantitative identity. Lack of analysis of functions of money in Ricardo. And a more consistent analysis of production relations.

3. How would you prove in empirical studies the circulation quantitative formulation.

4. Marx's analyses of price is based on a ~~clear~~ distinction between value and price or value and forms of value. And on the assertion that this is a contradictory relation, i.e., altough they are different, the latter is regulated by the former. (By the way, the way in which the regulation proceeds can vary - Later). In other words Marx argues that there is a relation of determination from the sphere of production to the sphere of circulation, which is given basically by the ~~f~~ ~~fact~~ ~~fact~~ they that comm enter circulation with value - the concept of absolute value -. His analysis is also based on a distinction between the circulation of comm. & the circulation of money. Marx ~~stresses that the cir~~ adds that it is the circulation of comm. which determines the circulation of money.
These two points are premises for the critique of the quantitative theory of money at the most abstract level of the simple circulation of comm; he, succesfully, demonstrates the falseness of that principle.
In his analysis of the circulation of money, at the level of ~~once~~ competition is introduced the relation of determination comes from the ~~for~~ analysis of the reproduction of K to the forms of

I have to add that I'm talking in a system of a generalized comm. prod. (So that regulation in fact happens) & not in accidental exchange.

Marx's Critique of Ricardo. On Money
Contribucion - I

1. Ricardo confuses the circulation of bank notes or credit money with the " " mere signs of value.

This point provides an explanation for my question. why is it that Ricardo who considers an intrinsic value for gold, then considers its exchange value as determined only by the relation between the exchange value of the mass of comm and the quantity of gold in circulation.

Ricardo considers that there is a certain "normal" level of the quantity of money required for the circulation of comm. of given value. This normal amount depends on the value of gold. Now, if it happens that the quantity of money rises above the normal level — say due to one or other reason which I ~~discuss~~ consider below — then the value of the money gold in circulation falls as if ~~the~~ it were a mere sign of value.

In the case that the production of gold is located within ~~the~~ country and there is no foreign trade, the above result would entail a contradiction between the real value of gold and the acquired value in circulation. The latter would be lower than the former. That is the same, the level of prices of the comm. in circulation would rise ~~as expect to~~ (including the price of gold in bullion). [Holders of gold coins will melt them and sell them as bullion or just keep the bullion thus producing a reduction in the amount of gold coins in circulation]

wrong

If we have gold coins circulating then not only these gold but also all gold would have fallen in value. And from Ricardo's analysis of production there would be a reduction in the production of gold (flow) during the necessary time to bring up the value of gold to ~~the~~ its intrinsic value, which according to

2. Ricardo does not analyse the process of circulation and the forms and functions of money as a previous step to the analysis of a sort of real phenomena. This procedure is followed by Marx in Capital and so he distinguishes clear between money as measure of value; as means of
* circulation, and money as money.
(where do you include the role of gold as international means of payment? In the second category)
"Ricardo..., en ninguna parte ha estudiado la naturaleza del dinero en si mismo" p208
Specifically, Marx notes that Ricardo makes a wrong analysis of the international trade and of the international flow of gold because of his lack of understanding of the functions of money. First, when explaining the flow of gold Ricardo reduces it to the principle that gold flows from the place where it is cheaper to the place where it is dearer; ~~he, sometimes, seems to ignore~~ [Study this in detail when reviewing the principle of comparative advantages].
2nd Ricardo does not know the role of precious metals as international means of payment. Contribucion p221
3rd For Ricardo money is no more than coin. "La falsa hipótesis de Ricardo según la cual dinero no es mas que moneda ---" p228

3. In respect to the comercial crisis of 1825, 1836 [See my cronology] which were explained by focusing in the circulation of money & the bank system, Marx points out that were the result of the contradictions of the whole process of capitalist production. at a world level p225

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* A. Measure of value.
Standard of price

B. Means of circulation.
means of purchase, means of payment

C. Money as money
Store of value, international means of payment.

5. Necesidad del dinero.

"Este era el problema que Gray tenía que resolver. En lugar de solucionarlo, se figura que las mercancías pueden relacionarse directamente unas con otras como productos del trabajo social. Pero solamente pueden relacionarse entre sí en calidad de mercancías. Las mercancías son los productos inmediatos de trabajos privados, aislados, independientes, los cuales mediante su enajenación en el proceso de cambio privado deben de confirmarse como trabajo social general [I understand the last sentence in the following way: that labor considered as part of the social production is acomplished by exchange]. Pero admitiendo que el tiempo de trabajo contenido en las mercancías sea tiempo de trabajo inmediatamente social, Gray supone que es tiempo de trabajo común o tiempo de trabajo de individuos asociados directamente. Entonces, en realidad, una mercancía específica, tal como el oro y la plata, no podría enfrentarse con las demás mercancías como encarnación del trabajo general: el valor de cambio no se convertiría en precio; pero tampoco el valor de uso llegaría a ser valor de cambio; el producto no se haría mercancía, y de este modo quedaría suprimida la base misma de la producción burguesa" p 98

6. La circulación del dinero es derivada de la circulación de mercancías en el análisis de la circulación simple, donde el objeto del acto es el valor de uso. Cuando se introduce el circulación del capital M-C-M, lo dominante deviene el valor o el capital y entonces considero necesario analizar las implicaciones de la subordinación de la circulación simple a la circulación del capital; en otras palabras analizar la interacción del circuito de capital con el circuito de ingreso y la dominación del segundo por el primero.

6. How do you explain the evolution of money from a period of gold circulating money to the actual period of pure paper money system?

1st In its function as means of circulation, gold acquires the form of coin. The reason has to do with facilitating circulation of comm. p126

2nd First idealization of the means of circulation due to the velocity of circulation of the coins p127

Second idealization due to the separation between its nominal and real contents. Due to wear out of coins. p129. Because of this phenomenon it comes the replacement of actual gold coins by signs of money (gold).

"Si los simples signos de valor pueden reemplazar al dinero es porque durante el proceso el dinero de oro se convierte en signo de su propio valor" 135

"Un objeto determinado, relativamente sin valor: un trozo de cuero, de papel, etc, se convierte por rutina en signo del dinero, pero no se sostiene como tal sino porque su existencia simbólica esta garantizada por el consentimiento general de los poseedores de mercancías, porque adquiere una existencia legal de convención, y, por lo tanto, de curso forzoso" 137

~~3rd~~ Laws of signs of money. (Very Important for the debate) p141

3rd - Here I connect with the development of the monetary systems: from convertible (to certain extent) to inconvertible and to the development of credit. Also the role of gold as international money should be traced.

In doing this try to concretize and understand the development of a hierarchy of different forms of slavery.
(Brunhoff; Shaikh; Aglietta - -)

Volviendo a la circulación simple; una vez establecido que el curso del dinero se deriva del curso de las mercancías, la pregunta que se plantea es cual es la cantidad de dinero necesario para satisfacer la circulación de las mercancías – para la realización de los precios. p114 Contribución.

De aqui Marx deriva la ley

"Los precios no son altos o bajos porque circule mas o menos oro sino que circule mas o menos oro porque aquellos son altos o bajos. Esta es una de las mas importantes leyes económicas, y su demostración detallada por medio de la historia de los precios de las mercancías es quizas el único mérito de la economía inglesa posterior a Ricardo" p124

See also 125

4. Marx warns that the laws of circulation of the signs of value or of the legal tender are quite different from the laws of bank notes. p207

"La mayor parte de los escritores ingleses de esta época confunden la circulación de los billetes de banco, que está regida por leyes muy distintas, con la circulación de los signos de valor o de los papeles del estado de curso forzoso, y al pretender explicar los fenómenos de esta circulación forzada mediante las leyes de la circulación metálica, en realidad lo que hacen es deducir inversamente las leyes de esta última de los fenómenos de la primera" 207

"Pero como a pesar de estas fluctuaciones generales de los precios, que resultan de la naturaleza de la circulación de Ricardo, su forma violenta y aguda, su forma de crisis, corresponde a las épocas del sistema del crédito desarrollado, resulta clarísimo que la emisión de los billetes de banco no está regulada exactamente por las leyes de la circulación metálica" p227

5. Money as an ideal measure of value

Marx puts the problem of price form & money in the following question:

"Puesto que el tiempo de trabajo es la medida inmanente de los valores, ¿porque añadirles otra medida externa? ¿Porque el valor de cambio evoluciona hacia el precio? ¿Porqué todas las mercancías estiman su valor en una mercancía exclusiva que queda así transformada en la forma adecuada del valor de cambio, en dinero?" p97 Contribucion

Ricardo, would be achieved when the stock of money in circulation reached the normal level.

Contribution p212

In the case of convertible paper money we would have the following: the issue of bank notes in an amount higher to the normal level, would produce a fall in the value of these notes in relation to gold, ~~therefore~~ (~~the~~ in this system, there won't be a fall in the price of gold as in the previous case) therefore, bank notes would get to the bank to exchange for ~~money~~ gold up to the point that their value adjust to the face value which would happen when the amount of money in circulation falls to the normal level.

I see this as the reason why Ricardo's proposal is:

"To secure the public against any other variations in the value of currency than those to which the standard itself is subject, and, at the same time, to carry on the circulation with a medium the least expensive, is to attain the most perfect state to which a currency can be brought, and we should possess all these advantages by subjecting the Bank to the delivery of uncoined gold or silver at the mint standard and price, in exchange for their notes, instead of the delivery of guineas" Principles 241 *

* Extracted from a pamphlet entitled "Proposal for an Economical and Secure Currency" published by the author in 1816.

circulation of money. So, I have to make a connection between theory of money & the theory of reproduction. See Capital III p449.