4 The new interpretation and the value of money

Makoto Itoh

This chapter examines the significance of the so-called new interpretation of Marx’s theory of transforming values into prices of production in the first section, as well as remaining issues on it in the second section, focusing on its definition of value of money and value of labor-power. As an important shortage of the new interpretation is in the absence of the theory of determining the exchange-value of money, we shall try to fill this gap in the subsequent sections. After assessing Moseley’s analysis of the commodity money in the third section as a corollary, we try to examine the dynamic mechanism through business cycles to determine the exchange-value of money commodity in the fourth section. The fifth section briefly argues what happens to the exchange-value of money in the regime of contemporary non-commodity money.

1 The significance of value of money in the new interpretation

A 'new interpretation' on the transformation problem concerning Marx's theory of transforming values into prices of production was presented by Foley (1982, 1986) and Duménile(1983). The new interpretation is based on a particular definition of value of money as the monetary expression of labor time. More concretely, the value of money is conceived as 'the ratio of the net domestic product at current prices to the living productive labor expended in an economy over a period of time' (Foley, 2000:21), and thus it represents the average amount of expended labor time obtainable by a unit of money, say a dollar. For example, in the USA in the early 1980s, the aggregate national value added was about $3 trillion, while about 100 million of employed (productive) workers expended 200,000 million hours (each 2,000 hours) a year. Therefore, one hour of labor contributed $15 of value added, and the value of a dollar was 1/15 hour (four minutes) of social labor (Foley, 1986:14-15).

This notion of value of money is different from Marx's notion of value of money commodity as embodied labor time in a unit of money commodity. It is, however, conceived as a useful notion in solving the traditional treatment of the transformation
problem. According to Foley (1986:95-104), the logical structure of the traditional approach to the transformation problem is exemplified as follows;

A simple model of economy with two sectors – wheat and steel – is assumed, where a technological input-output table is given.

Input

<table>
<thead>
<tr>
<th>Product</th>
<th>Wheat</th>
<th>Steel</th>
<th>Labor</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>0</td>
<td>1/4</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Steel</td>
<td>0</td>
<td>1/2</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

The labor value of a unit of steel (v_s) is calculated as 2 from an equation \( v_s = 1 + \frac{1}{2}v_s \), and then the labor value of wheat (v_w) must be 3/2. Suppose the economy produces 10,000 units of wheat and 10,000 units of steel by these technologies, with 100% of rate of surplus value (s/v). If we assume prices directly proportional to labor value (value-prices) such as in Marx's *Capital_*, and if one unit of labor is expressed in a dollar, the relations of production in both wheat and steel sectors must be summarized in terms of dollar as follows;

<table>
<thead>
<tr>
<th>Sector</th>
<th>c</th>
<th>v</th>
<th>s</th>
<th>c + v + s</th>
<th>p</th>
<th>s/v</th>
<th>r(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>15,000</td>
<td>$1.50</td>
<td>1</td>
<td>50.00</td>
</tr>
<tr>
<td>Steel</td>
<td>10,000</td>
<td>5,000</td>
<td>5,000</td>
<td>20,000</td>
<td>$2.00</td>
<td>1</td>
<td>33.33</td>
</tr>
<tr>
<td>Total</td>
<td>15,000</td>
<td>10,000</td>
<td>10,000</td>
<td>35,000</td>
<td></td>
<td></td>
<td>40.00</td>
</tr>
</tbody>
</table>

( c; constant capital, v; variable capital, s; surplus value, p; price of a unit of product, r; the rate of profit).

In *Capital_*, Marx introduces the notion of prices of production, which equalize the rates of profit across industries through competition of capitals. When values or value-prices are transformed into prices of production, prices would no longer realize equal exchange of labor time embodied in commodities, but redistribute surplus value. In Marx's conception, cost prices are sum of (c + v) in each sector, remaining in terms of value-prices, and average profits are added to them according to the equalized rate of
profit to form the prices of production. From the above example, the price of production of wheat must become $1.40, and that of steel $2.10, redistributing $1,000 of surplus value from the wheat industry to the steel industry by forming a general rate of profit of 40.00%. Thus the transformation problem remained how to transform not just values of outputs, but also values of inputs of industrial sectors into prices of production.

In the traditional treatment of the problem since Bortkiewicz (1907) and Sweezy (1942), the value of labor-power is defined as the labor time embodied in the worker's necessary means of consumption, which is to be kept constant through the logical procedure to transform values into prices of production. In the above numerical example, the value of labor-power in this definition must be 1/2 for a unit of labor, embodied in 1/3 unit of wheat. Then, the unit prices of production of wheat (p_w), and steel (p_s), the general rate of profit (r), and wage rate (w) must be in the simultaneous equations as follows, upon the ground of given technological input-output relations.

\[
\begin{align*}
p_w &= (1+r)(\frac{1}{4} p_s + w) \\
p_s &= (1+r)(\frac{1}{2} p_s + w) \\
w &= \frac{1}{3} p_w
\end{align*}
\]

It is possible to solve these equations for r and the ratio of prices p_s/p_w : r = 39.45%, and p_s/p_w = 1.5354. To these any condition to normalize the prices to get the absolute prices can be added. For instance, either total profit = total surplus value (in the value-price system), or total prices = total values can serve as such an additional condition. However, it is generally impossible to maintain both of these aggregate equalities, excepting in very special cases, though Marx maintained both of these equalities as logical social linkages between values and prices of production.

Foley and Duménil's new interpretation was initially presented to resolve such riddles in the traditional approach. In its essence, it intends to show that prices of production represent social redistribution of labor time expended in the process of production through monetary form in capitalist competition. With this intention, Foley and Duménil renovate the main concepts of both value of money and value of labor-power. The value of money is conceived as the monetary expression of labor time, or the social amount of labor time obtainable by a unit of money (four minutes of labor per dollar in the case of the early 1980s USA, or one hour per dollar in the above example). The value of labor-power is conceived as the amount of social labor time workers receive in the form of
wages in return of an hour of labor, or nominal wage rate multiplied by the value of money (half an hour in the above example). By holding constant these values of money and labor-power, Foley and Duménil maintain that the riddles in the transformation problem can be solved in Marx's spirit. In the case of numerical example above, wage rate remains 1/2 (or 0.5 dollar), and the value added in two sectors remains 20,000 (dollar), both unchanged in the prices of production system through the transformation procedure. Thus we have equations in terms of dollar below;

\[ p_w = [1+r](\frac{1}{4} p_s + 1/2) \]
\[ p_s = [1+r](\frac{1}{2}p_s + 1/2) \]
\[ 10,000(p_w - \frac{1}{4} p_s) + 10,000(p_s - \frac{1}{2}p_s) = 20,000 \]

By solving these equations for \( p_w, p_s, \) and \( r \), we get the table in terms of prices of production by the new interpretation.

<table>
<thead>
<tr>
<th>Sector</th>
<th>c</th>
<th>v</th>
<th>s</th>
<th>c + v + s</th>
<th>p</th>
<th>s/v</th>
<th>r(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>5,520</td>
<td>5,000</td>
<td>3,960</td>
<td>14,480</td>
<td>$1.448</td>
<td>1(0.79)</td>
<td>37.65</td>
</tr>
<tr>
<td>Steel</td>
<td>11,040</td>
<td>5,000</td>
<td>6,040</td>
<td>22,080</td>
<td>$2.208</td>
<td>1(1.21)</td>
<td>37.65</td>
</tr>
<tr>
<td>Total</td>
<td>16,560</td>
<td>10,000</td>
<td>10,000</td>
<td>36,560</td>
<td>1</td>
<td>37.65</td>
<td></td>
</tr>
</tbody>
</table>

In this way of treatment, both of two total equalities in Marx's theory of prices of production are interpreted to hold in the following sense. The equality between total values and total prices is reinterpreted to mean that the total values added are represented by total prices of net product, or that total value added divided by the value of money is identical to the total prices of net product. Another equality between total surplus value and total profit is to mean that total amount of unpaid labor or surplus labor is represented by total profit and redistributed through equalized profit rates. By using the renovated notions of the value of money and the value of labor-power, total nominal value added in national economic account is conceived as representing total social living labor time in a period, total gross profit represents total surplus labor, and the rate of exploitation is directly identical with the aggregate profit-wage ratio.

So long as the 'value of money' is defined as monetary expression of living labor time in a social scale, and the value of labor-power is wages multiplied by the 'value of money', the social relations between total profit and surplus labor, or between the
aggregate profit-wage ratio and the rate of surplus value can essentially hold unchanged not just in the system of equilibrium prices of production to equalize the rates of profit, but also in the non-equilibrium economy with market prices deviating from prices of production, as underlined by A.Freeman and G.Carchedi ed (1996).

Including such extension, the new interpretation contains interesting contributions to Marxian labor theory of value with its actual relevancy.

2 Issues on the new interpretation

However, there remain a series of issues how to assess the new interpretation from the view of Marx's own theory of value, more or less all concerning the redefinition of the value of money.

A Shaikh and E Tonak (1994:179) raised a critique that the new interpretation is not new but 'nothing more than Adam Smith's second definition of labor value as living labor commanded by price', which Ricardo and Marx decisively rejected. Against this, Foley (2000:26) argued that Smith defined labor commanded as the amount of labor a commodity could command through its price and wage rate (p/w), whereas in the new interpretation 'the definition of monetary expression of labor time as the ratio of the value of the net product at market prices to the living labor expended in a period does not involve the level of money wages (and thus not Smith's conception)'). In my view, Smith's labor commanded theory of value itself is not simple but complex and dual. In one aspect, it defines labor commanded as the amount of labor a commodity can command through its price over wage rate (p/w), as Foley says. However, in another aspect, it defines labor commanded as the amount of labor embodied in commodity products obtainable through exchanges of commodity products at their prices. To this second aspect of Smith's labor commanded theory of value, the value of money in the new interpretation as well as the deduced social relations of labor in its theory of prices of production is rather close. Such a theoretical concern how much labor time is obtained through monetary expression of values as prices or wages must well be an important point of view also in Marx's labor theory of value as a whole.

Fine, Lapavitsas and Saad-Filho (2002) point out that the new interpretation is inspired by the Rubin school in defining the amount of abstract labor through prices. In
fact, Foley (1983) notes that 'for a detailed discussion of the labor theory of value see Rubin'. And so far as the new interpretation does not present a theory of determining prices from the labor embodied in commodity products, and concentrates to the ex-post social relations of labor time obtained (in macro-economy) by prices, it may well go along with the Rubin school. Indeed, there is a clear shortage in the new interpretation how to explain the social objective system of determination of prices as an important theoretical aspect of labor theory of value, against the subjective marginalist theory of prices. However, the theoretical concern in the new interpretation can be separable from the Rubinite theory of value, and can be reoriented as an aspect of development of traditional non-Rubinite Marxist approach. Especially the amount of total living labor time in a year in the new interpretation is not defined through prices in a market, unlike in the Rubin school, but defined as the amount of objectively expended labor in the process of production. So long as the new interpretation intends to see the social relations of distribution of such objective amount of social labor expended in the process of production through prices in a market, its notions of value of money and value of labor-power may have certain relevancy also to the non-Rubinite Marxian theory.

(3) Their relevancy is, however, in estimating approximate social relations of distribution of labor time, and not exact enough in solving the transformation problem. Let us return to the numerical example we have seen. As the value of money (a dollar represents an hour of labor time) and the wage rate (0.5 dollar per an hour) are kept constant, in the system of prices of production, the total wages (10,000 dollars) seems to correspond to the total value of labor-power (10,000 hours) obtained through the value of money, the total profits (10,000 dollars) to the total surplus labor. However, as Foley adds, if workers consume only wheat, the constant wage rate of $0.5 now buys 0.3453 units of wheat (at $1.448 a unit), which embodies 0.518 hours of labor, instead of 1/3 unit of wheat (at $1.5 a unit) containing 0.5 hours of labor in the original table of the value-price system. In my view, it means that the exact amount of total social labor time obtained through wages must be 10,360 hours (20,000 _ 0.3453 _ 3/2), and not 10,000 hours, so long as the technological basis of production does not change. Then the exact amount of labor time obtained through profits in total (10,000 dollars) must be not 10,000 hours, but 9,640 hours contained in both 3,094 units of wheat and 2,500 units of
steel, which constitute social surplus products. The exact rate of surplus value must therefore become 0.93, and not 1. If 6,906 units of wheat or 10,360 hours of labor time embodied in them are socially necessary to reproduce labor-power to expend 20,000 hours of labor in the economy, then the value of labor-power in the original value table must be rewritten into 5,180 in both sectors instead of 5,000, and the surplus labor must be 4,820 in both sectors from the beginning. Thus, here is a confusing inconsistency in the treatment of real wages and the amount of labor time to be expended and re-obtained as the substance of value of labor-power in the new interpretation.

Including a similar intention to see the social relations of distribution of living labor time at a macro-level through the monetary expressions, my own solution of the transformation problem by using three tables (showing the substance of value produced in terms of hours of labor time, the prices of production in terms of dollars, and the substance of value acquired through prices in terms of hours of labor time) instead of two traditional tables (value calculation and price calculation, where units are ambiguous) must serve as a frame of reference more consistently to discern the social relations between the amounts of labor time expended in production and the amounts of labor time obtained through prices of production (Itoh, 1980: chap.2, Itoh,1988: chap.7). My treatment can show not just the macro-economic relations concerning the value added, but also the micro-relations concerning the whole substance of value \((c + v + s)\) of each product and its monetary expression in the price of production, as well as the substance of value acquired \((c + v + s')\) through prices. What Marx intended to say in his two aggregate equalities can then become more consistently understandable. It must be equalities between the substance of total value embodied in commodities produced and the substance of value acquired through prices, or between total surplus labor as the substance of surplus value produced and the total surplus value in terms of labor acquired through total profit. The theory of prices of production must show such social relations through the theoretical analysis of the substance of value embodied in commodities, prices of production as the concrete form of value, and the substance of value acquired by each industrial sectors, capitalists and workers.

From such a more exact analytical standpoint, the main conclusions in the new interpretation on direct proportionalities between total profit and social surplus labor, between total wages and social labor time obtainable by workers, and between the social
ratio of profit against wages in value added and the rate of surplus value, can be valid only in a very special cases, such as wages and profit are expended to the same compositions of commodities. However, so long as we are aware of such theoretical inexactness in general cases, the way to see the social macro-economic relations between the social amount of labor time expended and value added, or between aggregate wages and labor time obtained by workers, and between aggregate gross profit and surplus labor in the new interpretation must be a practically useful approximation to read the annual national account in Marxian approach. Independent of the new interpretation, I myself interpreted the Japanese national value added or net national product in 1986 (296 trillion yen) as a result of total social labor time expended in the year (about 100 billion hours = 2102 hours ÷ 47.6 million of workers), or 2,960 yen per an hour of labor, or 6.22 million yen a year per worker, and further since the annual average income of employees is 3.86 million yen, I estimated an approximate rate of surplus value as 61% ([6.22 – 3.86]÷3.86) (Itoh, 1989). Such a way of estimation must in its essence be actually in accord with the main insights of the new interpretation.

(4) Another shortage in the new interpretation is that it lacks the theory of determining the exchange value of money, or inverse of general price level, despite of its emphasis of the role of money in a capitalist market economy. This may be related with its concentration to the macro-economic relations, by somewhat neglecting micro-economic price theories in line of the labor theory of value. As a consequence, the value of money is de-linked from the substance of value or the quantity of labor time embodied in a money commodity, and remade applicable similarly both to the monetary regime based on the gold standard and to that based on an inconvertible currency system as an ex-post definition. At least one of important roles of value theory is to explain the social mechanism of determining relative ratios of exchange among commodities. For general commodity products, such ratios are represented by relative prices as a form of value. The theory of prices of production, as well as the analysis of more concrete movement of market prices, is to see actual forms of value on the basis of labor theory of value.

For money, which serves as the material for expressing exchange-values of general
commodities, expression of exchange values or form of value is not given by prices unlike other commodities. The specific relative form of value of money is only given in the endless series of prices of the other commodities. 'We have only to read the quotations of a price-list backwards, to find the magnitude of the value of money expressed in all sorts of commodities' (Marx, 1867:189). The inverse of general price index must statistically be most close to such a relative expression of exchange value of money. However, it is not simple to explain the social mechanism of determination of exchange-value of money. If we ever raise this problem, we have to discern difference in monetary regimes as an essential frame of reference.

3 The value and exchange-value of money commodity

So long as money appears as a general equivalent anarchically chosen by all the other commodities in the process of development of forms of value among commodities, it must originally be one of commodities which are suitable for such a role, like gold. Thus the basic theory of money must be presented in a model of economy with commodity money as in Capital.

Although the notion of value of money in the new interpretation is given formally indifferent to the monetary regimes, what does it mean in an economic model of transformation procedure with commodity money?

Just as the new interpretation holds the value of money unchanged through the transformation from vales into prices of production, Moseley (2003), who is sympathetic to the new interpretation, likewise argues that commodity money gold must maintain its exchange value through the transformation procedure. According to him, unlike other commodities, gold has no price, and is exempt from transformation of value-prices into prices of production. Since the gold industry obtains its surplus-value directly in the form of money, and does not participate the sharing of surplus-value, the total price of all other commodities remains unaffected and equal to their total value-price.

Moseley assumes that the organic composition of capital (c/v) in the gold mining industry is lower than the social average so as to obtain a higher than the average rate of profit in the model of value-prices. If the rate of profit of the gold industry is subject to
the equalization of the rate of profit as a whole, then the exchange value of a unit of gold must be lowered by a rise in the general price level like in the traditional transformation procedure since Bortkiewicz. This would contradict to the basic position of the new interpretation, such as the constant relative value of money, or invariable total prices through the transformation procedure. Aligning himself with the new interpretation on this point, Moseley stands for a view that the gold industry with organic composition lower than the social average must always gain extra profit beyond the average rate of profit as a whole, and that equalization or profit rate is applied just to the least productive gold mines utilizable for capitals under the unchanged price level. As he notes, Yaffe (1975) and Naples (1996) presented the similar view on the exchange-value of money commodity with a higher than average rate of profit in the gold industry.

It is, however, theoretically unclear in Moseley’s argument why the exchange value of gold is given and fixed in the model of value-prices to realize equal exchange of labor-time, and not affected by the process of competition among capitalists to equalize the rate of profit across industries. Although the gold industry directly obtains its surplus-value in the form of money as a result of production, as he stresses, it does not prove no-sharing of surplus-value in the case of the gold industry. The cost prices in the gold industry to be spent \( M - C \) may well be altered when value-prices are transformed into prices of production so as to change the surplus-value obtained \( _M \) in the same industry. As equal exchange of labor-time is broken in the system of prices of production, it is also highly dubious if the gold industry can obtain the same amount of labor embodied in \( _M \) through purchasing other commodities, without sharing surplus-value. Moseley’s analysis does not explicate the social relations of labor-time behind the price system, unlike the new interpretation, and leaves these as a problem further to be investigated. This problem in his analysis can be extended to what to understand the substance of value of differential rent, which must be paid by capitalists to use better gold mines, and the substance of a seemingly lower rate of surplus-value in the least fertile mines (See Itoh, 1988:242, on the former issue).

Anyway, if the economy with value-prices realizes a social balance of production based upon equal exchange of labor-time embodied in average in various products, the
transformed economy with prices of production in Moseley’s view must expand production of gold toward the least productive mines with average profit. In the usual land products like in agriculture, the marginal land to be used is determined by the formation of market value or market price of production, which balances social need and supply of the products (Marx, 1894: chap. 10). We have to examine further how such a market mechanism to carry through law of value works in the case of money commodity gold, as a theory of determination of exchange value of money commodity.

4 The mechanism of determining the exchange-value of gold money

It is, however, not easy to clarify the social mechanism to adjust social demand for and supply of gold as well as its exchange-value in relation to the working of the law of value. Ricardo's quantity theory of money presented a model where excessive supply of gold directly and proportionally raises the general price level or lowers the exchange value of gold, and vise versa, by assuming all the quantity of gold is used just as means of circulation. Against this, Marx critically argued several points. The necessary quantity of means of circulation is socially determined by the prices based on labor value, quantities of commodities to be exchanged in the market for the period, and velocity of money. Commodity money gold exits not merely in the form of means of circulation, but also as hoards and a stock of bullion to be held as a store of wealth or material for luxurious goods. Thus hoards and stock of gold serve as a social pool to adjust the necessary quantity of means of circulation besides the flow of production of gold, and excessive supply of gold may not necessarily cause a rise in general prices but may be absorbed by an increase of hoards or stock of gold.

In fact, a rise in prices of commodity products in the phase of prosperity and a fall in prices in the phase of crisis and depression in the course of business cycles cannot be explained by alternation from excessiveness to shortage of supply of gold money. They are due to the whole complex mechanism of capital accumulation including the working of expansion and contraction of credit system (Itoh and Lapavitsas, 1999, chap. 6). In the normal course of business cycles, prices rise in the final phase of the prosperity including the effect of expansion of speculative trading by fully utilizing flexible credit system, then fall sharply in the crisis with destructive contraction of credit mechanism,
and stagnate at a low level in the depression due to reduced effective demand for investment and consumption.

As technical conditions of production in the gold industry would not rapidly change in a short period, a rise of prices toward the end of prosperity implies a higher input prices and higher per unit costs in the production of gold. Hence the rate of profit in the gold industry must fall. It compels the gold industry to reduce production from the least fertile mines. The reduction of gold output must have two effects. First, it reduces effective demand by the gold industry, which is analogous to the tendency for exports to decline and imports to increase due to a rise in domestic prices. Second, it additionally tightens the availability of reserves to banks and central bank at a time when credit has greatly expanded, and thus promotes additionally the rise in the rate of interest, which serves as a factor to turn speculative prosperity to crisis.

The subsequent sharp fall and stagnation at a low level of both prices and wages conversely reduce the costs of production in the gold industry, and improve its profitability. Marginal mines that could not be profitably operated previously now come on stream, and gold output rises. Analogous to the effect of a rise in exports due to a fall in domestic prices, the increase in gold outputs contributes to boost the effective demand and partially mitigates the depression. It also helps to augment the reserves of the banking system. Such an effect to expand gold production may remain even in the new upswing, if the prices might be below the level of previous upswing as a result of competitive pressure of technological innovation during the depression. The competitive pressure for innovation is obviously much milder in the gold industry.

The increased supply of gold under the circumstances meets the wide range of flexible demand for gold in a capitalist economy. The social demand for gold comes from circulating money, hoarded money, bullion, and materials of ornaments and other manufactured products. The annual supply of gold adds just a small portion of socially existing stock of gold in these various forms. The perished annual amount of gold in a form is supplied flexibly not just by newly produced gold but also from existing stock. Besides, the credit system elastically economizes means of circulation and payment among capitals. Thus, the balance between the annual supply of gold and the social need for gold for various forms of existing stock is not simple and direct.

Therefore, it would usually take much longer for the law of value to regulate the
social reallocation of labor as for the gold industry through the changes in the exchange-value of gold in relation to the labor value so as to adjust the balance between its social demand and supply. The elevated exchange-value of gold expressed in the lowered prices so as to promote expansion of gold production would not rapidly readjusted, and may not cancelled even through a business cycle if a rise in prices toward the end of prosperity is not strong and lasting enough. In such a case, the effects of extra-profit in the gold industry can be trifold; continuous increase in investment and production in the gold industry, a rise of absolute rent for landowners of gold mines, and a rise both in the market value of gold and differential rent by opening up less fertile gold mines. However, so long as gold supply continues to expand and eventually exceeds the social demand for raw materials, additions to circulating money, and planned additions to the hoards of individuals and other economic agents, the excess is likely to lead to extra commodity purchases, easier credit expansion, resulting in partially boosting effective demand, and pushing the price level even gradually upward. The process might last for several business cycles, and potentially leads to the emergence of protracted secular trends in the price level, forming long waves of prices. Anyway, as Vilar (1976) demonstrated in his historical study, the movement of lowered prices in the world market in the regime of gold money was a strong factor to strive to increase gold production, and the whole movement of prices depended on the changes in the value of gold though its rapidity was different in various historical periods. When the general price level becomes too high and unfavorable to the gold industry, the whole adjustment mechanism would turn into the opposite direction. The exchange value of money commodity is thus in principle not stable, but subject to the law of value through anarchical fluctuation in the process of competitive movement of capitals across industries eventually equalizing the rate of profit of the gold industry if slowly with other industries. In these wider regards, a certain relevancy of the quantity theory of money may be synthesized with Marx’s theory of value and exchange-value of money. (See Pitchit, 2004, as for remaining problems in Marx’s anti-quantity theory of money.)

5 What happens under the non-commodity money

What can we deduce on the contemporary economies with non-commodity money
from the analyses above?

There can be a variety of economic regimes with non-commodity money. The regime of non-commodity money under the completely floating international exchange rates since 1973 is one of such a variety. In comparison with the previous regime under the Bretton Woods international monetary system with fixed exchange rates, the exchange value of money has obviously become much unstable. As direct convertibility (in case of dollar) and indirect convertibility (in case of other currencies) with gold were lost, the regulatory role of the labor value of commodity money for adjusting the exchange value of money even slowly through long waves disappeared. Supply of central bank notes as a typical non-commodity money and credit lost the international discipline based on the necessity to hold certain levels of gold reserves or foreign currency reserves in central banks.

A destructive vicious inflationary crisis thus occurred at the beginning of the 1970s as a result of much expanded supply of bank notes and credit in the collapsing process of the Bretton Woods system, being combined with the impact of over-accumulation of real capital in relation to limitation of supply of both laboring population in advanced countries and primary products in the world market. It included also the effect of the first oil shock. Stagflation followed including the effect of the second oil shock. It is clear that the contemporary non-commodity money has largely lost its stable anchor for its exchange value unlike in the regime of gold money where the value of gold served, if not rapidly, as a gravitational anchor for the exchange value of money. A strong bias for inflation or a decline of exchange value of money was thus generated.

When inflation gains and proceeds, structural distribution of income and assets is naturally distorted and altered in real terms. As capitalist firms are usually main debtors and working households are main source of savings to lend, inflation favors the former and harms the latter. Keynes' strategy to give euthanasia to wealthy rentiers in favor of industrial investment by means of inflation has become dubious in its effect in this context. When nominal incomes among wage earners, pensioners and irregular workers tend lag behind the pace of inflation and stagnant in the period of stagflation, their real incomes, besides their savings and pension funds, are adversely affected by inflation, even though the Keynesian policies mitigate the unemployment problem to some extent. Similarly when most of prices of primary goods became stagnant and then sliding down
in the world market since the 1980s due to both stagnation and economizing technological innovations, the exporting countries of the primary goods largely in the third world became severely hit by inflation.

Monetary instability has remained even when general inflation has calmed down through neo-liberal tightening monetary policy and by continuously depressed wages and prices of primary products in advanced countries since the beginning of the 1980s. Fully utilizing the more and more efficient informational technologies, speculative trading of foreign currencies and various securities has increased with all its instability. The size of speculative trading of foreign currencies in the world, for example, has grown enormously in these two decades and reached more than a hundred times of the amount necessary for real trade, travel and so forth.

Speculative trading in shares and real estates has caused huge bubbles toward the end of the 1980s in advanced countries, typically in Japan. The destructive burst of bubble melted down in the 1990s over a thousand trillion yen of asset value in the Japanese economy. Similar bubbles and their burst caused the Asian crisis of 1997 in many of other Asian countries, and were repeated in the American IT bubble until 2000.

Including the vicious aftereffect of such collapses of bubbles, deflation and continuous depression have become a serious economic problem since the 1990s. We had tended to assume that an inflationary bias is easily spread under the regime of non-commodity money where Keynesian policies can operate. However, we are realizing that under certain historical conditions Keynesian fiscal and monetary policies are not just effective but rather counter-effective for the economic recovery, by deepening the fiscal crisis of the State and increasing the burden on the shoulders of socially weak persons and workers. Hoarding has increased and has been difficult to be mobilized with much intensified liquidity preference due to worry for the future and lack of promising opportunity for industrial investment.

Thus, even under the regime of non-commodity money in our age, the simple quantity theory of money would not work. It is noteworthy that all the monetary instability to cause inflation, speculative trading and depressive deflation is intrinsic to the capitalist market economy, as Marx's theory of money has already shown, though the instability is wildly extended in the contemporary regime of non-commodity money. The mainstream economics in a broad sense, including both Keynesian and neo-liberal economics, as
well as confused economic policies guided by them, are blind to this fact.

In retrospect, the definition of value of money in the new interpretation is applicable even to the contemporary non-commodity money as an ex-post static notion in relation to the macro-economic national accounts. However, as a theoretical frame of reference, it is unsuitable to explicate such fundamental monetary instability of capitalist economy as well as the specific nature of contemporary monetary instability. It can be interpreted as a static and a-historical notion even applicable to the socialist 'money' like ruble in a planned economy, though such an interpretation may be out of expectation of 'new interpretation' theorists. Marx's own theory of money including its notion of value and exchange value of money commodity is a more useful theoretical frame of reference to the analyses of workings of different monetary regimes including one in our age. In these regards, the definition of value of money in the new interpretation is of limited use as a convenient supplementary notion in a certain point of view of economies, and should be utilized always upon the ground of broader Marx's own theory of money, not as a substitute for it.

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