1. The theoretical problem on which this paper focuses is very difficult indeed, and goes to the heart of Marx’s theory of value. Assuming that the value of the money commodity is determined in the same way as for other commodities, the profitability of its industry presents special difficulties. The reason is that the money commodity buys directly, hence the profitability of its industry depends on the prices of other commodities. It is important to note that from a purely Ricardian perspective, i.e. if one accepts the Quantity Theory of Money, the problem is easy. If, for instance, gold was produced beyond what was socially required, the prices of other commodities would rise, leading to a fall in gold profitability, and thus restraining its supply. But the problem becomes very difficult if, along with Marx, one wants to reject the QTM.

2. Fred’s answer is to suggest that the gold industry does not take part in the equalisation of the rate of profit. He suggests repeatedly that this is ‘Marx’s solution’ but this claim is not very persuasive. Marx’s scattered comments in Volumes II and III of Capital and in other parts of his work can be easily interpreted as attempts to confront the problem of gold’s value, given profit rate equalisation. Be that as it may, it is not clear to me how Fred’s solution deals with the following.

3. First, there is little historical evidence (and even less intuitive sense) that gold producers possess the economic and social power to prevent entry. Given that the organic composition of the gold industry is typically lower than average, it is hard to see how an influx of producers could be avoided, if profitability remained above average. Historically, when new discoveries were made that significantly raised gold profitability, they resulted in gold rushes that defied attempts at control.

4. Second, even if gold output is not sold, it still buys, hence the amount of value (abstract labour) acquired by gold producers per period is not necessarily equal to the amount of value crystallised in their output. This disparity is not merely a theoretical conundrum but a real phenomenon that has direct implications for the ability of gold producers to continue and expand their circuits as technology changes. The disparity and its economic implications can be neatly captured (as for other commodities) by stating that gold has a price of production. Fred’s denial of a price of production for gold, far from strengthening it, weakens the explanatory power of the theory of value.

5. The demand for gold is a lot more complex than allowed for by Fred. Theoretically, but also in practice, a substantial amount of gold enters production as industrial input (at least a third of annual output, at current levels). Gold is also required as jewellery or ornamentation. In addition, there is monetary demand, but here the demand for circulating gold has very different determinants from the demand for hoarded gold. The supply of gold, on the other hand, is also a lot more complex than the annual flow of fresh production. It also includes gold moving between circulation and hoards, and gold (plate) moving between hoards and jewellery. Denial of profit rate equalisation for the gold industry, if it is to be persuasive, must also deal with the balancing of the social demand and supply of gold.

6. Finally, it seems to me that the spirit of Marx’s analysis is to assume that normal conditions prevail. The challenge is to show that the labour theory of value can tackle profit rate equalisation for the gold industry, not to leave it out of account.