Marx’s two aggregate equalities

p. 10: You say: “What Marx intended in his two aggregate equalities ... must be equalities between the substance of total value embodied in commodities produced and the substance of value acquired through prices.”

What textual evidence do you have to support this assertion? So far as I know, Marx always expressed these equalities in terms of total price of production = total value and total profit = total surplus-value. All of these variables are money price variables, not labor-time variables. So far as I know, Marx never expressed these aggregate equalities in terms of labor-times embodied and acquired.

The “new interpretation”

p. 13. I am not exactly a “supporter of the NI”. I am a “sympathetic critic”. I agree that variable capital and the total surplus-value do not change in the transformation from values to prices of production. But I also argue that constant capital, the total price, and the general rate of profit also do not change, contrary to the NI. Please see my RRPE (2000) paper.

p. 13. I think you misunderstand the NI here (Duncan can tell us). The NI also concludes that the total price changes (i.e. total price NOT = total value) and for the same reason as Bortkiewicz, etc. - because the composition of capital in the gold industry is not equal to the average composition of capital and the resulting equalization of profit rates. Instead, as you discuss in the previous section, the NI redefines the aggregate price equality in terms of NET prices and values.

Equalization of the rate of profit in the gold industry

pp. 13-14. With regard to absolute rent, you argue that the control of gold mine owners over the supply of gold could be circumvented by new discoveries of gold. I think new discoveries of gold are rare and should not be the general case. But more important is the next point.

pp. 14-15. You argue that the rate of profit will be equalized in the gold industry, just like in all other industries. You do not spell out very clearly what the equalization mechanism is, but it seems to be something like the following (please correct if I am wrong). Since the gold industry has a lower than average composition of capital and thus
a higher than average rate of profit, capital will flow into the gold industry (again assuming no monopoly landlord barriers), which will increase the supply of gold, such that the supply of gold is now greater than the demand. This excess supply of gold will cause the prices of all other commodities to increase, including the prices of the inputs to gold production, which will reduce the rate of profit in the gold industry toward the average rate of profit. Is this roughly correct?

The flaw in this argument is that, according to Marx’s theory, such an increase in the supply of gold currently produced would not lead to an increase in the prices of all other commodities, but would instead be offset by a reduction in the velocity of money and/or an increase of hoards. I explain this adjustment mechanism in detail in my paper.

You say on p. 15: “A difficult problem is how to understand the social mechanism to adjust the social demand for and supply of gold as part of competition among capitals to equalize the rate of profit.”

The key point is that the adjustment of the supply of gold to the demand (i.e. to the “needs of circulation” equal to the sum of prices) through changes of velocity and changes of hoards negates the equalization of the profit rate in the gold industry.

Even if there were an inflow of capital into the gold industry, and an increase of gold currently produced, such an increase of gold currently produced would be only a very small portion of the total gold money in circulation, and it would be easily offset by an increase of velocity or an increase of hoards. The price of all commodities would not change (because, contrary to the quantity theory of money, prices do not depend on the quantity of money). Thus, the prices of the inputs to the gold industry do not change, and neither does the rate of profit in the gold industry. The rate of profit continues to be above average and the difference continues to be appropriated by the gold mine owners as their absolute rent.

You yourself go on to partially acknowledge later in the same paragraph this negation of the equalization of the profit rate by the adjustment of the quantity of money to the “needs of circulation”, when you say: “an excess supply of gold may not necessarily cause a rise in general prices but may be absorbed by an increase of hoards.” According to Marx’s theory, an excess supply of gold will never cause a rise of prices (because prices do not depend on the quantity of money), but are instead offset by changing velocity or changing hoards. Which means that the rate of profit is not equalized in the gold industry.

You also have emphasized in your other works the role of hoards in equalizing the quantity of money to the needs of circulation (e.g. Basic Theory, p. 93). But you seem to suggest that somehow this basic adjustment mechanism is somehow overridden by the equalization of the profit rate. I argue the opposite: the equalization of the profit rate is
overridden by the basic adjustment mechanism of the quantity of money to the “needs of circulation”, through changing velocity and changing hoards.

You also mention Marx’s comment (C.I. 216) about the “banker’s trick” of issuing more paper notes into circulation in order to extract sovereigns from it. According to Marx’s theory, the same thing would happen if gold producers tried to increase gold production beyond the “needs of circulation” - some other form of money would leave circulation. The total quantity of money in circulation would remain the same, as determined by the sum of prices.

The last five paragraphs in Section 2

pp. 15-18: The last five paragraphs in this section seem out of place. They are not about whether or not the rate of profit is equalized in the gold industry, which is the main issue in the rest of the section. Instead, the first two paragraphs are about the fluctuations of the rate of profit in the gold industry over the business cycle (due to fluctuations in the general price level caused by fluctuations in demand) and the feedback effects on changes in gold production on the cycle itself. And the last three paragraphs are about the secular trends in the price level and the effects of those trends on the rate of profit in the gold industry and hence on gold production. I am dubious about these dynamics, but these are separate issues.

I suggest that these last five paragraphs be in a separate section, or, given the severe space limitations, that you delete these paragraphs and focus more on the controversial question of whether the rate of profit is equalized in the gold industry with the general rate of profit.

Non-commodity money

p. 21: You are right that the NI ex-post identity cannot explain inflation with non-commodity money. I would go even further and say that the NI has no theory of price even with commodity money. Price is a given in the NI, along with L, and these two jointly determine the value of money, or the money expression of labor (MEL).