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The Reception of Ricardo's Theory of Money in Marxism

I. Introduction

Ricardo's theory of money was the part of the Ricardian legacy which Marx, and following him, many Marxists criticized most of all. According to Marx, '…Ricardo's theory of money is as completely refuted as its false assumptions that the bank controls the quantity of notes in circulation, and that the quantity of means of circulation determines prices, whereas on the contrary prices determine the quantity of means of circulation etc.' (Marx, 1973) It was not the result of negligence from Marx's part. In the 1850s, upon settling in London, he, among the vast bulk of economic literature, studied the works of Smith and Ricardo 'with exceptional thoroughness' (Marx and Engels, 1968: vii).

Marxist view corresponded to a widespread interpretation, where Ricardo's theory of money was seen as an alien to his theory of value. But this established view has been challenged (see, e.g., Takenaga, 2013), and, generally, in the last decades there was a number of studies that provided new insights into Ricardo's theory of money (see e.g. the contributions and the bibliography presented in Sato and Takenaga, 2013; Evans, 1997; Marcuzzo and Rosselli, 1994). Paradoxically enough, in Marxism Marx's own theory of money was for a long time largely unnoticed. However according to Isaak Rubin, who was among a few Marxists paying serious attention to Marxian monetary analysis, in Marx's thought the theory of money was not an occasional supplement to the theory of value, but its direct continuation towards the most developed form. This approach was reinforced by new analytical developments in the 1970s–80s (see Brunhoff, 1976; Foley, 1982, [1983] 2011) that influence more recent studies (see e.g. the concise review of contemporary approaches in Paulani, 2014: 779–80).

The two theories generated different, often conflicting interpretation; they still attract the attention of scholars and continue to influence some modern approaches to monetary policy. If theories of money in both authors were connected to their respective theories of value and constituted indispensable elements of their analytical systems, then the critique of Ricardo's theory of money by Marx (and Marxists) may allow for distinguishing more general differences in their approaches to value and distribution, and for clarifying Ricardo's 'quantity' and Marx's 'labour' theories of money, as well as the respective policy proposals. The paper is an approach to this task, and its scope is narrower. I shall concentrate below on original interpretation of Ricardo's theory of money by Marx using as the reference point the interpretation presented in Rubin's recently published manuscript (Rubin, 2011). This will provide the basis for the further analysis of the interpretations and modifications that both approaches underwent in the twentieth century, given the substantial changes in monetary systems.

II. The origins of the reception

The foundations for (unwelcome) reception of Ricardo's theory of money in Marxism were laid by Marx himself, with the most extensive treatment of the theory presented in *A Contribution to the Critique of Political Economy* (1859). In approaches of both authors the theories of money were significant, albeit not often recognizable elements. For Ricardo, the consideration of monetary issues constituted the starting point and the background of his analysis. The same cannot be postulated for Marx, given a more complex and sophisticated nature of the development of his approach. There are, however, reasons to consider money as the starting point of Marx's economic theory and the final point in logical explication of his analysis. It was an interpretation implemented by Hilferding in his *Finance Capital* (Hilferding, 1981) and elaborated in Rubin's reconstruction [Rubin's quotation] Indeed, 'for Marx, capitalism is necessarily a monetary economy, although he also stressed that monetary factors could only be understood by relating them to developments in the sphere of production. This is very different from the main body of neoclassical economics, which develops its analysis largely in terms of a real, or moneyless economy, and then adds on a monetary sector at the end, principally in order to determine the price level.' (Evans, 1997: 11)

Ricardo's theory of money was a product of the developments in monetary theory in Great Britain that followed 'inflationist' financing of the wars with revolutionary France and the Bank Restriction Act of 1797. This is indeed the common place for different histories of economic thought. According to Hollander (1911: 431–32), in his early monetary writings Ricardo was but an 'expositor and controversialist, and his earliest pamphlet in 1810 was designed as an explicit restatement of what had been already said and written.' In Marx's historical sequence too Ricardo as a monetary scholar just summarizes and 'formulates with a greater precision' 'the views of 'his predecessors': 'the numerous writers of the period of 1800–1809' (Marx, 1904: 232). The assessments differ as to the further development. In Hollander's view, 'in the years that followed [1810], Ricardo made real and distinguished contribution to the development of monetary theory and practice; but his starting point here was not, as in the case of his general economic thought, Adam Smith, but a body of monetary doctrine different from and in advance of that set forth in the Wealth of Nations.' (Hollander, 1911: 432) Marx did not leave unnoticed the *Proposals*... of 1816 (cf.: Marx, 1904: 232, n. 3); his critique was aimed at Ricardo's earliest contributions though. Obviously, he believed that there were no substantial changes thereafter: 'In his work on political economy, Ricardo repeated and developed further the same views, but nowhere has he investigated the nature of money as such, as he had done in the case of exchange value, profit, rent, etc.' (Marx, 1904: 236) In Marx's view, Ricardo's theory of money was too much policy-oriented, too much intervened with partisan clashes of the period to reach the necessary level of abstraction. The involvement into practical issues had resulted in generalization of what in fact was but a specific moment in monetary history, namely the case of rising commodity prices in the framework of over-issue of 'value-tokens', inconvertible paper money, and of the major war efforts.

It is no wonder that Ricardo started his economic studies with monetary issues, which were the kernel of economic debates during the Napoleonic Wars. Ricardo entered the debates as the insider who sought for practical measures to alleviate the pertinent problems. Marx's definitely paid a great attention to monetary issues, but the sources of his interest are less obvious and more versatile (see e.g. Nelson, 2005). He was completely alien to the world of finance, and he never was directly engaged into the debates on monetary policy as an opinion-maker. Neither was he a direct witness to the outburst of the debates regarding the Bank Act of 1844. Somewhat later he did observed subsequent financial crises (especially that of 1857) from the centre of the world economy, but despite their great immediate impact allowing for his claim that the Bank Act as well as the whole doctrine of the currency school, based on Ricardo's theoretical assumptions, faced 'ignominious failure, theoretical as well as practical' (cf. Marx, 1904: 258–59), their effects in the long run were not that devastating for theory and for policy either. Unlike Ricardo, the practitioner, Marx came to the theory of money as a historian of economic thought, in the course of extensive studies of a vast array of authors; he used the assessments of past theories as the stages in elaboration of his own approach. Marx's account of the theory of money is indispensable from his account of the history of economic thought. For example, 'Marx's account of the functions of money … is simultaneously a critique of the quantity theory.' (Campbell, 2005: 143) It was a channel through which the philosophic background he had got during the university years affected his economic theorizing; and it was not only due to the influence of Hegel but also due to his profound knowledge of Ancient Greek philosophy: Plato and Aristotle at any rate were among the very unlikely sources for any "normal" economist in the mid-nineteenth century (as well as later on). This philosophical background implemented into historical account is perhaps the reason why Marx's history of economic thought was often regarded as the curious (at best) offshoot of his analysis, rather than one of its sources. Far from being the collection of facts reflecting the enormous erudition of the author, Marx's history was a corollary to his 'grand theory' of social process, where the ideas were material forces reflecting and channeling the class struggle. As such it was arguably the first example of the history of economic analysis. That demonstrated the importance and fruitfulness of revision and rearrangement of old ideas in retrospect, allowing for revealing and using the richness of accumulated heritage of thought under new circumstances. At the same time such an approach had the tendency inherenet to any other history of analysis deserving of attention, namely that of subjugating diverse and heterogeneous lines of thought to speculative schemes based on the author's 'vision' of what the analysis should be, and of erasing historical gaps and theoretical inconsistencies for the sake of the beauty of logical succession and continuity.

In Marx's "big scheme", 'while Ricardo elaborated Hume's theory, Adam Smith registered the results of Steuart's investigations as dead facts.' (Marx, 1904: 232) Hume was wrong, while Smith the right direction although he did not reach the right conclusions. Ricardo's theory of money was seen as the link between the approach originated in the seventeenth and the eighteenth centuries, which was shaped by the struggle with the 'mercantile system' and best exemplified by Hume, and the policy proposals of the currency school. Following that line of thought, Ricardo reproduced its major theoretical flaw stemming from anti-mercantilist stance, that is understanding of money (predominantly or exclusively) as the means of circulation. Hence followed misunderstanding of the function of money as the standard (measure) of value, which was for Marx the core in grasping the phenomena of money and its historical evolution, and misunderstanding of the commodity nature of money. Starting from the right preposition of the labor theory of value, 'Ricardo determines the value of gold and silver, like that of all other commodities, by the quantity of labor-time embodied in them…' (Marx, 1904: 236) Then he 'determines the volume of the circulating medium by the prices of commodities, assuming the value of money to be given; money as a token of value means with him a token of a definite quantity of gold and not a mere worthless representative of commodities as was the case with Hume.' (ibid.: 237) In what follows, however, Ricardo slipped into the Humean line: under the influence of his immediate predecessors; due to coincidental resemblance of circumstances ('what the American mines had been to Hume, the paper bill presses in Threadneedle street were to Ricardo' (ibid.: 235)); because of his excessive attention to practical issues and corresponding lack of a required degree of abstraction. 'If Ricardo had built up this theory by abstract reasoning, as we have done it here, without introducing concrete facts and incidental matters which only distract his attention from the main question, its hollowness would be striking.' (ibid.: 242) Instead, 'he takes up the entire subject in its international aspect.' (ibid.)

Thus Marx registered a connection between Ricardo's theory of money and his theory of international trade; this connection was considered to be unhappy though, as 'the time when Ricardo wrote was generally little adapted for the observation of the function of precious metals as world money,' (ibid.: 250) and he 'utterly failed to comprehend the role of precious metals as an international means of payment.' (ibid.: 249) According to Marx, the laws of monetary circulation were to be sought for on a domestic soil, with the impact of international trade balance and exchange rates to be studied at the latest stages of theoretical investigations, as the further real-world complications to a monetary system (in other words, in studying the monetary system the regime of open economy ought to be preceded by the regime of closed economy). However, the connection between "value of money", volume of currency in circulation and international trade flows was in the focus of monetary analysis well before Ricardo; in its rudimentary form it could be traced well up to the fourteenth century, when Nicolas Oresme made a reference to international trade in the early formulation of what would become to known as Gresham's law (cf. Oresme, 1956: 32–33). In the eighteenth century the connection was taken into consideration by virtually all major contributors to monetary studies, Hume and Smith including. More closer to Ricardo, Thornton 'made clear that an excessive issue of paper would lead to an export of gold, not by Adam Smith's vague overflow of the "channel of circulation," but by a precise and regular mechanism of rising prices, unfavorable exchanges, diminishing exports and increasing imports.' (Hollander, 1911: 452)

Marx definitely did not miss the huge historical precedence in studying monetary economy on international level; it was for him after all to elaborate on world money as a distinctive monetary function. But he followed (with many reservations and corrections) the different line of monetary studies: the one that in his own account was developed by Smith, who tacitly used the theoretical framework elaborated by James Steuart in his critique of Hume and Montesquieu (cf. Marx, 1904: 227). For Marx, Smith also adhered to anti-mercantilist bias: 'hostile attitude to the illusions of the mercantile system prevented Adam Smith from taking an objective view of the phenomena of metallic circulation, while his views on credit money are original and deep.' (Marx, 1904: 233) The flaw on the side of Ricardo and his immediate predecessors, however, was even greater: they 'confound the circulation of bank-notes, which is governed by quite different laws, with the circulation of tokens of value or government legal tender paper money: and while they claim to explain the phenomena of this legal tender circulation by the laws of metallic circulation, they proceed, as a matter of fact, just the opposite way, viz., deducting laws for the latter from phenomena observed in connection with the former.' (ibid.: 234–35)

The strength of Steuart's approach was caused by distinguishing 'essential' forms of money, and, according to Marx, Steuart was the first who explicitly established endogenous nature of the quantity of money in circulation (cf. ibid.: 227–28); Whatever influence there was, Smith clearly followed the same pattern of reasoning in regard to credit money. According to Hollander (1911: 436-37), that was but a continuation of an old narrative; the true novelty was the question: 'how much money is it right and sufficient for a country to have?' — to which Smith did not answer, ‘beyond saying vaguely that it was determined by “effectual demand,” being always the sum required to circulate and distribute to its proper consumers the annual produce of the land and labor of the country.’ In Hollander’s account, the answer was formulated by Ricardo and his immediate predecessors. I shall not enter here into the discussion whether that answer implied with necessity the quantitative theory of money in its later forms. It is obvious however that in a theoretical framework where money supply is considered to be exogenous, with inflation considered as a monetary phenomenon, the notions of effectual demand and over-flow of the channels of circulation are vague indeed.

In some influential twentieth-century interpretations Ricardo’s theory of money was regarded as a distortion from the right track of the analysis, often represented by Henry Thornton (cf. Marcuzzo and Rosselli, 1994: 1251) According to Marx, monetary analysis eventually resumed the right line, regardless the influence of Ricardo and the currency school (it seems that he was not inclined to associate that with Thornton though): “If the velocity of circulation is given, then the quantity of the means of circulation is simply determined by the prices of commodities. Prices are thus high or low not because more or less money is in circulation, but there is more or less money in circulation because prices are high or low. This is one of the principal economic laws, and the detailed substantiation of it based on the history of prices is perhaps the only achievement of the post-Ricardian English economists.” (Marx, 1977) But in the twentieth century Marx’s theory of money faced far more serious challenges, than Ricardo’s. It was Marx himself who insisted on necessity of historical understanding of economic phenomena. The case of money is perhaps the most salient illustration to this thesis. Indeed, it is hard to provide the definition of money without a reference to changes in monetary systems. Yet the same historical understanding implies a danger of association the nature of money with a specific (“modern”) institutions of monetary system. It was demonstrated by Marx’s theory developed on the eve of the gold standard epoch. As a result, in the twentieth century the theory was becoming more and more inconvenient for the Marxists. Some of them followed the “originalist” interpretation, either claiming that the commodity theory of money holds and Marx was write regardless all the changes in monetary systems, or tried to find some breaches in Marx’s exposition to align the theory with reality. It was especially the case for Soviet economic science. Another line of interpretation implied a convergence between the theories of money and of value at the expense of the notion of commodity nature of money (the labor theory of the value of money). Such an approach was represented e.g. in interpretations originally proposed in the 1980s by Duncan Foley and (cf. Evans) This however brings Marx’s approach much more in line with Ricardo’s than Marx himself could have ever envisaged.

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