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MARXIST THEORY AND MONETARY POLICIES DURING SOCIALIST CONSTRUCTION

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Abstract:
The paper aims to identify the main points of consensus and disagreement between monetary theory in Marx and the quantity theory of money, and motivation as a contribution to debate on the need and scope for monetary planning in socialist construction. The study allows us to conclude that monetary planning in socialist construction must ensure compliance with the law of the amount of paper money needed in the circulation and the general law of circulation, so as to guarantee the function of money as a measure of value and therefore, compliance with the proportions defined in the plan and reproduction of the socialist system.

Keywords: monetary planning, Marxism, socialist construction

1. Introduction

Monetary policy is the macroeconomic policy laid down by the Central Bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity. It is the economic strategy chosen by a government in deciding expansion or contraction in the country's money-supply. Applied usually through the Central Bank, a monetary policy employs three major tools:

a) buying or selling national debt;
b) changing credit restrictions; and
c) changing the interest rates by changing reserve requirements.

Monetary policy plays the dominant role in control of the aggregate-demand and, by extension, of inflation in an economy. According to Prof. Harry Johnson:

"A policy employing the central banks control of the supply of money as an instrument for achieving the objectives of general economic policy is a monetary policy."

According to A.G. Hart,

"A policy which influences the public stock of money substitute of public demand for such assets of both that is policy which influences public liquidity position is known as a monetary policy."

From both these definitions, it is quite clear that a monetary policy is related to the availability and cost of money supply in the economy in order to attain certain broad objectives. The Central Bank of a nation keeps control on the supply of money to attain the objectives of its monetary policy.

According to Hector Salas Brown:

Money is a link between the goods, the value and the exploitation of labour. From this, Marx developed a theory of money able to account for a large amount of monetary phenomena of his time; [...]. In this way, the Marxist theory of money provides a framework that enables the understanding of economic processes on deeper than the neoclassical bases.

Monetary policy is the evolution of forms and functions of money. While the money flowed only as a commodity (precious metals), monetary policy had no reason to be. Marxist theory reminds us that at the time of the gold standard, the amount of money was determined by the amount of gold and prices for the value of the goods, which represents the amount of labor used to produce them. Prices, as monetary form of value, could oscillate because of the imbalance between supply and demand.

Conventional thinking has extensive methodological and instrumental development in controlling the money supply, whose theoretical, practical and ideological foundations revolve around the quantity theory of money. The development of monetary theory in Marx although it is a weapon of a deep scientific method to decipher the truth behind the economic facts and advances on many issues the quantitativists postulates, it suffers from the effect instrumental and theoretical advances.

Quantity theory of money

Conventional thinking shows consensus on monetary theory about the quantity theory of money. The quantity theory undergoes its main formalization with Irving Fisher's book "*The purchasing power of money*" (1911), where the equation changes or transactions are made:

$$M \times V = P \times T$$

Where:

M: Monetary mass

V: speed

P: average price

T: transaction volume

More than an equation, the expression shows an identity that says nothing about causal relationships between variables. The starting point is simply; the accounting balance of trade taking place in an economy over a given time period: the value of all goods on the market (the volume of transactions for half price) corresponds to the value of all cash flows given in return (money supply by the speed at which rotates in the economy).

However, certain assumptions establish directionality changes in the equation. Presume that markets tend to the full use of resources, so that the level of transactions is given, it is determined by the real economy. For its part, the velocity of money is considered stable, because it depends on institutional factors. If you increase the money supply, since V is stable and T is given, can only raise prices. Consequently, money is neutral and cannot affect the real economy. If there, it is inflation because the state issues money excessively.

By losing credibility quantitative theory, especially the transition from capitalism of free competition to monopoly capitalism and the large crack in the early thirties of the last century, it is presented as an alternative Keynesian theory. In his "*General Theory*" (1936), Keynes developed a theory of the demand for money he called "*theory of liquidity preference*".

Keynes studied the reasons why individuals are demanding real balances: he argued that, when associated with speculative purposes, the demand for money balances depends on interest rates. Thus, increases in the money supply made available to the public no longer used for transactions resulting in decreases in the speed of rotation of money. Therefore, the rotation speed may not be constant.

Keynesians refutes additionally assuming full employment of resources in the economy, because the automatic adjustment mechanism of the market to equilibrium is very slow, because of the rigidity in wages imposed by labor contracts and stickiness in prices for contracts with suppliers. Therefore, the debate on the neutrality of money represents the main point of conflict between neoclassical and Keynesian.

The mechanical influence of increased amount of money on prices is profoundly challenged by the Keynesians. First, an increase in the money supply can be used for speculative purposes and not channeled into transactions in the economy, what Keynes called "*liquidity trap*". Second, if the economy is not in full, some of the increase in demand (due to the increase in money supply) can effectively stimulate product. Consequently, an active economic policy is preferable (although Keynesians insist on the role of fiscal policy) that expand aggregate demand when the economy is below potential locate and contract when overhead.

At the head of this thought was Milton Friedman, who in 1956 had developed a theory of demand for money in his article "*The quantity theory of money: a reappraisal*". Friedman's theory indicates that the demand for money is a function of available resources by individuals (their wealth) and expected returns on other assets for the expected return on the money. Friedman assumes stable speed and demand for money and therefore predictable. But they are not completely stable in the sense of the old classical theory.

According to their empirical studies and those of their colleagues, these variables have had a remarkably stable and regular, except in periods of crisis and hyperinflation behavior. From this, Friedman reaches two main conclusions. First: the demand for money is insensitive to interest rates. And secondly, as a corollary, provides that monetary changes affect production, but short-term (permanent income is stable over time), while this expansion results in an increase in long-term price.

Therefore, Friedman insisted that monetary policy cannot determine long-term real variables such as unemployment and GDP; you can only determine nominal variables, such as exchange rate, the price level or monetary aggregates.

As the body of thought, currents quantitativists build a concept of monetary equilibrium in the economy based on the analysis of supply and demand. If the money supply (considered exogenous given the state's role in the issuance of legal tender) exceeds or does not exceed the demand, an adjustment of the aggregate expenditure in the economy via prices is recorded.

This is the main consensus from which this theory is built. Keynesian criticism, although it offers opposition to the theory as a whole, also defends the validity of the equation changes and the causal direction of monetary increases aggregate expenditures on the economy (price and / or product).

Monetary policies in Marx theory

As opposed to the quantity theory there is a long critical tradition that is carefully hidden by the manuals of neoclassical orthodoxy. The monetary theory in Marx, although only met the previous quantitativists Hume and Ricardo, is the most consistent opposition. Since the later developments of the quantity theory (Fisher to the monetarists) preserved and defended essentially postulates Hume regarding the relationship between money and prices, the analysis of monetary theory in Marx is a ideal for a critical view of the scope and limitations of platform this body of thought.

It is not possible to understand monetary theory in Marx, without understanding the essence of their labor value theory. This theory states the correspondence between commodity production and creating value. The goods have value as a materialization of the labor employed for its realization and express that value in monetary form through the price. The price, as external form of value itself, implies the possibility that not coincide with the later magnitude of price influence of supply and demand. Marx takes into account the role of supply and demand on prices through competition law, but also insists that attempts to absolutize their influence unfounded as the price cannot exist without the value and it's just their way of expression.

Thus, the labor value theory helps to see the analysis from the point of view of production not only as a simple technological process, but as an elementary in the generation of values that are made in the circulation step. He demystifies circulation as the process of earning of the most skilled and understood as a moment of exchange values that lead itself to relations between many production processes (Brown, 2006).

Marx shows that money does not appear because of an agreement between individuals, or because of state laws or decrees. The money arose spontaneously under the evolution of commodity production and the logical and historical development of the change process. The emergence of money does not lead to overcome the internal contradiction of the goods, but to develop it. This contradiction is externalized to the development of the change process. The separation of the commercial world merchandise and money means that from that moment the goods listed in the market as use values and money as the embodiment of value in general. In developing the Ricardian theory of labor value, Marx states that, in essence, the price increase is not a monetary phenomenon, but the result of the creation of value through the abstract work done by the producer during the production process. The value of the goods is generated in the production and it materializes in circulation.

On the basis of the labor value theory, Marx defines the amount of money needed to ensure the movement of goods (M) must equal the sum of the prices of all commodities (P), divided by the average of cycles of circulation of a monetary unit of the same sign (V). Mathematically, it would be expressed as follows:

$$M = \frac{\Sigma P}{V}$$

With the formulation of the general law of circulation, Marx reverses the quantitativist hypothesis Hume, in determining that:

> "…*given the sum of value of the goods and the average speed of its metamorphosis, the amount of precious metal in circulation depends on its own value*"
>
> (Marx, 1973, p. 88)

and continues:

> *"Money is nothing more than the real and effective sum of gold ideally expressed as the sum of the prices of commodities representation. Both sums are therefore to be coextensive [...] is, as seen, the money itself that determines the changes in the mass circulation means but not in its function of circulatory half, but in its measurement function values."*
>
> (P. 82)

This law is embodied in the nineteenth century, when even the major experiences studied revolve around gold and silver as coins. However, Marx extends the study of its implications, the analysis by distinguishing forms of money. Thus, it defines three forms of money, corresponding to three historical stages: (gold) pure metallic money, subsidiary coins and paper money required course.

Marx analyzed of the simple circulation of commodities and money as gold, which is valid for the law of value. Marx sees gold as:

> "…*a special commodity that has its own intrinsic value has value because it is work under this premise, the amount of gold required for circulation is determined in the first instance, by the global sum of the prices.*"
>
> (Marx, 1989, p. 72)

Later, Marx discusses the subsidiary coin, one in which the gold acquires a symbolic separate existence of its own existence, silver or copper. Thus, at a higher time of production, different goods can serve as money, along with gold, in the circulation, and may represent their fractions. The same law that works for gold, relative to the prices of goods, applies to the subsidiary currency (Rodriguez Vargas, 2006).

According to Marx (1989):

"If tabs silver and copper in quantities that are greater than those required by the needs of their areas of outstanding amounts, prices of commodities would not increase because of it, but an accumulation would occur these chips between retailers, who eventually would be forced to sell them as metal "

(p. 76)

However, when analyzing paper money of compulsory course, it comes to new findings. For Marx paper money is the perfected form of the sign value, a result of the evolution of the simple movement of goods. It does not arise by convention or by state intervention. Paper money comes determined by the economic development and finally the State legislate it as a means of circulation of legal tender. The particularity of paper money not to express its own value, but the value of gold, allows the state to alter the balance determined by the general law of circulation. For the author of Capital:

"State intervention issuing paper money with compulsory course seems to abolish the economic law, it seems that transforms magically to paper gold [...] however, this state power is mere appearance. You can launch into circulation the amount of paper tickets they want with the monetary denomination you want, but with this mechanical act cease its control. Once the movement appropriates it, the sign of value or paper currency succumbs to its immanent laws."

(Marx, 1989, pp. 80-81)

That is, paper money does not follow the laws of the circulation of gold coins or subsidiaries, but own and outside state control laws. The general law of movement is taken on new meaning with paper money, to establish a double causality between money and prices. Thus, Marx (1989) states:

"In the circulation of signs of value, all the laws of the real monetary circulation appear inverted, upside down. While gold circulates have value, paper money has value for driving [...] While the amount of gold in circulation increases or decreases with increase or decrease in commodity prices, these prices, it seems, raise or lower with variations in the amount of paper money circulating. While the movement of goods can only absorb a certain amount of gold coin and therefore contraction and alternative extension of the circulating money is presented as a necessary law, paper money can be incorporated into the circulation, apparently in unlimited quantities [...] Indeed, these laws seem not only

as inverted, but also abolished in the circulation of signs of value, since paper money, if issued by the appropriate amount, made movements that you are themselves as a sign of value, while its own movement, rather than have their direct origin in the metamorphosis of commodities, comes from the correct ratio to gold is violated."

(P. 82)

Moreover, in the first volume of Capital states that

"*…if today we filled with paper money all channels of circulation, while supplies its ability monetary absorption, we can find that tomorrow, as a result of fluctuations in circulation goods, paper money exceeds channels. …at this time, all measures are lost*."

(Marx, 1973, p. 92)

Marx criticizes and rejects the quantity theory when analyzing the first two forms of money, metal forms, but paper money no longer obeys the same laws that apply in the metal pattern; these laws can be violated from outside the state intervention. Therefore, the violation of the laws of circulation causes a depreciation of money in its function of means of circulation expressed, this time in an artificial increase in prices (not due to changes in the value of the goods or yours own).

However, Marx (1973) warns that once reached another price level, they express the value of the goods again, just as a fraction of the previous price pattern:

"If the paper currency exceeds its limits, ie, the coin-gold number of identical names that can circulate, still represent in the world of commodities, regardless of the danger of general discredit, the amount of certain gold and therefore representable by its immanent laws [...] the result is the same as if it had been modified gold in its role as price."

(P. 92)

Therefore, also defined category of law the amount of paper money needed in circulation:

"To find a specific law on the circulation of notes, there is no choice but to stick to their representative proportion to gold And this law is just that the issuing of paper money should be limited to that amount without it necessarily circulate gold (or silver) represented symbolically by that role"

(Marx, 1973, p. 92)

Thus, when Marx analyzes the paper money a match with the proposition quantitativist observed, noting that an increase in the amount of money may be reflected in the price level. However, it is not more than a coincidence in the description of the manifestation of the phenomenon, from a very different essential definition. Marx warns that the analysis in the light of paper money hides the essence of the relationship between money and prices, not defined by the mere fact of realization of the goods, but in the production process.

For Marx, the value of goods depends on labor productivity, depending on the law of value. In times of hard cash or cash alternative, raising the value it was due to the decline in productivity in commodity production or increased productivity in gold production. Therefore, according to the general law of circulation, are the prices (monetary form of value) that determine the amount of money.

With the advent of paper money arises a double causality, then, while prices determine the amount of money depending on the operation of the general law of circulation, if the state violates this law by printing more notes than necessary, the amount money would also cause an increase in the general price level. Then, if the state has a monopoly on currency, the law on the amount of paper money needed in circulation must meet so that the number of tickets corresponding to the amount of gold in their absence would flow depending on circulation needs.

Therefore, although the above is not to say, as the mainstream quantitativist - the neutrality of money, with the appearance of paper money it appears the possibility of monetary inflation. From the Marxist perspective, it would not represent anything other than a process of depreciation of paper money when the state violates the specific law of its effective support in material production and the needs of circulation, which affects a nominal price increase, without having an increase in value.

In this sense, inflation expresses an imbalance between production and circulation, and an apparent divorce between values and prices (Rodriguez Vargas, 2006). Thus, from the Marxist view, monetary policy must ensure correspondence between the amount of money and the needs of production and commodity circulation, through compliance with the general law of movement and the law of the amount of paper necessary currency in circulation.

The explanation of modern inflation is based on two levels: the Keynesians (and structuralist) on the side of the (long-term) plan, and the monetarists on the side of demand (and short term). Unilateralism is the vision with one eye. Marx exposed the phenomena at different levels of abstraction (he criticized classic not to apply this method) and different explanations when real-surface capitalism multiple capital (the third volume) analyzed, and related dialectically causes and effects, ie mutual determination. Marx saw with both eyes.

Conclusion

In short, from very divergent positions regarding the determinants of the demand for money and inflation, theories studied recognize that -under circulation paper currency- increased the amount of money in circulation causes an increase in the level of prices. Although you get to this point of contact from different methods, its importance lies in the possibility of using the developed conventional instruments (reflecting the operation of the manifestation of the phenomenon) on the basis of the conceptual underpinnings of the Marxist approach (reflecting the essence the relationship between the amount of money and prices).

The analysis allows us to conclude that inflation is a phenomenon due to dissimilar causes. Monetary inflation would be the manifestation of an imbalance between the amount of money and needs of circulation, capable of altering the performance of the functions of money as a means of circulation and measure of value and thus, the development of monetary relations commercial based on the law of value.

One wonders, then, about the implication for the socialist construction of the described elements of monetary theory in Marx, as a contribution to the debate on monetary planning. This requires reviewing finally without a thorough interest, the need for monetary mercantile relations in socialist construction, objective basis for the existence of money and monetary policy.

On January 8, 1868, Marx wrote to Engels:

> *No form of society can actually prevent the working time available to society regulates the production of one form or another. So far, however, [...] such regulation is achieved not by direct and conscious control of society over their working time (which is only possible with collective ownership) but by the movement of commodity prices.*
>
> (Marx, quoted by Mandel, 1969, p. 5)

The need for the action of the law of value in socialist construction is associated with the inability to directly measure the expenditure of labor. In socialism, even within the state sector of the economy, jobs cannot be directly measured in units of time or number of units produced. The comparison between these different jobs, and its results materialized in products, makes it necessary to translate a common denominator that indirectly allows the comparison in the same units of measurement. This common denominator is the value, which has its form of expression in the price through commercial monetary relations.

Moreover, the level of development of the productive forces in the socialist phase is not enough to guarantee all citizens the satisfaction of their growing material and spiritual needs. Therein lies the objective basis of the existence of distribution according to work, so that more who work for the company receives more of it. These distribution mechanisms are also established based on the law of value, as payment for work (wages) is also a price in the economy.

Beyond using the value as a measure of labor and measure of consumption, socialist construction cannot eliminate once the relations of production and commodity exchange, while not the basis and the cause that determine their existence disappear. In the period of transition to socialism continues the social division of labor and isolation of the producers, while the work product still has the form of commodities with the deployment of all its contradictions. Therefore, it is little discussed today the need for the action of the law of value in building socialism and its complementarity with planning.

The conscious nature of planning does not negate the spontaneity of the market, while the share of the latter gives some flexibility to the regulatory framework of the socialist economy (Sánchez Noda et al., 2002). The plan can use the law of value (more precisely commodity-money relations) to facilitate rapid and precise supply of consumer goods to demand. The law allows the market exchange value by socially necessary labor amounts. The disfunctionality of the law of value associated with the non-correspondence of the amount of money the needs of circulation, affect, first, the role of value as a measure of labor and consumption, which they would be giving signs wrong on the economy, with consequent damage to the planning process. Second, the law of distribution according to work deteriorate when adjusted nominal (by an erroneous measurement of work) and really (by a decline in real wages) with. Thirdly, the function of prices as benchmarks for international productivity deteriorates. Fourth, the price increase is not due to lower labor productivity would generate redistributive effects in favor of processes of concentration of wealth.

Then, monetary policy in the process of socialist construction must ensure the operation of the law of value, through planning and management of the amount of money necessary to ensure the material growth of the economy and major macroeconomic balances. In this sense, the design of monetary policy and its necessary interaction with the productive and distributive sphere in socialist construction stands as a fundamental objective not only the achievement of monetary equilibrium, but the will to guarantee the quality of the national currency and compliance of their duties, when placed in the spotlight of planning and financial management of the economy.

The question of how to conduct monetary planning is linked with the extracted elements of monetary theory in Marx. Then monetary planning in socialist construction must ensure compliance with the law of the amount of paper money needed in the circulation and the general law of circulation, to guarantee the function of money value measure and, therefore, compliance with the proportions defined in the plan and reproduction of the socialist system. Although it has established a critical view of Marx's position as to the quantity theory, this does not invalidate the quantitativists progress, since the demonstration of the phenomena reported significant contributions to the study of money in the sphere of circulation and they developed a very useful instrument for the theory and practice in monetary policy. Analytics for understanding the processes of money creation tools and instrumentation development for the conduct of monetary policy should be seized and reinterpreted by Marxist science.

Although the analytical support differs, the policy objective is the same: controlling monetary inflation by controlling the money supply. According to conventional economics, inflation is an end in itself. Since the Marxist thought is nothing more than an indicator of imbalances between circulation and production, which impact on the fulfillment of the function of money value measure.

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