IAF Articles

Money, Commodities, and Prices

Introduction

Political economy recognized early on that the circulation of commodities does not necessitate a monetary mass e to their total value; a limited quantity of money, **(1)** operating at a specific velocity, can facilitate the circulation o commodities whose value far exceeds that quantity. For instance, commodities worth $600 can be circulated usi only $100. A blacksmith buys a pair of shoes with this hundred dollars; the shoemaker then uses it to buy vegetal the vegetable vendor spends it on meat at the butcher's; the butcher pays it to the fruit seller, who in turn buys a garment from the tailor; and finally, the tailor receives it and uses it to pay a glazier for repairing his home's winc Thus, the hundred dollars passes from hand to hand, accomplishing in its path the circulation of a long series of commodities. **(2)** Consequently, it becomes evident that as the velocity of money increases, a larger mass of commodities with a higher total value can be circulated using a relatively smaller monetary mass. **(3)**

In this light, political economy found itself confronted with two central questions: What quantity of money must available within a society to circulate the existing goods and services? And what is the relationship between the quantity of money and the general price level? It was specifically in answering the latter question that fallacies began to emerge, until a scientifically unsound rule came to dominate official the This rule posits that an increase in the quantity of money leads, mechanically, to a rise in the general price level. This article, brief as it may be, primaril aims to critique this rule, which is taught in universities (with utmost confidence!) without any rigorous logical analysis on a social level.

(I) The Relationship between the Quantity of Money and the Quantity of Commodities

When political economy addressed the question of the quantity of money, it correctly concluded—in accordance with the Law of Value—that the require monetary mass equals the sum of the values of commodities divided by the number of turnovers (velocity) of the monetary units representing them. As Adam Smith noted:

"The quantity of coin in every country is regulated by the value of the commodities which are to be circulated by it. The value of the goods annually bou and sold in any country requires a certain quantity of money to circulate and distribute them to their proper consumers, and can give employment to nc more. The channel of circulation necessarily draws to itself a sum sufficient to fill it, and never admits anymore." (Smith, **The Wealth of Nations**, Bo IV, Chapter I, p. 289)

Similarly, Karl Marx stated:

"Given the sum of the values of commodities, and the average rapidity of their metamorphoses [i.e., the velocity of circulation], the quantity of precious metal current as money depends on the value of that precious metal... the quantity of money functioning as the circulating medium is equal to the sum prices of the commodities divided by the number of moves made by coins of the same denomination." (Marx, **Capital**, Vol. I, Ch. III, p. 179).

Thus, a single dollar—as a monetary expression of value—circulated ten times a year performs the same economic function as ten dollars passing from l to hand only once a year.

However, we are aware that the value of money issued by the State is not a "natural" or intrinsic value, but rather a value determined by monetary authorities. Even if a currency is pegged to that of another nation, it is the State (or the nation to which it is pegged) that determines its value. If the Sta decides to devalue the currency, each monetary unit will consequently purchase a smaller quantity of goods, thereby increasing the quantity of money required to circulate the same volume of commodities. This occurs either due to an increase in the mass of circulated commodities or an increase in the velocity of money. Conversely, if the State decides to revalue the currency—meaning each monetary unit purchases a larger quantity of goods—the requ quantity of money to circulate the same volume of commodities will decrease, whether through a reduction in the quantity of goods or a decrease in the velocity of circulation.

To illustrate the impact of changes in the value of money on the quantity of currency required for commodity circulation, let us consider the following example: Suppose that, prior to any change, we have 100 commodities, each priced at one dollar; the total amount of money required for circulation wc be $100. If the State decides to devalue the currency such that each commodity now requires two dollars, the necessary quantity of money would rise tc $200. Conversely, if the State revalues the currency such that half a dollar suffices for each commodity, the required quantity of money would drop to o $50. The crucial conclusion here is that the commodities themselves remain unchanged; rather, it is the quantity of money required for their circulatio fluctuates according to the value imposed upon the currency.

From this, it becomes clear that the mass of commodities is the fundamental determinant of the quantity of money, and not the reverse. The quantity o money is determined in proportion to the volume of circulated commodities and their velocity. In short, money follows the movement of commodities; does not precede it. Money does not create commodities; it is merely the medium for their circulation.

(II) The Relationship between the Quantity of Money and Price Levels

When political economy transitioned to analyzing the relationship between the quantity of money and prices, it failed to arrange logical conclusions. Instead, it moved backward, asserting that an increase in the quantity of money leads to a rise in the general price level **(6)**—citing European colonial history as "irrefutable" evidence! **(6)** The argument posits that the abundance of looted bullion from South America, which was injected into European economies, led to a rise in prices.**(7)** Consequently, the following conclusions were established:

- Money is a commodity; any increase in the demand for this commodity that is not accompanied by an increase in its supply (i.e., a decrease in the quantity of money) will lead to an increase in its value, and thus a decrease in the general price level!
- Similarly, an increase in the money supply (i.e., an increase in the quantity of money) without an increase in demand leads to a decrease in its valu a commodity, and thus a rise in the general price level! **(8)**

The problem is that an uncritical reading might lead to the acceptance of these results as valid. However, the reality is quite different. If one gram of gol extracted with a value of one calorie,(9) and society requires 2 grams (an increase in demand, i.e., a decrease in the quantity of money), this does not m that the value of one gram will suddenly become two calories. Likewise, if a gram of gold is extracted at a value of two calories while society only require half a gram (an increase in supply, i.e., an increase in the quantity of money), this does not imply that the value of the gram drops to one calorie.

Furthermore, an increase in the demand for wheat will not raise its value from 5 calories to 20 calories. Rather, its exchange value may increase througl market fluctuations and oscillations around its social value. If this value—the value of wheat—is expressed in monetary units, its price may rise from 10 20 units due to the fluctuation of the current price around the social value, yet without any change in the value itself.

Perhaps these "similar results" are what led some to the superficial claim that an increase in money leads to a rise in price levels. However, if we assum the total value of commodities in a society is estimated at $1,000, and we also assume that the quantity of money available is 2,000 units with a velocity 10 turnovers, society will only require $100 to circulate those commodities. The remaining 1,900 units stay outside of circulation, yet they remain poise a crisis of chronic rise in the general price level.

The role of the surplus quantity of money, therefore, is not to raise the level of prices, but merely to facilitate the inherent tendency within the system to raise that level. Thus, it marks a transition from the level of exchange according to the Law of Value to a "crisis-generating" exchange.

From this perspective, one can distinguish between Capitalist Profit—realized according to the general Law of Value and reinvested for the expanded reproduction of social production—and Extra Profit (surplus profit) resulting from the circulation of commodities at prices exceeding their social value. extra profit, passed from hand to hand, generates the crisis of chronic price inflation. A capitalist producing means of production may, within the conte a social monetary surplus, raise the prices of his products to achieve extra profits after securing his initial capitalist profit. In response, another capitali producing consumer goods will likewise raise his prices to compensate for the value extracted by the first.**(10)**

Thus, these extra profits—which are, in reality, illusory—circulate from one capitalist to another, creating waves of successive, and perhaps violent, pric increases. Consequently, the rise in prices is not caused by an increase in the money supply, as official theory drills into the minds of students; rather, it inherent tendency within the social system. Excess money beyond the quantity required for commodity circulation merely activates and facilitates this tendency. **(11)**

Accordingly, the scarcity of gold flowing out of colonized regions from the 15th to the late 19th century played a decisive role in stalling this inherent tendency toward chronic price increases. A capitalist's attempt to raise prices for extra profit in a market devoid of monetary surplus would only result i stagnation of his goods, as they would find no buyers. Consequently, prices remained low and even stable in the colonized territories. **(12)** This phenomenon frequently troubled the "plunderer," who subsequently worked through international financial and monetary institutions—especially after independence of these colonies—to destroy this advantage. Forcing underdeveloped nations, through various means (primarily debt traps), to liberalize their exchange rates became the most effective method for international capital to exhaust these low- and fixed-income economies.

When prices rise in underdeveloped regions, external dependency intensifies. Incomes do not rise at the same rate as prices following exchange rate liberalization; thus, poverty rates increase. In its simplest form, this poverty manifests as an inability to secure basic needs, whose prices rise as a mone expression of their value—a value that has not changed at all! This ultimately drives the entire society toward further dependency, as it loses the capacit social reproduction without submitting to the centers of political decision-making in the advanced sectors of the global capitalist system.

Conclusion

This analysis demonstrates that money is neither the source of value nor the creator of commodities; rather, the required quantity of money is determir by the volume of commodities and their velocity of circulation. The primary innovation of this article lies in its focus on the inherent tendencies within social system and the role of monetary surplus in transforming these tendencies into a chronic rise in prices. This interpretation transcends the prevaili hypothesis that directly links price increases to an expansion in the money supply.

Furthermore, economic history illustrates that the scarcity or abundance of money does not affect prices directly. Instead, it either facilitates or obstruc the manifestation of these systemic tendencies. In the post-independence era, monetary policies have often served to entrench poverty and dependency underdeveloped economies, rather than merely aiming for price stability.

Ultimately, the central thesis becomes clear: money follows the movement of commodities, and monetary surplus merely unveils the social system's lat inclination toward price crises. Understanding these dynamics is the key to formulating effective monetary and economic policies, rather than relying o simplistic, mechanical equations currently taught in academic institutions.

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Endnotes

(1) In practical terms, money here encompasses currency, banknotes, and bank deposits.

(2) For this reason, Cantillon suggested that £500 would suffice if the annual land rent were £1,000, paid in semi-annual installments. However, if the were paid quarterly, no more than £250 would be required. See: R. Cantillon, ***Essay on the Nature of Trade in General***, Translated, Edited, and an Introduction by A. E. Murphy (Indiana: Liberty Fund, 2015), pp. 61–62. Similarly, William Petty estimated the required quantity of money as that w is sufficient to pay half a year's rent for all lands in England, a quarter's rent for housing, a week's expenditure for the entire population, and approxima quarter of the value of all exported goods. See: W. Petty, ***Quantulumcunque Concerning Money to the Lord Marquess of Halyfax, in: The Economic Writings of Sir William Petty***, ed. C. H. Hull (Cambridge: Cambridge University Press, 1899), p. 298.

(3) "I have already remarked that an acceleration or greater rapidity in circulation of money in exchange, is equivalent to an increase of actual money u point..." Cantillon, ***Essay***, op. cit., p. 89. "One dollar which circulates ten times a year really performs the same service as ten dollars which go from ha hand once in a year; just as the economic use of a ship employed in the transportation of commodities does not depend on its commodiousness alone b its rapidity also." William Roscher, ***Principles of Political Economy***, Translated by: John J. Lalor (New York: Henry Holt & Co., 1878), Volume I, 247. "If each piece of money changes hands on an average ten times while goods are sold to the value of a million sterling, it is evident that the money required to circulate those goods is £100,000. And, conversely, if the money in circulation is £100,000, and each piece changes hands by the purchase goods ten times in a month, the sales of goods for money which take place every month must amount, on the average, to £1,000,000." J. S. Mill, ***Princ of Political Economy with some of Their Applications to Social Philosophy*** (London: Longmans, Green & Co., 1909), Book III, Ch. V, p. 34

(4) It should be noted that Marx, in the section concerning the circulation of money in Chapter III, was not always consistent in his terminology, altern between the term "value" (the sum of the values of commodities) and the term "price" (the sum of the prices of commodities). This discrepancy can onl reconciled if we assume that by "price," Marx meant "natural price", a term that is uncommon, and perhaps non-existent, in Marx's lexicon.

(5) See: “That the Prices of the Produce or Manufactures of every Nation will be higher or lower, according as the Quantity of Cash circulating in such N is greater or less, in Proportion to the Number of People inhabiting such Nation.” Jacob Vanderlint, ***Money Answers All Things: Or, An Essay to Make Money Sufficiently Plentiful***, Edited by: J. Hollander (Baltimore: The Johns Hopkins Press, 1914), p. 13. It should be noted that Cantillon's general rule posits that prices rise with an increase in the quantity of circulating money (Book I: Chapters 5 & 6). However, doubling the quantity of mo does not always lead to a doubling of the prices of primary commodities and manufactured goods, as an increase in the quantity of money does not alwa affect prices equally or in direct proportion to that quantity (Chapter 7). See: Cantillon, ***Essay***, Part I, Chapters 5, 6, and 7.

(6) See: “As money is exclusively appropriated to exchange, and does not participate in the nature of produce, which is grown for consumption, an incre of money retained for internal circulation has no effect like an increase of produce to augment the wealth of a nation: the greater the quantity in circula the lower will be its standard as the measure of equivalency, the greater will be the quantity given in exchange between produce and produce, and the h will be the price of all things: but as an advance in the price of produce, and a reduction in the value of money are convertible terms, an increase of mon has no other effect than to cause its own depression. This effect was sensibly experienced in the reign of Elizabeth, when the remittances from America considerably...” J. Wheatley, ***An Essay on the Theory of Money and Principles of Commerce*** (London: Printed for T. Cadell and W. Davies, Strand, by W. Bulmer and Co., 1807), p. 37.

(7) It is worth noting that we have never heard from them any discussion regarding the nature of price fluctuations in the regions from which that gold originated.

(8) See: Geoffrey Crowther, ***An Outline of Money*** (London: Thomas Nelson and Sons Limited, 1941), p. 117. It is important to emphasize here that tl discussion concerning the "value" of this "commodity" proceeds from the impressionistic concepts that began to dominate following the proclaimed "er political economy," as I have demonstrated in my book, ***Critique of Political Economy***.

(9) Here, I measure the value of a commodity—value as the quantity of human effort embodied in the product—by its correct scientific measure: the necessary calorie. Regarding the correction of the measure of value, see my article: “***A Critique of the Measure of Value***,”International Affairs For Washington, D.C., December 2025.

Available at: https://ia-forum.org/Content/ViewInternal_Document.cfm?contenttype_id=5&ContentID=20221 (https://ia-forum.org/Content/ViewInternal_Document.cfm?contenttype_id=5&ContentID=20221).For the incorporation of time into the analysis, see my article “***Value / Time: An Essay on the Principles of Political Economy***,” African Journal of Economic Review, Vol. 13, No. 2 (June 2025).

(10) We are disregarding here the fact that each capitalist spends portions of these illusory extra profits on consumption of various kinds. If this spendi were included in the analysis, the crisis would be even more severe, as he would be forced to replenish what he spent of the extra profit, necessitating ei a withdrawal from accumulated capital or an increase in debt.

(11) Chronic price increases cannot be controlled except by recognizing this process as inherent to the movement of capital at the social level.

(12) The reverse was true in the colonizing regions that plundered gold. The existence of a surplus quantity of gold with a low value—due to the negligib amount of labor it commanded—consistently led to steady and chronic price increases. Commodities were, and still are, transferred from the plunderin regions to the underdeveloped ones, "pregnant" with these chronic increases.

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