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Is There *a* Market for Money, or Are There Market*s* for Money? There ain't no Such Thing as the Supply of or Demand for Money

I. Introduction.

St. Paul (1 Timothy 6-10) famously said, "For the love of money is the root of all evil …. " This is extremely dubious. But as far as economic analysis goes, money is the root of much confusion. The easiest way to see this is to get to the essence of an economic phenomenon. In such cases, we ask if the phenomena would/could exist in a barter economy. If so, then money cannot be of the essence of the matter. More important, any definition of the phenomena that involves money is, obviously, inadequate, in that, at best, it is misleading, but usually confusing, thereby causing faulty analysis. For example, untold time and ink has been squandered developing the theory, and empirical estimates, of "the" demand for money. However, correct analysis concludes that there is no such thing. Money *qua* money is one side of every monetary transaction. Therefore, in the market in which X trades for dollars, the price of money is in terms of X/$. Of course, in the market in which Y trades for dollars, the price of money is in terms of Y/$. There is then no "the" demand for money. Rather, in every market in which some good trades for money there is a demand for money; i.e., there are demand*s* for money, not *a* demand for money. Of course, the foregoing comments apply equally to "the" supply of money.

It should be noted that some Austrians, including the present authors, fall into this trap when they are not careful; e.g., when we speak of an increase in "the" supply of money, rather than in the stock of money.

In section II we outline the thesis of this paper, that there are numerous markets for money, not a single one. Section III is devoted to documenting failures in the economic literature to appreciate this point. We conclude in section IV.

II. Many markets for money.

According to Barnett and Block (2005-2006, 205): "Money is the only good that has no (non-trivial) money price. As such there is no market for money. Rather, there are as many markets for money as there are non-money goods that people wish to exchange for money. Thus, in a real sense there is neither a demand for, nor a supply of, money; rather, in each market there is a demand for, and supply of, the non-money good."

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This is a good jumping-off point for us in terms of the thesis of the present paper. We wish to assert the claim that while there are *many* markets for money, as many as there are goods and services people wish to trade for money, there is no *a* (or *the*) market for money. There logically cannot be any such thing, since money takes part in *every* exchange in the non-barter economy.

It might at the outset seem unduly pedantic to insist upon such a careful, even narrow, word usage. But if economics is to become a science, one of the requisites for this eventuality is a common and accurate language. If the dismal science is to be truly scientific, it cannot tolerate sloppiness and imprecision.[1]

Literally, if there were to be *a* or *the* market for money, there could be only *one* good or service traded against the monetary medium. Since no one contends any such thing, there can only be market*s* (plural) for money.

Consider one possible exception to this general rule. Can we not speak of *the* market for foreign money? For example, someone wants to purchase euros with dollars. Would it violate the thesis of the present paper to refer to *the* market for euros? Perhaps in a world where these were the only two currencies such talk might be reasonable, but in the present one with numerous types of notes, this would clearly be impermissible.

But even here we go too far. For consider another possible exception: contemplate that glorious day when we all use gold money. Gold is the only money; there is no other. Would it make sense to claim that there is now *a* market for money, instead of many such market*s*? Again, no, for gold money would now trade against numerous goods and services, and there would be as many markets for this precious resource as there would be goods and services.

It is possible, even likely, that in a monetary economy in which gold is the monetary commodity, money might consist both of gold coins and bullion. In that case there would be a demand for bullion money in terms of coin money, and vice versa. However, even in that case there would be no *the* demand for and *the* supply of money. Rather, when considering gold-coin money, there would merely be one more demand for such money, along with all the other demands thereof, save in that case in addition to such demands for money (supplies of other goods) there would also be a gold-bullion demand for money (supply of gold-bullion money). That is, this would be no different than any other case in which there was more than one money commodity; e.g., silver-coin money, circulating alongside gold-coin money, with the two sometimes exchanging against each other at free-market prices.

Let us consider an objection to our thesis. It might be asserted that there is indeed such a thing as *the* demand for money (in contradistinction to supplies of

[1]We do not object to imprecision in ordinary language. For example, the word “indifferent” has a perfectly clear referent amongst most speakers of the English language. But there is no such thing as indifference in economics, since every time man acts, he chooses one thing, and sets aside another. If he were indifferent, he could never act in such a manner. In like manner, “work” in physics means mass multiplied by distance. In commonplace language, holding weights at arms length entails great work, even though it would not in science since nothing moves any distance at all in this example.

goods, as we argue) on the basis that in some cases it is specifically the *money* that is the desired object in an exchange; i.e., the reason A enters into an exchange with B is to get *money* from B; therefore A *does* have *a* demand for money. And if we add all such demands from the many A's out there, the result is *the* market demand for money.

Superficially, this objection sounds like a refutation of our viewpoint. However, it is problematical from the point of view of standard supply and demand (S&D) analysis. The reason is that if we are to take the object of the market participants' desire as the criterion, then in most every case it is what is being sought, not what is being foregone, that is the key. It is true that sometimes the key to an exchange is that A wishes to be rid of some good, *x*, and will in some cases even pay to be rid of it. However, that is not the usual case. In a normal situation, A, an automobile dealer, desires to acquire money (for some yet undetermined purpose) and must sell cars to obtain it. The motive is to get hold of the money, the sale of the car is only the means to this end.

If then, we refer to A's acts as constituting his demand for money, and not his supply of cars, if we are to be consistent we must apply the same "logic" to his exchange partners. That is, the motive of *each* of the purchasers to whom he sells his cars is to acquire one or more vehicles, and the parting with money is but the means to that end. Therefore, to be consistent, we must think in terms of their demand(s) for autos, and not their supplies of money. Then, in terms of S&D analysis, we must consider the interactions of A's demand for money with B's demand for cars. That is, we have not S&D analysis, but *D&D* (and this does *not* refer to Dungeons and Dragons) analysis. All of which raises the question of the relevant price. What, pray tell, would an S&D figure look like if the relevant curves were the buyer's demand curve for the good *x*, and the seller's (of *x*) demand curve for money? To pose the question is to make the point that for a monetary economy S&D analysis is the analysis of the supply of, and demand for, goods in terms of money prices, not *the* supply of, and *the* demand for, money, in terms of any price or price-like construct (such as the purchasing-power of money).

III. Erroneous claims of a single market for money.

Errors abound in the mainstream economic literature on this issue. Unfortunately, they are so legion that the examples appearing below constitute only the tip of the iceberg. Every author who employs a "market for money" in his model makes this mistake, and virtually every macroeconomics text does so. Consider just these few examples (all emphases on *a* or *the* "*market for money*" in quotes in this section have been inserted by the present authors):

1. Friedman, D. (1989, 219) mentions "*The market for money*" as a chapter heading.

2. Sløk (2000) offers this view: "A market-based monetary policy depends on the existence of *a market for money* …. "

3. Friedman, B. (1983, 180) follows the same practice: "*The market for money* and the market for credit" is used to head a section of a chapter.

4. Lutz (2006, 252) likewise entitles his chapter 21: "*The market for money* .…"

Unhappily, even Austrian economists, who are usually more careful scholars about such matters, err on this point. Many fewer of them model the "market for money," but still this error may be found in this literature too. Consider these examples:

1. Garrison (1984, 197) states: "It is argued below that the 'market for time' and the '*market for money*' both in their conceptual isolation and in their actual interaction, give rise to all the phenomena that are conventionally regarded as macroeconomic in nature."

2. Again, Garrison (1984, footnotes deleted): "Though it may be thought unnecessary to argue the centrality of money in macroeconomic theory, it is worthwhile to consider the special sense in which money is an economy wide phenomenon. Monetary theorists have long recognized that 'money has no market of its own.' It is the obverse of this truth that highlights the macroeconomic character of money. With trivial exceptions every market is *a market for money*. In a modern economy every exchange involves some specific quantity of money. That this fact should be the focus of our attention has been recognized by economists both new and old. There is no denying, of course, that money serves several functions, as listed in any principles text, but the presence of money on one side of each exchange in every market is the special sense in which money is an economy wide phenomenon."

3. In the view of Rothbard (2004, ch. 10, emphasis in bold added by present authors): "Making this distinction, we find that, contrary to Hutt, each individual has *self-sovereignty* over his person and property on the free market. The producer, and the producer alone, decides whether or not he will keep his property (including his own person) idle or sell it on **the market for money**, the results of his production then going to the consumers in exchange for their money. This decision—concerning how much to allocate to the market and how much to withhold—is the decision of the individual producer and of him alone."

4. And again (Rothbard, 2004[1962], Chap. 6, Appendix: Professor Oliver on Socioeconomic Goals, C. The Attack on Income According to Earnings): "His goods or services are freely exchanged on *the market for money*."

5. According to Loasby (1998, 81): "This Hayek (1933) attempts to do through the introduction of money, together with *a market for money*."

6. In the opinion of Endres (1991,79): "Time horizons and associated contractual obligations in *the market for money* credit destined for more permanent productive investment are much longer and substantially different from horizons which normally obtain in the market for consumption loans."

7. Here is a statement from Carilli, Dempster and Rohan (2004, 38): "Thus, in every case where price level rigidity causes a shortage of funds, incentives will lead to the dissipation of that shortage, but in cases where prices and wages adjust quickly, the shortage will be eliminated by the mutual adjustment of quantity supplied and quantity demanded in *the market for money.*"

8. And another one from these authors (2004, 41): "A plausible real world view is that the process of price level (Austrian) and money supply (Monetarist) adjustment will occur, in most instances,

simultaneously toward a new price-quantity equilibrium in *the market for money*."

Happily, there is at least one other Austrian economist on record with a correct analysis of this matter: "There IS no single market for money, and, therefore, no single price. Rather, money exists in a 'state of barter' with every other goods (*sic*) and service …." (Ebeling, 1975, 6).

IV. Conclusion.

The plethora of neoclassical and some Austrian economists notwithstanding, we maintain that it is erroneous to base one's analysis on a single market for money. No, there are numerous such markets.

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