Marx's Anti-Quantity Theory of Money: An Evaluation

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The paper evaluates Marx’s theory of monetary mechanism, namely his anti-quantity theory of money. There are two sides in Marx's theory of money: the philosophical side consists of his theory of value-form, capital-form and the role of money in capital accumulation and crises, while the macro-monetary side of his theory describes the monetary mechanism in a concrete capitalist economy. The former constitutes Marx's one most important and original contribution to political economy.

Marx's theory of concrete monetary mechanisms embodies an anti-quantity theory of money, the hoarding mechanism and the law of reflux, whereby changes in money-supply are always the consequence of changes in the price level and “the need of transaction”, not the cause. Marx's account lacks necessary links and leaves a number of questions concerning the indeterminate money-velocity, the passiveness of the financial system and certain inconsistency with Marx's own analysis of money and crises. An examination of Marx's sources, Tooke and Fullarton, shows that the anti-quantity theory contains serious logical flaws as regards the definition of money and credit, the macro-monetary mechanism, the insignificance of the interest-rate, and the passiveness of the financial system and the central bank. It is concluded that the anti-quantity theory must be discarded from Marx's general theoretical framework. It is argued that Ricardo's quantity theory of money is logically superior and does not contradict the philosophical side of Marx’s theory.