

Money: Capital Good, Consumers' Good, or (Media of) Exchange Good?

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I. Introduction

Several Austrians, Mises foremost amongst them, maintain~~s~~ that money is neither a capital good nor a consumers' good.

“It is usual to divide economic goods into the two classes of those that satisfy human needs directly and those which only satisfy them indirectly: that is consumption goods, or goods of the first order; and production goods, or goods of higher orders.¹ The attempt to include money in either of these groups meets with insuperable difficulties. It is unnecessary to demonstrate that money is not a consumption good. It seems equally incorrect to call it a production good.

Of course, if we regard the twofold division of economic goods as exhaustive we shall have to rest content with putting money in one group or the other. This has been the position of most economists; and since it has seemed altogether impossible to call money a consumption good, there has been no alternative but to call it a production good”²

This apparently arbitrary procedure has usually been given only a very cursory vindication. Roscher, for example, thought it sufficient to mention that money is “the chief instrument of every transfer” (*vornehmstes Werkzeug jeden Verkhers*)³”

In this paper, we argue that praxeologically speaking, exchange is a form of production and, consequently, there are only two types of goods, consumers' goods and capital goods; and, that money is, then, a producers' good. The method we shall use is to quote at length from and then analyze cited material. In section II we address this topic from the perspective of “The Theory of Money and Credit” (Mises, 1980). We take issue with Rothbard (1970) on this matter in section III and in section IV focus on it using Hoppe, et. al. (1998) as a case in point. We add bold emphases in the quotes and each is followed by our analysis and commentary. A brief summary and conclusions in section V end the paper. Throughout section II all page-number-only cites are to Mises (1980); the same applies to Rothbard (1970) in section III and Hoppe, et. al. (1998) in section IV.

II. Mises

“Knies made room for money in the classification of goods by replacing the twofold division into production goods and consumption goods by a threefold division

¹ See Menger. *Grundsätze der Volkswirtschaftslehre*, 2nd ed. (Vienna, 1923), pp. 20 ff.; Wieser, *Über den Ursprung und die Hauptgesetze des wirtschaftlichen Wertes* (Vienna, 1884), pp. 42 ff.

² Mises, L. von. 1980. *The Theory of Money and Credit*. Indianapolis: Liberty Classics, p. 95, footnote omitted.

³ Mises, 1980, pp. 95-96. See also Roscher, *System der Volkswirtschaft*, ed. Pöhlmann, 24th ed. (Stuttgart, 1906), vol.1, p. 123.

into means of production, objects of consumption, and media of exchange.⁴ Knies's proposition that **a sale-and-purchase transaction is not in itself an act of production but an act of (interpersonal) transfer,...**" (p. 96).

Mises's maintains that Knies was right. His argument (p. 95-102), in essence, is that the ambiguity of the German word, *Verkehr*, led to confusion between transfers through space and interpersonal transfers and, consequently, to the confounding of money, the means of interpersonal transfers with the transportation goods, the means of transfers through space.

"The common nomenclature of the two meanings, as also their incidental confusion, may well be attributable to the fact that **exchange transactions often, but by no means always, go hand in hand with acts of transport**, through space and vice versa.⁵ But obviously **this is no reason why science should impute an intrinsic similarity to these essentially different processes**" (97) .

Although this is correct; however, it is a *non sequitur* to maintain, then, as Mises does, that because, *on those grounds*, science should not link them they should not be linked at all. Indeed, there may be, and are, other, valid grounds for such a link.

"In fact, the role played by man in production always **consists solely** in combining his personal forces with the forces of Nature in such a way that the cooperation leads to some particular **desired arrangement of material**. No human act of production amounts to more than **altering the position of things in space** and leaving the rest to Nature⁶"(97).

This incompatible with praxeology. Unless "desired arrangement of material" and "altering the position of things in space" are to take on entirely trivial meanings, these statements rule out the provision of many services (e.g., the services of doctors and lawyers in conveying advice orally) as acts of production.

"It is often overlooked that, among other natural qualities, the position of a thing in space has important bearings on its capacity for satisfying human wants. Things that are of perfectly identical technological composition must yet be regarded as specimens of different kinds of goods if they are not in the same place and in the same state of readiness for consumption or further production. Till now the position of a good in space has been recognized only as a factor determining its economic or noneconomic nature. It is hardly possible to ignore the fact that drinking water in the desert and drinking water in a well-watered mountain district, **despite their chemical and physical similarity and**

⁴ See Knies, *Geld und Kredit*, 2nd ed. (Berlin, 1885). vol. 1, pp. 20 ff.

⁵ The older meaning, at least the only earlier meaning in literature, appears to have been that relating to the sale of goods. It is remarkable that even Grimm's *Dictionary*, vol. 12, published in 1891, contains no mention of the meaning relating to transportation.

⁶ See J. S. Mill, *Principles of Political Economy* (London, 1867), p. 16; Böhm-Bawerk, *Kapital und Kapitalzins*, pp. 10 ff.

their equal thirst-quenching properties, have nevertheless a totally different significance for the satisfaction of human wants. The only water that can quench the thirst of the traveler in the desert is the water that is on the spot, ready for consumption” (97-98).

Mises, here, makes a most important point: the essential aspect of a good is not its physical properties, but, rather, its “significance for satisfying human wants.” Although he makes the point that, for acting man, drinking water in the desert and drinking water in a well-watered mountain district are “totally different,” he does not also acknowledge that for A and B in the desert, drinking water in the desert owned by A is “totally different” from that owned by B. If A owns the water and B does not, then if B cannot meet A’s price, unless B is prepared to coerce A, B must go thirsty, though A have surfeit. But, of course, coercion is outside the realm of the market – the realm of voluntary human interactions⁷.

“This attitude is in consonance with commercial technology. **The microscope fails to reveal any difference between two lots of beet sugar, of which one is warehoused in Prague and the other in London. But for the purposes of economics it is better to regard the two lots of sugar as goods of different kinds.** Strictly speaking, only those goods should be called goods of the first order which are already where they **can** immediately be consumed. All other economic goods, even if they are ready for consumption in the technological sense, must be regarded as goods of higher orders which can be transmuted into goods of the first order only by combination with the complementary good, “means of transport.” Regarded in this light, means of transport are obviously production goods” (98).

Again Mises makes clear that, “for the purposes of economics,” “it is better to regard” two goods physically identical goods save for their locations them “as goods of different kinds.” However, in the very next sentence he uses the phrase “where [goods] *can* immediately be consumed” to determine whether said items are consumers’ goods. Can, in this context, means “physically able to.” However, if there is a candy bar on the desk between you and me, it can be consumed by either of us. However, assuming it is owned by one of us, it may not be consumed by the other, without permission. For the owner it is a consumers’ good; for the other party it is something of a higher order that first requires neither physical transformation nor spatial relocation, but, rather, a transfer of ownership rights; i.e., exchange, for it to become a consumers’ good of his. But, the transformation of a good from higher to lower order is, precisely, what is meant by production.

“We have seen that transfer through space is one sort of production; and means of transport, therefore, so far as they are not consumption goods such as pleasure yachts and the like, must be included among production goods. Is this true of money as well? **Are the economic services that money renders comparable with those rendered by means of transport? Not in the least. Production is quite possible without money.** There is no need for money either in the isolated household or in the socialized

⁷ See on this Rothbard, Murray N. 1970. *Power and Market: Government and the Economy*. Menlo Park Cal.: Institute for Humane Studies.

community. **Nowhere can we discover a good of the first order of which we could say that the use of money was a necessary condition of its production**" (98-99).

That money is not a capital good because it is not necessary to production is a *non sequitur*. That production of cooked fish was, and is, possible without the existence of steel mills does not mean they are not capital goods. Moreover, it is incorrect to say that there are no consumers' goods for the production of which "the use money is a necessary condition." It would be impossible to produce many (most?) of the goods provided by a modern capitalist economy without the use of money. Or as Mises well understood in a different context: "Our civilization is inseparably linked with our methods of calculation. It would perish if we were to abandon this most precious tool of acting."⁸ However, "Economic calculation cannot comprehend things which are not sold and bought against money" (Mises, 1996, p. 214). Therefore, we may conclude that Mises understood that, contrary to the statement, *supra*, even though money is not necessary for production in an underdeveloped society, it certainly is in a modern capitalist economy.

[Böhm-Bawerk's argument] leaves out of consideration the difference between transport, which consists in an alteration of the utility of things, and exchange, which constitutes a separate economic category altogether. It is illegitimate to compare the part played by money in production with that played by ships and railways" (100).

To say that transport alters the utility of goods and, implicitly, that exchange does not is incorrect. The problem is that Mises does not recognize that an exchange in the ownership rights to an article alters its utility to the individuals concerned. And, since money is that which *par excellence* provides exchange services it is *de facto* a capital good.

"Every sort of economic organization needs not only a mechanism for production but also a mechanism for distributing what is produced. It will scarcely be questioned that the distribution of goods among individual consumers constitutes a part of production, and that in consequence we should include among the means of production not only the physical instruments of commerce such as stock exchanges, account books, documents, and the like, but also everything that serves to maintain the legal system which is the foundation of commerce, as, for example, fences, railings, walls, locks, safes, the paraphernalia of the law courts, and the equipment of the organs of government entrusted with the protection of property" (101).

The implication is that because the legal system is "the" foundation of commerce everything that serves to maintain it is a capital good. But, the foundation of commerce consists not of the legal system alone; money is every bit as much a foundation of commerce as are any of these other institutions correctly mentioned by Mises in this regard. Therefore, by that criterion, money is a capital good.

"What prevents us nevertheless from reckoning money among these "distribution goods" and so among production goods (and incidentally the same objection applies to its inclusion among consumption goods) is the following consideration. The loss of a

⁸ Mises, L. von. 1996. *Human Action*. San Francisco: Fox & Wilkes, p. 230.

consumption good or production good results in a loss of human satisfaction; it makes mankind poorer. The gain of such a good results in an improvement of the human economic position; it makes mankind richer. The same cannot be said of the loss or gain of money. Both changes in the available quantity of production goods or consumption goods and changes in the available quantity of money involve changes in values; but whereas the changes in the value of the production goods and consumption goods do not mitigate the loss or reduce the gain of satisfaction resulting from the changes in their quantity, the changes in the value of money are accommodated in such a way to the demand for it that, despite increases or decreases in its quantity, the economic position of mankind remains the same. **An increase in the quantity of money can no more increase the welfare of the members of a community, than a diminution of it can decrease their welfare.** Regarded from this point of view, those goods that are employed as money are indeed what Adam Smith called them, “dead stock, which...produces nothing⁹” (101-102).

The problem here is Mises’ failure to see that a change in the quantity of money does affect the welfare of members of a community.¹⁰ However, as an economist qua economist, all that can be said is that in a commodity-money economy some individuals voluntarily add to the stock of money; e.g., by causing newly mined gold to be minted into coins. It is true that this reduces the value of the existing stock of money below what it otherwise would be, but that can no more be said to violate the rights of someone whose money holdings are so decreased in value than can the production of additional units of any other good that reduces the value of preexisting units of that good. I.e., actions that are within the rights of the individuals cannot be said to improperly harm others because they cause a decline in value¹¹ of the others’ possessions, regardless of whether the goods in question are money or something else. In point of fact, additions to the stock of money provide net benefits, else they would not be made. To argue otherwise is to argue that money constitutes, in effect, a case of “market failure.” That is, the implicit claim here is that the free market will misallocate resources to the production of money, which resources could be put to better use elsewhere¹². Should that be the case, governmental intervention into the monetary system cannot be ruled out on praxeological grounds. Rather, it becomes an historical/empirical issue: do the benefits of governmental intervention outweigh the costs thereof?

“We have shown that, under certain conditions, indirect exchange is a necessary phenomenon of the market. The circumstance that goods are desired and acquired in

⁹ Smith, *The Wealth of Nations*, Cannan’s ed. (London, 1930).

¹⁰ For a more detailed explication of this matter see Barnett, W. II, and W. Block. 2001 “On the Optimum Quantity of Money.” *Quarterly Journal of Austrian Economics*, forthcoming.

¹¹ For a treatment of the claim that one can only own the physical manifestation of one’s property, not the value thereof, see, Hoppe, Hans-Hermann and Walter Block, “Property and Exploitation,” *International Journal of Value-Based Management*, forthcoming.

¹² Mises, L. von. 1996. *Human Action*. San Francisco: Fox & Wilkes, pp. 421-422.

exchange not for their own sakes but only in order to be disposed of in further exchange can never disappear from our type of market dealing, because the conditions that make it inevitable are present in the overwhelming majority of all exchange transactions. Now the economic development of indirect exchange leads to the employment of a common medium of exchange, to the establishment and elaboration of the institution of money. Money, in fact, is indispensable in our economic order. **But as an economic good it is not a physical component of the social distributive apparatus in the way that account books, prisons, or firearms are. No part of the total result of production is dependent on the collaboration of money even though the use of money may be one of the fundamental principles on which the economic order is based**" (102).

The problem here is the failure to see that social distributive apparatus is not solely concerned with the physical distribution of goods but also with the distribution of the *rights* to them. Moreover, that money is not a physical component of the social distributive apparatus (which of course it is in a commodity-money society) is irrelevant; if something plays a role in transforming a good from a higher to a lower order, it is, *de facto*, a capital good. But that is exactly what happens in every exchange and, therefore, money, the good that facilitates exchanges is, indubitably, a capital good. Furthermore, as shown *supra* by Mises himself, money is essential to the production in a modern capitalist society; without it there neither would nor could be any such society.

“Production goods derive their value from that of their products. Not so money; for no increase in the welfare of the members of a society can result from the availability of an additional quantity of money. The laws which govern the value of money are different from those which govern the value of production goods and from those which govern the value of consumption goods. All that these have in common is their general underlying principle, the fundamental economic law of value. This is a complete justification of the suggestion put forward by Knies that economic goods should be divided into means of production, objects of consumption, and media of exchange; for, after all, the primary object of economic terminology is to facilitate investigation into the theory of value.”

The argument that additions to the stock of money do not increase the welfare of the members of society social has been dealt with, *supra*. It is not correct to say that the laws that govern the value of money are different from those that govern the value of other goods. The value of any good is determined by the contribution it is expected to make (directly, in the case of consumers' goods or indirectly, in the case of capital goods) to the satisfaction of human wants.

In sum, because money is “the” good used in exchange, and exchange transforms goods from higher to lower order, and production is action which transforms goods from higher to lower order, money, too, is a producers' good; i.e., a capital good. That the transformations in which money is involved are not physical in nature, but, rather, are of an intangible nature – “merely” concerning ownership rights -- is irrelevant from a praxeological point of view. Money is just as important, indeed, probably far more important, for the production process than any

other single capital good such as steel, or cement. It would be far easier to conceive of a modern civilization without either of the latter two, than the former¹³.

There is yet another series of ways in which goods can be transformed from higher to lower orders in the structure of production¹⁴ without moving them geographically, or changing them physically. This method, too, is thus analogous to the role played by money, in transferring items from the ownership and control of one person to another. We refer, here, to the functions of advertising, marketing, brokering, insuring and in all other ways bringing material closer to the realm of the final consumer without chemically or physically transforming it. On the somewhat superficial distinction made between selling and production costs, Kirzner had this to say:

“Every aspect of the product (including such extras as friendly service, free parking, and the like) has been produced (and the associated outlays undertaken) strictly in the belief that it would enhance the salability of the whole product. No single penny of the outlay – even those usually considered as strictly production, rather than selling, costs – can be perceived as anything but costs incurred in order to ‘sell.’”¹⁵

The point is that there is a direct analogy between activities such as advertising, marketing, brokering, etc., as intermediating agencies on the one hand, which bring goods and services out of the wilderness of the higher orders area, and into, or closer to, the more salutary¹⁶ arena of consumption, and on the other hand, money, which does precisely the same thing. If the former deserve to be considered part and parcel of higher order or capital goods and services, and they do, then so does the latter.

III. Rothbard

Here is a statement from Murray Rothbard on matters pertaining to our subject:

“We are now on the threshold of a great economic law, a truth that can hardly be overemphasized, considering the harm its neglect has caused throughout history. An increase in the supply of a producers’ good increases, *ceteris paribus*, the supply of a consumers’ good. An increase in the supply of a consumers’ good (when there has been

¹³ Of course, we cannot place too much interpretive weight on this claim, lest we enter into the treacherous waters of the diamonds – water paradox that afflicted Adam Smith (Smith, Adam. 1776/1979. *An Inquiry into the Nature and Causes of the Wealth of Nation*. Indianapolis, IN: Liberty Fund,) and lo so many others. The contributions of all three of these products – gold money, steel and cement – are surely made at the margin; none of them constitutes an all or none proposition. For a critique of Smith see Rothbard, Murray N. 1995. *Classical Economics: An Austrian Perspective on the History of Economic Thought*. Vol.1 Hants, England: Edward Elgar.

¹⁴ On the structure of production, see Mises, 1996; Hayek, Friedrich A. 1931. *Prices and Production*. London: Routledge; Rothbard, Murray N. [1962] 1993. *Man, Economy and State*. Auburn AL: Ludwig von Mises Institute; Garrison, Roger W. 2001. *Time and Money: The Macroeconomics of Capital Structure*. London: Routledge.

¹⁵ Kirzner, Israel M. 1973. *Competition and Entrepreneurship*. Chicago: University of Chicago Press, 1973, p. 144.

¹⁶ The purpose of products markets and capital goods is, after all, the bringing of them into fruition as items of use to consumers; they have no intrinsic value in and of themselves apart from this necessary “mission” of theirs.

no decrease in the supply of another good) is demonstrably a clear *social benefit*; for someone's "real income" has increased and no one's has decreased. [Footnote omitted.]

"Money, on the contrary, is solely useful for exchange purposes. Money, *per se*, cannot be consumed and cannot be used directly as a producers' good in the productive process. Money *per se* is therefore unproductive; it is dead stock and produces nothing. Land or capital is always in the form of some specific good, some specific productive instrument. Money always remains in someone's cash balance.

"Goods are useful and scarce, and any increment in goods is a social benefit. But money is useful not directly, but only in exchanges...When there is less money, the exchange value of the monetary unit rises; when there is more money, the exchange value of the monetary unit falls. We conclude that there is no such thing as "too little" or "too much" money, *that, whatever the social money stock, the benefits of money are always utilized to the maximum extent.* An increase in the supply of money confers no social benefit whatever; it simply benefits some at the expense of others, as will be detailed further below. Similarly, a decrease in the money stock involves no social loss. For money is used only for its purchasing power in exchange, and an increase in the money stock simply dilutes the purchasing power of each monetary unit. Conversely, a fall in the money stock increases the purchasing power of each unit."¹⁷

An analogy arises between money and what is called a "catalyst" in the field of chemistry. Rothbard quite correctly maintains that money, *per se*, is not used up¹⁸ as it is utilized in its task of facilitating trade. But the same can be said for the role of catalysts in chemical reactions. They assist in these processes, without, themselves, being used up. Yet, it would be the rare chemist who would go so far as to say that, therefore, a catalyst "*per se* is therefore unproductive."

It is much the same with money. Even on Rothbard's own grounds that money is not used up when it plays its exchange facilitating role, it hardly follows that money is therefore "dead stock and produces nothing." Very much to the contrary, the monetary commodity is a highly useful one. If, in fact, money is dead stock and produces nothing; i.e., adds no value, why would people give up valuable goods and resources to acquire it? And yet we know that they do.

Then there is the point that "money always remains in someone's cash balance." To be sure, it does. But no less could be said in behalf of any other economic good. While it is of course true that items such as steel, shoes and sugar do not enter anyone's cash balance, let alone remain there, these goods are also *always* under the ownership and control of *someone*, no matter how quickly they may travel from hand to hand in terms of turn over of property from one person to another. Thus, if (part of) the reason that Rothbard considers money "unproductive" is that it is always owned, then all other economic goods must also be "unproductive" because they

¹⁷ Murray N. Rothbard, *Man, Economy, and State* (Los Angeles: Nash Publishing, 1970), p. 670.

¹⁸ Gold, of course, is subject to wear and tear as it is used, certainly in the case of jewelry and teeth fillings, but also as it passes from hand to hand in its monetary use.

also are owned.¹⁹ But the latter position is unacceptable, as all other goods most certainly are “productive;” therefore, money it cannot be maintained that money is unproductive because it is always in someone’s cash balance.²⁰

IV. Hoppe

Although Hoppe, Hülsmann, and Block²¹ do not directly address the issue with which we are concerned, it does arise indirectly²² in their discussion of money as a present good and not a future good.²³ According to Rothbard:²⁴ “Goods being directly and presently consumed are *present goods*. A *future good* is the present expectation of enjoying a consumers’ good at some point in the future. A future good may be a claim on future consumers’ goods or it may be a capital good, which will be transformed into a consumers’ good in the future. Since a capital good is a way station (and nature-given factors are original stations) on the route to consumers’ goods, capital goods and nature-given factors are both future goods.” If Rothbard is correct, as we think him to be, then money can *not* be a present good, as only “[g]oods being directly and presently consumed are *present goods*.”²⁵

However, Hoppe, et al.,²⁶ state [bold emphasis added]:

¹⁹ That is, if we accept the analogy between money always being in someone’s cash balance, and economic goods always being owned by someone.

²⁰ This is neither the time nor the place to critically examine Rothbard’s view that “An increase in the supply of money confers no social benefit whatever.” We have done so in our paper, Barnett, William and Walter Block, “On the Optimum Quantity of Money,” *Quarterly Journal of Austrian Economics*, forthcoming.

²¹ Hoppe, Hans-Hermann, J. G. Hülsmann, and W. Block. 1998. “Against Fiduciary Media.” *QJAE*. 1 (1): pp. 19-50.

²² The careful reader will note that Block is a co-author both of the present paper and the one now undergoing criticism in this section of it. The correct implication of this strange phenomenon is that Block has changed his mind as concerns the proper status of money as a present or future good. However, nothing said in the present paper can properly be interpreted as criticism of the main contention of Hoppe, et. al. 1998, to wit that fractional reserve banking is incompatible with the operations of a free enterprise system.

²³ The purpose of Hoppe, Hülsmann, and Block is to refute the normative and positive positions of Selgin and White (Selgin, G. A. and L.H. White. 1996. “In Defense of Fiduciary Media – or, We are *Not* Devo(lutionists), We are Misesians!” *RAE*. 9 (2): pp. 83-107. The conclusions of that paper stand independently of the arguments herein.

²⁴ Rothbard, M. N. [1962] 1993. *Man, Economy, and State*. Auburn, AL: The Ludwig von Mises Institute, p. 60-61.

²⁵ Moreover, it is no more “a claim on future consumers’ goods” than it is a claim on present on future capital goods. The logical conclusion, based on Rothbard, is that it is a capital good. I.e., it is a good and there are only consumers’ goods and capital goods. Of course, there are claims thereto, from which these must be distinguished, but these are not the goods themselves.

²⁶ Hoppe, Hans-Hermann, J. G. Hülsmann, and W. Block. 1998. “Against Fiduciary Media.” *QJAE*. 1 (1): p. 43.

“Yet **money** is demonstrably *not* a future good. In fact, when the **money** is **spent** - in the future - it loses all its utility for the present owner. It has utility only while and insofar as it is *not spent*, and its character as a present good stems from the omnipresent human condition of *uncertainty* [footnote omitted].”

Compare that with the following²⁷:

Yet **inventory** is demonstrably *not* a future good. In fact, when the **inventory** is **exchanged** - in the future - it loses all its utility for the present owner. It has utility only while and insofar as it is *not exchanged*, and its character as a present good stems from the omnipresent human condition of *uncertainty*.

This latter sentence is obviously incorrect. Inventories of any kind are not present goods; it is the characteristic of being “directly and presently consumed” that makes a good a present good, and money qua money is never consumed. We conclude money is not a present good. Therefore, it must be a future good, and because it is a future good, it must be a capital good²⁸.

To be sure, the main function of money for most people²⁹ is to bridge the gap between present and future, which is necessitated³⁰ by the uncertainty of the latter. If the future were known with certainty, there would be no need for money. But precisely the same state of affairs obtains with regard to inventory. There would also be no benefit in holding *inventory* either, were it not for this omnipresent uncertainty. Indeed, inventories of goods play much the same role in dealing with future uncertainty as do monetary holdings. Yet no one would be tempted to claim that stocks of goods whose purpose is to mediate between input and output are not higher order, or intermediate goods; no one would be tempted to categorize them as present or consumer goods.

²⁷ The present authors have substantively substituted in the paragraph above by Hoppe, et. al. 1998, p. 43 the word “inventory” for the word “money.” We have also non-substantively substituted “exchanged” for “spent.”

²⁸ Money is not the only good that is a claim to other goods. Properly understood any good is a claim against other goods; it is just that money is the most efficient good for the purpose of being a claim; in a commodity money world, money is also a commodity and in a paper money world, paper money is also paper. However, there are some claims that are not goods in themselves, but solely and merely claims to underlying goods; e.g. stocks and bonds. If gold coins were no longer money because people shifted to platinum coins, the gold coins would still have value as a commodity that could be traded (i.e., used as a claim against) other goods. However, if paper money were no longer money because people shifted to commodity coins the paper money would be virtually worthless, save for any collectors’ value or scrap value it might have. The same can be said for the stock and bonds of a corporation the assets of which were totally destroyed. Thus a bond is not a good, but a claim to a good; only goods have value, and the bond’s value is derivative from the good it is a claim against – destroy the good and you destroy the claim. The same could be said of gold coins, destroy the good (the gold coins) and you destroy the claim the gold coin constitutes against other goods. One can destroy the bond (the claim) without destroying the goods underlying it; but if you destroy the good, you destroy the value of the bond, though it may continue to exist physically. However, from a praxeological point to view, mere physical existence takes on a secondary role.

²⁹ Exceptions include misers such as Scrooge McDuck, who reveled in daily “swims” through his money bin. For a positive spin on this economic actor, see Block, Walter, Defending the Undefendable, New York: Fox and Wilkes, 1991, pp. 105-109

³⁰ “Necessitated” might be too strong a word, since it cannot be denied that people did exist under barter.

Compare also, the following two (2) paragraphs.

“The error in classifying **money** as a future good can be revealed in a twofold manner. On the one hand, negatively, it can be shown that this assumption still leads to contradiction. In support of their thesis, Selgin and White claim that “holding **money** for later **spending**, rather than **spending it on** consumption *now*, does defer consumption to the future,” implying that the holding of **money** involves the exchange of a future good (satisfaction) for a present one. In the next sentence they admit that **money** held is **spent neither** on consumer goods *nor* on producer goods. Yet they fail to notice that this implies also, as a further consequence, that holding **money** for later **spending**, rather than **spending it on** production *now*, does defer *production* (and hence *future* consumption) to the future. If the holding of **money** defers consumption and production, however, then it becomes impossible to maintain that the holder of **money** has thereby invested in a *future* good, because *there are no future goods—whether* consumer or producer goods—which result from the act of holding **money** and to which its holder could thus be entitled. Yet as claims to no future goods whatsoever, **money** would be worthless. By implication, if **money** is not worthless (and no one would hold **money** if it had no value), then its value must be that of a *present* good.”³¹

The error in classifying **inventory** as a future good can be revealed in a twofold manner. On the one hand, negatively, it can be shown that this assumption still leads to contradiction. In support of their thesis, Selgin and White claim that “holding **inventory** for later **exchanging**, rather than **exchanging it for** consumption *now*, does defer consumption to the future,” implying that the holding of **inventory** involves the exchange of a future good (satisfaction) for a present one. In the next sentence they admit that **inventory** held is **exchanged neither for** consumer goods *nor for* producer goods. Yet they fail to notice that this implies also, as a further consequence, that holding **inventory** for later **exchanging**, rather than **using it in** production *now*, does defer *production* (and hence *future* consumption) to the future. If the holding of **inventory** defers consumption and production, however, then it becomes impossible to maintain that the holder of **inventory** has thereby invested in a *future* good, because *there are no future goods—whether* consumer or producer goods—which result from the act of holding **inventory** and to which its holder could thus be entitled. Yet as claims to no future goods whatsoever, **inventory** would be worthless. By implication, if **inventory** is not worthless (and no one would hold **inventory** if it had no value), then its value must be that of a *present* good.

These word substitutions, again, are our attempt to illustrate the point that just because, undeniably, money is the par excellence means of dealing with doubt about future events, it by no means logically follows that it is a present good³². Very much to the contrary, stocks of

³¹ Hoppe, Hans-Hermann, J. G. Hülsmann, and W. Block. 1998. “Against Fiduciary Media.” *QJAE*. 1 (1): pp. 43-44. A similar word substitution is again employed as between “money” and “inventory.”

³² Here is an earlier citation from Hoppe of a similar analysis: “Matters become somewhat more complex under conditions of uncertainty, with money actually in use, but the praxeological independence of money and 85

goods on the shelves of the retailer are *also* employed to this end, and no one would think to characterize them as present or consumers goods because of this fact.

Compare also, the following two (2) paragraphs based upon a quote from Mises that appears in Hoppe et al.:³³

In a system without change in which there is no uncertainty whatever about the future, nobody needs to hold **cash**. Every individual knows precisely what amount of money he will need at any future date. He is therefore in a position to lend all the funds he receives in such a way that the loans fall due on the date he will need them. (Mises 1966, p. 249)

In a system without change in which there is no uncertainty whatever about the future, nobody needs to hold **inventory**. Every individual knows precisely what amount of inventory he will need at any future date. He is therefore in a position to lend all the inventory he receives in such a way that the loans fall due on the date he will need them.

Hoppe et. al. also state [emphasis added]:³⁴

The source of the utility of a consumer good is its direct and present serviceability, and the source of the utility of a producer good is its indirect future serviceability. Money, by contrast, is neither consumed **nor employed in production**. It is neither directly serviceable (as consumer goods are) **nor indirectly useful as a way station to future consumer goods** (as producer goods are). Rather, the utility of money must be that of an *indirectly* yet presently serviceable good.

However, as we have seen *supra*, money is a capital good. It is used in production to transform goods from higher orders to lower orders; that, precisely, is its function. That is, the entire function of money qua money is to be a more efficient means of transforming higher order goods to lower orders than barter exchange. Of course, the transformation is not physical, but rather is part and parcel of the praxeological category: ownership. And, it most certainly is “indirectly useful as a way station to future consumer goods;” again, think of the alternative, barter. The problem seems to be thinking that transforming goods requires some physical change in the good or its location. But that is not correct from a praxeological point of view.

Thus we have shown that money is not some third type of good, distinct from consumers’ goods or capital goods, but, rather it is a type of capital good; moreover, it is not a present good, but, rather, a future good.

remains fully intact. Under these conditions, man invariably has three instead of two alternatives as to how to allocate his current income. He must not only decide how much to allocate to the purchase of present goods and how much to future goods (i.e., how much to consume and how much to invest), but also how much to keep in cash. There are no other alternatives.” Hoppe, Hans-Hermann, The Economics and Ethics of Private Property: Studies in Political Economy and Philosophy, Boston: Kluwer, 1993, p. 119.

³³ Hoppe, Hans-Hermann, J. G. Hülsmann, and W. Block. 1998. “Against Fiduciary Media.” *QJAE*. 1 (1): pp. 44.

³⁴ Hoppe, Hans-Hermann, J. G. Hülsmann, and W. Block. 1998. “Against Fiduciary Media.” *QJAE*. 1 (1): pp. 44.

Consider the following analysis by Rothbard³⁵ of the lowly “ham sandwich” as further evidence in support of our claim regarding money as a future not a present good. In this economists view, the final good in this regard is *not* the creation of the sandwich by Jones’ wife who “expend(s) energy in unwrapping the bread, slicing the ham placing the ham between bread slices and carrying it to Jones.” No, this is only “the labor of the housewife.” This, coupled with “bread in the kitchen, ham in the kitchen and a knife to slice the ham” plus time and land upon which to stand, constitute “first order producers’ goods, since, in this case, these co-operate in the production of the consumers’ good.”

Where, then, does money figure into this idyllic picture of domestic bliss? Is it a consumers’ good? Not a bit of it; rather, Rothbard informs us, “the consumers’ good” in this little story is “the ham sandwich at the point of being eaten.” Money is certainly not as close to this final consumption as is food-stuff at the very point of being consumed. How does it stack up, then, in comparison with the “first order producers’ goods” necessary to construct this culinary delight, that is, “bread in the kitchen, ham in the kitchen and a knife to slice the ham,” etc? That is, which comes first in time, in the ordinary case of putting together this concoction? Surely, the use of money is prior to any thing properly included in this category, since “bread in the kitchen, ham in the kitchen, etc.” *come after* the purchase of them in the market.

Rothbard continues his meticulous and careful analysis by identifying “second order producers’ goods” as “bread-in-retail-shop and housewife’s labor in carrying it (plus the ever-present land-as-standing-room and time.” Again we ask, where does money fit into this scenario, in terms of the temporal order? Clearly, if we were but to include it, as Rothbard does not, at least not this early in his magnum opus, we would have to count “bread-in-retail-shop,” along with ham, lettuce and mustard in the store, as even higher order goods³⁶. This would leave money as an intermediate order production or capital good, in that it is through the intermediation of money, in between the higher and lower orders, that material in the latter is transformed into material in the former. That is, money, is a necessary concomitant of the production process in the absence of barter, and its contribution takes place somewhere in between the higher order good (bread and ham in the store, owned by the retailer) and the lower order good, bread and ham on the street, under the possession of the housewife, on its way into the kitchen.

If Rothbard is so meticulous as to consider even bread and ham in the kitchen not as a final consumption good, but rather as a first order production good, however much more strong is the case that money, which appears in this story *before* that stage, would be considered not only a capital good, but one of a higher order than this?

³⁵ All the quotes pertaining to the ham sandwich are from Rothbard, ([1962] 1993, pp. 6-8)

³⁶ See footnote 14, *supra*, for elucidation of the structure of production on the basis of which consumption, and the higher and lower orders of production are categorized.

In the analysis of the present authors, see listing below, bread and ham³⁷ in the store is the sixth order capital good, money, which transmits these intermediate goods into the housewife's possession is the fifth, material in the grocery bag en route home is the fourth, the raw materials in the kitchen the third, the put together sandwich in the kitchen the second, and when it arrives on the plate in front of Jones, this constitutes the lowest, or first order intermediate or capital good.

Capital or intermediate good 6. bread and ham in the store

Capital or intermediate good 5. money

Capital or intermediate good 4. bread and ham in the housewife's possession, on the street, being carried to the home.

Capital or intermediate good 3. bread and ham in the kitchen

Capital or intermediate good 2. ham placed on the bread in the form of a sandwich, but still located in the kitchen

Capital or intermediate good 1. ham placed in front of Jones, in his very hands

Consumer good: the ham sandwich, at the very point of being eaten by Jones.

V. Conclusion

Admittedly, *if* we were allowed by the laws of praxeology to have categories of action and goods other than those of consumption and production, the most likely would be exchange; *then* there would be a certain coherence in selecting money, out of all other possibilities, to be placed in the third grouping. However, there is simply no warrant for any such exception to the general (e.g., praxeological) rule that when man acts, he does so for the purpose of *either* consuming now and in the present, *or* rendering the future more to his liking than that situation which would have obtained had he not acted; that is, of increasing his store of capital or intermediate goods. There is, unfortunately for the theories of those economists we have criticized above, no third option. Money might appear to be an exception, but as we have shown, it, too, must be successfully subsumed under the rubric of one of these categories, to wit, producers' goods.

³⁷ "Plus etcetera" is always to be implicitly understood in all these cases.