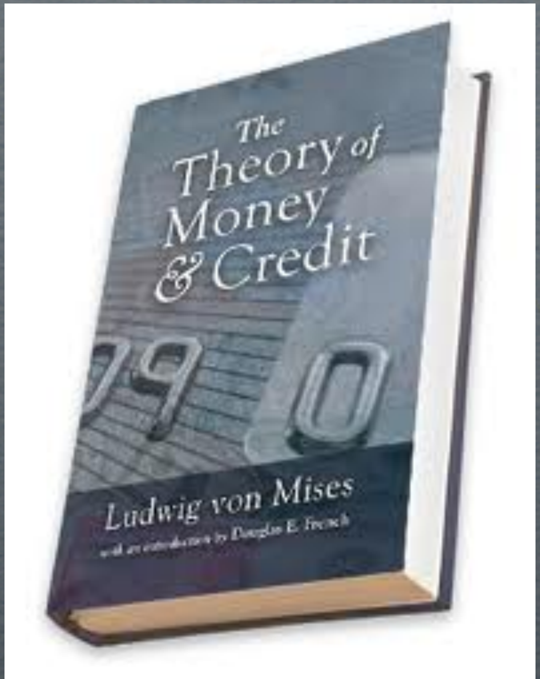
Mises on Money & Banking



February 8, 2012

Lecture 2: The Kinds of Money and the Influence of the State

The Kinds of Money and State Influence

I. Decision Time

II. Money-Substitutes
  A. Definition
  B. Purpose of Definitions
  C. “Cash” as a Verb
  D. Redeemability in Practice, Not Law

III. Commodity Money

IV. Fiat Money

V. Credit Money

VI. Nominalist Theories

VII. The State and Money

VIII. Bimetallism

I. Decision Time

II. Money-Substitutes

A *money-substitute* is a **perfectly secure** and **immediate** claim to “money in the narrower sense.”

A. Definition

Mises chooses his terminology and makes his classifications according to what is most useful for the tasks of economic theory. Mises wants to explain (a) the purchasing power of a unit of money and (b) the trade cycle.

B. Purpose of Definitions

When you “cash a check,” it means you turn a claim on money into money. (You convert a money-substitute into money in the narrower sense.) We nowadays think of “cash” as paper, but that’s because we use fiat money. For Mises, you might cash a paper bank-note into a hunk of gold.

C. “Cash” as a Verb

What matters in economic theory is whether people in the community treat a claim to money *as if* it is redeemable upon demand. If the government in practice will pay out gold for its central bank's notes, then that country is effectively on the gold (exchange?) standard and the notes are money-substitutes.

D. Redeemability in Practice, Not Law

III. Commodity Money

Government can’t make something money! Rather it can perform some operation to set a particular subset of items apart from their peers. But community must still accept these designated items as a common medium of exchange.

“It can hardly be contested that fiat money in the strict sense of the word is theoretically feasible.”

IV. Fiat Money

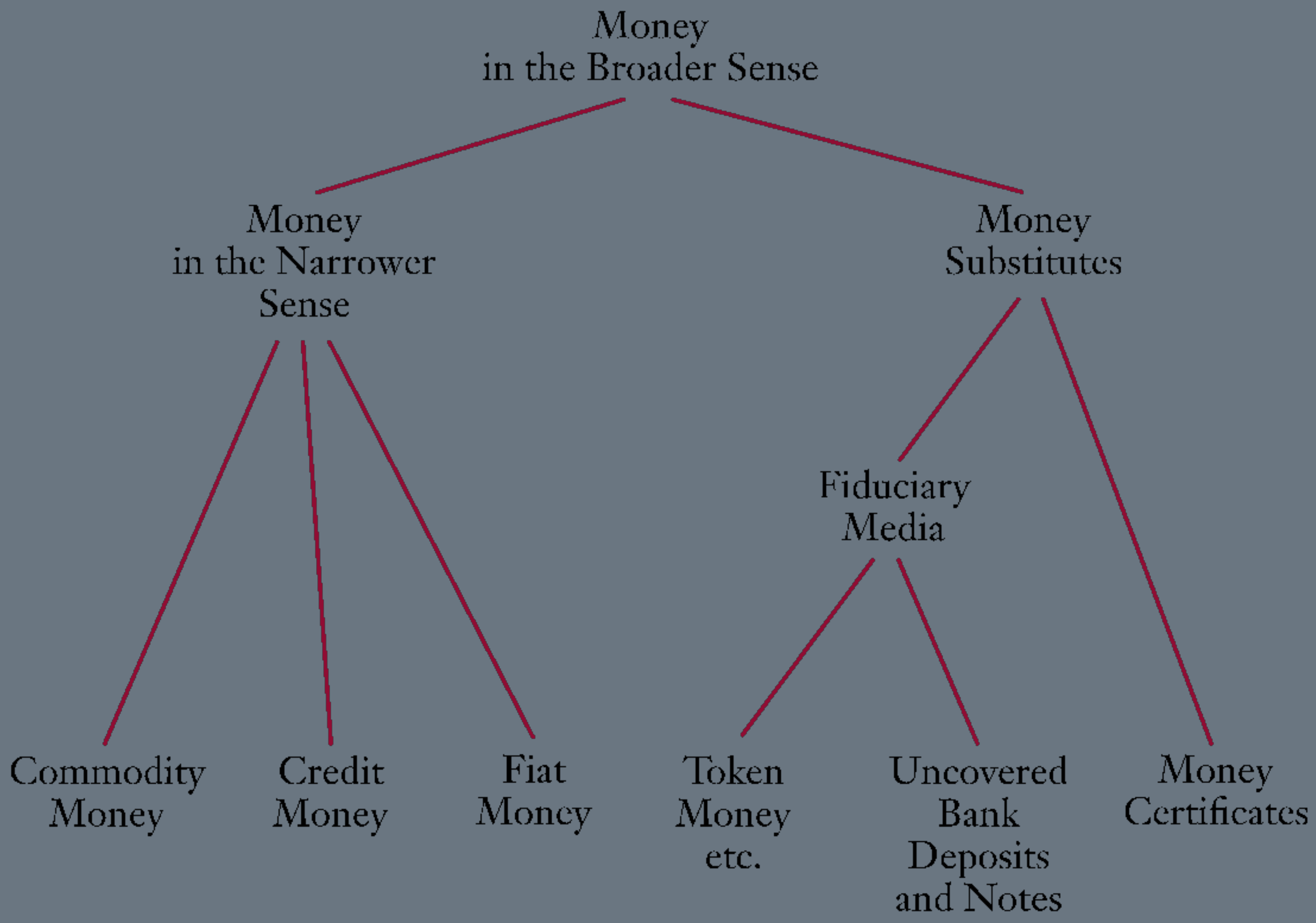
- Must be a claim on a person or organization.

- Can’t be both immediate and totally secure. (Why not?)

- It’s not simply a bond. Credit *money* must be valued in its capacity as a medium of exchange. People accept it in trade, knowing that others will do the same in the future. People *don’t* simply accept it, in order to get the delivery of money in the narrower sense upon maturity.

- In practice, Mises thinks historical examples of suspended specie redemption made the paper money a credit money, not a fiat money.

V. Credit Money


Money in the Broader Sense
Money in the Narrower Sense
Money Substitutes
Fiduciary Media
Commodity Money
Credit Money
Fiat Money
Token Money etc.
Uncovered Bank Deposits and Notes
Money Certificates

Some theorists reject idea of commodity money, and think the State (or some type of authorities) sets the unit of value.

- How explain purchasing power of the unit?
- Role of free coinage.
- Mises says in international trade, coins treated as ingots, though this never happens in domestic trade.

VI. Nominalist Theories

- Mises thinks proper role of State is to ensure fineness and weight of metal in coins.

- Legally, the court system treats money as common medium of payment, not medium of exchange.

- State subject to laws of the market, though the biggest player in the market to be sure.

- State can influence what the community adopts as its money.

VII. The State and Money

- Gov’t had earlier said, e.g., that debts contracted in thalers could be paid off with twice as many half-thalers, etc.

- Legislators thought being helpful by saying debts contracted in gold could be paid off by 15.5x as much weight in silver.

- Gresham’s Law! The intended parallel standard turned out to be an alternating standard.

VIII. Bimetallism