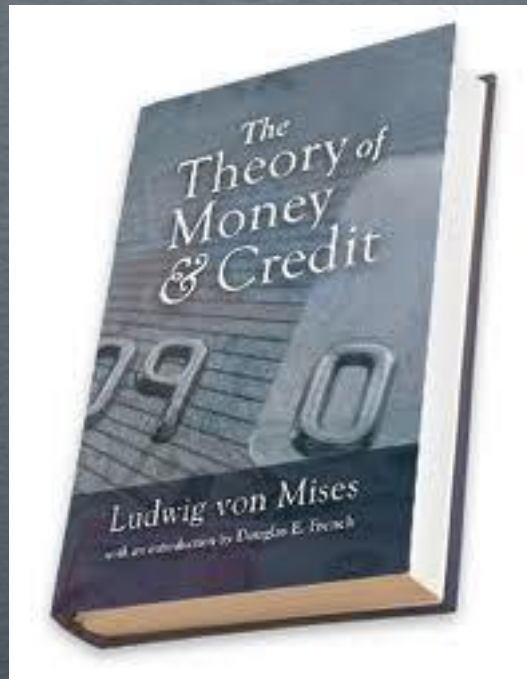


Mises on Money & Banking



February 15, 2012

Lecture 3: Money and Its Enemies

Money and its Enemies

I. Money Neither Production Nor Consumption Good

A. Mises Enters Battle

B. Other Goods Used in
Marketing?

C. All Quantities Optimal

D. Three-Fold Scheme

II. Is Money Capital?

A. Yes and No

B. Austrian Approach to
Capital & Interest

III. Enemies of Money

A. Money Under Socialism

B. Monetary Cranks



I. Neither Production Nor
Consumption Good

Bohm-Bawerk thought there were only two categories of goods, production and consumption. (Naturally he put money in former.) Knies argued for three-fold scheme, adding media of exchange. Mises sides with Knies.

A. Mises Enters Battle

Economists arguing for money as production good thought it was analogous to other goods used in marketing, such as ships and safes. Mises disagreed with this analysis: *Losses of ships and safes make society poorer, but NOT the loss of units of money.*

B. What About Goods Used in Marketing?

“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.”—Mises p. 85.

C. All Quantities of Money Optimal

“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...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.” Mises 86.

D. Three-Fold Scheme

“[Our conclusion that money is not a production good] will help us to answer the question whether money is capital or not. This question in its turn is not an end in itself, but it provides a check upon the answer to a further problem concerning the relations between the equilibrium rate of interest and the money rate of interest, which will be dealt with in the Third Part of this book.” Mises 86

II. Is Money Capital?

Mises lays out the various definitions of *capital*, and concludes that money must be counted as part of *private* capital, but not as part of *social* capital. (So how does this relate to previous slide's question?)

A. Yes and No

Not critical to understanding Mises' main points in this chapter, but will be essential to get later points on biz cycle. For good intro:

<http://mises.org/daily/1263/Why-Do-Capitalists-Earn-Interest-Income>

B. Austrian Approach to Capital & Interest



III. Enemies of Money

- Certificates giving each worker a proportional share of total output are *not* analogous to money under market economy.
- If socialist state allowed free exchange of even just consumption goods, then money would arise.

A. Money Under Socialism

→Moralists have often blamed money for social ills. So do they want to go back to direct exchange?

→Proposals to solve scarcity through an “elastic credit system” are rightly rejected, though people don’t really have the theoretical means to do so. Mises will give it to them in Part III!

B. Monetary Cranks