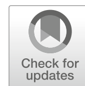
Money: Capital Good, Consumers' Good, or (Media of) Exchange Good?



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1 Introduction

Several Austrians, Mises foremost among them, maintain 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. 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.

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" . . . (Mises 1980, pp. 95–96, footnote omitted).

In this paper, we argue that exchange is a form of production, and, consequently, there are only two types of goods, consumers' goods and capital goods; and that

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money is, then, a producers' good. The method we shall use is to quote at length from and then analyze cited material. In Sect. 2 we address this topic from the perspective of "The Theory of Money and Credit" (Mises 1980 [1912]).[1] We take issue with Rothbard (1970) on this matter in Sects. 3 and 4 and focus on it using Hoppe et al. (1998) as a case in point. Each of these quotes is followed by our analysis and commentary. A brief summary and conclusions in Sect. 5 end the paper. Throughout Sect. 2 all page-number-only cites are to Mises (1980); the same applies to Rothbard (1970) in Sect. 3 and Hoppe et al. (1998) in Sect. 4.

This is not to deny that a good that serves as money may not also be a consumers' good. A monetary good most certainly can be used for purposes of consumption. We do not at all dispute this. You can paper your wall with paper money. You can take a swim in gold and/or greenbacks (as did Scrooge McDuck of comic book fame). You can burn paper money or melt down gold and study the chemical effects of such a process. You can even light your cigar with a $20 bill. But in none of these cases are you using gold or paper bills *as* money, e.g., to facilitate trade. When you do that, money is necessarily a capital good.[2]

It must be noted that "to facilitate trade" must be understood in terms of the meaning attributed to it by a relevant human mind. Consider a good, say gold coins, that is a monetary good, i.e., it serves as money, in a particular society during the time period under consideration. It may either be held by A, or A may exchange the coins with B for some non-monetary item, X. In the former case, the good is money if A holds it with the intent of exchanging it at some, perhaps as yet undetermined, point in the future, for some other, also perhaps as yet undetermined, product. That is, the coins are money in such a case, not just during the process of monetary exchange, but also during any period in which they are being held for that purpose, and as such they are capital goods. However, if A holds the coins for numismatic purposes, they are not money; rather they constitute a coin collection. And, if the coin collection is held for personal aesthetic pleasure, it constitutes a consumers' good; however, if it is held as an investment,[3] e.g., a "store of value," then it is no different than any other asset held as an investment; i.e., it is a capital good. Note that this means that the monetary good, e.g., gold coins, may be (1) a consumers' good; (2) money—a capital good; or (3) a non-money capital good. Any asset, including durable consumers' goods or even non-durable consumers' goods,[4] is a store of value and thus a capital good. If one is holding the coins as media of exchange, then they are capital goods, specifically money; if one is holding the coins for investment

[1]Mises (1990 [1932], p. 55) maintains the same position.

[2]We thank our colleague, Stuart Wood, for this important point that he made in his commentary on our paper given at the Austrian Scholars' Conference of 2003, held at the Mises Institute in Auburn AL. Moreover, the material in the next five (5) paragraphs of the text deals with issues that arose in subsequent conversations with him, for which, also, we thank him.

[3]The same analysis applies, mutatis mutandis, if A is holding the coins for any other non-monetary purpose(s).

[4]For example, Rothbard's (1993 [1962], p. 7) ham sandwich in the making.

purposes, then they are investment goods—an inventory of "junk" gold coins of an inventory or numismatically valuable gold coins.

In the latter case, if A, holding the coins as money, exchanges them to B for X, they are money to A. However, they may not be money to B if he intends to acquire them for numismatic purposes. In that case, B understands the exchange as a barter transaction—the trade of X for a coin collection—and the coins are not money to B.[5] Similarly, if A is holding the coins for numismatic purposes and understands the exchange as a barter transaction—exchanging his coin collection for X—the coins, even during the exchange process, are not money to A.[6]

In sum, even when used in an exchange process, the gold coins may be money to both parties, neither party, or to only one and that one, either, party. A good acquires its character as money depending upon the meaning attributed to it by the relevant party or parties. The question is, "What meaning is attributed to the good?" Then, in any particular historical instance in which the answer is "money," the good is necessarily a capital good.

Moreover as with other goods, the character of an item used as money can be transformed. For example, gold coins intended as money can be converted to a coin collection, in which case they are transformed from a capital good to a consumers' good; or they can be smelted and changed to an industrial use, in which case they are altered from one type of capital good to another, say electrical contacts in some piece of industrial equipment. This is in principle no different than taking scrap steel that had been part of a steel building used for industrial purposes, i.e., being used as a capital good and recycling into steel: (1) embodied in an automobile used for pleasure, i.e., converting it into a consumers' good or (2) embodied in a truck used for commercial purposes, i.e., converting it into a different type of capital good.

Implicit in the foregoing is that, as with other goods, the one used as money may show up, simultaneously, anywhere in the structure of production (Hayek 1931; Rothbard 1993 [1962]), whether as a consumers' good or as a higher order good, and its location in the structure may shift from higher to lower and vice versa. However, as money it must of necessity, we contend, show up only as a higher order good. And, of course, one and the same commodity (e.g., gold) can appear simultaneously at different places in the capital structure, i.e., the structure of production excluding the lowest, i.e., consumers' goods and order (Lachmann 1956; Garrison 2001). Further, it can move around in the structure from lower order to higher, and vice versa.

[5]The same analysis applies, mutatis mutandis, if B is acquiring the coins for any other non-monetary purpose(s).

[6]The same analysis applies, mutatis mutandis, if A was holding the coins for any other non-monetary purpose(s).

2 Mises

In opposition to Roscher, 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 into means of production, objects of consumption, and media of exchange. His arguments on this point, which are unfortunately scanty, have hardly attracted any serious attention and have been often misunderstood. Thus, Helfferich attempts to confute Knies's proposition that a sale-and-purchase transaction is not in itself an act of production but an act of (interpersonal) transfer, by asserting that the same sort of objection might be made to the inclusion of means of transport among instruments of production on the grounds that transport is not an act of production but an act of (interlocal) transfer and that the nature of goods is no more altered by transport than by a change of ownership (Mises 1980, p. 96, footnote omitted).

Mises maintains that Knies (1885) was right. His argument (Mises 1980, pp. 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. But obvious1y this is no reason why science should impute an intrinsic similarity to these essentially different processes (Mises 1980, p. 97, footnote omitted).

This is correct; however, it is a non sequitur to maintain, 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 nature (Mises 1980, p. 97, footnote omitted).

This is highly problematic. 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.... 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 (Mises 1980, pp. 97–98).

Mises, here, makes a most important finding: 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 has surfeit. But, of course, coercion is outside the realm of the market—the realm of voluntary human interactions (Rothbard 1970).

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 (Mises 1980, p. 98).

Again Mises makes clear that, "for the purposes of economics," "it is better to regard" two goods physically identical save for their locations "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 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 (Mises 1980, pp. 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" (Mises 1996, p. 230). 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 (Mises 1980, p. 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, . . . but also everything that serves to maintain the legal system which is the foundation of commerce, as, for example, . . . law courts . . . (Mises 1980, p. 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 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. . .. 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 nothing" (Mises 1980, pp. 101–102, footnote omitted).

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. Friedman (1969, p. 1) maintains that:

> It is a commonplace of monetary theory that nothing is so unimportant as the quantity of money expressed in terms of nominal money units—dollars, or pounds, or pesos. The situation is very different with respect to the real quantity of money—the quantity of goods and services that the nominal quantity of money can purchase, or the number of weeks' income to which the nominal quantity of money is equal. This real quantity of money has important effects on the efficiency of operation of the economic mechanism, on how wealthy people regard themselves as being and, indeed, on how wealthy they actually are.

And, Hutt (1956, p. 198) states:

> Now Mises himself, and several other economists, maintain explicitly that the amount of money which individuals and firms decide to hold is determined by the marginal utility of its services. Yet for some reason they have not made the next small step needed to recognize this prospective yield (of 'utilities') which invites the holding of money, as the normal return to investment.

The prospective yield from investment in money assets consists, I suggest, (a) of a prospective *pecuniary yield*, in which case the money assets are producers' goods; (b) of a prospective *nonpecuniary yield* in personal convenience, in which case the money assets are consumers' goods; or (c) of a prospective "real," i.e., *nonpecuniary* speculative yield, in which case the money assets are producers' goods, whether held privately or in the course of business.

Thus, for Hutt, people hold money because it provides a yield, i.e., a benefit, to them. Moreover, Hutt (1956, p. 208) states that: "The mere fact, however, that a particular economic good is capable of being diluted is no proof that it is not useful or productive." Then, in a footnote, (Hutt 1956, p. 208, n71) he distinguishes between "the 'number of money units' and, 'the amount of money in real terms'," clearly implying that an increase in the "number of money units" (i.e., "nominal money") does not confer an additional yield or benefit to society, whereas an increase in "money in real terms" (i.e., "real money") does.

Barnett and Block (2004) argue that the optimum quantity of a commodity money is whatever amount is provided in a free market. They also maintain that the optimum quantity of a fiat money is the extant amount, i.e., that the amount of fiat money should be frozen. In that case, a general decline in market-determined prices[7] would cause an increase in real money, which increase would be optimal in that institutional setting.[8]

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. That is, actions that are within the rights of the individuals cannot be said to improperly harm others because they cause a decline in value 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 a commodity money or of the real, though not nominal, stock of fiat 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 elsewhere (Mises 1996, pp. 421–422). Should that be the case, governmental intervention into the monetary system cannot be ruled out

[7]Such a decline would be normal in a growing economy with a fixed stock of fiat money.

[8]See, also, Canaan (1921).

on logical grounds. Rather, it becomes a historical/empirical issue: do the benefits of governmental intervention outweigh the costs thereof?

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 (Mises 1980, p. 102).

The problem here is the failure to see that the 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[9]) 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 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 (Mises 1980, p. 102).

The argument that additions to the stock of money do not increase the welfare of the members of society 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. 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 former.

There is yet another series of ways in which goods can be transformed from higher to lower orders in the structure of production without moving them

[9]We are certainly aware of the fact that our present social arrangements do not at all feature a commodity money or, indeed, many of the other attributes of a laissez-faire economy. This point notwithstanding, we are attempting to address present realities, not only theoretical considerations. It cannot be denied that fiat money and central banks, for example, play very important roles in modern societies.

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.' (Kirzner 1973, p. 144)

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 order area and into or closer to the more salutary arena of consumption, and on the other hand, money, which does precisely the same thing. The purpose of product 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. 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.

3 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 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 (Rothbard 1970, p. 670).

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 up[10] as

[10]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.

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 turnover 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 also are owned.[11] But the latter position is unacceptable, as all other goods most certainly are "productive;" therefore, it cannot be maintained that money is unproductive because it is always in someone's cash balance.[12]

4 Hoppe et al.

Although Hoppe et al. (1998, pp. 19–50)[13] do not directly address the issue with which we are concerned, it does arise indirectly in their discussion of money as a present good and not a future good.[14] According to Rothbard (1993 [1962], pp. 60–61):

> 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

[11]That is, if we accept the analogy between money always being in someone's cash balance and economic goods always being owned by someone.

[12]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." See on this Barnett and Block (2004).

[13]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.

[14]The purpose of Hoppe, Hülsmann, and Block is to refute the normative and positive positions of Selgin and White (1996). The conclusions of that paper stand independently of the arguments herein.

> 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 cannot be a present good, as only "[g]oods being directly and presently consumed are *present goods*" (Rothbard 1970, pp. 59–60). Moreover, it is no more "a claim on future consumers' goods" than it is a claim on present or future capital goods. The logical conclusion, based on Rothbard, is that it is a capital good. That is, 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.

However, Hoppe et al. (1998, p. 43) state:

> 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 the paragraph above with the following one, in which the present authors have substantively substituted the word "inventory" for the word "money" and also non-substantively substituted "exchanged" for "spent," with the following:

> 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; rather, it is the characteristic of being "directly and presently consumed" that makes a good a present good, and money qua money is never consumed. This applies, even, to goods that would otherwise and ordinarily be considered "consumer" goods. Suppose a person has an inventory of apples, for example. Now, apples, typically, are considered consumer, not producer, goods. But with an inventory of them, this can no longer be the case. Only those apples that are consumed in any given time period can be considered consumer, not intermediate, goods. The ones that are to be consumed later are at present intermediate goods.[15] We conclude that 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 good.[16]

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[15]On this point, see the text to which is appended footnote 27, infra, and Rothbard (1993 [1962], pp. 6–8).

[16]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 with (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

To be sure, the main function of money for most people[17] is to bridge the gap between present and future, which is necessitated[18] 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.

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 (Hoppe et al. 1998, pp. 43–44).

Again, a similar word substitution is employed in the next paragraph as between "money" and "inventory."

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

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 coins constitute 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 an economic point of view, mere physical existence takes on a secondary role.

[17]Exceptions include misers such as Scrooge McDuck, who reveled in daily "swims" through his money bin. Fora positive spin on this economic actor, see Block (1991, pp. 105–109).

[18]"Necessitated" might be too strong a word, since it cannot be denied that people did exist under barter.

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 good. Very much to the contrary, stocks of 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.

An earlier example from Hoppe of a similar analysis is:

> Matters become somewhat more complex under conditions of uncertainty, with money actually in use, but the praxeological independence of money and interest 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 1993, p. 119)

Compare, also, the following two (2) paragraphs based upon a quote from Mises that appears in Hoppe et al. (1998, p. 44):

> 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 1996, 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. (1998, p. 44) also state [emphasis added]:

> 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 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 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.

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.

Consider the following analysis by Rothbard (1993 [1962], pp. 6–8) of the lowly "ham sandwich" as further evidence in support of our claim regarding money as a future not a present good. In this economist's 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 foodstuff at the very point of being consumed. How does it stack up 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?" That is, which comes first in time, in the ordinary case of putting together this concoction? Surely, the use of money is prior to anything 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 goods. 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, how much stronger is the case that money, which appears in this story before that stage, should be considered not only a capital good but one of a higher order than this?

In the analysis of the present authors (see listing below), bread and ham[19] 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 goods 6 – bread and ham in the store

Capital or intermediate goods 5 – money and bread and ham in the process of exchange

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

Capital or intermediate goods 3 – bread and ham in the kitchen

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

Capital or intermediate goods 1 – ham sandwich placed in front of Jones, in his very hands

Consumer goods – the ham sandwich, at the very point of being eaten by Jones

Although at first blush money might seem out of place in this list because the other items all refer to steps in the transformation of raw materials into a ham sandwich; however, to make this objection is to consider the production process from the perspective of an "engineer," not that of an economist. To the economist it is not the physical transformation that is important, but rather the value transformation, i.e., the value added. So as any of the other steps add value by advancing the work-in-process closer to its end—a consumer good being consumed—so also does the change of ownership effectuated by use of the money as a capital good in the exchange process, as per our argument in Sect. 2, supra.

5 Conclusion

Admittedly, if there are 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 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

[19] "Plus etcetera" is always to be implicitly understood in all these cases.

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.

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