

Professor Simeon Demostenov (1886-1968) – the Bulgarian Austrian

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I Biographical note

Professor Simeon Sergeev Demostenov was born in Kazan, Russia on 8th November 1886. He graduated from the St. Petersburg Polytechnic Institute in 1910 and specialized in economics in Germany from 1912 to 1914, where he worked in Carl Menger's library in 1913¹. During the First World War he worked in the field of price formation in Russia. Demostenov immigrated to Bulgaria in 1920 where he lectured in theoretical political economics at the University of Sofia "St. Kliment Ohridski" and at the Open University. In the autumn of 1947 he was expelled from the law faculty and forced to retire. In 1950 Demostenov managed to flee to Great Britain where he died in 1968. His most prominent academic works were written in the last years of his teaching career: "Studies on Theory of Money" (1937), "Money and Credit" (1946) and "Theoretical Political Economy" (in three volumes), (1946).

II The Theory of Price

From: *Theoretical Political Economy* (1946), vol. III Chapter I *Barter Exchange and Natural Prices*, University of Sofia Edition

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[pp. 133-136]. The teaching about the mechanism of pricing is the core of the entire teaching of exchange. A theory of value can justify its existence only if it is able to explain how prices are formed in the market. Therefore, the teaching about the mechanism of pricing is the touchstone for the soundness and truthfulness of any economic theory of value. The above statements have prepared the ground for understanding the issue we are faced with. For example, from my explanations of demand

¹ See Demostenov, S. (1937), "Studies on Theory of Money", *Annuaire de l'Université de Sofia, Faculté de droit – tome XXXIII*, 7, p 101, footnote 1: "... Josellin (with his anonymous treatise *An Essay on Money & Buillon*, 1718; I had the opportunity to make myself acquainted with and even to take a copy of it due to the kind assistance of the deceased Carl Menger in whose library I worked in the summer of 1913;...".

and supply it becomes clear that I place great importance on demand and supply as factors of price formation. My explanation of demand and supply, however, does not make it clear at all how much prices move up and down in response to a shift in demand and supply, as it is not sufficient to say that prices follow one trend or another without being able to explain why they follow exactly that trend and why, one way or another, they still fix at a certain point. Indeed, everyone knows that an increased supply, *ceteris paribus*, reduces prices. Why does it not make them go up instead? And why should prices, under certain conditions, stay at exactly that level, and not at a different one? That is why, we need to explain the scope of price movement in a situation of changing demand and supply ratio and why should prices rise and fall, anyway. After all, a theory of value can only be justified if it is able to meet the above requirements.

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The issue of the mechanism of pricing is long-standing and a great variety of theories were created in an attempt to resolve it. Some of those theories are based on the teaching of demand and supply under the form of a 'law of supply and demand'. Curiously enough, even the Labor School in its objective theory of value recognises, in addition to the substance of value (the amount of crystallised or materialised labor), the law of demand and supply and even claims that the immediate reason for price formation in the market is the demand and supply ratio. Nevertheless, the Labor School proponents believe, in the long run, that the last instance of an actual regulator of pricing is not other but the substance of value (crystallised labor), since it regulates both the demand and supply ratio and the formation of exchange proportions in the market. Still, while turning to the law of demand and supply as a, so to say, supplementary factor, the Labor School could not and is not able to explain the scope, within which a market price moves in response to a change in the demand and supply ratio. It contents itself by observing that a price will rise or fall subject to a change in demand and supply; however, it does not answer the question to what levels that price will move. As this question is left without an answer, accordingly the case **where demand and supply are equal is not explained either. However, the Labor School believes that this impotence is in fact the impotence of the theory of demand and supply itself, as this theory, they believe, could only say what trends in price movement occur when demand and supply differ, while it can not say anything about a case where demand and supply coincide***, which is supposed to indicate that the underlying principle of pricing is a different one, namely, that of labor. However, the situation for the Labor School becomes absolutely tragic when it comes down to analysing products under a **monopoly** regime. Here, even the

* Bold in the original text

Labor School proponents admit that labor costs and costs in general do not in the least impact price, but the price is simply determined by the demand and supply ratio. However, although the principle of labor is disregarded here, it still remains unclear at what level exactly the price would fix, i.e. what would be the price ceiling or threshold, **and whether in a monopoly environment an equilibrium of demand and supply is altogether unachievable, or if it is** (which hardly anyone would question), **then how is a price formed without taking into account labor costs, etc.?** I don't believe that anyone would be happy to find him or herself in such an entangled and hopeless situation.

However, other theories, besides that of labour, have also emerged in an effort to explain the mechanism of pricing. The most consistent of them in terms of throwing light on the mechanism of pricing is the **Subjective School**. The latter makes an attempt to explain price movement by turning to the law of price and demand and by taking into account not only products and things, which are to be found in an environment of absolute competition, but also under monopoly, either absolute or relative. Moreover, the Subjective School attempts to explain the movement of prices with regard to objects and goods, which are not the result of human labor. Or, to put it in a different way, the Subjective School emerged owing to the fact that the Labor School failed to provide a general principle for the explanation of prices and price formation. **The Subjective School endeavours to give this general principle which applies in all cases: in the formation of prices with regard to goods, which are the result of human labor, as well as those, which are not the result of human labor; in the pricing of goods subject to absolute competition, as well as of those subject to monopoly (absolute and relative).** But here I should remind you that the Subjective School has not yet resolved all economic issues; still **not all possibilities for their resolution have been exhausted**, and besides this School is free of the hopeless contradictions that we find in the Labor School theory.

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As a supporter of the Subjective School, I will present here its theory (as I understand it). But before proceeding to the explanation of the mechanism of pricing I find it necessary to outline in just a few words the basic concepts of this School.

a) Utility and value are subjective and not objective phenomena. In particular, there is no substance of value, which is input or inherent in certain objects. Value is always the result of a relationship of a subject to an object, however only where the respective object, which a person places in a certain relation to his needs is scarce.

b) If, however, utility and value are subjective phenomena, they can not be **produced** and no production processes exist, whereby objects could receive the stamp of utility and value. Objects acquire utility and value only under a specific attitude of subjects in relation to them. **Therefore, the**

products, which are the result of production, obtain their utility and value not in the process of production, but in the process whereby a relation is created to them on part of the persons, for which they are designed. If, in the course of this relationship, they are recognised as able to satisfy people's needs, they are useful, and if they are both useful and scarce, they are valuable. Failing this, the products, although being the outcome of production, do not possess the nature of utility and value. In such a case, we say that economically the respective production is not successful, although technically it could be flawless. Thus, utility and value are not produced, but emerge in the process of a relationship of a subject to the respective objects, irrespective of whether they are produced or are gifts of nature.

c) **An immediate and direct subjective value could only be attributed to goods, which meet our immediate needs.** Or, in other words, only consumer goods could have immediate subjective value as they are directly related to our immediate needs. The preparation of the means of satisfying our immediate needs is the ultimate goal and immediate task of all natural activities. All goods, which are not consumables, but are indirect goods, irrespective of whether they are means of production or means of exchange, receive their utility and value only owing to the fact that they enable us, in the long run, to receive consumer goods. Thus, the utility and value of such goods (means of production and medium of exchange) would be an indirect utility and indirect value, which will be dependent on the utility and the value of the consumer goods that are obtained through them.

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[p. 137]. **So, people may come to wish to exchange their goods only where each participant in the exchange - in this case person A and person B - estimate the goods, which they give up, lower than the goods they wish to acquire.** An exchange makes sense only in a situation like this.

This very simple thesis invalidates the whole theory of exchange as an exchange of equivalents in the sense of equality of value. This is only a fiction, which has nothing to do with real life.

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[pp. 145 - 146]. After all that reasoning, the thesis, with which we started our presentation, has finally become clear: namely, the subjective evaluation of money is different for different people of different incomes. Indeed, if the subjective value of money changes for one and the same subject with the change of their incomes **this comes to indicate that different people with different incomes assess money in a different way** and that their market behaviour, their readiness to pay a higher or a

lower price, or their higher or lower demand of goods will also differ. The circumstances of income distribution and movement will condition the subjective assessment of money across the various categories of population, hence the different demand on part of these population categories. The combination of all these conditions will determine an upward or downward movement of prices; **i.e. whether there will be some change in the purchasing power of money.** Should such changes occur, a new basis for the subjective assessment of money would be created, etc.

II. The Genesis of Money

From: *On Money (1946), Juridical Editions "Dimitar Dimitrov", Sofia*

1

[pp. 54 – 57]. The Social Contract Theory. The theory of the origin of money does not aim to describe what objects, where and when, emerged in a historical perspective - i.e. the first money. This theory has a completely different purpose: to give an explanation of how it becomes possible** that certain objects are raised within a social group to the rank of a universal and unconditional means of demand, and how comes that all participants in the exchange appear, as if under a common spell, to agree to accept against their goods a certain object, which they do not need either as a consumable, or as a production good.

Different theories give different answers to this question. The oldest of all theories is the Contract theory. It holds that people have agreed in advance to accept as an equivalent this or another object having in mind that in a practice like this all difficulties of barter exchange would be eliminated and everyone would be able to give away his goods even to people who do not possess the goods he needs because since everyone receives money, everyone would be able to receive these goods from other persons, as the latter by virtue of the common agreement will not refuse to accept money, or, in other words, they would not apply with regard to him a tactics more different than the one he applied in giving away his own goods against money.

The reason, which led to the emergence of the Contract theory, is very simple. When observing the circulation of money and realising that money is of equal service to all, people came to the conclusion that money is a very useful and "rational" institution. Hence it is easy to make another conclusion: money is a "rational" institution because people consciously establish it. Besides, money, it seems, did not emerge as a result of a conflict of opposing interests, and is therefore not the product of some

** Underlined in the original text

"resultant" of forces acting in opposite directions. It is rather the result of an accumulation, of a "unity" of wills towards a single goal, the achievement of which is equally important and beneficial to all. Spontaneous phenomena of that kind seem as if they are the result of an 'agreement' or a "contract" between people. Most probably it is here exactly where we should look for one of the sources of the Contract theory. We could even assume that some of the adherents of this theory thought in terms of an "accumulation" of multiple wills when they spoke of 'contracts' rather than a real contract. In any case, this could be clearly seen in Beccaria /XVIII/.

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Anyway, this theory is very old. It is to be found mainly with Aristotle. He says that from the moment the citizens of a country became more dependent than the citizens of other countries, and started to import what they were in want of and to export their surpluses, money by necessity came into existence as the various objects for meeting their needs were not easy to transport; that is why people agreed to use in the dealings among themselves something, which had internal utility and which could be easily used for different purposes of life, such as iron, silver, etc. In the beginning, these things were used by their weight, etc.; however, over time, people began to put stamps on them in order to avoid weighting and to mark their value. Of course, not all economists understood the difficulties of barter exchange the way we see it in Aristotle, but this is irrelevant to the Contract theory. The important thing is that the very emergence of money is explained with the contract and with the agreement. This theory has a lot of followers (we can find them even in XIX c.), such as Bodin, Davantzati, Montchretien, Salmazii, Scatchia, Pufendorf, Bornits, Vaughan, (this name should be differentiated from Vauban), Locke, Pryor, Schroeder, Justi, Davenant, Rohr, Karli, Ortes, Josselin, etc.

Of the protagonists I will mention just some of the older ones: J. Low, Cantillion, Galliani, Turgot, etc. Especially ironical with regard to this theory is Galliani by saying (having in mind "mankind's" "choice" of gold and silver) that nothing is known about those of the "congresses", which "raised" the precious metals to the rank of money; neither do we know the time or place, nor the mankind's representatives who took part in these "congresses", etc. (Money, Chapter IV). The most important objection, however, we believe, is of completely different nature; it would be absolutely preposterous to think that people at the time of the initial "invention" of money possessed such profound economic knowledge, which even nowadays we can not always claim to have. Indeed, how is it possible to enter into an agreement about the introduction of money, without even knowing exactly what is expected from its emergence, what would be its role and implications. Of course, all such knowledge could not precede the origin of money; it is rather the result of a centuries-old observation on money and its role in

economy. I doubt it that even today we have the full right to say that the secret of money is completely revealed and that the essence of money is absolutely clear. Whatever the origin of money might be, it should be sought in some unplanned economic processes, namely those of the processes, in which individuals, each "on their own account" and in their own understanding looked for ways and means to avoid the big difficulties of economic activity. And where certain ways proved most efficient and when they attracted imitation, it was hardly the case that "originators" and "imitators" were clear what fateful result for the whole of mankind their actions would have, what type of economic institution would come to life and what "transformation" of economic life would that entail.

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[p. 147] Rodbertus regards the whole society not as a system of interaction among individual entities, which comprise society, but as a subjective unity, i.e. still as an entity that could have and feel certain needs. This is what he explicitly acknowledges. We need hardly argue that society as such can not have any needs at all: all needs are always the needs of the individuals that comprise this society; the opposite view is based on metaphysical prerequisites. If this is so, then, of course, we can not speak of any consumer (direct) goods, which are such only from national-economy (national) perspective because they are believed to satisfy the needs of society itself.

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The theory, which associates the origin of money with the most exchangeable goods. 1549 was the year, in which a book of genius was written, whose author, unfortunately, even today is not certainly known. What we know is that two persons can claim the high honour to be authors of this treatise of genius: these are John Hales and Thomas Smith (both contemporaries of Edward VI, "Bloody" Mary and Elisabeth, and both being very distinguished statesmen in their time. The Elisabeth Lamond's investigations point with a great degree of probability J. Hales as the author of the treatise. In its book, Hales touches on the issue of the origin of money. The interesting thing is that he associates money and the origin of money basically with international exchange. Money to him is an international and not a national institution. We find in his book a passage with the following observation. Let us imagine that some foreigners' goods are necessary to us, while ours are not necessary to them. In this case foreigners will agree to take from us not our goods, but rather a material who is in circulation in as many places as possible, since foreigners could acquire through it in any other place and country what they need. This correctly comments on the major difficulties of barter exchange (however with regard to international exchange) while specifying at the same time the most exchangeable of goods as the tool, with the help of which this difficulty could be overcome. In another passage Hales speaks of yet another difficulty if

money did not exist: the lack of a medium of storing value. Let us imagine, says Hales, that in a certain country there is a most excessive plenty of all sorts of goods and also that after satisfying all needs in these goods and after exchanging a portion against the necessary import goods the country still holds large stocks of them. However, not all goods are easy to preserve. So, how could we resolve this problem? It doesn't take much speculation to come to the right conclusion: we need to exchange our stocks for objects, which last, do not occupy much space, are easy to transport at a low cost, and - here is the central point - which anywhere, anytime, i.e. always, have a broad-scale circulation, or in other words, which are the most exchangeable. Anyone who possesses such things (such as gold or silver) could easily exchange them for the goods he needs when he needs them, etc. Here we can see that whenever Hales speaks of the difficulties of barter exchange, he always refers to the most exchangeable of all goods as he believes that people quite naturally resort to their help thus eliminating barter exchange.

The same theory is advocated by Adam Smith: with a view to avoid the difficulties inherent in barter exchange, everyone would aspire to have a certain quantity of commodities, which few people would not accept against their products. I believe that Smith's idea is quite clear and hardly need be commented.

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However, for the first time this theory was systematised, although in brief, by K. Rodbertus (in 1842). He explains the origin of money in the following way: "In an environment of initial and rough social relations when industrial knowledge and needs were still underdeveloped and therefore everybody satisfied their needs by means of their own products while the incidental division of labor was expressed in single acts of exchange, a similarity of climate and location quickly created similar life-style and similar tastes. These two circumstances had as a result that certain commodity became the best preferred and the demand for it compared to all the rest relatively highest, so that it was most often exchanged for other commodities. In the first place, such a commodity was supposed to satisfy a greatest number of needs while it also served as a measure of wealth and not because it was already used as a universal measure of value but only because everyone's wealth actually comprised that commodity, and therefore the quality of that commodity naturally reflected the scale of wealth. When this stage was completed - nature leads man from stage to stage without any involvement on his part - only a little step was needed in order for this commodity to become money. This step was made not by virtue of an agreement but as a result of a very clear reasoning of each individual. Indeed, if such a commodity is not easily perishable, every person who owns a commodity, which he does not need, inevitably arrives, even at an average intellectual capacity, at the thought of exchanging this commodity

against the above mentioned, needed by all and comprising wealth itself, whereby this exchange would take place not for the purpose of using that commodity directly, but rather to have, in place of the commodity they do not need, a commodity, which due to the constant and great need of everyone for it, ensures at any time the possibility to be exchanged for another commodity..... When this reasoning becomes generally accepted (which should inevitably happen as it stands to reason), then all commodities produced within a social group and needed for the members of the group, start to be exchanged against this most necessary to all commodity; as a result, a qualitative relation will soon emerge, whereby all other commodities are exchanged against the most preferred commodity and the latter, by virtue of this circumstance, becomes money since it becomes a medium of exchange and a measure of value."

6.

I will not dwell on other authors of similar views (such as S. Oppenheim), but I will only mention K Menger as he has given the theory, which is the subject of our interest, the most perfect form. K Menger rightly believes that the difficulties of barter exchange (which he sees in the impossibility for people who need one-another's goods to meet in all cases) could not be completely overcome, unless "the very nature of things did not contain in germ a vehicle with the help of which these difficulties could be done away with: the different exchangeability of goods". In a market of barter exchange everybody can make a very important practical observation: some people who bring to market certain goods (in order to exchange them against those they need) can quicker and at less inconvenience achieve their goal than others who come to market with other sorts of goods. A greater experience will teach everybody that at one and the same time on different market places, or in the same market at different points of time, different goods have such advantages. We need not seek too far, as in our times too every wayfarer or explorer who comes to a country, where the exchange is by barter, tries to furnish himself first with goods whose exchangeability in the respective countries is familiar to him (or judging from his own or his predecessors' experience). Anyway, in a similar situation, each participant in an exchange deal - where, because of the small exchangeability of his goods, he can not obtain in the market the goods he needs through immediate exchange - would naturally come to the idea to exchange in advance his goods against others of higher exchangeability although he might not be in direct need of them. Yet, in this way he would be nearer to his ultimate goal: i.e. to obtain the goods he immediately needs, because through the help of the goods of higher exchangeability he could sooner and at a lower cost achieve its goal than through a direct exchange. Of course, this method of exchange does not occur simultaneously under all acts of exchange and not all participants in the exchange start to practice it at one and the same time. In the beginning, only some economic entities establish the advantages of indirect exchange. However, when the other participants in the exchange notice good

economic results achieved by this method as applied by shrewder and more resourceful economic entities, they themselves turn to this practice, as there is no better way of showing man his own interests than to show the success of other men who have applied the right methods for achieving some goals or other. We need hardly speak of the significance of imitation, of custom, etc., which have a "mechanising effect" on men's behaviour. At any rate, it is absolutely clear that the practice of indirect exchange is not the result of an agreement, of a legislative coercion, of a striving after the common welfare; it is rather the result of pursuing one's own economic interests by the individual economic entities. Whatever, through the practice of exchange in advance of less exchangeable goods against the most exchangeable ones, a specific category of objects enter into circulation, which are regularly obtained in the process of exchange not for their own sake but to be used as a convenient means of obtaining the required goods (also through exchange). Such objects, which are among the most exchangeable of all, are by character a means of exchange, which acts as a mediator in the exchange. Where a commodity becomes, within a given territory (or even within a human circle) a common means of exchange, it starts to be referred to, and not only in everyday life, but also in the economic science, as "money".

7

The theory discussed above could be regarded as the most probable hypothesis of the origin of money. Nothing better could be found in the economic science. The attempt at a critique by some economists (Playter, Goettle, etc.) is inconclusive, all the more so that they could not offer anything better instead. Still, the origin of money is also investigated by a school, which assumes that the main difficulty of barter exchange should be sought in the absence of a common indicator of prices and of a common means of economic calculation. Therefore, the adherents of such an assumption are of the opinion that the efforts of the participants in a barter exchange were aimed at the adoption of a common (universal) "measure of value". Goettle associates the origin of money (in this sense) with the activities of traders. No one, however, was able to explain how certain objects become a "universal measure of value", "universal means of calculation", etc. without being "universal means of exchange", universal means of demand, etc.

To us the theory of Hales - Rodbertus - Menger acquires particular importance also because it meets completely our definition of money as a "universal and direct vehicle of demand". At first sight, there is no connection at all between this definition and the reasoning of the above authors. Let us, however, raise the question: why the most exchangeable of goods have a tendency to become a "universal medium of exchange", i.e. objects, which are acquired by exchange only to be disposed of once again? The answer is obvious: only because the most exchangeable of goods are also the most convenient as a

direct vehicle of demand. It is exactly this discovery that was crucial for their use as a "medium of exchange" (or a "vehicle of exchange"), because if a certain object is recognised as most convenient to act as a vehicle of demand, there is no point in acquiring it for some other purpose but to use it as a vehicle of demand, i.e. to be disposed of again.

It is obvious that if people increasingly become convinced that certain objects act better as a vehicle of demand than their own goods, they start to exchange in advance their goods for these objects, thus contributing to the exchangeability of the latter, which makes them even more suitable to act as a vehicle of demand. Finally, economic life comes to the point where some objects start to participate in the exchange acting as a universal tool of demand, as an embodiment of the very idea of demand. In any case, it is not true that certain objects become a universal vehicle of demand as a result of the fact that they become a "common medium of exchange", but just the opposite: it is just because people regard certain objects as a universal vehicle of demand that the latter become a "common medium of exchange". The function of money as a common medium of exchange is only an external manifestation of a much deeper process. At any rate, our reasoning does not run contrary in the least to the theory, which is the subject of our analysis; what's more, they even add value to the position of this theory as they stress one of its most essential elements, which has so far been ignored. Indeed, as money is perceived as a universal and direct vehicle of demand, any other theory on the origin of money, with the exception of the theory of Hales - Rodbertus - Menger, becomes simply inconceivable because it is absolutely impossible to explain why people started to regard certain objects primarily as a vehicle of demand, if they did not have in mind their greatest exchangeability.

III. Money and Economic Calculation

From: On Money (1946), Juridical Editions "Dimitar Dimitrov", Sofia

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[pp. 88-90] The function discussed here is associated with an exceptionally important phenomenon, which could even be perceived as still another special function of money. Indeed, as all goods have monetary prices, which are of the same kind and differ only in terms of size, i.e. by the amount of monetary units, of which they are composed, then we can carry out with them all arithmetic operations - summation, subtraction, multiplication, division, etc. Consequently, the fact that all prices are expressed in different quantities of one and the same object serves as the basis for and makes economic calculation possible. It is true that our economic calculations are not always in terms of money, but in terms of monetary prices; yet monetary prices are still monetary amounts, represented by different objects, which are estimated in money, and therefore in this case, too, we operate with monetary

amounts and with the monetary unit, of which these amounts are comprised. Thus, money, as represented by monetary unit, becomes a universal means of economic calculation.

In this capacity money makes it possible for:

a) economic entities to easily determine the proportions of exchange among all goods, which are taken to market. For instance, if certain commodity is assigned a price of 2 monetary units, and another - 10 monetary units, there is no difficulty whatsoever to calculate the proportion of exchange between these two commodities: 1 piece of the second commodity is exchangeable for 5 pieces of the first commodity. This circumstance is of great significance to economic entities because in order to make their purchases in a rational way, they should know what quantities of other goods they give up in order to spend a certain amount of money for one or another commodity, which allows them to use the respective amount of money most efficiently in terms of satisfying their needs, etc. If money did not exist, they would have to remember not only the monetary prices of goods, but also the whole bundle of exchange relations, in which each commodity stands to the others: b) economic entities to determine easily the size of their wealth regardless of what natural goods it is comprised of. It is not possible to sum up yoghurt, pairs of boots, coal, carpets, etc., but no problem at all to sum up the prices of all these things by multiplying in advance the prices of these objects by their numbers, etc. So, anyway, owing to the fact that the whole wealth is expressed in a single amount of monetary value, it becomes quite easy to establish every change in the wealth status of an entity, as well as to compare its wealth status with that of other entities etc., c) economic entities to determine easily their total receipts and expenses, and their net receipts. This in fact is only one consequence from b) and applies especially to enterprises whose activities are directed towards meeting the needs of others from the point of view of gaining profits. Enterprises could not, without the help of money, express their overall expenses or their overall receipts in uniform amounts, as a result of which it would be difficult for them to determine their net receipts. Only if there is a common indicator or denominator of prices, it becomes possible to take uniform prices of all the goods spent, irrespective of their nature, and to get an overall amount of expenses. The same could be done with regard to products for sale and as a result it is not difficult to determine whether there is a net profit or loss. If we could imagine that money did not exist, then, naturally, it would not only be impossible for people to manage their enterprises according to the rational principle, which some refer to as 'economic', but it would even be absolutely impossible for them to manage any enterprise at all.

IV. Money among Other Goods

From: *On Money (1946), Juridical Editions "Dimitar Dimitrov", Sofia*

[pp. 155 - 161] L. von Mises strongly objects to K. Helfferich's idea that money could still be included (under a certain perception of production) under the category of "means of production" and that transportation vehicles could be excluded (again under a certain perception of production) from the category of "means of production". Mises believes that money could never and under no circumstances be treated as a means of production, while transportation vehicles could never be deleted from the list of production goods. His argumentation is the following. First, he remarks that the trend to look for the internal connection between such phenomena, which are dissimilar in their nature, such as transport and exchange, is due to the equivocal term "circulation", which is applied both to transport and to exchange. It is possible that this generic term, as well as the intermingling of its two meanings, is a result of the simple fact that quite often, but not always, the acts of exchange are inseparable from the movement of things in space. Such a coincidence, however, does not mean at all that transportation and exchange are kindred phenomena: they have nothing in common except for this common "German name" /Mises/, namely "circulation". Transportation, where it is not used for the purpose of travelling for entertainment, is of course used in relation to production; the opposite view does not take into account that in all cases of production, when changes take place in things themselves, man's role is reduced only to the movement of objects from one place to another - the rest is done by natural forces. "This invalidates one suspicion against the view that movements of objects from one place to another are seen as production processes". On the other hand, it is also forgotten that the suitability of objects with regard to human needs depends not only on their natural properties but also on their position in space. This could be clearly seen with immovable goods: their location is always taken into consideration. With movables, however, economists believe that it is possible to disregard these elements and to view as completely equal things that are technologically similar although residing in different places. From economic point of view, however, it is more correct to think of them as different goods. In fact, "final" goods, i.e., goods of "first order" (consumer goods) are not things that are technologically finished but things that are already located where they could be used to directly satisfy people's needs. Therefore, all goods that are "technologically-mature", but are not "position-mature" (this terminology is mine, yet it rightly conveys Mises' ideas), should be regarded as goods of "higher order": only through combinations with complementary goods such as "transportation vehicles" they could become "mature" in terms of location and so become goods of "first order" (that is, consumer goods). If this is so, then transportation vehicles should undoubtedly be recognised as "means of production".

Money is quite a different issue, since exchange, which money serves, differs radically from transportation: exchange is only an economico-legal category, while transportation causes changes in the "suitability" of objects to satisfy human needs. That is why production is also possible where exchange and money do not exist, while without transportation it would not be possible. Mises argues that it is not possible to find goods of "first order" for which we could say that money was needed for their production. The welfare of society depends on the quantity of means of production. Society's welfare is not affected by the quantity of money, etc. In conclusion, Mises fully agrees with the classification of goods offered by K. Knies. Remarkably, however, Mises does not mention a word about the second (wider) concept of production proposed by K. Helfferich. That is why it still remains unclear whether money could not be regarded as a "means of production" from the point of view of the wider concept. However, Mises thoroughly and radically shook the first (narrow) concept of production as proposed by K. Helfferich, as he convincingly demonstrated that from economic point of view the "suitability" of things depends not only on their technological changes, but also on their location.

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What remains to be done is to finish what the preceding theoreticians did not. Our goal is to shatter the wide concept of production used by K. Helfferich and to give a more precise definition of production than the one proposed by L. Mises. I will very briefly outline my arguments because my views on this issue are already familiar (Chapter "Essays"). The main thesis is: utility, goods and value are subjective phenomena. Therefore, it is possible to produce different objects and things, but absolutely impossible to lend such objects in the process of a "production" the character of utility, goods or value, as it is also impossible to lend them price. If this were possible, there would be no cases of economically ineffective production. Or, in other words: different objects are not produced in their capacity of utilities, goods or values, but they become utilities, goods and values under the influence of the direct or indirect estimates of consumers, whereby on the basis of such estimates market prices are formed. Should this be accepted as true, we would hardly be surprised at or need hardly dispute the simple fact that the creation and increase of utilities and values is possible in relation to all types of economic activities (besides the personal consummation, if it is recognised as a special type of economic activity, which, however, is rather doubtful), if only such activities and their results are recognised by economic entities as important for their welfare. It is possible not only with one activity, which changes the form and content of things, but the same is also possible with transportation and exchange, and even with (Helfferich fails to take this into account) simply having consumer goods within a consumer entity (household) "in the sense of a possible levelling of the degrees of saturation (satisfaction) of all sorts of needs" (H. Meier) or in the sense of levelling of supply over time by economical attitude to consumer

goods, etc. It is absolutely clear that the concept of production, which only makes sense when it covers only part of economic activity, - in this way extremely broadens its scope and turns, so to say, into a duplicate of the concept of economic activity, while losing any meaning of its own. The most essential thing, however, is that the concept of "production", which we always associates with the creation of something, for the very essence of work can not be applied to the processes of creation or increase of utilities and values. This invalidates the broad concept of production as given by K. Helfferich and the possibility of money to be treated, from the standpoint of this concept, as a "means of production".

But of course, the abolishment of the broad concept by no way implies abolishment of the concept of production as such. This means that the production sphere is to be sought not in the sphere of creation of utilities and values, but elsewhere. I believe that it doesn't take much efforts to establish that the production sphere is only where there are objective preconditions (material and spatial) for the creation of utilities, goods, and values, and finally, of prices. Here, economic activity is compelled to resort to the help of technology (meaning the real, material aspect of technology). It is exactly that huge sphere of economic activity, where economic activity is interrelated with technology, which is referred to as "production". Whatever, it is clear that the interrelatedness of economic activity with the technological activity gives rise to a number of special problems, so that the respective area of economic activities can and must be emphasised and treated in a special way. Whether we call it production or something else (for instance economic technology or technological economy) is immaterial. The production sphere through the help of technology lends to goods (or, just the opposite - when stored goods are protected against the destruction of) certain objective properties, or goods are placed under certain objective conditions (for instance by changing their location) as a result of which objective preconditions are created for the emergence of utilities, values and prices. Quite often the changes in these prerequisites are perceived as changes in the "suitability" of things. I avoid this term because it is sometimes used in an objective sense (for instance this seems to be the case with L. Mises), and sometimes in a subjective sense (such a connotation we find with K. Helfferich), by confusing it with "utility". Things, which are production output and as such are furnished with objective properties, which are expected to give rise to utility and value, are called "products". Not every product, however, warrants that it will become good and value (as needs might radically change), but even in such a case where needs are absolutely unchangeable, when the objective prerequisites for the emergence of utilities are precisely and unequivocally known, the product, although guaranteeing its turning into good and value, never guarantees any definite utility, value or price. Therefore it is irrational to define production as the creation of utilities and values (although we meet such definitions quite often). As one can see, it is possible to separate production from the other types of economic activities only on the basis of technology, and therefore the notion of production is by nature basically a technical one. It acquires

economic meaning only as far as production processes take place under the control of economic considerations and inasmuch as the outcomes of these processes assume the character of utility and value. But the economic aspect of production, that is, the totality of considerations, which regulate production in an economic way, does not differ in substance from the considerations, which underlie the regulation of exchange, etc. Therefore, from a purely economic perspective, it is simply impossible, as we already established, to draw a borderline between production and non-production. This borderline could be clearly seen if we take into account the technical aspect.

Now we can see that our perception of production fully coincides in scope with that of L. Mises, only now it gains much in precision as we could establish an exact feature of production, which is impervious to any doubt or difference of interpretation. At the same time the distinction between production and exchange becomes even more radical than we can find in Mises' reasoning: in the case of exchange, economic activity does not intermingle with technology. As a result, we have a completely clear answer to the question of whether money is a means of production or not. Money services exchange (the passing of goods from one economy to another against payment), where economic activity is not intermingled with technology, and which is not production. The role, or the functions of money, is also carried out without technological involvement: all acts of exchange fall under the economic and legal category. Money is a "medium of exchange", "universal means of demand", and not a "means of production". Transportation is quite another issue: here we can find the spatial preconditions for the emergence of utilities and values and in all cases with the help of technology. Transportation is production and transportation vehicles are means of production. In this way, by invalidating the wide concept of production, as proposed by K. Helferich, any possibility of excluding transportation vehicles from the category of "means of production" is ruled out.

Summary: Money is neither consumer nor production goods; they are goods of completely different nature. However, they fall under the category of "indirect goods" and in this respect they are in complete similarity with production goods, with which they stand in equal opposition to "direct (consumer) goods". It is exactly this similarity (as indirect goods), which is why money is often regarded as a special type of "production means". If we go once again through the classification of goods, which I discussed at the end of my presentation of Helferich's theory, I believe its meaning will become absolutely clear.