

MONEY IN WIESER'S SOCIAL ECONOMICS

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Within the triumvirate of the founders of the Austrian School, Friedrich Von Wieser is scarcely credited with playing the best role. On one side, he is frequently considered as a faithful follower of Carl Menger and his theoretical originality is supposed to be weaker than Böhm-Bawerk's one. On the other side, his admiration for authoritarian political regimes did not contribute to make him very likeable. These circumstances lead certainly to an undervaluation of his economic works. Wieser's theory of money and credit provides a significant instance of this fact. Few historians of economic thought paid indeed attention to the seventy pages he dedicated to this theory in his **Social Economics**. Now, it is undoubtedly a pity that these developments were not better known and this is one of the reasons why we thought useful to devote a contribution to monetary themes in Wieser's works.

This contribution first presupposes to Wieser's singular position on the problem of individualism. The author's Austrian subjectivism does not indeed imply a social scheme in which equal, free and autonomous individuals would generate economic institutions by their mere interaction. Wieser's moderate individualism provides the key for understanding the transition from his «simple» to his «social economy», that is from a Robinson Crusoe to a monetary economy. The framework of social economies permits, in turn, the emergence of money as an institution. Money implies credit and credit helps to the implementation of production activities. Finally, the investigation of the theory of Wieser's «money and credit economy» allows to distinguish different monetary circular flows according to the functional role they play in the working of the economic system taken as a whole.

Wieser on individualism

Wieser's position on methodological individualism is carefully described in the following passage of **Social Economics** :

« What valid substitute may we offer for the individualistic theory of society ? In its naïve formulation it has become inadequate. But one cannot get away from its fundamental concept, that the individual is the subject of social intercourse. The individuals who comprise the society are the sole possessors of all consciousness and of all will. The «organic » explanation, which seeks to make society as such, without reference to individuals, the subject of social activity, has patently proved a failure. One must hold himself aloof from the excesses of the individualistic exposition, but the explanation must still run in terms of the individual. It is in the individual that one must look for those tendencies that make the social structure -that dove-tail (if we may use that expression) in such a manner as to give the firm cohesion of social unity and at the same time provide the foundation for the erection of social power » (Wieser, 1927, p.154).

It is first clear that Wieser expresses strong doubts on what he calls «naïve » individualism. Classical economists were not «naïve » individualists but, in a way, they opened a road in this direction. Of course, they did not explain **all** economic phenomena by **mere** individual behaviours and found them on a **limitless** self-interest. Wieser notices that

« when they dealt with freedom of action, they conceived of personal egoism as controlled by law and modality. Moreover, they clearly recognized that certain dangers inhaled in personal egoism and that certain precautions must be taken against them » (Wieser, 1927, p.153).

But Wieser considered that classical economists only took into account a part of the individual determinants of economic behaviours, namely the «forces of freedom » («Freiheitsmächte »)¹. They ignored the «forces of compulsion » related to the existence of power in economics and this omission led them to cope with individuals as if they were perfectly autonomous, free and equal. Wieser interprets this view of individuals as a logical pre-requisite for the construction of a Theory of pure exchange based on individual equality and price equivalence, which he attributes to the classical approach. He disagreed, however, with such a theory.

On one hand, he did not consider that exchange relations were independent from the existence of an autonomous social power

« As in all other activity, so in the negotiation of economic contracts, the average man is governed by the social power of the associative principle. In his individual dealings he uses the type of contract that has been generally developed. As a rule he adds nothing more to

¹ A. Ford Hinnichs' English translation (Wieser, 1927) used the word « natural controls » (see Translator's note n°1, p.154 of Wieser (1927)). We prefer the literal translation accepted by Mitchell ((1917), p.104).

this form than a specification of the particular persons and values involved (...). If one looks more closely, one finds that as a rule even in the selection of persons and the specification of consideration he is governed by class and social powers ; and his legal freedom of contract as matter of fact shrinks into an extremely limited freedom of choice. If one points to private contract as the unifying medium of the national economy, and if one seeks to faithfully reproduce actual conditions, one must add that the private contracts are themselves governed by class and social powers » (Wieser, 1927, p.162).

On the other hand, Wieser considered that individuals were generally unequal and that « compulsion » reduced their degree of freedom and autonomy. That is why he attributed to classical economists the « error » of having given « too much room for the play of personal freedom » (Wieser, 1927, p.53). A different conception of individuals and individualism had therefore to be introduced :

« Man is too weak to assure his preservation and to develop his life if he stands as an isolated individual. The impulse to self-preservation and to further development -the egoistic interest that grows from an appreciation of weakness- leads to social organization. In part, men are thus led by conscious deliberation. But fundamentally, a social impulse is operative ; man is by nature a social being (...).

They are two types of social forces : natural controls [forces of freedom] and compulsion. Natural controls [forces of freedom] are recognized by the individuals as aids to the assertion and development of his being. He feels them as increasing his individual power (...). When he is most completely dominated by them, -when his innermost being assents to them-, then for the first time does he believe himself to be quite free. Thus freedom does not consist in total lack of control. It consists rather in a relation of the individual to society.

Compulsion, on the other hand, is recognized as a restriction on the individual life. Its powers are most keenly appreciated when they arise from the armed force which has subdued the vanquished to the will of the victor. But as we shall show later, these forces also develop within the ordinary intercourse of a society » (Wieser, 1927, p.155).

Such a distinction between « natural controls » and « compulsion » deserves some comments.

It is first clear that Wieser does not see those two concepts as the poles of a strict opposition :

« Between the natural controls and compulsion -between the latter and domination- there are imperceptible gradations, extraordinarily difficult to distinguish, whether subjectively by those who are controlled or objectively by those who observe from without. There may be cases where a power is still regarded by its victim as a natural control, although it already operates by compulsion, in that it restricts the development of its life » (Wieser, 1927, p.155).

This embedness of free choice within a compulsory system does not forbid, however, to distinguish both types of forces. In other words, even if it is not always easy to make this distinction **in practice**, there is no doubt however that it **must** be done **analytically**.

This is why Wieser did not deny that individuals seek their self-interest. In **Natural Value** as well as in the **Theory of the Simple Economy** (Book I of **Social Economics**), individuals are indeed described as utility maximizers and they do not really differ from their walrasian cousins. However, the economies represented in those two books refer to what Wieser calls «the most abstract isolating and idealizing assumptions» (Wieser, 1927, p.6). Therefore, they differ from social economies which appear with a «decreasing abstraction to conditions of reality» (Wieser, 1927, p.9). Now, contrarily to the assumptions of **Natural Value**, individuals cease to have analogous natural abilities and identical endowments. They belong to social classes, they are constrained by institutions and they can exert (or suffer) power effects on (or from) other individuals. Therefore, individual decisions do no longer reflect the «forces of freedom»; they also depend on social inequalities and constraints. They contribute however, to institutional changes, even if it is in an unintended way and if these changes will effect, in turn, subsequent economic behaviours.

This conception of self-interest within social economies allows Wieser to define a conception of the individual which differs from the one that he attributes to the Classical approach. Wieser's individual is not an atom; he is a social individual:

« In his economic conduct also the individual is determined by social forces. Law and morals, of which the classicists made mention, are not the only forces. A man is also influenced in all those relations where law and morals leave him free. He is a creature of his period and his environment - of his nation, his class and his profession (...).

Also the impulses to activity are not purely personal. For the average man they are entirely dependent upon the practice of his time and environment for their direction and their strength» (Wieser, 1927, p.159).

« His nation, his class and his profession » - these are the main social stratifications which Wieser stresses.

« Every nation has a certain average degree of energy of will. This is determined not only by race, but also in every period by the historically transmitted culture » (Wieser, 1927, p.159).

It is also necessary to take into account the «horizontal division of economic society» (i.e. the distinction between producers belonging to different activities) (Wieser, 1927, p.158) as well as the «vertical» one (i.e., the distinction between classes, or leaders and masses) (ibid). National, vertical and horizontal stratifications form what Wieser calls the «social order» (Wieser, 1927, p.161).

Wieser's analysis is not limited to this identification. It also provides an explanation of the influence of the social order on individual behaviours. It is based essentially on **mimetism**. On one hand, economic agents belonging to a specific nation, class or profession try to behave according to the average behavior they attribute to the stratification to which they belong. Now, this average behavior may be often analogous to the pursuit of self-interest :

« The goals of the economy are derived from the needs ; its powers come from the impulses and will. Therefore, the direction and standard of economic endeavor cannot be determined entirely personally. The injection to achieve the highest utility with the lower cost is interpreted by everyone in the light of his social environment. The spirit of his times lead him. For the mass of average men the economic principle that they follow is simply to «be as economical as your associates» : i.e., fulfill the law of lowest costs and highest utility as far as is customary in the circle to which you belong and in which you would maintain yourself (...). Economic leaders raise themselves above the mass of their associates but they themselves cannot get away entirely from the social concept of the economic principle » (Wieser, 1927, p.160).

On the other hand, economic agents are very sensitive to the social image they create among the economic community. From this angle, individual behaviors **cannot be** defined independently one from another since the definition of any of them depends theoretically from the definition of all of them. This is the reason why individual behaviors are also necessarily social. Without mentioning them, Wieser actually revives Smith (and his concept of «self-love») and Say (and his concept of «vanité») (Arena, 1998) :

« [The] Ego [of the socially educated individual] is not satisfied unless it finds itself in all important respects at one with society. If one is truly socially educated, his Ego departs from him and finds its end in society ; it ceases to be purely personal and becomes social egoism ; it wishes to conform in all respects to law and custom and in general to the social forces of the economy ; it demands only so much for itself as social precept indicates that it may and should demand. This statement holds true not only of those cases in which a man clearly feels himself bound to social conscience but also where he believes himself to be entirely independent. In most matters, a man accepts the social code of the industrial or social group

of which he is a member ; it is only in certain major relationships, that are uniform for the whole of society, that a universally accepted rule obtains. By reason of the social egoism a man is ready to fit into a social order which includes both submission and domination. The feeling of fellowship makes easier the submission of the masses to the historically maintained power or domination of a class of leader -one submits more readily when others are seen also to submit. In a class of servitors, content with its lot, there arises a class-spirit which regards submission as a point of honor and creates the good will of the faithful servant » (Wieser, 1927, p.161).

This conception of economic individuals obviously differs from the atomistic vision of the first marginalists. This is the reason why Wieser criticized them as he criticized the Classical School, even if he made a systematic use of marginal tools.

We mentioned earlier Wieser's quotations using the concepts of « leaders and masses ». It is now time to define these concepts since they play a fundamental role within Wieser's conception of social power.

« Leaders » and « masses » emerge within « social economies » since « simple economies » only relate equal individuals. From this viewpoint, the distinction is not provisional or casual. It presupposes a national community in which agents are fundamentally unequal :

« Leadership is impossible without some inequality » (Wieser, 1927, p.157).

« Social economies » are more complex than « simple ones » since, within them, « individual units meet from all all directions » and « clash with great forces » (Wieser, 1927, p.153). This complexity, according to Wieser, implies a necessity of coordination which is solved by social power. Thanks to it,

« the individual search of whom independently follows his own law, are held to a common purpose and enabled to work to a single end » (Wieser, 1927, p.152).

Wieser indeed considers that « masses » are unable to generate a spontaneous coordination and therefore, that they have to be directed and controlled by « leaders » :

« Even in those cases of social intercourse where a legal right of self-determination is preserved to the individual and in which leadership plays no part, leadership and the accompanying power of leadership do develop. Even in their personal affairs, the mass of individuals are too weak to rely upon themselves alone. (...) Everything that man has

accomplished whether in spiritual or physical evolution, has been attained only through social relations, in that the best leadership has furnished the example, the advice and the knowledge ; and that others were induced to follow them because of the success which these leaders have attained » (Wieser, 1927, p.156).

In this representation of the social economy, leaders are autonomous and their energy permits them to behave according to their individual aims. However, masses are not passive. They may accept or reject what leaders decided and their decision and reaction are essential. If masses agree with the actions and innovations of the leaders, they are lead to copy them. Therefore,

« Through the initiative of leaders and through initiative acceptance by the masses, society develops certain institutions serving the common needs so well as to seem like the creation of an organized social will. Money, markets, division of labour, the social economy itself are such creation » (Mitchell, 1917, p.104).

Wieser introduces here two different behaviours. One is **innovative**. It corresponds to leaders decisions. The other one is **imitative**. It refers to the attitude of masses. This distinction is obviously close to the one pointed out by Schumpeter in the first German edition of his **Theory of Economic Development**, when he contrasts what he calls «energetic » and «hedonistic » economic behaviours. The mechanisms of innovation in the subsequent editions of the book are also an echo of this opposition, since new products of new techniques are introduced and diffused within the economy through a combination of innovative and initiative behavioural patterns.

The intervention of masses cannot be interpreted however as a pure act of recognition of the social utility of leaders decisions. It generally transforms an individual invention into a real social device. Therefore, masses tend to create a final rule «far beyond [leaders] expectations » (Wieser, 1927, p.165). This is the meaning Wieser attributes to Menger's idea according to which economic institutions are the «unintended social results of individual teleological tendencies » (Wieser, 1927, p.165).

Two cases may be faced according to the interests privileged by leaders. Wieser indeed observes that

« powerful persons are merely in a position, in building up the economic organization, to carry through their personal interests rather than the general interest. Thus they are able, at those points which they regard as critical, to replace the social mind by their own. By this

means the social consciousness is falsified and made to appear contradictory » (Wieser, 1927, p.XVII).

In this case, Wieser observes that the intervention of the State (p.XVII) or of the masses is necessary. If this intervention does not occur and if, on the contrary, masses approve, this proves that leaders are defending some general interest. Social classes, for instance, derive from a systematic and permanent leadership. They are acceptable if they do not « lead to the oppression of the masses » (Wieser, 1927, p.157).

From simple to social economies

Money provides a positive example in which institutions serve the general interest :

« The enormous advantage offered by money in the community of exchange is explained solely from the fact that it dissolves the entire turnover into links of such individual transactions of one exchanging couple each. The effect of it is, that men, in their acquisitions are never tied down to the one contracting party with whom they have just dealt. They are altogether turn to any other man who may have the stock required » (Wieser, 1927, p.169).

But money is not present in all economies.

Let us take, for instance, the case of the « communist state » developed in **Natural Value** (Wieser, 1893). In this imaginary economy, all individuals have identical consumers preferences and the same marginal utility of income. This natural state, however, differs clearly from Walras's pure exchange economy. Exchange, as well as money, are indeed absent and a central authority directs the national economic process and, especially, the distribution of wealth among agents. Natural value is determined by marginal utility and is not disturbed by «human imperfection», «error, fraude, force, chance », «order of society», «private property » or distribution factors (Wieser, 1893, pp.61-62). Here again, the contrast with Walras is striking. The transition of a natural to a social economy is seen as a step towards the real world but the second economy appears to be a distortion of the first one. On the contrary, in Walras, the transition from the pure exchange to a monetary

economy es characterized as a mere extension of the initial canonic scheme to the case in which money exists and offers its services to consumers.

Book I of **Social Economics** («The Theory of the simple economy») does not change really this social device. Again, individuals are supposed to express identical preferences and incomes. Therefore, they can be easily replaced by a single economizing individual who, however, cannot be assimilated to a Robinson Crusoe. «Millions of person» are replaced by a «masses unit», which presents holistic features (p.9). Let us read Wieser's comment from this angle :

«In the theory of the simple economy we shall examine only the effects of economic purposes on economic processes. We shall not consider the conditions that accompany the formation of the socio-economic powers except to remark the condition of fatigue that attends the expenditure of personal energy.

The simple economy (...) is the economy of a single subject. Here one does not find the contrast that are manifest in the social formation of forces. But we do not have in mind the scant economy of an isolated householder. Rather we envisage an economy that has the breadth of a national economy with all its wealth, technical knowledge and problems of economic calculus. But this broad economic is guided by a simple mind» (Wieser, 1927, p.19).

Quite logically, exchange and money are still absent.

Things change however drastically in Book II of **Social Economics** («The Theory of the Social Economy»). Noticeable for us, exchange **and** money finally appear :

«The second section, the theory of exchange, presupposes a social economy, unhampered by interferences on the part of the state. The theory of the simple economy having shown in what manner a single subject manages and calculates his economic affairs, we now show the numerous juridical subjects, who meet in the course of exchange, as they seek their economic advantage, determine prices and thus erect the structure of a social economy» (Wieser, 1927, p.10).

As soon as several agents are taken into account, Wieser's conception of individualism applies, combining forces of freedom and of compulsion. But the transition also reveals Wieser's empiricism :

«The theorist starts from the most abstract isolating and idealizing assumptions. In there he seizes the unalloyed elements of actuality without disclosing the fullness of its image. However, if he would accomplish his task he must not stop with these extreme abstractions.

Should he do so, he would fail to convey an understanding of reality. Step by step a system of decreasing abstraction, he must render his assumptions more concrete and more multifarious » (Wieser, 1927, p.6).

This «decrease of abstraction» is necessary to avoid the mistakes made by the classical school; but also by the marginalist school which, stressing too much economic statics, treated « theory like a physical science of economic goods » and « nearly eliminated the active impulse of the economic sense of mankind » (p.51). It shows that

« The method of economic theory is empirical. It is supported by observations, and has but one aim, which is to describe actuality » (p.5).

This empiricism is not naïve, however. Wieser does not forget the error of the German Historical School. He knows that it is useless and generally counter-productive to try to grasp all the details of the real world. Moreover, Max Weber's influence leads him to point out the typical phenomena, what we might call today the « stylised facts »¹ :

« Economic theory does not attempt to describe the actual in its entirety, as purely empirical sciences are wont to do. They strive to remain true to nature in every detail. But the economist is like an historian unfolding an individual historical course of events or a statistician summarizing a series of cases. He endeavours to place before us the typical phenomenon, the typical development, and to eliminate whatever may be subordinate, accidental or individual » (Wieser, 1927, p.5).

The last task of the present section is therefore to precise the typical phenomena which characterize a « social economy ».

It is first, however, necessary to notice that Wieser assigns to social as well as to simple economies the same fundamental objective, which is strictly analogous to the one that the Classical School defined for the first time in the history of economic thought. This objective is economic self-reproduction and it reflects what Wieser calls « the law of the unity of the economy » (Wieser, 1927,

¹ In his Preface to Wieser's **Social Economics** (1927), W.C. Mitchell notices that Max Weber imposed Wieser as the writer of the chief section of the new **Grundriss der Sozialökonomik** on economic theory (Mitchell in Wieser (1927) p.XI).

p.68). In compliance with the classical tradition, simple and social economies must ensure, with or without any exchange process, that a net product is created :

« An economy aspiring to enduring service must distinguish between gross-yields and net-yields. It must lay aside : sufficient reserves to entirely renew its capital, treating only the residue as net-yield (...). Net-yield may be defined as the residue left after deducting reversal-costs from the gross-yield » (Wieser, 1927, p.131).

This stress on self-reproduction is increased by the transition process from simple to social economies and explains the first «typical» feature which permits to distinguish between both types of economy. Streissler indeed emphasized the importance given by Wieser to production within social economies :

It is also correct that [Wieser] also had a strong inclination for the production side of the economic process. And that made him the only truly neo-classical author in the first two generations of the Austrian school and together with Fritz Machlup one of only two neoclassical authors in the school altogether. He thereby also provided a link with Anglo-American economic thought, particularly with Alfred Marshall, with whom he had the strongest affinity and who also appreciated him most. His strong «neo-classical» bent of thought (in the narrower sense) can best be seen in the disposition of his material in **The Theory of Social Economics**. It reflects John Stuart Mill's **Principles** : the analysis of the factors of production is placed nearly at the beginning, distribution, on the other hand, is treated, as in Mill, much later, in the case of Wieser nearly at the end. The classical vein runs very strong in Wieser : in his habilitation thesis he gives Ricardo, Marx, Engels, Jevons and Menger as his authorities ; and in the text-book of his maturity Ricardo out-distances Menger in text references by 25 to 18 and Marx is the author most frequently quoted in footnotes, four times among only twelve footnotes in all » (Streissler, 1986, p.96).

More precisely, Wieser dedicates an entire paragraph of his **Social Economic** (Book I, §10) to what he calls the «unity of the economy». Among the three determinants of this unity - money, market, production- the first two only unify the economy «externally» (p.49) but the fundamental «internal» link which allows to define the economy «as a whole» is production :

« However, despite its extreme differentiation and manifold contrasts, the economic process of today is actually a whole. It is not a unit in the truer sense of the term ; and yet it functions with an all-embracing homogeneity which may be idealized and represented as unity. This condition is founded in production. All productive stems are related to one another » (Wieser, 1927, p.50).

More fundamentally, production is, in turn, based on the existence of a process of division of labour which exhibits two dimensions. The first, horizontal, was already emphasised by the classical school, according to smithian lines. The second one, vertical, refers to the division of social classes. Wieser considers its importance is not inferior to the one related to horizontal division of labour (Wieser, 1927, p.310). Now, money did not generate division of labour but is only its « concomitant » (p.170). This is probably the reason why it only unifies economy « externally ».

The existence of a vertical division of labour provides one of the main foundations of what Wieser calls **social stratification** namely, the second typical feature of social economics. As we already noticed, stratification implies both the division **between** and the division **within** social classes. These divisions exert various and substantial effects on the economic activity. They do not only concern production but also exchange. For instance, in a social economy, prices are also stratified, reflecting the evolution of the different types of goods in relation with the social groups which consume them. Thus, the existence of three classes implies that the group of « mass-commodities » has to be evaluated by the marginal utility of the poor : the set of «intermediate goods », by the preferences of the middle classes and the group of «luxury goods », by the valuations of rich people (Wieser, 1927, pp.157-158). Social stratification also appears through the social role played by entrepreneurs :

« The legally independent acquise enterprises are instruments of a great social productive and acquisitive process following a division of labor » (Wieser, 1927, p.151).

This process allows entrepreneurs to act frequently as « leaders », not only because « commodities, as things, are controlled by the owners » (p.42) but also because

« the institution of enterprise is the organ of the modern economic stratification (...). In its simple forms, it invests the entrepreneur merely with personal superiority ; later, when large enterprises develop, it gives him a degree of power that finally swells to capitalist supremacy (...)

He is not merely the legal head ; he is also at all times the economic leader. His legal power of disposition reaches its full significance in securing to him complete freedom of economic management. His economic leadership commences with the establishment of the enterprise ; he supplies not only the necessary capital but originates the idea, elaborates and puts into operation the plan, and engages collaborators » (Wieser, 1927, p.324).

Firms are not the only institutions in social economies. We already notices how the were generated by the interaction between leaders and masses. We have also to recall that this interaction is only understandable in a permanent process. Leaders create social devices which correspond to their needs and aims. Masses imitate leaders and, therefore, transform those devices into social rules or institutions. These institutional patterns then become constraints for further individual behaviours. The aggregate results of the various agents decisions change, in turn, and contribute to institutional change etc... This approach, therefore, introduces a process of institutional change able to imply feed-back effects on the economic sphere. This kind of process occurs in historical time and, therefore, it has to be considered step by step. From this standpoint, institutional impulses

« are entirely dependent, [for the average man] upon the practice of his time and environment for their direction and their strength » (Wieser, 1927, p.159).

The emergence of new leaders can, however, change institutions, if they are allowed by masses.

One of the main institutions of a social economy is **market or, to be more precise, markets**, since Wieser refers to « institutions of exchange » (Wieser, 1927, p.150).

Wieser's view of exchange differs substantially from Walras's one. Wieser does not consider indeed that the scheme of pure bilateral exchange offers a kind of universal foundation for any economic system. Quite the contrary, he stresses that the mutual wills of individual economic agents do not provide the only determinant factors of exchange :

« The exchange contract (...), although it is made as a rule only between two parties, has manifested itself the coordinating instrument that binds the individual æonomies into the rational economy (...) our main task is to describe the institutions of exchange and erection of the national economic body that is brought about by these » (Wieser, 1927, p.150).

In this context,

« the market is a social institution, where the freedom of exchange operates as a freedom of choice » (p.172).

The existence of markets is implied by the coexistence of private property and (both horizontal and vertical) division of labour. Production is indeed implemented by «legally independent» individual «producers», helped by «workers» (p.150). Now,

«in a fully developed money economy, in which individual self-sufficiency disappears, all households must finally turn to the market for a satisfaction of their needs» (Wieser, 1927, p.150).

In other terms, markets are fundamentally monetary. They form what Wieser called «the great circulation of the national economy» (Wieser, 1927, p.151).

On one side, households demand consumption goods to firm and they are then «faced with the necessity of securing a monetary income» (p.150). This income is a money wage paid by producers. Money holding is, therefore, a prerequisite of demand for wage-earners; they are submitted to a kind of clowerian liquidity constraint; they cannot buy directly goods through barter with their labour.

On the other side, for firms, money holding is a prerequisite of production. Firms must hold the amount of money due to wage-earners and, therefore, they also demand liquid resources. Contrarily to a simple economy, they are now structurally parted from households.

Again, Wieser's conception of market is entirely different from Walras's one. While Walras starts from a basic scheme of market economy based on barter between two commodities and then generalizes it progressively to general pure exchange, production, capitalization, and in the end, money and credit, Wieser considers that there is no market without money. To use Hicks's modern words, his theory of markets is a money theory of markets, insofar as markets are logically unconceivable if money as an institution is not presupposed.

But Walras's and Wieser's conceptions of market do not only differ according to the part they attribute to money within the exchange process. On his side, Walras stresses the universal character of pure exchange economies as a general logical device on which it is necessary to build the whole edifice of general economic equilibrium. On the contrary, Wieser does not emphasize the homogeneity of concrete markets but their heterogeneity. This attitude is not surprising. Wieser first considers markets as an institution :

« The market is a social institution, where the freedom of exchange operates as a freedom of choice » (Wieser, 1927, p.172).

Considering market as an institution, Wieser notices that it is necessary to distinguish various « institutions of exchange » and he dedicates the whole part II of Book II of his **Social Economics** to their study.

Markets must therefore be distinguished according to their specific institutional set-up or, to use Wieser's (but also Marshall's) own words, to their proper « organizations of markets ».

Market organization is indeed central in Wieser's approach, as it was in Menger's one. The formation of prices does not indeed follow the same rules, according to the fact that the market is organized or « disorganized » (Wieser, 1927, p.195).

Markets might be characterized, however, by a common feature but also by their diversity.

The common feature of markets is the predominant part played by producers and supply within the working of exchanges. On one side, the freedom of exchange is indeed counterbalanced, at least partially, by the forces of compulsion. Wieser observes that, often, in the process of exchange, agents have not their « full economic strength » (p.168) and therefore, as in the contracts of « labour » or « usurious loan », an asymmetry exists among the parties. Producers may, therefore, profit from compulsion and they are also able to impose their « supply prices » (p.175) as a prerequisite imposed by producers to consumers (p.175).

Markets, however, are not identical. They are all different :

« Theoretically, we have to distinguish in the universal economic market as many varieties of partial markets as there are varieties of market-indices » (Wieser, 1927, p.175).

This stress on the diversity of markets was not introduced by Wieser, but by Menger, within the Austrian Tradition (Arena, 1999).

As we pointed out earlier, it first refers to what Wieser calls « the stratification of prices » (Wieser, 1927, p.186). In other words, markets are not all accessible by any type of agents. « Mass-commodities » are indeed brought to markets in such large quantities that the consumption needs of all social strata can be supplied. Therefore, in mass-commodities markets, prices are determined by the poorest agents and only by their marginal utilities. In luxury goods markets, on the contrary, « prices are offered according to a standard induced by the purchasers ability of members

of the higher and highest income-strata who are bent on excluding the competition of all other rivals » (p.187). Finally in intermediate goods markets, prices are determined according to the purchasing power of the middle classes. Therefore, markets are **socially stratified** according to the diversity of consumers purchasing-power.

Markets are also differentiated according to their organization. Here the Mengerian influence is direct. Several causes might be referred to : degree of speculation (p.173), type of competition (pp.173-174), distance to the final consumer (p.176), mechanisms of bids (pp.174-176) or quality of organization (p.195).

These causes permit to distinguish essential markets. The labour market is the first described by Wieser, who notices that « labour is not a product » (p.176). Markets products are differentiated according to their modes of exchange : natural barter (p.174) or monetary exchange (p.175). Money markets include the loan and the stock markets ; they do not allow product exchanges ; they permit to satisfy investment needs (p.176). Finally, the « market of agricultural or urban real estate » is often following the money market (p.176).

Last but not least, then comes **money** as a distinct feature of social economics. If we combine it with production, we obtain the two most distinctive typical features of a modern economy. That is why we may credit Wieser, without any kind of hesitation, of having built a theory of monetary production economies within the Austrian tradition. It is now time to focus on money as such.

Wieser on money and credit

Wieser clearly considers money as one of the founding institutions of social economy :

« For complicated social institutions the historical explanation requires further refinement. We shall show this by the classic illustration of money, whose unknown origin has provoked almost as much interest among men as the origin of the state or of speech. But we must also show that the more subtle explanation at which one finally arrives, necessarily involves a reduction of individualistic stress.

The long series of writers who sought to explain money as an individualistic institution, ends with Menger's penetrating investigation. He uses the phenomenon of money as a paradigm

by which he assumes to show that all social institutions of the economy are nothing more than « unintended social results of individual-teleological factors » (**Unter Suchungen**, pp.171-187) » (Wieser, 1927, p.163).

The reference to Menger is obviously essential. For our purpose, it is not however necessary to remind here Menger's conception at length. We shall confine ourselves to two substantial quotations taken respectively from Menger's **Principles of Economics** and **Problems of Economics and Sociology** :

« Money is not the product of an agreement on the part of economizing men nor the product of legislative acts. No one invented it. As economizing individuals in social situations became increasingly aware of their economic interest, they everywhere attained the simple knowledge that surrendering less saleable commodities for others of greater saleability brings them substantially closer to the attainment of their specific economic purposes. Thus, with the progressive development of social economy, money came to exist in numerous centers of civilization independently. But precisely because money is a natural product of human economy, the specific forms in which it has appeared were everywhere and at all times the result of specific and changing economic situations. Among the same people at different times, and among different people at the same time, different goods have attained the special position in trade described above » (Menger, 1871, pp.262-263).

« It is clear (...) that the origin of money can truly be brought to our full understanding only by our learning to understand the **social** institution discussed here as the unintended result, as the unplanned outcome of specifically **individual** efforts of members of a society » (Menger, 1883, p.155).

These two quotations provide a significant outlook of Menger's theory of money. Wieser accepted it only partially. He indeed considered that money is something more than this « unintended result » (p.165). To put it briefly, for Wieser, Menger's story is substantially correct if we interpret « individual efforts » as the efforts of the « leaders ». In other words, Wieser implanted his theory of the interaction between leaders and masses within Menger's approach. According to him, within the market process, the members of the society who had in charge the organization of exchanges very quickly realized the importance of the drawbacks implied by a barter economy. These drawbacks - which are familiar to economists- convinced the « leaders » to introduce a simpler system which would have avoided the necessity of multiplying indirect and costfull exchanges. Through a process of learning, little by little, they created several means of substitution according to their historical and cultural environment. Therefore those leaders, who had only in mind their own interests, indeed

contributed to create a true unintended new monetary system. But, in Wieser's conception, these means only formed a system when masses approved them by imitating leaders, in other words, when everyone, in the least exchange processes, used the means introduced by the main participants to the market.

« The function of the masses consists in the case of money as in all other social activity in that their imitation establishes the universal practice which gives to a rule its binding force and social power » (Wieser, 1927, p.104).

Money is therefore an institution which is not understandable with the only help of an individualistic approach.

Wieser, however, did not only pay attention to the problem of the origin of money. He also faced the main questions of monetary theory. We shall not consider here those related to the value of money. Wieser's only innovation is related to the link he sets up between the value and the utility of money, in contradiction with the usual original quantity of money theory. We shall not consider either the problem of a monetary system based on a metallic commodity. We shall rather stress the different forms of money distinguished by Wieser which correspond, in modern terms, to the various types of liquid assets.

The first one is « money-capital ». Money-capital

« includes not only cash reserves but also those much large sums which are held in other liquid form, especially those already invested at interest during the process of accumulation, provided that they may be ILLISIBLE or transfered on short notice » (Wieser, 1927, p.293).

Therefore, it is easy to understand why «the formation of money-capital is accomplished by saving or by laying aside money » (Wieser, 1927, p.300). « Money-capital » indeed corresponds to Keynes's **Treatise** « saving deposits », namely, to firms monetary saving.

Money-capital has to be distinguished from loan-capital :

« All capital ILLISIBLE, that is not money-capital is loan capital, from short term business credits to long-term or perpetual ILLISIBLE loans and annuities which are usually spoken of as capital investments » (Wieser, 1927, p.294).

Loan capital corresponds to the bank or money deposits firms obtained by the means of short term or long term credit. Therefore, they correspond to Keynes's « finance » and « business deposits ».

« Entrepreneur's capital » is, then, the sum of « liquid cash items which are to cover payments of wages and other current operating expenses, that part outstanding as loan capital and also the remainder which has been transformed into natural capital and further the enterprise as such » (p.294). « It means the entire capital which has been invested and is actively used in the enterprise » (p.294). It corresponds to the classical « capital avancé ».

Finally, « the ready money of the household » « is to be used directly to cover domestic needs » (Wieser, 1927, p.293). It therefore corresponds to Keynes's **Treatise** income deposits. When consumers form saving deposits, the usual language avoids to call them money-capital but, however, land or housing acquisitions by households have to be included within national saving (Wieser, 1927, pp.295 and 300).

What is striking here is obviously the analogy between Wieser's and Keynes's classification. It reveals a connection related to the will of describing the same reality which is a monetary production economy. This parallel goes on with the introduction of credit :

« The establishment of the credit system did not introduce a fundamentally new set of conditions ; it is not even desirable to speak of a special credit economy. What men refer to as the credit economy is merely an extension of the money economy ; it might be called the credit-and-money economy » (Wieser, 1927, p.261).

A « credit-and-money economy » is therefore nothing else than the modern form of an exchange economy. In other words, credit and money institutions correspond to the contemporary stage of the process of emergence of money market economies :

« the development is within the money economy ; credit transactions are an institution of exchange » (Wieser, 1927, p.238).

The introduction of credit within money market economies facilitates the activities of production and this is the reason why « leaders » created it and « masses » accepted it. It strongly increases the performances of the economy :

« By means of loans and credits in their various forms individuals other than those owning property are given control of the property. In particular the group of entrepreneurs is renewed. By means of payment by credit the form of money is expanded ; developing natural values offer a commercial security and themselves furnish the means of payment which facilitate their sale. Thus the avenues of production are enlarged. These are great results but they rest on a monetary economy within which they function » (Wieser, 1927, p.261).

Credit, therefore, appears to be both the modern form of exchange and facilitator of production. However, these two roles are not so distinct, they merge into the assertion, that, in a credit-and-money economy, credit supplies entrepreneurs with the liquidity they need to organize production. Anticipating Keynes's finance motive, Wieser shows that bank money or credit provides the very condition of production within a money market economy. In this prospect, Wieser indeed remarks that, thanks to credit, the entrepreneur (and not the capitalist !).

« is enabled for the entire period to continue an economic process which, in the absence of the loan, he could not have begun or continued » (Wieser, 1927, p.240).

Credit takes a variety of forms in the real life. We shall not enter, however, here into the description by Wieser of the different concrete types of credit since it only presents an historical interest. We shall rather consider the economic principles according to which the credit system is organized.

The foundation of this organization is the Fullerton's principle which assumes the strict necessity of the periodical reflux of credit creation :

« Notes which are paid out in discounting loans are subject to a law which has been called after its discoverer, «Fullerton's law ». When the credit granted by the bank expires the bank either receives its note or, if repayment is made in cash, an amount of cash which covers the note remaining in circulation. The notes which the bank issues in discounting commercial paper are no longer lived than the draft of acceptance itself. (...) They come into existence when the draft is discounted ; they die when the draft is honored » (Wieser, 1927, p.245).

In compliance with the Banking School approach, the adoption of the Fullerton's principle obviously implies a distinction between credit defined as a temporary means of payment and money defined as a definitive one. Wieser states it :

« Finally commercial paper is a means of only provisional payment. Notes [of the Central Bank -stressed by me R.A.] are a means of final and conclusive payment just as is money » (Wieser, 1927, pp.245-246).

It is then natural that Wieser conceives bank money supply as endogeneous :

« The amount of the unsecured balances, to the extent of which money does double work, fluctuates as elastically with the monetary requirements of trade as does the amount of unsecured notes. In periods with large financial requirements, the bank will increase its loans. As the requirements drop off, there takes place a return flow of bank funds which is quite analogous to that described by the law of the return of bank notes » (Wieser, 1927, pp.248-249).

Within the theoretical framework that we have just described, the fulfillment of the Fullarton's principle and the respect of the rule of endogeneity of bank money implies a strict equality between the money values of supply and demand. This equality ensures, in its turn, that the values which finally prevail on the market as well as in the production sphere, are **natural** :

« It is his personal loss, when one of the contracting parties errs and surrenders a greater value in the one form than he receives in the other. The equation of values in the total, however, is not affected by this error, for what he overpaid becomes the gain of the other party to the contract » (Wieser, 1927, p.256).

Money and circulations

As some of the economists of the beginning of the XXth century interested by the field of monetary theory, Wieser describes the national economy as a «community of payment ». This community which derives from the existence of money and credit involves two different types of circulation.

The first circulation might be called the income circulation. It is described by Wieser as « the exchange of natural values for money » (Wieser, 1927, p.250). It is the circulation which, according to the prevailing form of the division of labour, allows households and firms to buy the different

consumers and capital goods with the incomes they earned in the process of production and exchange. Wieser describes this circulation as a means for society to attribute social utility to produced goods. There is certainly here a possible parallel with Marx. Marx characterized exchange as the process of transformation of concrete labours into parts of the social abstract labour. Therefore, exchange was a means of confirming the social utility of goods which, earlier produced in a purely private sphere. Now, Wieser writes :

« In disposing of his products for money, the producer effects a transition from the narrow field of his particular process -a limitation imposed by the division of labor- to the entire wealth of values in the market. He surrenders the natural form of a specially conditioned product for which the market possesses only a limited capacity of acceptance. In return he receives money, the general medium of exchange, which enjoys a mass-habit of acceptance and by which he is left to a greater or less degree master of the market. He may now come forward in the market with his demand. It is this shift from a restricted to a general command of the market that is significant in the concept of payment. In this sense payment is a monetary performance in exchange ».

Through exchange, « natural values » are therefore becoming « social values », as « concrete labour » used to become « abstract labour » in Marx. Therefore, the income circulation is not only the means to ensure the renewal of production in a social economy involving private property and division of labour. It is also a social set-up which permits society to include (or exclude) private productions within (or from) the set of the national product.

Wieser also admits the existence of a second type of circulation. He indeed calls « original » the natural income. But this original income does not sum up the whole economic activity. Besides « price payments » which characterize the circulation of income, Wieser also defines « payment by assignment », « which are made under any title outside the market of natural values » (Wieser, 1927, p.2562). These payments are rather heterogeneous. They refer to transactions related to changes of ownership, as it is the case when a financial asset (a share or a bond) is transferred to another agent. Payments to the banks or to the creditors are also included in « payments by assignment » because

« the party paying as the assignor (...) surrenders a certain general market control, considered as money, to an assignee » (Wieser, 1927, p.253).

This category also entails gifts or tax payments. The incomes to which these «payments by assignment» give birth, form what Wieser calls the «derived income». Within the sphere of the derived income a specific mention must be put on the capital market (p.303). This market is subdivided into the «money» and the «investment markets» (p.303).

The money market is the liquidity market. It allows banks and firms to meet and determine the conditions of short term production credits. It provides the means which permits markets economies to organize their system of credit.

The investment market ensures the funding of investment by saving. Capital-goods and unsold commodities are assumed to form a part of firms saving, while sold commodities appear as monetary balances within firms endowments (Wieser, 1927, pp.295-296). The investment market involves the market of stocks and bonds, on the one hand, and the real estate market, on the other hand. This view of «investment market» may present some resemblances with Keynes's «financial circulation» but they are only superficial: no real Keynesian speculative motive is assumed to exist in Wieser's theory¹.

The money and investment markets «are mutually connected» (Wieser, 1927, p.304). Therefore, one could expect for the emergence of a single long-run rate of interest, as the result of «equalizing movements» (p.304). But, in practice, this is not the case:

«Even with complete security on the loans, the interests of the different groups composing the supply and the demand are too diverse as regards the period of the loan and a number of other conditions for a central market to form in which the law of the unity of price might prevail» (Wieser, 1927, p.304).

The rate of interest on the money market is «more mobile» than the «steadier» investment market interest rate (p.304).

Concluding remarks

The investigation of monetary themes in Wieser's contribution to economics finally reveals an original réflexion. From this point of view, three final remarks might be formulated.

It is first clear that Wieser's contribution to the Austrian tradition is highly valuable. On the one hand, Wieser completes and extends, in his own way, Menger's theoretical results. On the other hand, paradoxically, he proposes the foundations of a theory of money strongly related to the wicksellian approach and anticipating Keynes's **Treatise on Money**.

It is striking to note the analogies between Wieser's theory and some aspects of the classical tradition. On one side, the stress put by Wieser on production and natural positions is not so far from the Ricardian approach. On the other side, the Banking School exerted substantial influences on Wieser's theory of money.

It is finally worth to stress the distance between Wieser's and Walras's views on money. Although both authors are often considered as promoters of the so-called «Marginal Revolution», their theories have very little in common. This only proves how Jaffé was right when he emphasized the necessity of «deshomogeneization» of this «Revolution» (Jaffé, ...)

¹ Wieser describes speculation but does not see the importance of its financial dimension (Wieser, 1927, pp.363-367).

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