

NOTES AND REPLIES

On the Social Benefits of New Money: A Rejoinder to Block and Barnett

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We are thankful for Block and Barnett's (2024) rejoinder to our article (Mousten Hansen and Newman 2022), if for no other reason than the whirlwind trip through the looking glass it offers. Unfortunately, Block and Barnett entirely misconstrue our argument despite citing copiously from our article. In this reply, we intend to set the record straight.

First of all, our article is not a comment on Barnett and Block (2004; 2012). Its purpose is to defend Rothbard's definition of inflation and to show how it is not a case of special pleading when Rothbard excludes an increase in the stock of the money commodity from his definition (Rothbard 2009, 990). We argue that an increase in the stock of the money commodity is not a waste and does not lead to the distortions of the market economy that follow necessarily from coercive inflation.

Block and Barnett as Inflationists

We only mention the articles of Block and Barnett because their articles deal with the same question and arrive at a similar conclusion but with a different line of argument. They argue that an increase in the money supply is socially beneficial because it enables additional mutually beneficial exchanges (Barnett and Block 2004, 47–48), but we rejected this reasoning and sought a more satisfactory explanation of the social benefits from an expanded stock of market-produced money. They fail to see that the nominal amount of money in existence is not a limit on the number of exchanges that can take place at any given time. If more goods and services are offered for sale (and more exchanges take place), then prices will fall and the same stock of money will satisfy the demand for money. In making this error, they fall into the same trap as the monetary disequilibrium theorists (e.g., Yeager 1986; Horwitz 2000)—albeit from the opposite side. These theorists argue that monetary deflation leads to unemployment since prices are sticky and cannot adjust to the change in

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economic reality. Block and Barnett imply that price stickiness prevents some goods and services from being sold and an increase in the money supply therefore enables more exchanges and, presumably, full(er?) employment.¹

Incidentally, Block and Barnett have not explored the full implications of their argument. Taken to its conclusion, it would justify all money creation, coercive state inflation of fiat money, and private production of commodity money. They do write that “the optimal quantity of fiat money is whatever is in existence, and, from an Austrian perspective, that quantity should never be changed” (Barnett and Block 2004, 40), but this is a mere assertion that does not follow from the logic of their case. Since an increase in the nominal money supply leads to more beneficial exchanges, *any* increase in the supply of money will, according to their argument, lead to social benefits so long as the marginal cost of producing money is below the marginal benefit of enabling more exchanges. But they do not state a principle by which this consequence is ruled out in the case of fiat money. There must, therefore, be enormous untapped resources available or hitherto unknown numbers of unemployed people out there somewhere, just waiting for the right increase in the money supply before they start transacting and producing wealth. At the conclusion of Block and Barnett’s theory, we find the doctrine of John Law (1705). It should not surprise us, then, that their argument sounds like a distorted version of the banking school doctrine, which descends from Law’s theory and says that banks cannot overissue and cause inflation, so long as they only create new fiduciary media by discounting real bills or in some way responding to the “demands of trade,” thereby adjusting the money supply to the needs of trade (Fullarton 1845; see Rallo 2019). Yet what are the “needs of trade” if not the desire on the part of businessmen to make more exchanges. And is this not exactly what Block and Barnett suggest is the beneficial consequence of an increase in the money supply?

Money Is a Capital Good?

Block and Barnett make much of another argument of theirs (Barnett and Block 2005) in their critique. They argue that money is not a good *sui generis* but rather a capital good (Block and Barnett 2024, 134ff.). There, they argue against not only our paper but the entire praxeological tradition. Mises’s position on this point should be well-known to all Austrian economists (Mises 1990; 1998, 398–402), and if Block and Barnett want a refresher, they need only read Song Li’s (2024) excellent article in the very same issue of *Procesos de mercado* in which their own comment on our paper appeared.

¹ For a thorough critique of the claim that sticky prices prevent markets from clearing (and therefore prevent mutually beneficial exchanges), see Newman (2025).

Let us only briefly remind our readers of the Misesian position. Mises divides economic goods into three categories, defining each kind of good by how its value is determined. Consumer goods are goods that can immediately satisfy an end, and capital goods (or producer goods) are goods that eventually yield consumer goods. While consumer goods are valued immediately for their subjectively assessed power to satisfy some subjectively valued end, capital goods are valued for their contribution to the production of consumer goods. Media of exchange are the third kind of economic good. A medium of exchange is clearly not a consumer good, since it does not satisfy an end.² You don't allocate it to some specific end and you don't consume it—simply owning or controlling it fulfils its purpose.³ Is it, however, a capital good, as Block and Barnett claim?

This is a more difficult question. For the individual, an increase in his cash balance enables him to satisfy more ends, and from his point of view it therefore makes him richer. The individual businessman is justified in seeing the addition to his cash balance as an increase of his capital. This increase in private capital, however, is simply redistribution—no extra productive capacity is added to the economy. The individual whose cash balance has increased can acquire a larger share of the consumer and capital goods available, but there is no increase in the supply of consumer or capital goods. There are no extra factors of production devoted to increasing the supply of any consumer good. All that has happened is that the relative purchasing power of one individual has increased, and he can now, therefore, consume more or acquire more existing capital goods.

Thus, Block and Barnett are also wrong when they claim that money, as a capital good, is a future good. Capital goods are correctly described as future goods because their value depends entirely on the value their use will eventually yield in the form of future consumer goods. Money, however, is valued for its present—but nonconsumptive—use.⁴ While money is held in order to be used in uncertain future exchanges (Hutt 1956; Hoppe 2021), it is only exchanged when a good for sale is deemed more valuable than retaining the money in one's cash balance. This is of course a completely present use: Holding money mitigates the felt uneasiness toward uncertain future events. Money, then, is a present good—even the present good par excellence, as Rothbard states (2009, 375).

2 "It is the open sesame to exchange for consumption goods at any time that its owner desires" (Rothbard 2009, 375).

3 Of course, gold used for jewelry satisfies an end and is therefore a consumer good, but such gold usually would not form part of the money supply.

4 Furthermore, there are serious consequences for the theory of factor pricing if money is a future good. Entrepreneurs would not discount future cash flows in their bids for factors of production, since they would in that case be trading future goods for future goods. The phenomenon of interest completely dissolves if money is a future good. We are indebted to Joseph Salerno for this point.

The Heart of the Issue

The distinction between consumer goods, capital goods, and media of exchange brings us to the heart of the issue. When the special nature of money was worked out, the challenge confronting Mises and his forebears in the currency school was whether an increase in the money supply could yield an increase in real wealth. Mises and the classical economists answered no, since they saw the true nature of money as a medium of exchange. Project makers and monetary cranks from John Law to the Birmingham Philosophers to modern Keynesians have promised to perform the miracle of turning stones into bread simply by increasing the money supply. That Block and Barnett consider money to be a kind of capital good perhaps explains why they fall into the same error.

A core proposition of classical economics that Mises and later Austrians adopted and refined is that, starting from monetary equilibrium, increasing the money supply does not yield any benefits but only distorts the economy. They did not deal at length with the question of increases in the stock of commodity money brought about by the dynamic market process. It probably seemed insignificant to say that an increase in the stock of gold could only redistribute resources and not yield an increase in the productive capacity of the economy, given that the main thrust of the debate was the role and consequences of paper money.

Our argument, however, proceeds from a different starting point than Mises and the classical economists. Rather than assuming monetary equilibrium—where an increase in the stock of money would have no benefit and where, in a commodity-money system, such an increase would not occur—we ask what happens if the monetary equilibrium is disturbed. It is true that such a change can be fully accommodated by a change in prices, but it is also true that an increase or decrease in the stock of money can accommodate such changes and restore the economy to equilibrium. Since the economy is always changing, and since money has a driving force of its own (Mises 1998, 413–16), any monetary equilibrium in the sense of Mises’s plain state of rest (see Salerno 1994) will be fleeting. The market is always moving from one plain state of rest to the next: Any exchange means that the market has achieved a state of rest but also changes the data of the market, preparing the ground for new exchanges and thus for a new plain state of rest.

Can we in this case say that it is somehow better or more optimal that the economy adapts only through price changes or changes in the money supply? The answer, which we explained at length but Block and Barnett failed to understand, is no. The economy will adjust partly through price changes and partly through changes in the production of money driven by changes in the profitability of money production. We conclude that any change in the money supply driven by market processes is optimal because it is driven by changes in the relative value and costs of the production of money, and these changes in

turn reflect the natural developments in the market. Ultimately, the monetary adjustment process is driven by the wishes of all individuals that are expressed in their actions and exchanges as market participants, since this also determines the amount of resources that should be bound up in the stock and production of money.

In fact, Block and Barnett cannot explain how an increase in the money supply that satisfies an increase in demand for money can be socially beneficial, since there is no necessary causal connection between such an increase and any additional exchanges. They cannot, therefore, claim that all increases in the supply of commodity money are socially beneficial, whereas we can. The following thought experiment may highlight the difference between our argument and theirs. Suppose a gold miner demonstrates an increase in his demand for money by mining and minting additional units of money to hold in his cash balance. Block and Barnett are at a loss to explain how or whether this increase in the stock of money is socially beneficial, because it does not involve or result in additional interpersonal exchanges. Following their reasoning, we would have to conclude that the increase in the money supply is wasteful, since the miner's resources have been dedicated to a line of production that results in no benefit to the miner or anyone else.

A clearer understanding of the miner's actions, however, reveals that his situation has improved and he deems the use of his mining resources a worthwhile endeavor to obtain additional money for his cash balance. The social benefits are seen in the demonstrated (and fulfilled) preferences of the miner, while no other member of the miner's community demonstrates an objection to this state of affairs.⁵ Indeed, if some other individual did act from a desire to acquire some of the gold miner's newfound gold (perhaps by selling a sandwich to the miner), this would represent a subsequent change in market conditions with no bearing on the prior fact that the original increase in the stock of money was socially beneficial.

This thought experiment is similar to one in Block and Barnett (2024, 132–33):

Let us consider, in some detail, the “social benefits” of mining gold in order to purchase goods and services with the proceeds, that is, adding it to the money stock. An entrepreneur hires several employees to go and search for gold for him. He equips them with helicopters, gas, etc. He pays 100 t oz. of gold for the labor. To what extent did he value their services? At more than 100 t oz. of gold, otherwise he would have scarcely agreed to this labor contract. Thus, he gains “social benefits” at the

⁵ Block and Barnett (2024, 134) acknowledge this: “Someone may regret that our gold miner is now wealthier than he was before. Again, this cannot count, for reasons specified by Rothbard (1956).”

very least ex ante, and perhaps ex post as well; the employees benefit as well, ex ante, otherwise they would not have agreed to the labor contract. Happy day, they find some gold for him. The entrepreneur decides to use his newly acquired gold in part to continue his mining operations, in part to make some gold jewelry, and in part to add to his stock of gold money, which he then uses to buy various consumers' goods at different points of time.

Our thought experiment makes the problem of finding social benefits more difficult by considering a gold miner who does not employ or exchange with others in his quest for gold. Furthermore, once the gold is produced and added to the miner's cash balance, he does not immediately spend it. We claim that there are social benefits even in this increase in the stock of gold money, whereas Block and Barnett would be at a loss to find social benefits in it since there are no additional exchanges. Our argument may be summarized in this way: The social benefits of an increase in gold under a gold standard happen one step before Block and Barnett claim they occur, and these benefits are completely independent of any exchanges that may occur after an increase in the supply of gold.

Conclusion

Block and Barnett's critique of our position misses the mark, since they consistently interpret us as saying the opposite of what we wrote. They have thus given us an opportunity to restate and clarify our position and to briefly point out the errors of their monetary theories.

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