



# The Love of Money: On Menger and Keynes

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## **ABSTRACT**

For Keynes, the history of money begins when the function of measure of value arises for the first time. By contrast, Menger believes that the origin of money is determined by the appearance of the function of medium of exchange. Despite this substantial difference in interpretation, Menger and Keynes agree in terms of criticizing the function of store of value, even though this third function is useful under certain conditions. This paper argues that this agreement, at the level of monetary theory, is linked to a common ethical evaluation: Both stigmatise the love of money exactly because this desire involves a false absolutisation of money as a store of wealth. The paper will be structured in two main parts: I. Monetary Theory. The first part briefly sketches the two competing models of the explanation of the origin of money and its value. II. Ethics. In the second part, the focus will be the common rejection of the love of money.

**Keywords:** money, ethics, Menger, Keynes

## **RESUME**

Pour Keynes, l'histoire de l'argent commence lorsque la fonction de mesure de la valeur survient pour la première fois. En revanche, Menger estime que l'origine de la monnaie est déterminée par l'apparition de la fonction de moyen d'échange. Malgré cette différence substantielle d'interprétation, Menger et Keynes s'accordent à critiquer la fonction de réserve de valeur, même si cette troisième fonction est utile sous certaines conditions. Cet article soutient que cet accord, au niveau de la théorie monétaire, est lié à une évaluation éthique commune: les deux stigmatisent l'amour de l'argent précisément parce que ce désir implique une fausse absolutisation de l'argent comme réserve de richesse. Le document sera structuré en deux parties principales: I. La théorie monétaire. La première partie esquisse brièvement les deux modèles concurrents de l'explication de l'origine de l'argent et de sa valeur. II. Éthique. Dans la deuxième partie, l'accent sera mis sur le rejet commun de l'amour de l'argent.

**Mots-clés :** Monnaie, éthique, Menger, Keynes

**JEL Classification:** B13, E12, E14, Z19

## **1. INTRODUCTION**

A *Treatise of Money*, as known, begins with the following statement: ‘Money of account, namely that in which debts and prices and general purchasing power are expressed, is the primary concept of a theory of money’.<sup>1</sup> Obviously, Keynes does not underestimate the function of medium of exchange, and he adds: ‘Something which is merely used as a convenient medium of exchange on the spot may approach to being money, inasmuch as it may represent a means of holding general purchasing power’. Nevertheless, he believes that the function of medium of exchange is not sufficient to explain the true origin of money: ‘But if this is all, we have scarcely emerged from the stage of barter. Money proper in the full sense of the term can only exist in relation to a money of account’. (CWK, V, 3)

It is worth noting that, despite this clear disagreement, Streissler writes in 1973 ‘that in questions of monetary theory Menger anticipated most of Keynes’s ideas’. (Streissler 1973, p. 165) I agree with Streissler, and I think it is possible to demonstrate this accord at two different levels:

- 1) At the level of monetary theory, both consider it questionable to assign to money the function of store of wealth, even though this function can be historically inevitable, under certain conditions of the market;
- 2) At the ethical level, the love of money is judged by both of them to be incorrect exactly because it is a conduct based on a false absolutisation of the value of money, beyond the conditions which allow it to become justifiable as store of wealth.

## **2. MONETARY THEORY**

### *2.1. Money as a “medium of exchange”*

Menger and Keynes offer two different accounts of the origin and value of money. On this point, I believe it is impossible to find agreement: Menger puts the function of medium of exchange first; Keynes, on the contrary, endorses the priority of the function of unit of account. Nevertheless, I am convinced that it is possible to prove two points of accord:

- 1) Both of them consider the excess of inflation a dangerous monetary disorder.
- 2) Both judge critically the function of money as a “store of wealth”. This second point of agreement is linked to the similar assessment which they advocate at the ethical level regarding the fair use of money.

Let us start with Menger. Before any other consideration, Menger intends to demonstrate that the primary function of money is to facilitate the exchange process<sup>2</sup>. One can think back to the early stage of barter: It would be an anti-economic behaviour if an individual agreed to exchange his goods only with goods which possess a use value for him. It is not a frequent

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<sup>1</sup> *Collected Writings of John Maynard Keynes*, vol. V, 3. Hereafter cited as CWK, with volume and page number.

<sup>2</sup> Menger of course does not ignore the unit of account function of money. This can be found in Menger 2007, p. 278. However, he remains convinced that ‘the function of serving as a measure of price is not contained in the concept of money. Several economists – he then concludes – have fused the concept of money and the concept of a “measure of value” together, and have involved themselves, as a result, in a misconception of the true nature of money.’

occurrence to meet someone who possesses the goods we desire and who is interested in the goods we possess. All this would require much time and a great dose of chance. It may then be more rational for an individual to accept, in exchange for his goods, other goods which have greater marketability than his own commodity: "Possession of these more saleable goods clearly multiplies his chances of finding persons on the market who will offer to sell him the goods that he needs" (Menger 2007, p. 260).

Here Menger assumes only self-interest. The preference of goods with greater "marketability" (*Absatzfähigkeit*) is not otherwise justifiable: nevertheless

As each economizing individual becomes increasingly more aware of his economic interest, he is led by this interest, without any agreement, without legislative compulsion, and even without regard to the public interest, to give his commodities in exchange for other, more saleable, commodities, even if he does not need them for any immediate consumption purpose. (Menger 2007, p. 260)

Thus, the historical transition from the stage of pure barter to a money economy occurs. Money, for Menger, arises with the aim of identifying precisely those highly marketable goods which, by virtue of practice and custom, become the preferential medium of exchange:

"With economic progress, therefore, we can everywhere observe the phenomenon of a certain number of goods, especially those that are most easily saleable at a given time and place, becoming, under the powerful influence of custom, acceptable to everyone in trade, and thus capable of being given in exchange for any other commodity. These goods were called "Geld" by our ancestors." (Menger 2007, p. 260)

As known, this is the "classic invisible hand explanation of the emergence of money from an initial state of barter" (White 1984, p. 703). Self-interest and custom are unique and relevant factors in this "self-reinforcing process" (Tiffenbach 2010, p. 200): a) self-interest aims to select the "more saleable" goods; b) once selected, the marketability of preferred good increases; c) the more its marketability increases, the more it will henceforth be chosen as a medium of exchange.

Money emerges, then, as an unintended consequence during the individual process of the selection of "more saleable" goods, with a view to satisfying self-interest. This standpoint remains essentially unchanged in all Menger's monetary writings. Take, for example, the famous paper published in *The Economic Journal* in 1892. Here, we find that money has to be conceived as the spontaneous outcome – the unpremeditated result – of particular, individual efforts of the members of a society, who have, little by little, worked their way to distinguishing between different degrees of saleableness in commodities (see Menger 1892, p. 250).

Obviously, Menger is not denying that institutions play a relevant role. On the contrary, at a certain point, it is useful for the state to interfere in order to publicly ratify a legal standard of payment with a definite ratio of value. But the thesis is that law intervenes a posteriori – that is, when money is, as such, already born. Needless to say, Menger's model is the opposite of the Aristotelian one. Menger noticed it, too, when making reference to *Nicomachean Ethics*: "Aristotle, in a much quoted passage, says that money originated by convention, not by nature but by law" (Menger 2007, p. 315).

I have no intention of discussing the validity of this monetary theory. Instead, I am interested in proving that the disagreement with Keynes is not complete.

## 2.2. Money as a “unit of account”

Keynes tells an alternative story of the origin of money. It seems he is not convinced by Menger’s account: When the first use of money supplants barter, we are so far unable to speak truly of money. At this elementary stage, in fact, it lacks the fundamental concept of money of account. For this concept to emerge, it is necessary to wait until money “makes its entry into human institutions”. Only at this moment, when the coins issued by the state have acquired the character of legal tender, does the history of money begin. And it begins, to be more precise, with Solon, “the first statesman whom history records as employing the force of law to fit a new standard coin to an existing money of account” (CWK, XXVIII, p. 226).

Here, Keynes rests on the Aristotelian interpretation. In *The Constitution of Athens*, Aristotle argues that one of the most famous measures of Solon is the expedient of debasement: “It was under Solon that [...] the mina, which formerly had a weight of seventy drachmae was increased to the hundred it now contains” (Aristotle 1996, p. 217).

Manipulating the exchange rate between mina and drachma, Solon proves plainly that money begins to function as a unit of account. The relevant aspect of this alternative story is that Keynes justifies his preference for the concept of money of account with a twofold argument: a) A monetary argument: The expedient of debasement is the appropriate remedy for a situation in which the appreciation of the standard occurs. b) An ethical argument: The debasement, reducing the metal content of the money, deters the pernicious *auri sacra fames*.

a) Let us begin with the monetary argument. The situation that Solon has to face is characterised, as Keynes explains, by an appreciation of the standard, due to the scarcity of the precious metal in Greece. This situation “was intolerably oppressive to that indispensable class in ancient, as in modern, society, which carries on the business of agriculture with borrowed money” (CWK, XXVIII, p. 227). Indeed, when it comes to power, Solon “had found the farmers of Attica in a condition of hopeless insolvency owing to the burden of borrowing money” (Milne 1930, p. 179). As a consequence, the expedient of debasement appears as an efficient currency reform; since Solon’s problem is how to ease the “dead hand upon the active workers”, it is compulsory to intervene in the money of account “for it is the money of account—Keynes explains—which is the subject of contract and of customary obligation” (CWK, XXVIII, p. 253). Changing the money of account means, then, interfering at the level of relations between debtors and creditors, and Keynes is well aware that these relations “form the ultimate foundation of capitalism” (CWK, II, p. 149). This is why Solon has rightly seen the problem, because “for most important social and economic purposes what matters is the money of account” (CWK, XXVIII, p. 253).

b) The money of account is then relevant also for social purposes. This leads us towards the second argument—this time, an ethical one. Keynes knows that it is historically disputed whether the Solon’s currency reform consisted of the total cancellation of debts, in a partial abatement of them, or merely in a diminution of the interest charges. However, what is undisputed is that the debasement has had the effect of “reduc[ing] the metal content of the money with which debtors were entitled to discharge book debts expressed in drachmae”

(CWK, XXVIII, p. 227). If we take this for granted, we can conclude that the Solon's monetary reform, still following Keynes's interpretation, is also justifiable with an ethical argument (Lewis 2009): Reducing the metal content of money involves a general thought that the good of citizens is not located in money and in the accumulation of wealth. On the contrary, if money becomes an object of desire, it leads to ruin.<sup>3</sup>

We can, therefore, understand the meaning of Keynes's final evaluation of Solon, who is identified as the initiator of the history of money:

"The sage who first debased the currency for the social good of the citizens was suitably selected by legend to admonish Croesus of the vanity of hoarded riches. Solon represents the genius of Europe, as permanently as Midas depicts the bullionist propensities of Asia." (CWK, XXVIII, p. 227)

### 2.3. *First accord: Monetary disorder*

We can say, I believe, that, for Keynes, the contrast between Solon and Midas corresponds to the contrast between money "as it ought to be" and money "as we know it". As we will see in section 2, money "as we know it" is money as a "store of wealth", which can cause, under certain conditions, the love of money. Regarding "money as it ought to be", Keynes has no doubt: "Money is only important for what it will procure" (CWK, IV, p. 1). For the rest, once the function of unit of account is performed, money should have no significance in itself, that is, "no meaning of its own." (Amato, Doria, Fantacci 2010, p. 69)<sup>4</sup>. This is why he laughs at the "old-fashioned advocates of sound money" (CWK, IV, p. 86).

Menger, I would argue, can be considered an old-fashioned advocate of sound money. In fact, in his *Lectures to Crown Prince Rudolf of Austria*, we find, as for Keynes, a monetary argument and an ethical one; but Menger endorses the opposite stance to that held by Keynes:

a) From the monetary point of view, "a sound currency is a major prerequisite of state power; it contributes substantially to peace, contentment, and confidence at home, and to prestige, firm standing and credit abroad". Consequently, Menger is convinced that "convertibility into precious metal is the foremost characteristic of a bank note" (Streissler and Streissler 1994, pp. 149, 135).

b) From the ethical point of view, if there were too little of the precious metal in the coins, "the individual citizen would suffer a loss and government would have cheated him". The

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<sup>3</sup> It is the same Solon who states it, in his *Elegy to the Muses*: "If on our city ruin comes, it will never be by the dispensation of Zeus and the purpose of the blessed immortal gods [...]. It is the people themselves who in their folly seek to destroy our great city, prompted by desire for wealth" (In Atchity 1996, p. 53).

<sup>4</sup> Here Keynes seems to me close to Mill's evaluation on money. In *Principles of Political Economy*, Mill writes: "There cannot, in short, be intrinsically a more insignificant thing, in the economy of society, than money; except in the character of a contrivance for sparing time and labour. It is a machine for doing quickly and commodiously, what would be done, though less quickly and commodiously, without it." (Mill 1965, p. 506). As it is for Keynes, Mill adds that money "only exerts a distinct and independent influence of its own when it gets out of order."

expedient of debasement is then, for Menger, ethically questionable since “it undermines all moral sense of right and wrong” (Streissler and Streissler 1994, p. 103).

My intent is to try to weaken this opposition. First of all, unlike Hayek’s criticism, Keynes is not at all a fanatical supporter of monetary debasement. He is even less inclined to sanctify chronic inflation. On the contrary, he is well aware of the risks associated with the excessive fluctuation of money value and the deleterious effects of an extended inflation on the debtor–creditor relation:

“As the inflation proceeds and the real value of the currency fluctuates wildly from month to month, all permanent relations between debtors and creditors, which form the ultimate foundation of capitalism, become so utterly disordered as to be almost meaningless, and the process of wealth-getting degenerates into a gamble and a lottery.” (CWK, II, p. 149)

Keynes is even more radical, up to the point of giving credit to Lenin: “Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency” (CWK, II, p. 149).

In my opinion, Keynes does not contradict himself. The expedient of debasement and a controlled process of inflation is one thing; “debauching” the currency is quite another. I am convinced that this term has not been chosen by Keynes as synonymous with debasement. What is at stake here is precisely the idea of corruption. The relevant aspect is that, for Keynes, the excessive inflation makes obviously less reliable the function of unit of account as a unit of measurement or even “worse than useless” (CWK, IV, p. 50). Accordingly, even though the inflation would also make useless the function of store of value, this outcome is no more, as before, a guarantee of the “social good”. Actually, things can get worse, because the hyperinflation transforms the conduct of the businessman in an “opprobrium” no less serious, from the ethical point of view, than the bullionist propensities of Midas:

“Amidst the rapid fluctuations of his fortunes he himself loses his conservative instincts, and begins to think more of the large gains of the moment than of the lesser, but permanent, profits of normal business. [...] In his heart he loses his former self-confidence in his relation to Society, in his utility and necessity in the economic scheme.” (Keynes 1963, p. 94)

Ultimately, although Menger and Keynes totally disagree on the cure for the pathology of value’s fluctuation, it is reasonable, I think, to argue that both agree on the diagnosis. I am inclined to think that Keynes would endorse the concern expressed by Menger regarding the consequences of monetary disorder. Given that “money is the means used by the individual and the State to satisfy their needs”, a monetary disorder affects their vital interests (Streissler and Streissler 1994, p. 139). In particular, in Menger’s French paper on money, entitled *La monnaie mesure de la valeur* (1892), there is a paragraph in which we can see both the agreement and disagreement with Keynes. Since he is debating precisely the issue of money as a unit of account, Menger realises, as Keynes does, the risks associated with an excessive fluctuation of prices: the effects of monetary instability disrupt debtor–creditor relations. It is then crucial not to underestimate the seriousness of this problem: “Its practical significance—especially as relations between debtors and creditors—sets it among those issues where there is an utmost emergency and that ask for earnest endeavors” (Menger 2005, p. 259).

If so, it is easy to understand that *laissez faire* cannot be the solution. Given that what is at stake is money of account, Menger considers inevitable a regulatory intervention by some

authority. Campagnolo asks (2005, p. 241): Did Menger have “preventing inflation” in mind? What is sure is that the suggested solution is not typically Keynesian:

“A state or group of states may decree the quantity of currency they issue. Therefore, the idea of a good whose inner value would permanently remain at the same level is not contradictory in itself. As far as money is concerned, it is not impossible to remove the factors that work together in modifying prices when all things are left in a *laissez aller* situation – and thus obtain a medium of exchange with an unvarying inner value.”<sup>5</sup> (Menger 2005, pp. 258–259)

Debating whether or not it would be possible to maneuvering the quantity of currency in order to establish “a medium of exchange with an unvarying inner value” is beyond the aims of this paper. Instead of this, I am concerned with pointing out the difference with Keynes’s position. For Menger, old-fashioned advocate of sound money, decreeing the quantity of currency presumes the identification of unit of account with a fixed quantity of precious metal, considered a good whose inner value would permanently remain at the same level.

Besides, it is not a mystery that Menger endorsed the “great merits” of a gold standard, while Keynes considered it “a barbarous relic”. Obviously, Menger is aware of the risk: The desirability of the gold standard for his country is balanced by his deep concern about potential disruptions of the international gold market as a result of Austria–Hungary’s adoption of the gold standard (see Sennholz 1992, p. 29). Nevertheless, he is convinced that “gold is the right medium of exchange of our age [...] because it renders the services of money in a most useful, secure, and expedient manner” (Menger 1936a, pp. 154–155). On the contrary, Keynes’s position is well known, as well as his criticism of the identification of the unit of account with a set amount of gold.<sup>6</sup>

#### 2.4. *Second accord: Money as a “store of wealth”*

In a nutshell, for Menger, unit of account and medium of exchange are inextricably linked and embodied in gold. Despite this, I think it would be incorrect to place Menger on the side of Midas. Obviously, for historical reasons, too, as known, the gold standard in Europe disappeared with the arrival of World War I. But it is incorrect also because Menger, instead of Midas, does not consider gold a fetish object—that is, the symbol of every desirable wealth. The contrary is true: Menger is rather inclined to “defetishise” gold. That is why he does not at all condemn the fact that the European currencies were “gold-plated”. He believes that “a gold-plated item at first renders the same services as genuine items as long as the plating is solid”. The reason is simple: “Money is no luxury” (Menger 1936b, p. 247)—that is, money is only a medium, which is intended to be useful in satisfying needs and wants. If that medium turns into an as-such desirable good, then its nature gets

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<sup>5</sup> With regard to the value of money, Menger distinguishes, in this article, between two types of value: inner exchange value and outer exchange value. As Streissler explains, “Inner exchange value is the effect of money on the (change of) prices of other goods and outer exchange value is the effect of the (change of) prices of other goods on the value of money, that is, the purchasing power of money.” (Streissler 2002, p. 19)

<sup>6</sup> Keynes even envisaged the use of money existing exclusively in the form of a pure (non-monetary) unit of account, namely the *bancor* (see Amato-Fantacci 2012).

perverted. It is an implicit ethical evaluation, which we will explicitly analyse in Paragraph 2. At the level of monetary theory, the thesis “money is no luxury” supposes a specific way of interpreting the function of “store of wealth”, which is not so different from the Keynesian interpretation.

As for Keynes, his position is simpler, as it is sharper than Menger’s. Money is essentially a unit of account, and within limits, it can also function as a medium of exchange. But only these two roles are strictly indispensable for the good functioning of a monetary system, at least in the world of the classical economy. The so-called function of “store of value”, apart from being illogical, is also potentially damaging, as King Midas learned. The best thing which money should do, if it functions well, is to disappear.

Surely, Keynes is well aware that this kind of reasoning seems puzzling: “it is not easy for men to apprehend that their money is a mere intermediary without significance in itself, which flows from one to another, is received and dispensed, and disappears when its work is done” (CWK, IV, p. 124). Keynes does not underestimate that the world we live in is not the world of the classical economy. We live in a monetary world of production, in which money (“as we know it”) is not at all neutral and insignificant. On the contrary, as Keynes puts it in his *Preparation of the General Theory* (CWK, XIII, 408), “money plays a part of its own and affects motives and decisions and is, in short, one of the operative factors in the situation” and an essential driver of capitalism. From this point of view, the case of “liquidity preference” is paradigmatic: in a context of uncertainty, holding money seems a rational choice, because it “lulls our disquietude” (Keynes 1937, 216).

Apparently, Keynes seems forced, then, to contradict himself: the store of wealth function looks absolutely normal and indispensable, at any rate when the future is dark. Nevertheless, I would argue that money’s ability to act as a store of wealth amounts to a monetary anomaly, which remains, for Keynes, a problem. This Keynesian diagnosis is obviously not orthodox: our desire to hold money as a store of wealth is not justifiable as a perfectly rational, utility-maximizing choice; as Keynes points out, it depends “partly on reasonable and partly on instinctive grounds” (Keynes 1937, 216). I agree therefore with Winslow (1993) and Carabelli (2002) in saying that Keynes’s account of liquidity preference also points to important irrational elements. I will try to explain this point.

Because uncertainty, according to Keynes, relates to situations where probability relations are unknown, our decisions affecting the future “cannot depend on strict mathematical expectation” (CWK, VII, p. 162). Consequently, the fear of uncertainty can trigger an instinctive reaction, as a means of denying the future in its most threatening aspect. (Dostaler and Maris 2000, p. 245) At this point money as a store of wealth makes its entrance on stage: what better shield against the hazards of unknown than hoarding liquid assets?

This is the defence mechanism of fetishism, as Freud calls it. Keynes employs exactly the same language. In the famous chapter 12 of the *General Theory*, the liquidity preference turns out to be “the fetish of liquidity” (CWK, VII, p. 155). The store of wealth function surely lulls our disquietude. But from this psychoanalytic standpoint, the propensity to hoard depends on an irrational sense of security, grounded on a false belief that it is possible to quantify uncertainty.

Needless to say, the fetish of liquidity is also economically inefficient. As it is known, an increase in the demand for money is – for Keynes – a symptom of malfunction. More



precisely, the fact of holding liquid reserves is understood as the indicator of a crisis of confidence in the system of intermediations: “Our desire to hold money as a store of wealth is a barometer of the degree of our distrust of our own calculations and conventions concerning the future.” (Keynes 1937, p. 116) Finally, as we will see in section 2, the exclusive confidence in money leads to an antisocial behaviour; this is why Keynes prefers the saying “hoarding money” as a store of wealth, suggesting that liquidity preference already incorporates an anti-ethical love of money.

Menger is more complex. As Hicks (1976, p. 139) argues, Menger certainly agrees with Keynes in saying that the holding of liquid reserves is a matter of “provision against an uncertain future”. But his idea is that the liquidity preference is not necessarily pathological: “Every earning and spending unit requires a certain cash balance [...], which is not accidental or transitory but a permanent prerequisite of orderly and prudent economic management” (Menger 2002, p. 83). Prudence, then, involves a positive attitude to thriftiness, which does not mean hoarding: “The thrifty person—Menger explains—spends his money by purchasing objects that can be usefully employed and can increase their owner’s wealth” (Streissler and Streissler 1994, p. 69).

General thriftiness positively affects the general welfare. So, for Menger, hoarding money is a pathological behavior, as is squandering money on luxuries and trifles “only for instant pleasure” (Streissler and Streissler 1994, p. 71). Even more so when we consider the case of “public squandering”—that is, when a government spends money irresponsibly—it is “an inexcusable crime against all members of society and an offence against mankind and its progress” (Streissler and Streissler 1994, p. 71).

However, before understanding whether the liquidity preference disguises the love of money, it is necessary to ask if it is reasonable, in general, to consider money as a store of wealth. The negative answer argued by Menger is perfectly aligned with Keynes’s answer. Let’s see why.

There is a fundamental principle which Menger endorses: “No thing is in itself money because, for example, of its material and its technical properties or its external form, let alone because of mere acts of will of rulers (simply because of these circumstances)” (Menger 2002, p. 74). This means that the property of “being money” is not intrinsic.<sup>7</sup>

Actually, a good of whatever kind *becomes* money when it assumes the function of a generally used intermediary of exchange. Hence, only this one is the original (primary) function of money. The other functions—and, in particular, the function of “store of value”—are to be considered purely incidental—that is, derivative functions that may have their place only in the historical development of the concept of money. Including derivative functions in the definition of money is, first of all, a logical fallacy, which “runs counter to the principles of accurate thinking” (Menger 2002, p. 76). Menger further insists on this logical inconsistency in *Principles of Economics*: “Experience teaches that wherever less easily preserved goods rather than the precious metals have attained money-character, they ordinarily serve for purposes of circulation, but not for the preservation of values (Menger 2007, p. 279).

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<sup>7</sup> It is an anti-fetishist principle: Not even gold can be strictly considered money as such, although it functions well as money, at least from Menger’s standpoint.

To sum up, the function of store of value, according to Menger, must not be attributed to money *as such*.

Let us see now what happens if we investigate the specific drive to liquidity preference. Menger knows that an act of storing (*Thesaurierung*) money may simply indicate prudence, but it can also be a signal of the “mere joy of possession” (Menger 2002, p. 53). In the first case, there is no problem: The function of store of value is basically a derivative strategy to postpone decisions concerning when and in what form to exchange. In the second case, however, I think that, for Menger too, there is a problem. From his standpoint, the problem is even twofold: The pure pleasure of hoarding money is logically absurd because it involves the exclusive attribution to money of a derivative function; but it is also, as for Keynes, morally questionable regarding the antisocial outcomes which this preference may cause. We have finally arrived at the threshold of ethics.

### **3. ETHICS**

#### *3.1. Making fast money*

“If and when the egoism and greed of a few become an obstacle to the interests of the many – Menger explains<sup>8</sup> – the time has come for the state to defend the equal rights of all” (Streissler and Streissler 1994, p. 125). There is a special feature that qualifies the selfish action – that is, runs counter to the common good: it is the search for a momentary advantage. The example of deforestation is highly telling exactly because the selfish action, in this case, aims precisely to make (and hoard) fast money:

Quite often a forest owner in the mountains who is temporarily short of money will want to clear his high-lying forests; this can easily cause irreparable damage, since the rainfall will then run off in torrents and wash out the humus layer; floods in springtime, droughts in summer, and other kinds of damage to agriculture in the plains result from such deforestation of the mountain sides and tend to worsen over time. (Streissler and Streissler 1994, p. 127)

This aspiration to large gains of the moments worries, as we have seen, also Keynes, who considers this short-termist style of business as an opprobrium. (Keynes 1963, p. 94) Menger’s judgment is as much trenchant: The blind greed of individuals may often “jeopardize the happiness of present and future generations” (Streissler and Streissler 1994, p. 127). So, government intervention is required to correct the selfish drift towards commodification, putting individual egoism “in its legally defined place” (Streissler and Streissler 1994, p. 125), which is also its ethically defined place. This displacement, from blind greed to normal egoism, is partly utopic: Menger is well aware that the ethical requirement to “make any sacrifice for the common good” “is an ideal every country must strive for” (Streissler and Streissler 1994, p. 133). But precisely that ideal of a “good life” for everyone proves, in typical Aristotelian fashion, that Menger has committed himself on a

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<sup>8</sup> In 1876, Menger was asked to teach the principles of political economy to Crown Prince Rudolf of Austria, whose notebooks, corrected by Menger, have come to light. As argued in Streissler and Streissler 1994, p. 12, “we can be sure that on the whole the Notebooks reproduce faithfully what Menger said.”

level which is not strictly economic but evaluative-normative.<sup>9</sup> I agree, then, with Boettke, who says that Austrian economics can be rightly described “as humanitarian in its concerns” (Boettke 2010, p. 164). My point is that Keynes, too, does not argue in a different way.

### 3.2. Lunatic asylum

The love of money is, for Keynes, the primary ethical question: “At any rate to me it seems clearer every day that the moral problem of our age is concerned with the love of money, with the habitual appeal to the money motive in nine-tenths of the activities of life” (CWK, IX, p. 269). What is at stake here is a perversion of desire, which is typical of capitalism. Obviously, money can be well loved “as a means to the enjoyments and realities of life”. But if it is loved “as a possession”—that is, when money becomes “the object of true religion” (CWK, II, p. 12)—the love that this specific object engenders must be recognised for what it is: “a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease” (CWK, IX, p. 329).

Keynes clearly refers to Freud (Dostaler and Maris 2000). But I believe that the argument which justifies his diagnosis of perversion is linked to the above-sketched monetary theory. The craziness arises when one starts to use money as a store of wealth. If we accept that money is a mere intermediary without significance in itself, then hoarding money becomes automatically an insane use. Keynes affirms it clearly: “Why should anyone outside a lunatic asylum wish to use money as a store of wealth?” (Keynes 1937, p. 216).

Here, the ethical perspective that is involved, beyond the clinical diagnosis, invites one to investigate the cause of this insane use. If it is true, as Keynes argues, that in the world of the classical economy, it is a recognised characteristic of money as a store of wealth that it is barren, something must have occurred. In 1938, Keynes has no more doubts: The fault is entirely on the side of the Benthamite tradition, which is viewed as “the worm which has been gnawing at the insides of modern civilization and is responsible for its present moral decay” (CWK, X, p. 445). More precisely, the real questionable point is the Benthamite calculus. The argument is similar to that of Menger: Keynes does not contest the fact that the economic criterion involves a utility-maximising rule. The problem is that the Benthamite calculus entails “the over-valuation of the economic criterion” (CWK, X, p. 445).

The symptom of this over-valuation is that the normal strategic interaction between economising agents turns into “egotistic atomism”, a concept which Keynes employs for defining modern capitalism as “a mere congeries of possessors and pursuers” (CWK, IX, p. 267). At this point, everything seems to run the wrong way round: If “our gods” become “avarice and usury”, then “fair is foul and foul is fair, for foul is useful and fair is not”

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<sup>9</sup> As known, Menger endorses a typically Weberian thesis: Economics should be conceived as a value-free science. From the strict methodological point of view, the task of theoretical economics must confine itself to an inquiry which proceeds by means of types and laws on pain of loss of its scientific status. However, this scientifically controlled process of abstraction is not, in any case, an obstacle for an ethical assessment of economic phenomena historically considered. In his pamphlet *The Errors of the Historical School*, published in 1884, Menger argues for the compatibility of his theoretical orientation with his political and ethical commitment towards a fair economic model, which should be particularly in favour of the poor. (Menger 1935, p. 83).

(CWK, IX, p. 331). It is the same as Menger's diagnosis of commodification. Even the example provided by Keynes is similar to the Mengerian example of deforestation:

We destroy the beauty of the countryside because the unappropriated splendors of nature have no economic value. We are capable of shutting off the sun and the stars because they do not pay a dividend. (CWK, XXI, p. 242)

Under these pathological conditions, the therapy against the disgusting morbidity of the love of money is simply said: Keynes invites us to rid ourselves of the "pseudo-moral principles" of the Benthamite tradition and "to return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable" (CWK, IX, p. 331).

There is an indicator which, for Keynes, attests that we are anew on "the paths of sane wisdom", or, to be more precise, Solon's path: We shall be able to "prefer the good to the useful" (CWK, IX, p. 331). That does not mean, in my view, that the pursuit of the usefulness is, for Keynes, necessarily detestable. As for Menger, the useful has the value of means; therefore, the criterion which regulates the useful cannot again be the useful. The means, in the world of the classical economy to which Keynes refers, is regulated by the end, and the end is the good which, for Keynes, too, always involves a nexus between the individual and the common interest. That is what Keynes, I think, intends to say when he affirms that "fair is not useful"; fair is the intersubjective measure which makes appropriate and legitimate the pursuit of the useful. If the useful becomes its own measure, then "foul is fair".

#### **4. CONCLUSION**

For Menger and Keynes, the love of money is unjustifiable both from the ethical viewpoint and from the strictly monetary viewpoint. But the Menger-Keynes theoretical agreement does not stop there. They are similarly optimistic in their hope that the progress of civilisation and the improvement of the global economic situation can lead humanity to overcome this anti-ethical infatuation with money. Menger, for his part, is convinced that the true goods will finally replace the imaginary goods:

As a people attains higher levels of civilisation, and as men penetrate more deeply into the true constitution of things and of their own nature, the number of true goods becomes constantly larger, and as can easily be understood, the number of imaginary goods becomes progressively smaller. (Menger 2007, p. 53)

Keynes, in his famous paper *Economic Possibilities for Our Grandchildren* (1930), directly makes a famous prediction: "The economic problem may be solved, or be at least within sight of solution, within a hundred years. This means that the economic problem is not-if we look into the future-the permanent problem of the human race" (CWK, IX, p. 326). In the end, Keynes is convinced that the love of money will be recognised for what it is – a somewhat disgusting morbidity.

The least which can be said is that this kind of optimism has proved to be misplaced. However, I think that Menger and Keynes are right on this point: The love of money is a powerful indicator of social decay, which allows us to investigate the ethical assumptions of our economic models.

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