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Book Review

MICHAEL LATZER and STEFAN W. SCHMITZ (Eds.), *Carl Menger and the Evolution of Payments Systems*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar ISBN 1-84064-918-6, pp. 191.

Over the course of the past few decades historians of economics, as well as economists more narrowly focused on Austrian economics, have reassessed the theories of Carl Menger. Generally viewed as an "incomplete neoclassical" before the "de-homogenation" (Jaffé 1976) of the marginalist triumvirate of Jevons, Menger, and Walras began, many economists now view him primarily as the developer of a theoretical framework for historical analysis (cf. Vaughn 1994). Explaining changes over time is a central element of such a project. If such was Menger's goal, then the importance he attached to his theory of the development of the institution of money is readily understandable.

Most English-speaking economists know Menger's theory only from his shorter presentations in the *Economic Journal* (1892) and in Chapter VIII of his *Principles of Economics* (1976, 1994). His long version of "Money," which appeared in 1909 in the *Handwörterbuch der Staatswissenschaften*, has never before been published in an English translation. It forms the foundation upon which the remainder of the Latzer-Schmitz volume is built.

Following a short introduction by the editors, Erich Streissler provides a brief analysis of Menger's article. Streissler places Menger's article in historical context, noting that the essay rests almost entirely on ideas propounded earlier by Wilhelm Roscher and Adam Smith. Streissler points out the fact that Menger refers to the work of the "grandmaster of German monetary thought" in the preceding generation, Karl Knies, only to contradict him. While Menger also draws on German legal scholarship, "On the whole, ... the article is Menger at his most original" (11). Streissler notes that the first third of the article consists of the material published in the *Economic Journal*. This part, and the "short but very original treatment of the demand for money" (17) at the end of the article are, he believes, the most valuable parts of Menger's longer work.

No doubt Streissler is correct in this judgment. But as one who had previously read only the shorter versions of Menger's "Money," I was fascinated by the attention devoted to both institutional and legal detail. In particular, I was surprised by the attention Menger pays to the beneficial effects of government actions. He discusses the benefits of a uniform coinage, the difficulties imposed by (full-bodied) coins minted from different metals, and the important role played by government in enhancing the efficiency of the payments system. "Only through this combination of government measures pertaining to coinage technique, administrative law, and private law does a country's system of types of coin become a system of legally strictly fungible units of account ... " (48). Menger also expresses an appreciation for the use of careful price surveys to construct price indexes (67) and notes that it is not only "within the power of states and associations of states to regulate the quantity [of money]

circulating in internal trade" (70–71) but also that "It is not unthinkable to try to counteract the effects of the price-modifying influences that money left to itself would have on the prices of goods by influencing the quantity of money in circulation, especially of document money, and thus to create circulating media of constant value in the sense explained here" (71). Such insights into Menger's views make it worthwhile to wade through his extended discussion of institutional and legal minutia.

The second part of the book, titled "Perspectives on the Evolution of Electronic Money," consists of three papers that survey modern models of money and apply Menger's approach to the analysis of the likely future developments of our modern monetary systems. In "Carl Menger's 'Money' and the Current Neoclassical Models of Money" Stefan Schmitz surveys three classes of neoclassical models of money: search models, overlapping generations models, and spatial separation models. Schmitz does a nice job of characterizing each type of model, making it easy to understand the logic underlying the neoclassical approach. He then examines how these models compare to the Mengerian institutional analysis of money. His findings point up the limited usefulness of the neoclassical models for understanding how real-world monetary systems evolve. The major problem is that neoclassical models are not built to explain endogenous evolution of institutions. For example, Schmitz notes that "[t]he formation of expectations concerning its acceptability and, thus, the emergence of the social institution of money are excluded from the analysis in the neoclassical models" (123–24). Also, the "question '. . . why agents [in a monetary economy] engage in indirect barter exchange through money rather than general indirect barter . . . ' cannot be addressed by the neoclassical models of money" (125). Thus, Schmitz concludes that "[t]he current neoclassical models of the origin of money are therefore of limited use in the understanding and analysis of new electronic payment systems" (128).

In "Mengerian Perspectives on the Future of Money," George Selgin and Lawrence White bring their expertise in the evolution of free banking systems to bear on the likely future direction of electronic money systems. Their essay cautions against the more extreme visions of what the future will look like. While noting that "monetary nationalism appears to be waning" and that "ongoing advances in information processing and communications technology bring financial-market innovations that progressively erode legal restrictions on banks" (134), Selgin and White caution against accepting the forecasts of multiple private monetary standards and the abandonment of government-provided base money. The authors discuss thoroughly the characteristics any privately issued electronic money must have if it is to gain wide acceptance and note the forces that portend a long-term role for government base money. Selgin and White also argue that central banks will still be able to conduct policy in the probable electronic world of the future. Their essay ends thusly: "The possibility that the demand for base money will fall to zero even when it bears interest seems to us remote enough to conclude that fiat money is, after all, likely to survive foreseeable financial innovations" (154).

The final essay in the book, again written by Stefan Schmitz, "The Institutional Character of Electronic Money Schemes: Redeemability and the Unit of Account," continues the theme of the Selgin-White essay by reducing expectations that electronic-money systems will generate new units of account and parallel monetary systems, rather than merely increasing the efficiency of the payments system in the dominant unit of account. The first part

of the essay provides a review of the literature on currency competition, as Schmitz seeks to summarize what previous theorists have said regarding the evolution of multiple units of account. While different theorists have reached different conclusions, Schmitz appears justified in concluding that, "In a competitive environment, different inside monies redeemable in the dominant currency would emerge, but competition in privately issued fiat-type currencies is widely considered to be infeasible" (170). He then turns to an examination of the importance of network effects for the evolution of electronic-money systems. Here his ultimate conclusion is similar. Electronic-money systems based on new units of account face an inherent disadvantage compared to the dominant money. Unless new e-monies are redeemable at fixed rates in the dominant unit of account, the new systems will incur higher transaction costs than the dominant system and hence will fail to attract customers willing to use e-money as a medium of exchange (as opposed to a store of value, in which function e-money could have an advantage if it paid a higher rate of return). Schmitz makes good use of Mengerian logic in arriving at his quite reasonable conclusions.

Economists interested in pursuing the logic of Menger's approach to monetary theory will find this volume instructive. Economists wedded to neoclassical models will find in it a dose of reality missing from their models. It's well worth reading.

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