quirements for them, there would be no economic goods nor any 'wealth' (p. 109). . . . Hence we have the queer contradiction that a continuous increase of the objects of wealth would have, as a necessary final consequence, a diminution of wealth (p. 110)".

(In other words, Menger pointed out more than a century ago a basic fallacy in the now-fashionable national income statistics.)

"The value of goods arises from their relationship to our needs, and is not inherent in the goods themselves (p. 120). . . . Objectification of the value of goods, which is entirely *subjective* in nature, has nevertheless contributed very greatly to confusion about the basic principles of our science (p. 121). . . . The importance that goods have for us and which we call value is merely imputed (p. 139).

"There is no necessary and direct connection between the value of a good and whether, or in what quantities, labor and other goods of higher order were applied to its production. . . . Whether a diamond was found accidentally or was obtained from a diamond pit with the employment of a thousand days of labor is completely irrelevant for its value (p. 146)."

Menger goes on to discuss further how higher goods, including capital goods, get their value: "It is evident that the value of goods of higher order is always and without exception determined by the prospective value of the goods of lower order in whose production they serve (p. 150)."

He outlines a theory of interest, but he leaves it vague. On page 156 of *Principles of Economics* he tells us: "We have reached one of the most important truths of our science, the 'productivity of capital.'" But he emphasizes that this productivity occurs only through the passage of time, and that therefore the market value of presently existing and available goods is at a "discount" compared with the expected value of equivalent goods in the future.

A Time-Preference Theory

This suggests that Menger leaned more toward a "time preference" than a "productivity" theory of interest, though the distinction between these theories was not sharpened and made explicit until the publication of Böhm-Bawerk's *Capital and Interest* in 1884 and his *Positive Theory of Capital* in 1888. Böhm-Bawerk laid great emphasis upon the superior productivity of "roundabout" processes of production, and therefore (after a brilliant demolition of productivity theories of interest) ended by himself offering a theory of interest that combined productivity and time preference. Nearly all "Austrians" today, however, following the lead of Frank A. Fetter and later of Ludwig von Mises, support a pure time-preference theory.

To return to Menger: His *Principles of Economics* next presents a "theory of exchange." In this he points out that men do not buy from or sell to or exchange with each other merely because of a "propensity of men to truck and barter," as implied by Adam Smith, but because each man seeks to maximize his satisfactions by exchanging what he values less for what he values more. In this way the satisfaction of all is increased. Exchange is thus an integral part of the whole process of production. What is being produced is value. Menger's whole theory of price, to repeat, is developed on the basis of "the subjective character of value."

The final chapter of Menger's *Principles* is on "The Theory of Money." This does not explicitly discuss such subjects as interest rates or inflation, but deals solely with fundamentals, especially the origin and evolution of money. "Money is not the product of an agreement on the part of economizing men nor the product of legislative acts. No one invented it (p. 262)." It developed out of barter. Because it so seldom happened that A and B each had and was willing to offer exactly what the other wanted, triangular and indirect barter began to take place. Men first offered their specialized goods for more "marketable" goods more widely wanted, in the hope that they could exchange these, in turn, for the particular goods that they themselves wanted. As a result these more "saleable" goods became still more saleable because of this extra demand. The most saleable of all finally became "money." Historically, all kinds of goods have served as money, though it later came down to coins of precise weights of copper, silver, or gold.

Money is not a "measure of value," though it is legitimate to call it a measure of price. It is the only commodity in which all others can be evaluated without roundabout procedures. It is the most appropriate form in which people can save and store part of their wealth. The right of coinage has generally been left to governments, even though "they have so often and so greatly misused their power (p. 283)."

I may have seemed to devote a disproportionate amount of space to Menger, but the special contributions of Austrian economics can be most clearly realized, it seems to me, if we begin by dwelling in some detail on those of its originator.

Menger's first important successor as an "Austrian" economist was Friedrich von Wieser, who, beginning in 1884, published several books elaborating, rounding out, and refining Menger's theory of value, clarifying especially problems of cost, "imputation," and distribution.