Georg Simmel's *Philosophy of Money*:

Some Points of Relevance for Contemporary Monetary Scholarship

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Abstract

This paper explores five topics where Georg Simmel's *Philosophy of Money* poses challenges for contemporary monetary scholarship. First, any microfoundations for macroeconomics would be erected upon catallactical and not choice-theoretic foundations. Second, money is a tool of thought and not just a veil. Third, Simmel points to a way to make sense of a claim that goes back at least to Richard Cantillon, namely that process of monetary injection exert real effects. Fourth, a Simmelian orientation would revive the ex ante-ex post distinction. Fifth, welfare economics would be pursued in a substantive and not a formal manner, if it were to be pursued at all.

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Georg Simmel's *Philosophy of Money* is a century behind us. There is much in this book that now seems archaic or otherwise outdated. This is only natural. There is, however, also a good deal of material that is of contemporary relevance to economic scholarship. I say this in full recognition that Simmel himself, in declaring that he was examining money from a philosophical and not an economic perspective, asserted that "not a single line of these investigations is meant to be a statement about economics" (p. 54). Regardless of what Simmel might have intended, his *Philosophy of Money* has much value to bring to contemporary monetary scholarship.[1]

In this paper I seek to examine the value that *The Philosophy of Money* might bring to economic scholarship concerning monetary order. I proceed here by refracting five topics through the analytical lens supplied by *The Philosophy of Money*, and showing how this exercise would lead to significant modifications in the agenda of economic scholarship. To be sure, this exercise of starting with Simmel and asking what this might imply for economic theorizing does not imply a full agreement with everything in Simmel. Rather it implies a belief that there are some central animating principles in Simmel that can be brought forward usefully to our time, even if those principles must now be implemented or executed differently. It is important in this respect to distinguish between the central vision that animates a scholarly work and the particular way that vision is implemented or executed. The execution is limited by such things as the analytical tools and institutional possibilities that were known at the time of

writing. The same vision could be executed differently as knowledge changes.[2] It is this way with Simmel, I suggest here.

First of all, a Simmelian orientation would impart a strongly catallactical character to economics. This contrasts sharply with the choice-theoretic orientation that dominates contemporary economics. While Robinson Crusoe faces many problems, the uniquely economic problems arise only after Friday appears. Second, within this catallactical orientation, money is like language in being a tool of thought. Economic calculation is monetary calculation, and all notions of real variables are derivative from money. Contemporary economic theory posits, of course, exactly the reverse, with the real economy being directly apprehensible, and with money serving merely as a veil that might obscure or confuse the direct observations of the real economy. Third, Simmel construed society as a process of continual development. An economic theory suitable to such a process would differ in important respects from one grounded in the comparative statics of equilibria. For one thing, the significance of alternative processes of monetary injection is obscured by the method of comparative statics. Fourth, and related to the preceding point, the predominant contemporary focus on comparative statics and general equilibria destroys any meaningful distinction between ex ante and ex post, whereas any approach to monetary phenomena that employed a Simmelian orientation would give substantive content to that distinction. Fifth, the appraisal of economic orders would proceed differently in Simmel than it is within formulations that use welfare economics as a vehicle for appraisal. Among other things, welfare economics

would become more substantive and less formal. For instance, diametrically opposed propositions about money abound in our culture. It is hard to imagine the isolation of someone who has not heard that "money is the root of all evil." Such hostility toward the "filthy lucre" can be found in the same culture where it is also recognized that "people are seldom so innocently engaged as when they are making money." A Simmelian orientation would lead one to focus on such topics, as against the contemporary focus on marginal rates of substitution, transformation, and the like.

1. A Catallactical Orientation toward Economic Phenomena

What is the first model of economic theory? These days it is a model of individual maximization, typically as illustrated by a consumer's maximization of utility, given some initial endowment and market prices. For Simmel, however, the first model of economics would be one of exchange. [3] Robinson Crusoe will clearly face problems of how to get along on his own, but the uniquely economic phenomena arise only after Crusoe meets Friday. Those phenomena emerge out of exchange, and cover such things as property, contract, prices, and money. None of these institutions is relevant to Crusoe alone, as they all arise through the interaction between Crusoe and Friday, or among Crusoe and many Fridays.

The catallactical orientation displayed in Simmel clashes severely with much of contemporary macro-money discourse. Macro theory, the theory of the properties of the economic system as a whole, is written as if its phenomena were reflections of the choices of Robinson Crusoe, where deviations from

expectations result from exogenous shocks.[4] Consider simple macro model illustrated by equations 1.1 through 1.3. In this model,

$$Y^s = Y^n + a(P - P^e), a > 0 \tag{1.1}$$

$$Y^d = M - P + V \tag{1.2}$$

$$Y^s = Y^d = Y \tag{1.3}$$

Y^s and Y^d refer to aggregate supply and demand respectively, Y^n is some notion of a natural rate of output, P is some actual price level, P^e is some expected price level, M is the money stock, and V is velocity. Under the assumption that price expectations are formed rationally, which means that the expected price level is a function of velocity, natural output, and expected money, the deviation between actual and natural output depends on the deviation between actual and expected money,

$$Y - Y^n = \boldsymbol{q}(M - M^e). \tag{1.4}$$

Save for deviations of actual from expected money, actual output would be at its natural rate.

A Simmelian orientation toward the economic process would surely find this construction to be strange and terribly unsatisfactory. Macro theory, the theory of the properties of the economic system as a whole, is written as if its phenomena were reflections of the choices of Robinson Crusoe, where deviations from expectations result from exogenous shocks. This kind of formulation might well be sensible as a description of Robinson Crusoe's mental state. After Crusoe acquired some experience, he will surely have formed some belief about what he could reasonably expect, and if matters turned out

differently it would be due to some kind of environmental surprise, such as that illustrated by a deviation of actual money from expected money. While Robinson Crusoe will clearly face problems of how to get along on his own, the uniquely economic phenomena will arise only after Crusoe meets Friday. Those phenomena emerge out of exchange, and cover such things as property, contract, prices, and money. None of these phenomena or institutions is relevant to Crusoe alone, as they all arise through the interaction between Crusoe and Friday, or among Crusoe and many Fridays. Crusonia-like economic modeling is simply not adequate for understanding the course of economic life in a society. A Simmelian orientation would expressly reject any semblance of Crusonia-like economic modeling.

Most significantly, any program to explain one macro variable by another would be rejected. Macro variables are simply built up through interaction among micro entities. It is possible, for instance, that the same aggregate inflationary surprise, whatever that may mean, would bring about different aggregate consequences, depending on the precise character and operation of monetary processes. This, of course, is a theme that goes back at least to Richard Cantillon, who clearly would also have subscribed to a catallactical orientation over a choice-theoretic orientation.

Crusonia modeling necessarily explains macro phenomena as arising out of the action of one macro variable upon another. It can be no other way. In a Crusonia framework or its equivalent, there is no scope for macro variables to emerge out of interaction among micro entities. Within a catallaxy, however,

macro variables are not objects of direct choice. What are objects of direct choice are the various contractual terms and forms of enterprise that people create and generate within a society. The rate of growth in aggregate output over some period of time emerges through the transactions among economic participants. To emerge, however, is not to be chosen. Those transactions, in turn, are mediated by an institutional framework, which suggests that the growth that emerges will depend on the quality of the governing institutional framework. The contribution of monetary expansions or contractions to growth would depend, in the first place, on how those monetary changes influence individual choices and, secondly, on the resultant implications regarding interactions among economic participants.

It is clearly reasonable to ask that macro theorizing be built upon some base of micro theorizing. After all, the macro economy is built up through transactional interactions among the constituent micro units. Such micro foundations should, however, be catallactical and not choice-theoretic, for only in this way can interaction among participants be taken into account. In this manner, moreover, the movement from micro to macro would be a movement in the direction of increased complexity. This, of course, is not the direction of movement in contemporary theory, where textbooks on macroeconomics portray phenomena that are even simpler than those treated in microeconomics. This happens because macro phenomena are treated as if they resulted from Robinson Crusoe's choices in a setting where his plans were occasionally upset by exogenous shocks.

Within a catallactical orientation, people would be treated as substantially heterogeneous and most surely not homogeneous. By heterogeneous, I refer not just to different preferences, but also to such things as different cognitive beliefs about reality, particularly the economy. There may well be a true model of the economy, but, if so, this is known only to God. In society, many models are held among market participants, and many of those models are largely inchoate and to a good extent tacitly-based. Observed economic data in a catallaxy would thus be generated within a setting where people acted on differing and inconsistent presumptions about the overall scheme of things. A Simmelian orientation toward the economic process would surely affirm the desirability of building macro theorizing upon a consistent base of micro theorizing. Such micro foundations would, however, be catallactical and not choice-theoretic.[5]

2. Money, Language, and Economic Calculation

On a number of occasions Simmel characterizes money as a tool. Money allows people to calculate effectively. A Simmelian orientation toward monetary processes would reverse the order of precedence between nominal and real variables in economic analysis. Contemporary economics treats real magnitudes as directly observable primitives. Microeconomic theory is portrayed wholly in terms of real variables, as expressed by relative prices. So too is monetary and macro theory, though with the additional step that it may be necessary to use price level arithmetic to move from nominal to real magnitudes. But this move is a simple matter of multiplication that can be done almost instantly. Even

monetary economics, in other words, proceeds as if it were the economics of a barter economy. Monetary economics adds nothing to the directly observable relationships of microeconomic theory, save for the notion that money is a kind of veil that may obscure a bit and impede a little the movement to the underlying real relationships.

A Simmelian orientation toward the economic process would reverse this order of precedence. Money would never be treated simply as a veil. Money, along with language, are two primary tools of thought and communication. Without language and money, and the cognitive activities that these facilitate, we would still be but food for lions and maggots. Economic calculation of any but the simplest, most primitive sort can take place only with the assistance of money and language.

To be sure, more than money and language are required for economic calculation. Such institutions as accounting practices and conventions are important as well. It is a simple and reasonable theoretical proposition that people move their capital from where the returns they anticipate receiving are relatively low to where their anticipated returns are relatively high. This movement, however, involves reasoning and economic calculation. In the complex transactions of modern enterprises, where current transactions have consequences that extend into the far future, and which could in principle be accounted for in any number of ways, profitability is a constructed and not a directly observable fact.[6] Commercial communication and action take place within the domain of nominal values, or at least the process starts from nominal

values. Real values must be derived and inferred from nominal observations. To call money merely a veil is to loose sight totally of its overwhelming significance for economic conduct.

This difference in orientation has significant implications for how one approaches a great number of economic phenomena. For instance, Simmel discusses (p. 264) some advice of Pufendorf that a prince would have a happier kingdom if he imposed many small taxes than one large tax. This proposition has long been present in the public finance literature as the theory of fiscal illusion.[7] While ideas and claims about fiscal illusion have been discussed for a long time now, they have always occupied a kind of underworld position. In this, fiscal illusion is like its cousin, money illusion. If one starts from the direct accessibility of real variables and their values, fiscal illusion or money illusion seem to violate one of the foundations of the economist's canon, rationality. To be sure, there is an experimental literature on preferences reversals and such that do the same, but we all know that negative results by themselves never lead practitioners to abandon a theoretical construct. A better theory is needed. So long as the theoretical edifice presumes that real values are directly accessible, what seem to be rationality-denying propositions, such as fiscal and monetary illusion, will remain stuck in the disciplinary underground.

It would be different with an orientation that started with nominal magnitudes, as by treating money and language as the two primary tools of economical reasoning and conduct. Still, it might be asked why people couldn't do that, and then simply do the necessary price-level calculations to derive the

true real magnitudes? In a Robinson Crusoe world it could hardly be otherwise. For in that world real values are directly accessible. But in catallactic reality, the move from observed nominal values to inferred real values is difficult and problematic, and in several respects. To start, it is not a matter of some single, aggregate level computation. It is a matter for each individual to calculate. Moreover, that calculation is not a matter of one single, summary calculation, at the start of some imagined period based on some presumption of an appropriate deflator. It is rather a matter of continual calculation in response to the continuing parade of choice opportunities as time elapses. Furthermore, there is no single way of moving from nominal to real. An aggregate price index fits no one exactly, and probably fits many people quite poorly. And if this were not enough, calculation probably comes easier for some people and in some settings than in other cases. For instance, commercial enterprises will probably make greater effort to move from nominal to real than individuals as consumers will.

Returning to Simmel's discussion of Pufendorf for a moment, we might well expect greater use of excise taxes placed upon consumer goods than upon producer goods. At least this is plausible if the cost of organizing and conducting such calculation is lower for enterprises than it is for people. And this, it surely is. Enterprises keep accounts, and invariably computerized these days. While many households have computers these days, precious few seem to keep family accounts. For an enterprise then, it would be a simple matter to calculate total taxes, whether paid through a number of small taxes or one large tax. An individual, however, would rarely have the calculative apparatus in place to do

this. The only calculative apparatus would be some kind of sensory impression, and a comparison of those impressions under the two different tax regimes. If large taxes have an attention-arresting quality that small taxes lack, we might expect in turn that political processes would favor taxes that were diffuse and indirect, at least to the extent they were directed at consumers.

Money is one of those examples of an institution that emerges through interaction among people, as against being selected de novo through some act of conscious choice. Some of the literature on Simmel's *Philosophy of Money* seems to draw a strong opposition between money as an institution that emerges through human interaction and money as the product of conscious choice, usually by a state.[8] This opposition seems overstated, and in two respects. First, in such formulations as *Knapp's State Theory of Money*, money is acknowledged to arise through custom, with the state coming in only later. Whether the state's subsequent arrival adds positive or negative value to the overall economic process is something that can be debated indefinitely, in light of a historical record that seems to provide instances of each.

When Knapp says that the "soul of currency" resides in "legal ordinances", I do not know whether he means to draw an opposition to the "custom" to which he attributed the emergence of money. It is possible to acknowledge that money, like language, is an emergent institution, while at the same time acknowledging that the state seeks to circumscribe custom through its ordinances. This it might do for any of several reasons, ranging from claims about needs of macro stabilization to claims about seigniorage as a source of revenue.[9] Whatever the

reason, however, there is some limit to the degree to which the substance of legal ordinance can diverge from what custom would generate. The proliferation of financial instruments is one illustration of this. The growth of Internet commerce is another. And the presence of black markets and underground economies is yet a third. Legal ordinances work best when they channel people in directions they pretty much want to do anyway; the more they seek to move people in other directions the more resistance they meet and the less successful they become. To be sure, while such ordinances may come increasingly to encounter resistance, they can nonetheless be sources for the generation of rents in the short run. And never forget that if the suitable rate of discount is ten percent, rent for seven years is half as good as rent forever.

3. Neutral Money: Historical Process vs. Comparative Statics

For Simmel, society is not a structural entity but rather is an on-going process. Any program that sought to incorporate a Simmelian orientation into economic theory would require the adoption of some form of historical or evolutionary frame of reference. Once again, a Simmelian orientation applied to monetary phenomena would clash severely with the dominant orientation found in contemporary economic analysis. This dominant orientation applies the method of comparative statics in a framework of presumed general equilibrium. In this approach to generating hypotheses and explaining observations, the focus has come increasingly to center on the existence of a set of market-clearing prices. The method of comparative statics compares two sets of presumed initial

data to compare their equilibrium properties. The presumption is that this exercise of pure logic independent of any movement through the calendar is nonetheless sufficient to capture historical movement in response to new data. It would be a very curious history if this were truly the case. Even though time would be moving forward, people would remain stagnant, holding hard-and-fast to their old ideas, beliefs, preferences, and all such other features that together would constitute a stagnant society.

One notable feature of this comparative static orientation is the very difficulty in finding a place for money and monetary phenomena. If the real economy is directly accessible and if all economic plans are presumed reconciled in advance, as illustrated by the assumption of the existence of a set of market-clearing prices, there is no place for money. Indeed, the literature on real business cycles, which represents a vigorous application of this orientation, seeks to explain economic cycles without money. And even if money is introduced, it occupies a secondary position, as a kind of durable good.

An important claim, going back at least to Richard Cantillon, is that the process of monetary injection influences the real pattern of economic activity. This would seem to suggest that money influences price relationships, in contradiction to a neutrality proposition. In contrast, in most contemporary formulations changes in aggregate money supply exert only transitory effects on real variables. In the long run the effect is restricted to the realm of the purely nominal, where expansions or contractions in the stock of money affect only the price level.

This neutrality proposition seems largely to be an artifact of the method of comparative statics. In a stagnant world where nothing moves, it is hardly surprising that monetary change exerts no real effects. How could it? Real effects are possible only as time passes and knowledge changes, but these are precluded by comparative statics. What happens if money is injected in a world of movement? There are, of course, many conceivable means and processes by which money may enter or leave an economy. With the social process as one of continual movement, the very process of monetary injection through one channel rather than another will surely stimulate certain kinds of activities over others. In the stagnant world of comparative statics, this stimulation affects nothing. In historical reality, however, learning responds to activity, and different processes of monetary injection involve different nodes of stimulation within a society. Hence, different patterns of learning would be set in motion, depending on the particular process of monetary injection. Once we recognize that activities set in motion processes of learning, changes in preference, and the like, we must also recognize that the particular pattern of economic activities in a society, as observed at some point subsequent to a monetary injection, will differ with each particular point of monetary injection.

To be sure, this does not imply that there would be observable differences in the conventional macro variables, depending on the points of initial injection. Rather it says that the process of monetary injection will influence the concrete pattern of activities within a society. Such a possibility cannot be brought to the foreground through the use of comparative statics because time is frozen, and

the logic is focussed on an equilibrium structure of relationships. In much of the monetary literature, what I have characterized would be dismissed as representing “mere distributional effects.” This dismissal arises out of a frame of reference where all that matters is the state of some aggregate economic variables. Yet the dynamic forces that are at work at shaping societies precisely work their way through those micro channels; the aggregate resultants are objects neither of choice nor of desire.

4. Reclaiming the Ex Ante-Ex Post Distinction

Perhaps nowhere is the agenda-limiting character of the lack of catallactical microfoundations more on display than in the predominance given to price-level or money-supply expectations as the source of monetary-induced disturbance in economic relationships. A Catallactical orientation would surely have a strikingly different character. Someone who incorporated a catallactical orientation could never be content with an analytical construction that placed all of the weight regarding monetary-induced disturbance on errors in forecasting changes in some measured price level. There would be multiple objects of expectation within a society, and not one universal object of expectation. While it would surely be reasonable to characterize people as trying to construct their commercial plans in a reasoned and rational manner, this would be conducted in a setting where people were concerned with diverse objects of expectation.

It is an evasion of the problem to postulate a mutual consistency among these diverse plans. To be sure, this consistency is postulated only as a

hypothesis, and is subject to disturbance through exogenous shocks. To do this, however, is to render all of the action in society outside the economic process. Yet they can never truly be outside the economic process, for that process is nothing but the people and their interactions. How might elementary requirements of rationality in the formation of expectations operate within the purview of a catallactical orientation toward macro phenomena? The use of the faculty of reason to form expectations would surely have to occupy a prominent position in any analytical effort. That expectations are products of reason and imagination is surely noncontroversial at the level of general principle. It is a different matter, however, when it comes to particular methods for implementing that principle.

For one thing, it should not be thought that catallactic microfoundations must seek somehow to explain how diverse people can form reasonably consistent plans, if that explanation is thought to mean that those plans are all formulated independently of each other. As Butos and Koppl (1993) explain, plans are not simply expressions of thought. Rather, they are expressions of disciplined and structured thought, where the discipline and structure is provided to a large extent by such things as professional conventions and institutional rules.[10] To a great extent, coherence among individual commercial plans is generated through the disciplining and structuring framework that is provided by market-generated institutions. Not all institutions within a society are generated through market processes, which, in turn, raises the possibility that some incongruency may exist among the institutions within a society, as Ludwig

Lachmann (1971) notes in his treatment of Max Weber. One possible source of such incongruency would seem to arise from Big Players, because their absence of residual claimacy renders them less predictable and dependable than ordinary market participants.

Crusonia-like macro modeling destroys any meaningful distinction between ex ante and ex post. Variability in growth rates though time is claimed to depend merely on inaccuracies in forecasting inflation. Indeed, forecasted inflation is the only variable of relevance for the explanation of why macro variables do not follow some steady-state path. A de-trended flat line is the norm, with variability due either to exogenous shocks to the natural rate of growth or to error in forecasted inflation. Nowhere in this formulation does room exist for macro variability to result from processes of interaction among people. There is simply no room inside the economic system for coordination to proceed with some variable degree of smoothness that, in turn, influences observed macro outcomes. Yet the degree of coordination, as well as such things as rates of growth, is surely an emergent property of an economic system, and it is hardly sensible to treat it as a exogenous shock to that system. Further, the only object of future interest to market participants is a forecast of future inflation. Yet entrepreneurs who made their choices based only on information about probable inflation would be acting foolishly in the extreme. In most instances, a rate of inflation has but limited relevance for economical conduct. Of much greater importance would be forecasts that pertain to the particular markets in which the entrepreneur is engaged. There would be different particular objects of

expectation, depending on the particular activity about which expectations are being formed.

If the course of the economy is built up out of dispersed individual decisions, and with a rate of inflation rarely being a consideration in those decisions, how do expectations about inflation come to command such interest in the macro literature? It comes back to the presumption of postulated order. It may be granted that people form expectations over particular variables that are of particular interest in light of their commercial niches. So long as a consistent array of general equilibrium prices is assumed to exist, individual expectations must be consistent with one another, and with all being consistent with some aggregate price level. The postulated order framework thus presumes a consistency and sustainability among plans and prices that make it plausible to resort to aggregate measures in place of individually relevant variables. It does so, however, at the price of eliminating any semblance of catallactical microfoundations, via the neutering of economically significant differences among people.

A framework of postulated order neuters the economic significance of any distinction between ex ante and ex post, by relegating the distinction to a simple error term. Yet surely that distinction is central to any catallactical treatment of the economic process. The distinction between people's ex ante beliefs or expectations and the ex post observations that are revealed as the economic process proceeds is central to many features of the economic process, as is a dissimilarity and divergence among expectations.

5. The Appraisal of Economic Order

How can economic theory be brought to bear in appraising economic institutions? There is no easy way to answer this question, or even to address it. Much of the effort of economists to address such questions is represented by the literature on welfare economics. The most notable thing about this literature, at least in light of an effort to run the agenda of economic analysis through a Simmelian orientation toward social processes, is its purely formal nature.

This purely formal nature is expressed nicely by what are called the two fundamental theorems of welfare economics. The first theorem states that a competitive allocation of resources is Pareto efficient. This is illustrated by such propositions as that with a competitive allocation of resources, marginal rates of substitution between any two products will be equal for all consumers. If this condition holds, there is no way to reallocate resources without making at least one person worse off. The second theorem states that one competitive allocation can be replaced with another through the imposition of a set of lump sum taxes and transfers. Where the first theorem asserts the potential Pareto superiority of competitive over noncompetitive allocations, the second theorem claims that any selection among the indefinite number of competitive allocations can be made only by the adoption of some social welfare function that evaluates different patterns of initial endowment.

The purely formal character of this approach to the appraisal of economic processes and institutions contrasts starkly with any substantive approach, such

as what might emerge from a Simmelian orientation. Central to any substantive effort at institutional appraisal would be the impact of institutional arrangements on people and their relationships with others. This centrality follows naturally from the catallactic focus on transactions as the units of analysis, in contrast to the concentration on commodities as the unit of analysis that follows from a choice-theoretic orientation.

Simmel certainly did not sketch out any program for the appraisal of institutional arrangements. He did, however, describe some considerations that would be relevant to any effort at appraisal. The widening reach of money and a growing commodification was a feature of economic development. This had positive and negative features. It allowed people to participate in a wider network of relationships, though with a lessened degree of personal involvement in those relationships. The mere listing of such positive and negative features of alienation would seem to invite a reader these days to think of undertaking some type of benefit-cost appraisal. Simmel, himself, would not have done this, for he thought in terms of continuing conflict and not eventual reconciliation, as this might be represented by some notion of an optimizing choice in light of the tradeoffs presumed to exist. As Gianfranco Poggi (1993, p. 207) puts it, Simmel was “a dialectical thinker . . . [who operates] without a final reconciliation.”

The important point in any case is that a Simmelian grammar for evaluative discussion would be one that was suitable for substantive and not formal discourse. The concern would be on the humane consequences of the extension of commodity relationships. Money is a liberating agent, for, among

other things, it allows people to discharge obligations without having directly to render personal service. Yet this very injection of distance between people and the objects of their concern loosens whatever affective bonds might have characterized those relationships. This kind of tradeoff is something that Simmel noted many times, particularly in his closing chapter on “The Style of Life.”

Simmel’s discussion of the loosening of family ties illustrate some of the deeply problematic and contentious character of any effort to use economic reasoning for purposes of substantive evaluation, even though the Simmelian orientation seems to invite substantive evaluation. Multiple generations living under the same roof is becoming an increasingly rare occurrence. Money is now used to buy such things as the nursing care that formerly was provided by younger family members. Family ties are surely loosened by such arrangements. Family members no longer provide meals for elderly parents. Cooks in nursing homes do so, paid by those family members, or by taxes extracted from those family members. Whether that care is paid directly by family members or indirectly through taxation, distance is injected within those relationships. Whether this is good or bad on balance, and for whom, is deeply problematical.

Any effort to develop economics in a direction that would be suitable for a substantive evaluation of social institutions would have to develop analytical means appropriate to the task. While it is clear that a Simmelian orientation would favor a substantive over a formal approach to appraisal, Simmel also confined himself to a general discussion of considerations and parameters. He

illustrated the elements that might go into a substantive appraisal without venturing actually to offer one. I think it was wise for Simmel to stop at that point, even if I also recognize that it is substantive and not formal information that people would aspire to acquire in thinking about institutional arrangements.

6. A Final Word

The orientation toward society and social processes set forth by Georg Simmel in his *Philosophy of Money* has significant implications for the contemporary interest in the microfoundations of macroeconomics. A Simmelian orientation would require catallactical and not choice-theoretic microfoundations. While a choice-theoretic foundation might be workable for a small reclusive tribe here or there, for modern complex societies only exchange and its various extensions can provide a suitable framework for approaching microfoundations. Only in this way can there be an order of movement from simple to complex that corresponds with the distinction between micro and macro. The economy is a dense network of transactions that no one can control or apprehend in its entirety in any great detail. Central planning is impossible, though participants can achieve a generally coordinated pattern of activity with the help of various institutions and conventions that they develop.

If macroeconomics rested on catallactical microfoundations, it would involve analytical constructs that were consistent with spontaneous order and related notions. To hold that the microeconomy is created through the development of networks of transactions, and then to treat the macro economy in

simple choice-theoretic terms is clearly a backwards movement, from more to less complex phenomena. The standard variables of macroeconomics, rates of growth, levels of employment, and rates of inflation, are not objects of choice for anyone, but rather are emergent outcomes of complex economic processes. Governments may do things that might influence the subsequent measures that are assigned to those variables, but this is a very different thing from choosing values for those variables. Macro and micro would thus both be concerned centrally with the coordination of economic activities, and would do so within an analytical framework where economic outcomes are not objects of policy choice but emerge through interactions among participants within the economic process.

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Endnotes

[1]David Laidler and Nicholas Rowe (1980) offer a similarly positive assessment of Simmel's *Philosopy of Money*, only they assimilate Simmel to the dominant strains of contemporary theory. For reasons I develop below, I think a Simmelian orientation toward monetary phenomena would differ in vital respects from what is presently the dominant orientation.

[2] For instance, Ulrich Witt (1997) explains that F. A. Hayek's theory of business cycles from the 1930s was conveyed with the use of an analytical framework of general equilibrium that was inconsistent with Hayek's underlying vision of the economic process. For further amplification along these lines, see Richard Wagner (1999)

[3] For a crisp distinction between catallactical and choice-theoretic orientations toward economic phenomena, see James Buchanan (1964).

[4] For a fine exposure of many of the infirmities of the representative agent construction, see Alan Kirman (1992).

[5] For a crisp examination of the micro foundations literature, and some of its difficulties and conundrums, see Maarten Janssen (1993).

[6] Even for such a simple thing as depreciation, there is no truly correct method but only various conventions, along with tax requirements.

[7] The seminal treatise on fiscal illusion is Amilcare Puviani (1903). A translation was published in 1960, and is the only version of Puviani that I have seen. For relatively recent discussions of Puviani and fiscal illusion, see James Buchanan (1967, pp. 126-43) and Richard Wagner (1976).

[8] For instance, Frankel (1977), along with a great deal of contemporary literature commenting on Carl Menger's arguments concerning the origin of money.

[9] See, for instance, Selgin and White (1999).

[10] Butos and Koppl also note that Big Players that are not governed by residual claimacy can counteract the institutionalized discipline and order that would otherwise be present.