Nelson Jacovini

Money and the Social Question

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CONTENTS

desired to use every new-found scientific truth of the earlier theory for a political end, clearly stated and explained. The writer has always accepted this criticism, and has recognised above all the need to make explicit what was implicit, practical what was theoretical, and effective what was merely potential. However, several years were to pass before the birth of this present volume, and we should attempt to justify this delay to the reader.

He should consider that to speak of politics means to speak of action, just as to speak of science means to speak of thought. The two terms, action and thought, are in the same relationship to each other as the concrete and the abstract; hence the common saying that talk is one thing, action another. Obviously, when it is a question of taking important decisions or of making important judgements, we are being practical and not theoretical. Certainly, taking a decision is a very practical action of ethical man; and taking a serious decision implies a considerable responsibility to ourselves and to others. Let us now ask if we are capable of taking such a serious decision, which necessarily includes a responsible judgement of great problems, if we do not have all the strength which is necessary and which can come only from the clear conscience of being right and correct. It is an ethical question for whoever writes or offers information to others, after arriving at his own conclusions; we must, first of all, be satisfied that what we think is true and correct. It is only after this that we may spread and extend our ideas and judgements to others.

The scientific theory of money gave rise to social and political questions which were, and still are, questions of great importance, and which were tackled in quite a new *manner. A certain number of years had to pass in order to allow the writer and the reader time to understand better, as a result of the experience of certain events, the profoundly new ideas which, as theoretic thought, were and are the basis of our theory. Without this necessary process of growing maturity, one could not progress from theory to practice, from the abstract to the concrete, and from a textbook of scientific economics to a political and social work. It is the latter that we have attempted to elaborate, dividing it into seven chapters as the contents indicate.*

Having put forward the preceding arguments, we feel that we have sufficiently justified the delay with which the present volume — with its social and political rather than economic ideas — has been produced. We hope that these ideas may reach a wide range of readers, and it is precisely for this reason that we have felt the necessity to publish our new work in English, the most widely-used language on this planet of ours. The writer and the reader must therefore thank the translator for his invaluable assistance, which has rendered possible the accessibility of the work to a wider public.

Finally, we should like to think that our not inconsiderable labour may serve to encourage a greater awareness and an apposite political collaboration, inasmuch as they are necessary, for a final introduction of a concrete policy for the solution of the social problem, inside and outside every nation. This is the ardent hope of whoever reflects upon the facts and the progress of our society; and this hope ought not to be disappointed.

NELSON JACOVINI

Naples, March 1971

Chapter I

Introductory remarks on Political Economy

This is not really a book about political economy; it is a book which wishes to use political economy, or rather its fundamental ideas, in order to postulate and resolve social questions. Indeed it is clear that every particular social problem and the social question in general exist as a result of economic disequilibrium or, more exactly, disparity of income. As a result, investigation in the economic field becomes the base on which the formulation and resolution of the social question must be constructed.

In this book, therefore, political economy is treated purely as a means, and a preliminary discussion of political economy becomes necessary as an introduction to the social question. The fundamental categories or concepts of economics must be discussed, and in particular the concept which the writer considers of primary importance, the concept of the value of goods. But prior to this we need to consider in this first chapter the characteristics of political economy, considered as a science or else as an economic policy or practice of government, public or private as the case may be. More exactly, with regard to economic science which does not properly form part of the natural or precise sciences, we must make clear the conditions and terms with which we may consider this particular discipline a precise science; this will be discussed in the first section of the chapter. Subsequently, in the second section, we shall discuss the characteristics of economic policy as practice of management. Then, in the third section, we shall try to grasp the fundamental link which connects the principal sectors of the economy, the production, circulation and distribution of goods; this will lead to an overall picture of the subject as a whole, a picture indeed necessary for the subsequent analysis of the social problem. Finally, in the last section of the chapter, we shall outline the method adopted by the writer in his research; it will be necessary in fact to consider at some length this problem of method.

Indeed the question of method in economic research is of prime importance due to the extreme complexity of the analysis of economic data. Such an analysis consists in fact of three orders of relationship: between things, between things and men, and between men. It is therefore clear that such a complex system of relationships may be correctly evaluated in a balanced manner only if one applies a correct method of research, the one most consistent with the material. The finding of a correct method in economic research is the necessary condition, perhaps the sufficient condition, for economic and social progress. It is precisely for this reason that the fundamental elements of the method have been included in the appropriate section of this opening chapter. This was necessary, and still is, since a discussion of method in economic research is an essential pre-requisite; once the correct method has been found and adopted, the continuing progress of economic science will be assured, permanent because many disagreements will disappear, and widespread because the margins of disagreement will be reduced. In short, on the basis of a correct method of research, economic investigation will proceed safely and continuously, and the immediate consequence will be the assurance of social progress.

1 - SCIENTIFIC ECONOMICS

We must now pose and answer if possible the following question: what value has political economy as a science? More precisely, we must clarify the conditions and terms with which we may speak of scientific economics or economic science. Only after a consideration in depth of this problem may we answer the other question as to the existence of economic laws similar to the laws of the precise sciences; if the answer is affirmative, we may then determine the direction in which we must turn our research in order to discover such laws.

Let us begin by saying that many economic laws, accepted as such in all academic and scientific writing, are not in fact scientific laws in the sense of quantitatively determined relationships. In most cases we find, not scientific laws, but qualitative and guiding principles, in the sense that such principles indicate tendencies or else offer relationships between concepts and quantities, for which the unit of measurement and the measurement itself are lacking. Such is the case, if one may give a few examples, with the law of supply and demand, the theory of marginal utility, the theory of compared costs in international trade, the theory of plus-value as overwork in the Marxist school, the differential theory that gives rise to capital gains, and Gresham's monetary law. One could cite many more examples but it is enough to demonstrate the essential fact that economics —

the science of the production, circulation and distribution of goods — is normally ruled by laws of tendency and qualitative principles; it is precisely this notable fact which prevents the inclusion of economics in the wider field of the precise sciences.

Recent years have seen the spreading and continuing development of the « mathematical » school which aims in fact at treating economics as a branch of mathematics. It is clear that such a definition implies the consideration of economics as a precise science, but one is obliged to establish in what sense, within what limits, and up to what point we may correctly speak of mathematical economics and mathematical laws in economics.

It is immediately obvious that we may speak of mathematical economics only if there exist economic categories which may be expressed quantitatively, that is in numbers, such that even the relationships between these categories, which are then the laws, are the expression of numerically determined quantities. If this is not the case it is not permissible to speak of mathematical economics and of strictly scientific laws. All research aimed at discovering mathematical laws will therefore be fruitless in all those cases in which the relevant economic quantities cannot be expressed numerically, even with the possibility of establishing the unit of measurement for every quantity taken into account.

The question therefore presents itself as follows: we must ascertain above all the possible existence of some economic concept which may be expressed numerically; given that such a concept exists, it is to this basic concept that we must direct and concentrate our research, taking this quantity as the focus of the relationships. It is only in this way that we may arrive at an economic law of a mathematical type, equivalent to the laws of the natural sciences in general and to those of the precise sciences in particular.

Having thus defined the problem, let us state immediately that there does exist an economic category, perhaps the only one, of a strictly quantitative type and expressible numerically; it is that of value expressed in monetary terms, that is the circulation value of goods in a monetary economy. By monetary economy we mean the system in which the exchange of goods and services is effected by means of a quantitative and numeric agent called money or, less specifically, means of payment. On reflection one finds that the sole quantitative parameter that economics offers is in fact money which, independent of its real value, enjoys a nominal or face value which is exclusively numerary and which is the differential characteristic between money and all forms of goods. It is pertinent at this point to consider the difference between money and goods.

A given article of merchandise has value only if it has a specific technological characteristic, only if it possesses an intrinsic quality which renders it useful. If the article has no such quality, it is valueless. Therefore the value of merchandise is essentially qualitative and as such is incapable of being reduced to number. Quite the opposite is the case with money: a metal coin, a banknote, or a bank cheque, with a value of a 100 or 1000 units of currency, does not express this or that article of merchandise in particular but expresses instead any article whose price is 100 or 1000 monetary units, with an indefinite and unlimited qualitative range, while only the numerary value of the money is defined. Thus we may say that money has value fundamentally in as far as it expresses number. If money does not express number, that is face value, it is valueless as money and has value only as an article of merchandise. In this case it expresses only itself, namely its own intrinsic value. To sum up, we have ascertained that there exists a numerical quantity in economics and that it is value in terms of money. If we wish to discover numerically determined mathematical laws in economics, it is precisely on monetary value that we must concentrate all our research. If we follow this line it is highly probable that our aims will not be disappointed.

Let us now move to a conclusion, considering again the questions posed at the outset. We asked if there existed, and within what limits, precise laws in economics, and now we are in a position to answer this question.

The obvious concern of economics is the production, exchange and distribution of useful objects and services. We must however draw a clear distinction between the production, exchange and distribution of goods, qualitatively distinguished on the one hand, and the production, exchange and distribution of money or means of payment, distinguished quantitatively on the other. In the first case, confronted with categories which are absolutely qualitative, we must admit that mathematical or precise laws cannot exist and that there exist only qualitative laws and principles which indicate tendencies without the possibility of numerical expression. When we consider the second case of means of payment, however, we are faced with strictly defined quantities, and in this case there is no doubt that mathematical laws exist and that their discovery depends only on research and economic progress.

Finally the above discussion leads to one last consideration on the social value of monetary economics.

It is clear in fact that the production and circulation of merchandise, being qualitative, cannot have a single objective interpretation accepted by all as a logical truth. The production and exchange of goods will always remain a debatable subject. On the other hand the manufacture and circulation of money can and must be absolutely objective and indisputable; there must be no margins of disagreement; there must be universal acceptance of the logical truths of the facts. Such is the case with all the precise sciences; no-one disputes the theorem of Pythagoras or the chemical law of Avogadro. Hence monetary and financial economics, apart from being strictly scientific, is also strictly social. It is social because only this form of economics can be reduced to a precise science leading to mathematical laws and logical truths which can and must be generally accepted. We shall find, inevitably, that social grievances hinder the propagation, acceptance and application of the monetary laws discovered through research in scientific economics. In this case it becomes one of the many tasks of institutional economics to pursue the elimination of these grievances. With this aim institutional economics will make use of appropriate and useful factors considered in the light of cultural and economic policies. However, we shall discuss institutional economics in the next section.

2 - INSTITUTIONAL ECONOMICS

While the task of scientific or logical economics is to ascertain and define economic concepts and their relationships, institutional economics has the other role of integrating abstract concepts, culled from scientific economics, in an institutional context which is geographically and historically defined. We must, in other words, pass from the theory to its application, taking note of the inevitable approximations, and we must establish the basic criteria and canons of economic policy for the best management of public and private goods. Moreover, in the concrete cases of this or that country, the national institutions will be distinguished, possibly among those already in existence, which may be utilised as supporting structures for the ideas and criteria which have been established for political reasons.

It is clear that the criteria of economic policy to be adopted will be an inevitable approximation of the principles derived from logical economics, but they cannot contradict the scientific principles. This leads to the first and perhaps most important answer to be given by political economics, that of the alternative choice between an economy privately or publicly controlled. At present the question is formulated, not altogether correctly, in this way. Should the State interfere or not in the process of production and exchange of goods; and if so what form should this public intervention take?

At this point let us recall the basic finding of scientific economics, namely that the value of goods is a qualitative value which is variable and not objectively quantifiable in the majority of cases appertaining to a given institutional context. Here we have the first immediate answer given by political economics, which is, that dogmatic planning of the production and exchange of goods, understood as state control through a central office, has no objective validity in a scientific sense. With such planning in fact one would arrive at a binding obligation on each and everyone to accept an economic value which has no common measurement; on the contrary, it has a measurement which varies from person to person, from place to place, and from business to business. The best that we may expect from such state interference in the production and exchange of goods is that, once under way, it will have to be permanently enforced because it can never be accepted. We must admit finally that the market value, precisely because it is qualitative and variable, can be arrived at only through a free assessment of costs, conditioned by true economic factors, by the factor of location, and by the human factor with its level of specifically determined technological capability. For this purpose, therefore, there must be an indefinite and unlimited number of decision-making centres for the production and exchange of goods. This is equivalent to saying that we must accept a market-exchange economy, that is, an economy based on marketing, with the sole concern of making the market as big as possible, for this is the only way to reduce to a minimum differential capital gains which result from conditions of privilege.

A completely different case may be made for the manufacture and circulation of means of payment, which have an absolutely quantitative value with a common measure for all cases in a given institutional context. As before, it is logical economics which tells us that here public intervention is possible, is useful, and as we shall see is also necessary, in the interests of society. It therefore becomes the prime objective of political planning to ensure the public control of the agencies which manufacture and exchange money or its substitutes, that is, to control the machinery of banking and monetary circulation which creates liquid assets in the form of money or banker's credit. This control will be stronger and more effective if enforced first by international and then by national institutions, for in this way one may face the problem of social inequalities in the light of the largest possible market, to the interest and advantage of the extensive underdeveloped areas of the intercontinental market. In the final analysis one may conclude by stating that the international and national public control of the means of payment, or liquid assets, becomes the basic criterion of the economic policy which every country must follow; all this is in accordance with the findings of scientific economics.

With regard to the machinery of financial credit, that is, those institutions that offer medium and long-term credit, it is essential to note that as a general rule such bodies exercise credit without however creating new means of payment; their function is limited to the re-circulation of liquid assets already created by other agencies. In this case, therefore, the institutions of medium and long-term credit are not to be regarded as managing values which are purely quantitative. However, here too in certain cases there arises a kind of secondary liquidity, which is created when the redemption periods of capital loans are too short. In other words, in the practice of medium and long-term credit, the lending body re-establishes monetary liquidity by means of loan repayment by business concerns. Now, if the period of redemption is sufficiently long, the annual or half-yearly repayment is modest, and the liquid assets re-established by this repayment cannot be greater than the assets which existed at the moment of the initial loan. If, on the other hand, the period of redemption is too short, the repayment rate becomes notable, with an extra repayment which is converted into a secondary and additional liquidity with respect to that which existed before. The resultant disadvantage, particularly in the case of short-term loans, is the initiation of the vertical accumulation of capital, with the result that industrial devolopment in the capitalist economy occurs in restricted areas. This is to say that capital accumulates where it originated, without the possibility of flowing from industrially developed areas to those which are underdeveloped; thus depressed areas are formed beside areas which are over-developed, with the consequent disequilibrium of production, employment and income. It is precisely the short-term financing of industry which is responsible for these disadvantages, and this will become more evident from what follows. Here it is necessary to mention the question of industrial financing, in order to say that public control of credit institutions becomes particularly useful in the medium and the long-term when there exists, in the institutional context, the problem of areas which are underdeveloped due to the lack of local capital. It is for this reason that, in certain cases, it is necessary to control industrial credit institutions, but this control is to be regarded not as permanent but as limited in time. One must in fact complete, or at least initiate, a levelling or balancing process in areas of differing capital and industrial resources, this process being achieved by a policy of correct redemption periods in medium and long-term financing. Once this objective has been reached, the control of the institutions which finance industry will cease to be necessary.

In conclusion there remains the general and permanent control of primary liquidity, that is, of money and banking credit which are the sole quantitative values in the complex system of economic and financial relations. Similarly, on the other hand, one must exclude in a general and permanent way all control of the machinery of production and exchange of goods, for these are solely qualitative values which do not admit control or planning. In the course of the pages which follow we shall arrive at a more concrete understanding of the links which inter-relate the three types of management, monetary-banking, financial, and economic proper. At this point it has been enough to clarify the distinctions, in order to set economic policy on the right path when faced with the alternative choice of a public or private economy.

Finally, it will be useful to mention institutions and structures, in particular with regard to their functions. It is clear that in this respect every institutional context will require a specific examination, nonetheless a general and common criterion may be of use. It usually happens that the particular development of a given country gives rise to certain institutions which function according to the manner and the time in which the development has occurred. Hence it is true that all, or nearly all, of the institutional structures in any given state have some link or connection, be it remote or recent, with the overriding necessity of economic development. For this reason it is very often not a matter of suppressing old structures unconnected with development, but rather that the functions of certain structures have lost meaning or value in the light of new methods and new eras of development. This latter fact is less apparent but almost always true. Thus, in the majority of cases, the problem is that of conserving the existing structures while seeking to change their functions. It is precisely on this functioning of structures that we must concentrate our attention in order to further development. Correct re-programming can inject vigorous new life into an old institution which had seemed irrevocably doomed. All this in fact conforms to the following general principle:

structures must constitute a « minimum » of essentiality, in that they may not be eliminated, and their functions a « maximum » of utility, in that they must not be outdated. It is only by the constant application of this law that the processes of bureaucracy will not grow old, and the problems which such processes inevitably cause for social and economic development will become tolerable, tolerated, and finally accepted as being for the general good.

Thus we have traced the central and most important ideas of economic policy and the institutional channels by which these ideas circulate. We have at the same time formulated and to a certain extent discussed the basic argument of institutional economics; the general picture of economic activity will be completed with an analysis of the relating links between the production, circulation and distribution of wealth. This will be the subject of the next section.

3 - THE ECONOMY - COMMERCE - FINANCE RELATIONSHIP

Let us stress above all that the object of the economy, taken in a strict sense, is the production and distribution of goods, that is, the creation of a qualitative utility which is, as we have noted above, a technological utility characterised by the peculiar chemical or physical properties that have been conferred on the goods. The consequent task of commerce or trade is the exchange of the utilities created by the economy, in the sense of substituting one quality by another. This substitution is necessary because, at a certain point in the growth of production, a manufactured utility exhausts its capacity of immediately and directly satisfying needs, hence its production may continue only on condition that it be exchanged with a new and different utility.

One could in fact note that the production of goods, understood as the transformation of materials, is also subject to the substitution of one quality by another. Therefore it is necessary to draw the following more profound distinction between economy and commerce. In the economic or industrial transformation, between the initial and final utility in the transformation process there exists a utility which is additional to that which existed at the outset; this added utility exists in an absolute sense, in its own right, and in a way which is quite independent of any other with which the produced utility may or may not be exchanged. An additional utility does not exist however in any absolute sense with regard to the commercial transformation. The result is that commerce can never be more than the substitution of goods and utilities, so that, in theory at least, we should always have an equivalence of utility between the exchanged goods. If, as happens in everyday practice, there is a difference of utility between exchanged goods, it is necessary to point out that we have here a differential and relative utility, which does not exist *per se* as a utility acquired in a permanent and continuing sense, but only in relation to another economic utility which is usually uncertain and undefined. In other words, one must not speak of additional utility in the case of commerce, but rather of a differential margin of utility between exchanged values. This margin is constantly variable, changing according to circumstance, and could be reduced in theory even to zero. In the case of industry, however, there is an additional utility, because this utility is permanent, definite and assured between the beginning and the end of the technological transformation. It is evident then that both economic and commercial activity have the common aim of increasing the utility of goods in the qualitative sense.

Let us now consider the fact that for centuries the exchange of goods has been generally carried out with the help of an intermediary agent, a banker's order or money itself. The exchange of two commodities is therefore a two-part act of buying and selling; thus the sole primitive relationship is replaced by a two-part relationship, the reciprocal links of money-commodity and commodity-money. And so we have at this point the intervention of financial economics, understood however, at this preliminary stage, as banking or credit activity which has the specific purpose of circulating means of payment. These are placed at the disposition of commerce by a particular commercial undertaking which collects deposits and offers credit facilities, obtaining its own particular differential utility from the difference of credit and debit rates. The introduction of banking has the advantage of greatly widening the whole system of earlier commercial relationships. The exchange economy undergoes the following basic change: the exchange of goods against goods is replaced by that of goods against means of payment, which now assume the important function of expressing in numerical terms the value of the marketable goods. This of course was impossible before. It is clear then that a banking economy is a step beyond the economy of barter, for there is a development from the qualitative to the quantitative exchange value. It is in this way that the historical progress of economics in the modern form of financial economics takes place. Let us note immediately, however, that this step — from a barter to a banking economy — is not the only one nor the final one, and therefore there is a deeper and more important consideration to be made.

There is no doubt that money has a quantitative function in the system of exchange considered in the preceding paragraph. But this function always remains that of a means of exchange, even if the monetary value, in virtue of its numerical face value, can express an enormous number of marketable goods which before had only a qualitative value. We must realise that, even with the development of a banking economy, we always remain within the limits of an exchange economy, because the means of payment remain tied in every case to the commodity-money link, in which the term «money» assumes the meaning of acquisition or rather consumption of a certain commodity. To put it otherwise, even with a banking economy money cannot be disassociated from its relationship with the commodity, and the numerical value of money remains tied to an expression of consumption of a certain commodity, even if this expression is quite general and abstract. We shall see shortly that this exchange value of money also constitutes a limit in the institutional field, but for the moment we must accept that the exchange value of money is a value of consumption. This is not its most general value but only a first restricted value, which we have to qualify as « internal » due to a conceptual and institutional limit in its interpretation. There exists a second value of money, which we may qualify as « external », and which we shall now attempt to define.

First let us recall the fact that economics, beyond the production, transformation and substitution of goods, has another fundamental aim, the social task, that is, of the distribution of goods. Clearly, from a social point of view, the total wealth of a community is less important than its distribution.

The logical extreme of this strictly social point of view is that one may say, in cases where wealth is lacking, that the distribution of poverty is also important. Distribution is the true social task of political economy, and the problem of distribution can be posed in the simplest of terms: given a certain quantity of goods, whether large or small, how must we divide this common produce or income among all those who are competing to receive it? In the problem of distribution there now arises a new concept, which is that of the distribution of the social income, and the division of the common fund, with a sum-total as great as possible under the circumstances. It is for this reason that distribution and income, by which the former is expressed, are purely social matters. We arrive at the immediate consideration that, with the existence of means of payment already developed by the banking economy, this distribution of the social income cannot be effected except in terms of money, being thus expressed numerically. Precisely at this point the unit of money begins to take on a new meaning, that of the unit of social income to be distributed, with the expression of this income in nominal terms. This is the concept of money-income, which is very different from the earlier analysis of money as exchange or money-consumption. Let us now define more accurately this important difference.

Above all we must state that the money-consumption concept is a more restricted concept than that of money-income. In fact, money-consumption is always connected with some article of merchandise or some particular service, for it is money at the moment in which it is spent, or at least in the moment in which it is assigned for expenditure; it has a specific destination, so that the abstract monetary value can readily be transformed into a concrete market value which is specified and defined. But money-income is neither money spent nor money assigned for expenditure; it is money-savings, with a social importance which is quite general because it has yet to be assigned for expenditure. This expenditure can be of general utility, considered even in the most general sense possible. We may say that money-consumption is actual or current utility, while money-income is utility projected into the future. Likewise, we may say that money-consumption involves a particular interest, because consumption is inconceivable without a specific end, while money-income is of social interest, since its utility exists only in abstract and quite general terms. Consequently we deduce from these essential and differing characteristics that with the introduction of money-income, which is the external value of money, we take a second step in the change from qualitative to quantitative value. This time the step is final. In effect, with the introduction of banking or consumption money, we have had a first change and a first value of quantity, the internal value of money, and we have arrived in this way at a restricted system of finance, which has also an institutional limit which we shall shortly define. On the other hand, with the introduction of the new unit of income, we finally overcome this conceptual and institutional limit, we are brought decisively into the sector of finance in the proper sense of the word, without limits of any sort, and we are brought decisively into the social sector. This sector is also effectively quantitative in an unconditional manner, and so it will be useful to concentrate our research here if we wish to discover precise laws in economics.

Since we have both an internal consumption value and an external income value of money, there will undoubtedly exist a money-money relationship. This is the characteristic relationship of financial economics. We have here, obviously, a third basic relationship, to follow the other two previously examined, that of goods-money, which is typical of a banking economy, and that of goods-goods, typical of the earliest barter economies. Once these three relationships have been established, we may go on to specify some institutional limits, which are very closely connected to the concepts examined above. Finally, on a theoretical and practical basis, we shall be able to establish a relationship between economy, commerce and finance.

The first institutional sector to be considered, that connected with the production and transformation of goods, is naturally the first in historical order, but it is the most restricted in a geographical sense. It is the sector of businesses, whose area of operations may assume regional dimensions, or at the most national dimensions in the case of several concerns associated in a horizontal or vertical sense; but this sector of production cannot overcome the customs barrier which is the result of the commercial policy adopted by the nation's government. In other words, the production of goods, due to the complexity of the factors involved, is always considered as firmly bound to a territory, with a code of national positive law, so that the characteristic of an economy of production is that it is a business or regional economy, or at the most a national economy, since an international economy does not exist. It is rather different for commerce which carries out the international exchange of goods and can, as such, assume wider international dimensions. But in practice free commercial activity is a mere abstraction, since the various nations insist on this or that control, direct or indirect, over international commerce. It is to be noticed that international trade, wherever it is subject to some customs control or other, resolves the problem by interchanging goods against goods. This is evident enough in exchange-goods trading where clearing is involved, but it is also true in duty trading. In fact, in the latter case, the duty paid in national currency on the goods which we have imported will have to be balanced, sooner or later, by another payment of duty in a foreign currency on goods which we have exported. Therefore, even duty trading is a form of clearing trade, since the two sums paid in duty must be equivalent when considered as two specifically defined units of import and export. If international trade is subject to certain controls, it thus evolves inevitably in terms of goods and not monetary values. This leads to the first limit in the exchange of utilities, that of commodity utilities, coinciding institutionally with a common customs barrier. This barrier may be national, but it can also be international in the case of an area of several states with a single customs tariff for all members, as is the case with the Common Market countries. But whatever the case, every common customs barrier determines commercially its own goods value, with a geographical limit defined in relation to the countries or regions which subscribe to it.

We have seen then that, beyond the goods utility of quality, there is a banking utility of quantity, with a quantitative value restricted to money. So there is to be distinguished, here too, an institutional limit, with a new area of exchange relationships, naturally wider than that of a common market.

It is to be noted, with regard to this, that the value of money has been regarded as a money-goods relationship or as money of consumption; therefore, here too, the limit we are seeking arises from a certain type of policy in international exchange. On the other hand, if one excludes a common customs tariff, there remains the other method of regulating international trade, which is that of considering, with or without treaties, a reciprocal system of conditions of privilege. Precisely in this way one creates an area of free trade, given that there is no common tariff. And, on the other hand, an area of preferential relationships is created, inside which money remains permanently fixed to the commodity, without this commodity assuming however a specific definition. If one wishes to give an example of an area of free trade, rather than refer to EFTA (European Free Trade Association), it is better to refer to the old British Commonwealth. Here, in fact, we see put into practice a system of definite preferential relations in the trading between member countries with different currencies and different customs tariffs. The British Commonwealth, even if it is reduced in size today, offers an example of the institutional limit which coincides with the value of money-consumption or means of payment. Inside this area the value of exchange is expressed in the currency of one of the member countries, and not necessarily in sterling. This currency, which possesses its own restricted quantitative value, expresses a maximum limit attainable in an area of preferential trade relations. There is no further limit beyond such a limit of currency. Beyond this point there is a free or open market, characterised by money-income, the social unit of distribution or savings unit in nominal terms in the widest international market. This unit characterises financial economics in the proper sense of the