Centennial Review

Principled Ideas from the Centennial Institute

Volume 5, Number 7 • July 2013

Publisher, William L. Armstrong

Editor, John Andrews

DEBASED CURRENCY, DEBASED CULTURE: WHY AMERICA NEEDS SOUND MONEY

By Paul Prentice

One can scarcely pick up a newspaper without reading of some new financial scandal. From the Wall Street banking bailouts to stories of greed and corruption in once-venerable investment companies, there is a developing sense that our money is neither safe nor sound.

Nor is it. According to the U.S. Department of Commerce, $1.00 in today's 2013 currency is worth about the same as $0.04 was worth in 1913. This is an astonishing debasement of the currency over the past century.

Given that 1913 is the year that the Federal Reserve System was established for the express purpose of stabilizing the U.S. monetary system, one is justified in asking Murray Rothbard's insightful question (in a book by that title): "What has government done to our money?" This essay will attempt an answer.

In 1913, 4¢ bought what $1 buys today.

In addition, as Thomas Woods points out, economic cycles have actually been worse—more frequent, deeper, and longer-lasting—after the creation of the Fed than they were before.[1] So this essay will also make the case for sound money—money that fulfills its natural economic role as (1) a medium of exchange; (2) a unit of account; and (3) a store of value.

My contention will be that money can only fulfill that role when it is free from arbitrary and capricious governmental controls on its price and quantity.

Before There was Money

It is an economic maxim that income and wealth are created when people are at liberty to specialize, produce, and trade. In order to facilitate that process, thousands of years ago people invented what is now called "money." Imagine a world before money. Trade had to be done by barter. If you had extra meat and wanted some berries, you would have to find someone who simultaneously had extra berries and wanted some meat. The voluntary exchange would then create additional wealth, by allowing the goods to flow to those who valued them more.

But the entire process was held back by the necessity of a coincidence of wants. Furthermore, the meat or berries would deteriorate over time. Economic advancement was extremely slow and difficult. Then, the concept of money was developed when societies agreed that some commodity, be it stones or shells or precious metals, would be commonly accepted as a *medium of exchange*.

Market Signals

The problem of coincidence of wants was solved. People could now trade their goods and services for money, and then trade the money for other goods and services that they valued more. This function as a medium of exchange naturally evolved into a system of prices—the ratio at which one good traded for another. Hence the second function of money as a *unit of account*, which provides the market signals allowing scarce resources to be transformed into goods and services that maximize human wants and needs.

Perhaps society determined that one gallon of milk was worth two stones, and that one pound of meat was worth four stones. Now you had signals about relative value. Then perhaps one hour of human labor was determined to be worth 10 stones, and societies now began to have a way of determining what to do with their scarcest of all resources—time. Economies advanced faster.

Finally, the concept of money allowed a person to keep the value of any excess production. If you earned 100 stones and only traded 90 of them, you would have 10 extra stones that you could then trade for goods and services another

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day. This final function of money as a *store of value* now allowed people to save for the future. It brought the critical concept of time into the human action of specialization, production, and trade.

People then began to trade money through time: "If you lend me 10 stones today, I will pay you 11 stones a year from now." The concept of interest was born, reflecting what economists call the "social rate of time preference." Economic participants were able to delay gratification today in return for even greater gratification tomorrow.

Interest Isn't Always Usury

Jay Richards, in his book *Money, Greed, and God*, demystifies the biblical injunction against usury. Some have taken it to mean interest in general, but there is a difference. Usury refers to a ruinous price of borrowing charged exploitively to a poor fellow-believer. Such exploitation would violate God's intention for us to behave charitably.

Interest, on the other hand, is simply the just return for putting one's money at risk over time. As the negligent servant is told in Jesus' parable of the talents: "You ought to have deposited my money to the bankers, and I would have received back my own with interest" (Matt. 25:27). Here Christ teaches the importance of productivity, profit, and return on capital. The inference is that a society which values the future will save and invest more than a society that only lives for today.

Constitution doesn't say 'print money.'

Thus as people learned to establish the time value of money, expressed as interest, they could now delay instant gratification and plan for the future by saving and investing. The process of capital accumulation began. Economic growth accelerated.

Founders' Foresight

America's Founders well understood the imperative for sound money in a free society. In the U.S. Constitution, they granted Congress the authority to coin money and regulate its value—placing this in the same section with setting the standards for weights and measures (Article I, Section 8). They recognized that just as a carpenter could not build a sound house if a linear foot was not standardized at 12 inches, a nation could not build a sound economy if its unit of currency was of fluctuating value.

Significantly, the congressional power to "coin money" implies a precious-metals based currency. Notice that the Founders did not say "print money." Over the millennia of human experience, two metals—gold and silver—have stood the test of time as socially acceptable forms of money fufilling all three functions. Article I, Section 10, is therefore quite clear: "No State shall make any thing but gold and silver coin a tender in payment of debts."

After the disastrous experience with creating "continental dollars" out of thin air to help pay for the Revolutionary War, which resulted in massive inflation as the currency became worthless, the Founders recognized that establishing a sound national currency must be a critical function of the new federal government. Only a sound currency could effectively pay off the war debt, allow merchants to engage in international trade, and facilitate trade among the states.

They feared that allowing each state to create its own money would lead to competing currencies that would cause confusion and inhibit commerce and economic development. And Thomas Jefferson, foreshadowing a controversy that persists to this day, warned that establishing a national central bank with power to discount notes and bills for other than sound coin money, would create an institution of "deadly hostility to the principles of the Constitution."

Thou Shalt not Steal Monetarily

Not surprisingly, the Bible contains numerous passages and lessons rich in economic content. Since economics is so deeply intertwined with human nature, how could it be otherwise? In particular, there are multiple biblical references to the necessity of sound money. Gary North's book, *Honest Money,* chronicles many of these.

For example, even before the appearance of gold and silver coins as money (dating from about 600 BC), these pure metals were recognized as having exchange value as ornaments and jewelry. In Genesis 24:53, Abraham's servant gives Rebekah gifts of gold and silver jewelry to lure her into marriage.

In contrast, the consequences of unsound money are stated in Genesis 47:15: "So when the money failed in the land of Egypt and in the land of Canaan, all the Egyptians

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came to Joseph and said, 'Give us bread, for why should we die in your presence? For the money has failed.'"

America's Founders likely gained their biblical perspective on the importance of a fixed and honest set of weights and measures from Leviticus 19:35: "You shall do no injustice in judgment, in measurement of length, weight, or volume. You shall have just balances, just weights, a just ephah, and a just hin: I am the Lord your God, who brought you out of Egypt."

Dishonest money violates the Golden Rule.

We find this echoed in Proverbs 20:23: "Diverse weights are an abomination to the Lord, and a false balance is not good." It naturally follows that coined money must also have a fixed and honest weight, in order to be traded for goods that have a fixed and honest weight.

To tamper with the scales is a moral evil —theft through fraud. Similarly, to tamper with the fixed and honest value of money is also theft through fraud. This is a clear violation of the eighth commandment, "Thou shalt not steal" (Exodus 20:15). Even John Maynard Keynes understood the societal consequences of inflation, as evidenced by his many writings against debasement of the currency.

Purge the Dross

The concept of currency debasement itself has biblical correlatives. Unscrupulous merchants and unscrupulous rulers would alloy their pure gold and silver with base metals or "dross" such as iron, lead, or tin. So from Isaiah 1:22, we have: "Your silver has become dross, your wine mixed with water." To which God voices his displeasure several verses later: "I will turn my hand against you, and purely purge away your dross, and take away your alloy."

As I have written in these pages before, capitalism is a moral system of win-win voluntary exchange.[2] Without a moral basis such as the Golden Rule, exchange can become win-lose. One person gains at the other's expense. This is the case with either unsound weights and measures, or unsound money. Both are inherently immoral. They can be either a symptom of a corrupt civilization, or a cause of it.

The Bible teaches us that civilizations fall when they become morally corrupt. This corruption is frequently manifested in a debased currency, a violating of God's law for honest weights and measures.

Consider what happens when a government is unconstrained from having sound money. Once it can print money at will, out of thin air, and still force citizens to honor it thorough legal tender laws, politicians no longer need to tax in order to spend. Now government can just print and spend.

This "fiat money"—money created from nothing by decree—is still used as a legal medium of exchange. But it is no longer useful as a unit of account that allows relative prices to guide resource allocation. Nor is it useful as a store of value, since it depreciates over time as more and more is printed.

It is not hard to see how a degenerating fiat currency can lead to a degenerating culture.[3] As political pressure builds to print money to empower various interest groups, constitutional constraints on a government of limited and enumerated powers erode.

Endless Free Lunch

Within a single generation after the creation of the Federal Reserve, and not by accident, the Great Depression ensued and the modern welfare state was institutionalized. Government was set free to engage in endless "free lunch" promises. In the generations since then, Americans' ethos of personal responsibility has been increasingly crowded out by promises of government security.[4]

Our country has experienced the very degeneration of which Friedrich Hayek warned in *The Road to Serfdom*. Over time, as he foresaw, government welfare changes the moral character of the people. Society demands more free lunches, which require ever more fiat currency. The state crowds out the self-reliance of the citizen.

What economists call "moral hazard" becomes endemic, whereby individuals are allowed to enjoy the benefits of irresponsible behavior while sloughing off the costs onto society at large. In other words, they internalize the benefits but externalize the costs. Thus young men and women begin to have children without having the means to support them. Out-of-wedlock births skyrocket, and the family disintegrates.

In the business world, fiat currency allows profit to be privatized while losses are socialized. David Stockman, formerly President Reagan's budget director, makes this connection with the Wall Street bailouts in his sobering new book, *The Great Deformation*. The social safety net grows

CENTENNIAL REVIEW
June 2013

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Money can't fulfill its role to facilitate human flourishing when government manipulates it. The Bible teaches this, as our Founders knew. A century of efforts to the contrary by the Fed have failed.

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along with the government's printing press. The state becomes both the parent and the spouse. Generation after generation becomes increasingly corrupted. Civilization itself falls into a death spiral. It was Ayn Rand's character Francisco d'Anconia in *Atlas Shrugged* who perhaps put it best:

"Paper [money] is a mortgage on wealth that does not exist, backed by a gun aimed at those who are expected to produce it. Paper is a check drawn by legal looters upon an account that is not theirs: upon the virtue of the victims. Watch for the day when it bounces, marked, 'Account Overdrawn.'"

When people democratically elect corrupt leaders, they are part of the corruption. What can be done to stop the cultural death spiral? Reestablishing a sound currency might not be sufficient, but it certainly is necessary. With a sound currency, society can begin restoring its moral behavior by reviving personal responsibility.

Exemplars: Mises, Friedman, Reagan

Does this mean we have to return to a hard gold standard? In my opinion, no. There is nothing magical about gold. But it's one thing that government *cannot* create out of thin air. So for that very reason, as Ludwig von Mises noted in *The Theory of Money and Credit*, gold acts as a constraint on government: "Sound money was devised as an instrument of protection of civil liberties… [much like] constitutions and bills of rights."

Milton Friedman and Ronald Reagan, each in his own way an economic giant of our time (and both born before the Federal Reserve was), left us waymarks toward the restoration of sound money with or without a gold standard. Friedman (1912-2006) outlined a nonmetallic "fixed money" rule to make the dollar once again as good as gold. And Reagan (1911-2004) showed during his presidency how much benefit can accrue even from just slowing the government printing presses.

Any layman, moreover, can see that a century of debased currency has contributed to the debasement of our culture, and it must not continue. Monetarily the United States is in a deep hole. It's time to stop digging.

When in a hole, stop digging.

Footnotes

1. See *Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse*, by Thomas B. Woods, Regnery Publishing, 2009.
2. See "Moral Foundations of Capitalism," by Paul Prentice, *Centennial Review*, Vol. 2, No. 1, January-February 2010.
3. This point is elaborated in my audio lecture, *"The Link Between Degenerating Currency and Degenerating Culture,"* Austrian Scholars Conference, Ludwig von Mises Institute, Auburn AL, 2009.
4. See, for example, the analysis in *Responsibility Reborn* by John Andrews, MT6 Media, 2011.