

What is Money?

by Llewellyn Rockwell

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1999

For years, J.S.G. Boggs has suffered every manner of government intimidation because of his art. He draws currency, very beautiful currency, which he calls Boggs' bills. He's not trying to fool anyone, and there's no mistaking them for dollars. In fact, they are much nicer looking than the Treasury's new bills that feature overgrown heads of politicians and official graffiti of all sorts.

Because Boggs' bills are both lovely and fun, he quite often persuades merchants to accept his artistic creations in exchange for goods and services. They've even been known to give change -- in real dollars. The more famous he becomes (the University of Chicago has just published a book about him) the more his art is in demand.

But far from getting a grant from the National Endowment for the Arts, he's been subjected to three Secret Service raids. The agency seized 1,300 bills from Boggs' home, and despite the refusal of several courts to convict him of counterfeiting, the government won't return his property.

There's a popular bumper sticker that reads: "Don't Steal. The Government Hates Competition." In light of Boggs' experience, there should also be one about printing money. The Fed, and the government that created it in 1913, hate the competition.

Consider that the stock market soars and tanks on the merest speculation of what Greenspan the Great will do next. He may raise rates, causing markets to crash. Or he may raise rates less than previously expected, making markets to take off. Predicting which will occur is an art, not a science.

The only constant is the power of the Fed itself. In what does this power consist? Two factors: 1) money is no longer gold but paper and therefore can be created (or destroyed) on a whim, and 2) the Fed controls the money supply. Congress and the Courts can only envy that level of power.

It wasn't always thus. Money originated in the market, not by decree of a government or a central bank. Any valuable commodity can come to be a means of facilitating exchange. Salt, shells, pelts, and even cigarettes in prisoner-of-war camps have functioned as money. But throughout most history and in most countries, the market has chosen gold because it is scarce, portable, durable, and constant.

Before there was a central bank, there was no overarching manager of the money supply. People used gold for money and banking operated like any other business. The bankers performed the service of storing gold and making loans based on their capital. They didn't create money out of thin air, and they certainly didn't raise and lower interest rates on their own.

The glory of this system is that it operated outside the authority of government. That is precisely the reason government did not like it. Early in the century, a cabal of bankers and government officials got together to change that, to reconfigure the monetary system so that it served their collective interests. The result was the Fed, and the subsequent loss of personal and economic freedom. Centralized control of money was once just a plank in the "Communist Manifesto"; now it is accepted as normal by virtually everyone.

Take a look at our money today. Coins that were once silver are now tin or some other worthless metal. Their value has nothing to do with the marketability of their metal, but only with their use in transactions. Whereas paper dollars used to be exchangeable into gold and silver, they are now nothing but paper with a value dependent on how much the government and the Fed decide to print up.

What the government has monopolized and controlled it has always destroyed, as Murray Rothbard argues in "What Has Government Done to Our Money." The turn-of-the-century dollar is worth a few pennies today. The balance has funded the rise of the Welfare-Warfare State at the expense of our savings.

With the Fed in control of the money supply, we will forever experience booms when money is inflated followed by inevitable busts, as well as relentless inflation that eats away at our living standards. What the government cannot grab through taxation and borrowing it can always create with a call to its friends at the Fed.

Before the Fed, what was money? It was an easy question to answer: gold and silver. But politicians and central bankers destroyed that system. What is money today? The short answer is: what the Fed says it is. And apart from the government's promise to

print quantities of it, it would have no value whatsoever.

In some ways, the work of Mr. Boggs illustrates the point nicely. "It's all an act of faith," he says in "Boggs: A Comedy of Values," the new book about him. "Nobody knows what a dollar is, what the word means, what holds the thing up, what it stands for." He has shown repeatedly that his own drawings, valued as art, are worth far more than the government's currency. And yet he is constantly threatened with property confiscation and even jail for doing what the government is doing.

Several years back, a separatist group in Montana called "The Freemen" had the bright idea of printing up their own money. They studied the operations of the Federal Reserve and discovered that its money wasn't backed by anything. Declaring themselves a sovereign country, The Freemen figured they would also do what the Fed did. Of course, the FBI quickly surrounded their land and hauled them off to jail where they are rotting today.

Frederic Bastiat defined a free society as one in which the government is not permitted to do to private citizens what they are forbidden to do to each other. Following Bastiat, if private citizens are not allowed to print up paper tickets and call them money, the government shouldn't be either. That we allow government to do so has led to disastrous consequences.

If the U.S. government tried to run its empire on taxes and debt alone -- without the power to create money, it would likely collapse in short order. That's as good a reason as any to restore the gold standard. Then the dollar would be worth as much as a Boggs'.