Money-Socialism

1. What is money?

It is impossible to trade a wooden wheelbarrow for a twentieth part of a living cow. That is why, from earliest times in all cultures, money emerged to facilitate trade in local or regional markets (e.g. livestock markets) – initially, in the form of established and commonly required goods, such as grain. Above all, the commodity serving as an indirect means of exchange (money) had to satisfy the conditions of having an independent use value, being easily divisible and durable for a long time. When humans had learned to extract metals from the earth and to smelt them, these soon assumed the function of money – especially gold and silver. Initially, pellets or nuggets were exchanged; later gold and silver were increasingly used in the form of wrought or minted coins. Due to its scarcity, beauty, and imperishability, gold was valued as jewelry and as a sacred offering even before it was used as money. It is important to note that money emerged in free markets. The indirect means of exchange called money is a market creation. Only later did rulers of all kinds stipulate certain weights for coins, and lay claim to the sovereign monopoly of minting and issuing coins.

As craft and trade activities increased, more and more coins entered into circulation, and owners searched for safe places to store larger amounts. They found them in the temples of priests; later on, however, in the secure basements and strongboxes of goldsmiths, who issued receipts for the precious metal money they stored there. It did not take long until these bills, which were really certificates of deposit for existing gold and silver, themselves entered circulation as money. They were as valuable as gold and silver, but easier to handle and carry. In this way, goldsmithies gradually evolved into banks whose business it was to issue such bills – bank bills. Bankers realized that over a period of time only a few of the bank bill owners wanted to redeem the bills for the deposited precious metal, and so they began issuing notes–in return for interest on borrowing (interest on credit)–in amounts that exceeded the value of the stored metals. Instead of asking for storage charges, they could now pay the depositors interest, thus providing an incentive to people to deposit more. With these larger amounts of deposits, the bankers were able to issue disproportionately more credit and in this way increase their income from interest. Thus fractional reserve banking was born, the business of running a bank with a fraction of reserves, where the real money (gold and silver) actually deposited amounts to only a dwindling percentage of the issued credit. Strictly speaking, this is fraud, because if all or even a large number of the depositors wanted to redeem their bills for real commodity money, the bank would crash and a large part of the clients' money would be lost.

Money is, therefore, the most marketable good, which is universally accepted as the indirect means of exchange precisely because it has this greatest degree of marketability. In the history of humankind, a great number of goods have served as money, but all developments ultimately led to gold and silver (and copper) coins of certain weight and fineness. *Carl Menger* wrote in his *Principles of Economics* (1871): "Money is not the product of an agreement on the part of economizing men or the product of legislative acts. No one invented it. As economizing individuals in social situations became increasingly aware of their economic interest, they everywhere attained the simple knowledge that surrendering less saleable commodities for others of greater saleability brings them substantially closer to the attainment of their specific economic purposes. Thus, with the progressive development of social economy, money came to exist in numerous centers of civilization independently." (Libertarian Press, Inc, 1994, p. 262.)

In the terminology of *Friedrich A. von Hayek*, an eminent successor of *Menger* at the University of Vienna (Austrian School of Economics), one can also describe money as a 'spontaneous institution.' As with language and the market, money has not been consciously established by design, but instead is the spontaneous result of mutual human communication and trading that has developed over the course of countless generations. Economic institutions, such as markets and money, are the result of human action, not of human design. The use of money is an example of what *Hayek* understood as ‘spontaneous order.’ There has never been an inventor, designer, or planner who has deliberately introduced the use of money. Against this backdrop one can also see how wrong the view is, commonly held among economists, expressed here in simple terms: Money is everything prescribed as money by the government. You can’t turn a cat into a dog just because legislation states that from now on it has to be called a dog.

2. Kinds of money

Ludwig von Mises, whose book *The Theory of Money and Credit* (1912/1924; English 1981 by Liberty Fund) in my opinion is still the most important academic work on monetary theory, distinguished four kinds of money:

1. token or base metal coins,
2. commodity money,
3. credit money, and
4. fiat money (unbacked paper money).

The free market has chosen commodity money as the most marketable good and as the means of exchange most suited to it, almost always in the form of gold and silver. Gold is a commodity, not a promise to pay. Credit money, on the other hand, is a promise to pay that cannot be honored if all credit certificate owners want them fully redeemed at the same time–because it is money that is less than 100 percent backed by coin reserves. Fiat money bills are certificates of trust, declared as money by the state, but backed by nothing. When the state marks money that has arisen on the free market with a stamp to confirm its validity, weight, and fineness, no harm has yet been done (although it is the beginning of a bad end); but when the state establishes a money monopoly, it simultaneously harms the two most important free market institutions (and freedom in general), namely private property and the right to free contract formation, which are the foundation of all acts of exchange. The supply of money requires neither a creator strengthened by power nor a sovereign regulator of the quantity of money. The free market ensures the quantity of money in circulation in just the same way it creates the quantities of consumer and capital goods, namely according to the laws of supply and demand, and subject to price. Money is neither a consumer nor a capital good. It can be said, therefore, that an increase or decrease of its quantity means an increase or decrease in welfare or wealth. Welfare and wealth are dependent on the available quantity of consumer and capital goods, not on the available quantity of money in an economy.

3. Healthy money, ailing money

The money that emerged on the market, ultimately gold and silver currencies, was healthy money; paper money, backed by nothing, imposed upon us by the state's monopoly on the use of force, fiat money, is ailing money. It is counterfeit money. Let us take a look at the medical history of fiat money, using the example of the United States: the Federation of the United States had originally only permitted gold as the sole legal means of payment. However, in 1690 Massachusetts started the first paper money experiment by issuing so-called colonial notes. The other colonies rapidly followed suit with their own paper currencies. It is true that the notes were redeemable in gold, silver, and some agricultural goods, but the number of bills issued soon outstripped the underlying backing and they became almost worthless. During the American Revolutionary War, the next experiment was undertaken with the so-called continentals. It failed spectacularly, and for a long time Americans wanted nothing to do with paper money. Then, with the founding of the Federal Reserve System (the Fed) in 1913, the great fiat money fraud began. The gold standard was abandoned everywhere at the start of or during World War I. In actual fact, the dollar was still backed by gold, but no one took this obligation seriously any longer. The quantities of money that the Fed created led to the 'roaring twenties' and subsequent collapse. In 1933, every $20 bill was still backed by one ounce of gold in the vaults of the Fed. In the same year, the U.S. Federal Reserve rejected President

Roosevelt's demand to further lower the rate by which the dollar was backed by gold. *Roosevelt* immediately had all gold in private American ownership confiscated. The Fed yielded and printed more paper dollars. However, the president was still not satisfied and a year later devalued the dollar by 75 percent in relation to gold. A massive inflation of prices ensued. In 1971, President *Nixon* severed the last link between the dollar and gold by lifting the obligation that had until then existed of redeeming foreign central banks' dollar currency reserves for gold. Between 1971 and 1980 the price of gold rose from $35 to $850, but it later on fell again substantially.

For 136 years, the United States experienced price stability under the gold standard. The purchasing power of the dollar in 1913/14, when the Federal Reserve System was founded and the gold standard was abolished, was even higher (11 percent) than in 1776. Since 1913, however, this purchasing power has fallen by 95 percent, which means it has been almost totally destroyed. The cause was, and still is, the massive increase in the quantity of money since 1913. Unbacked paper money can be proliferated at will. And this has most definitely been happening under the management of the Fed. Supply and demand determine not only the prices of goods, but also the price of money (its purchasing power). The greater the supply–relative to the available quantity of goods–the less it is worth.

In 1913, the U.S. population was 97 million. At that time, the money supply M3 (the broadest measure of money supply) amounted to about 20 billion dollars, that is to say $210 per head. Currently (summer 2009), the United States has 304 million inhabitants – and M3 is about 14 trillion dollars. That is about $49,000 per head. In other words, while the American population has tripled since 1913, the country's money supply has increased by a factor of 230. Even if we assume that the quantity of money should increase in step with the national product–which is not necessary at all, certainly not in the case of the price-inflationary, bloated nominal national product–the quantity of money has run completely off course since the founding of the Fed. In the last thirty years, the volume of goods produced in the industrialized nations has increased about fivefold, the volume of money and credit however about fifty-fold. The dollar is losing value at an ever increasing rate, which means its purchasing power is falling ever faster toward zero. From antiquity to the present day, the history of paper money is a history of failure.

4. Money and power

There are only two ways to rule: with the sword (or the Kalashnikov) or with bread and circuses, meaning bribery or vote catching – in the modern version this is called the welfare state. Both methods require huge amounts of money. And there are only three ways to obtain money: working or begging or looting. Rulers regularly choose the third way – looting, either with or without accompanying extortion and the threat of violence. And the modern democratic states prefer to choose the bribery version: bread and circuses, or, in other words, the welfare state. This is how the phenomena robbery and welfare state merge as constituent elements of every modern regimen or every modern state. It was no different in earlier times but the emphasis was more on the sword than on bread and circuses, and the handouts went to the elite who supported the regime; bread and circuses *for all* was the solitary exception in the late Roman era. Twice in the twentieth century, that is, during the two world wars, the pendulum swung back toward the sword; since then, the focus has once more been on the bribing cornucopia of the social welfare state.

In any case, the state requires enormous amounts of money in order to rule. As the amounts needed have assumed astronomical dimensions, the basic tax revenue has long since become inadequate. States all over the world have, therefore, simply seized the monopoly of paper money production in order to create gigantic amounts of money out of thin air. It was no coincidence that the gold standard was abolished at the beginning of the World War I by all the countries involved and that they, with the help of already existing or newly created central banks (e.g. the Fed) started producing fiat money that could be created in any amount desired. With gold as money – i.e. real money – it would have been impossible to wage World War I or World War II. Or no longer than three weeks at most. And it would also be impossible to wage the ‘bloodless great war’ on the welfare front if the state did not have a monopoly on creating as much money as it wants. It is paid for by the people who work hard and save, because money supply inflation is a secret but extremely high tax manifesting as a decline in the purchasing power of income and savings. President *Hoover* once said that paper money is a great aid to politicians. It makes it possible for them to confiscate "the savings of the people by manipulation of inflation and deflation. We have gold [as a currency], because we cannot trust governments."

In his brilliant work *The Rise and Decline of the State*, the Israeli historian *Martin van Creveld* has written a striking account of how money was taken over by the state, a process that allowed the state to become totalitarian and a false god. Looking back at history, the author shows how all paper money currencies failed miserably or crashed spectacularly, from the paper money experiments of Chinese emperors before Christ, to the Shah of Iran (1294) and the first modern efforts in Spain and Sweden around the time of the Thirty Years' War, to the experiment by *John Law* in France and the issuing of the Greenback by the American government during the Civil War. One of *Creveld's* conclusions: "The extension of the states' [sic] control over society, which is the most prominent development of the years 1789–1945, could never have taken place had it not also acquired unprecedented financial means to back up its claims." (p. 224) And about the western industrial nations' turning away from the gold standard from 1914 onward, and about the transition to paper fiat money, he wrote: "The states having finally succeeded in their drive to conquer money, the effect of absolute economic dominance on the states themselves was to allow them to fight each other on a scale and with a ferocity never equaled before or since. Practiced to a larger or smaller extent, central planning and central control enabled hundreds of thousands of tanks and aircraft to come off the assembly line and go straight into battle." (p. 241.)

Mechanisms of power – or more precisely, mechanisms of control – are one of the unalterable phenomena in the development of humankind. Just as unalterable (or alterable only in the long term and fairly insignificantly) are the impulses and fears, desires and hopes, emotions and habitual way of thinking of human beings and their basic needs and patterns of behavior.

In modern mass democracies, mechanisms of control take on subtle forms that are difficult to comprehend. Nonetheless, their basic patterns remain the same. The question: 'How do I gain control and how do I remain in power?' can be answered by naming three basic strategies:

1. Spread fear and after that promise everyone security and dispel their fears about the future (more precisely, pretend you can do that). In recent times, false or excessively exaggerated dangers have been given catchy names, such as 'acid rain,' 'new ice age,' 'dying forest syndrome,' 'ozone hole,' and 'mad cow disease;' the great deception currently comes dressed up as 'man-made global warming.'

2. Promise and grant special advantages to those groups of voters who are most vociferous and, from a power strategy point of view, most important. Tell them that much of what they want will be provided 'free of charge.'

3. Pander to human feelings of envy and to inferiority complexes, preferably under the pretense of caring for 'justice,' thereby covering the ugly face of envy with a noble mask. It goes without saying that people react positively to these strategic tools of control – otherwise, these methods would not be so successful or and hold true for all time. They are in keeping with elementary human needs, desires, and impulses. However, all this activity has to be financed with unbelievably huge sums of money. And the ruling elites of the world acquire this with the help of state monetary monopolies on unbacked paper money. Please note that the root of evil as manifested in the boundless growth of the state and the total politicization and fiscalization of citizens' lives is the ability to create 'easy money,' fiat money, whenever desired, to finance evil.

5. How is bogus money produced?

Most of the existing quantity of money and credit (credit money supply) is created by the banking system, more specifically by so-called fractional reserve banking, a banking system based on reserves equivalent to only a fraction of its credit. This will be covered in a later chapter. Here, we are going to take a look at the mechanism by which central banks create money out of thin air.

On a central bank's balance sheet, bank bills are entered on the liabilities side, as a liability of the central bank balanced against claims on the assets side (claims against private institutions, the state, and foreign countries). These claims exist in the form of bills of exchange, treasury bills, securities, and foreign currencies and are owed by someone (private individuals or public institutions). So, if there were no debts, there would be no money either—at least not in the paper money system. The total money assets in the world are balanced by an equal amount of debt. The net position of all the world's bank accounts is zero. What we consider to be money is an illusion. It is debt.

Here is an example of a particularly quick way of conjuring up money by means of the Fed: The Fed acquires the government bonds that the public did not buy and in return hands Congress a check. This check is initially not balanced by cash, but the United States can spend the check amount as if it were bank bills. The acquired government bonds are pronounced 'reserves' and can, accordingly, serve to create new credit for businesses and private households via the commercial banks. The result of this accounting trick is the same as if money had been created with the printing press. Hence, government and politics have access to unlimited amounts of money. The banks can multiply their credit volume and receive interest for it—and through loss of purchasing power, the citizens are surreptitiously made to pay for the whole eerie business. (Prices rise because the quantity of money conjured up out of thin air becomes government expenditure which, however, encounters an unchanged volume of goods.) The IOUs or treasury securities issued by the government, known as Treasury bills, Treasury bonds, Treasury notes, or Treasury inflation-protected securities, are sold via the commercial banks, who in return receive a commission. The interest to be paid by the state is financed by the citizens' taxes. So private owners of government IOUs pay the interest they receive themselves. Since 2002, off-loading all the excess supply of treasury securities onto the public has not been entirely successful. Therefore, the Fed began to buy up U.S. securities. By 2007, these buyouts already amounted to 20 percent of the complete tender. Just before the impending national bankruptcy it will probably be 100 percent. This is quite simply criminal behavior.

Central bank money is thus created through the monetization of assets by the central bank. This procedure can be combined with the granting of credit to commercial banks or public budgets. Alongside the creation of central bank money, commercial banks can create money through the monetization of their assets. With this current system of banking and central banking, the quantity of money can be constantly increased without a corresponding increase in a nation's economic 'wealth.' Indeed, it means quite the opposite, paving the way for future impoverishment; furthermore, the existing wealth will be redistributed, mainly away from individual savers and toward the spendthrift state and rampant financial industry. However, everyone involved is enthusiastic about the pseudo-wealth: nobody wants honest money, everybody wants 'easy money.' The politicians love 'easy money' because the state and its power elite can use it gratuitously to run into debt without ever having to think about paying it back. Without this bogus money system, they would lose their power and their living. The banks love 'easy money' because it allows them to lend much more money and to increase their interest revenue many times over. People in business love 'easy money' because they like clients who throw borrowed money about. Ordinary citizens love 'easy money' because they can use it to satisfy present desires, instead of having to save up for a long time, and because their real estate and asset values are rising with inflation, which gives them the feeling they are becoming ever wealthier. The central banks love 'easy money' because by using it they can achieve regulatory power over the whole economy and expand the banking system which they control to gigantic dimensions. And economists love 'easy money' because ever since Keynes they have believed that every dip in growth and the business cycle can and should be smoothed over, and that there is no reasonable alternative to fiat money. The love for 'easy money' is only another expression of an *amour fou* for inflation, even if that is not clear to everyone involved. It is an ill-fated love that will end in misery and calamity.