

WHAT HAS GOVERNMENT DONE TO OUR MONEY?

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MURRAY N. ROTHBARD

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I.

INTRODUCTION

FEW ECONOMIC SUBJECTS ARE more tangled, more confused than money. Wrangles abound over “tight money” vs. “easy money,” over the roles of the Federal Reserve System and the Treasury, over various versions of the gold standard, etc. Should the government pump money into the economy or siphon it out? Which branch of the government? Should it encourage credit or restrain it? Should it return to the gold standard? If so, at what rate? These and countless other questions multiply, seemingly without end.

Perhaps the Babel of views on the money question stems from man’s propensity to be “realistic,” i.e., to study only immediate political and economic problems. If we immerse ourselves wholly in day-to-day affairs, we cease making fundamental distinctions, or asking the really basic questions. Soon, basic issues are forgotten, and aimless drift is substituted for firm adherence to principle. Often we need to gain perspective, to stand aside from our everyday affairs in order to understand them more fully. This is particularly true in our economy, where interrelations are so intricate that

we must isolate a few important factors, analyze them, and then trace their operations in the complex world. This was the point of “Crusoe economics,” a favorite device of classical economic theory. Analysis of Crusoe and Friday on a desert island, much abused by critics as irrelevant to today’s world, actually performed the very useful function of spotlighting the basic axioms of human action.

Of all the economic problems, money is possibly the most tangled, and perhaps where we most need perspective. Money, moreover, is the economic area most encrusted and entangled with centuries of government meddling. Many people—many economists—usually devoted to the free market stop short at money. Money, they insist, is different; it must be supplied by government and regulated by government. They never think of state control of money as interference in the free market; a free market in money is unthinkable to them. Governments must mint coins, issue paper, define “legal tender,” create central banks, pump money in and out, “stabilize the price level,” etc.

Historically, money was one of the first things controlled by government, and the free market “revolution” of the eighteenth and nineteenth centuries made very little dent in the monetary sphere. So it is high time that we turn fundamental attention to the life-blood of our economy—money.

Let us first ask ourselves the question: *Can* money be organized under the freedom principle? Can we have a free market in money as well as in other goods and

services? What would be the shape of such a market? And what are the effects of various governmental controls? If we favor the free market in other directions, if we wish to eliminate government invasion of person and property, we have no more important task than to explore the ways and means of a free market in money.

II. MONEY IN A FREE SOCIETY

1. **The Value of Exchange**

HOW DID MONEY BEGIN? Clearly, Robinson Crusoe had no need for money. He could not have eaten gold coins. Neither would Crusoe and Friday, perhaps exchanging fish for lumber, need to bother about money. But when society expands beyond a few families, the stage is already set for the emergence of money.

To explain the role of money, we must go even further back, and ask: why do men exchange at all? Exchange is the prime basis of our economic life. Without exchanges, there would be no real economy and, practically, no society. Clearly, a voluntary exchange occurs because both parties expect to benefit. An exchange is an agreement between A and B to transfer the goods or services of one man for the goods and services of the other. Obviously, both benefit because each values what he receives in exchange more than what he gives up. When Crusoe, say, exchanges some fish for lumber, he values the lumber he “buys” more