Inflation and Civilization: Man's Fate and His Money

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We identify civilization by its etymology: -- From the Latin "civis", or "civitas", meaning citizen or city. That is to say, civilization is characterized by the economy of city life. By this definition hunting and gathering cultures are, in the most fundamental sense of the word, not civilized. Indeed, the emergence of early urban cultures, over four thousand years ago, occurred coterminously with the intensification of agricultural and commercial exchange in the village markets of the Near and Middle East. In a word, the city and commerce are one.

From the standpoint of economic development, a study of history confirms that the money exchange economy, a widespread division of labor, and large-scale accumulation of productive capital were economic phenomena coextensive with the origin of the early city-states. Of the many civilized institutions which originated over four millennia ago (in the urban cultures of the "Tigris and Euphrates", in the Nile Delta, and in the Indus Valley), the economic institution of money was a social and political innovation as significant as the development of the city itself. A unique medium of exchange, the institution of money, was a social invention which provided the economic means by which sophisticated commercial communities could minimize, once and for all, their capital investments in the mere process of voluntary exchange itself. As I shall try to explain, these complex economic activities and widespread commercial exchanges are, if one reflects for a moment, unimaginable without money. It is no exaggeration to say that the struggle for civilization was inseparable from the origin of its monetary institutions.

We know now that the universal success of the monetary token represented a far-reaching mutation in the economic affairs of men. Its general acceptance released a veritable flood of human resources, the rising tide of which led inexorably to man's dominion over nature and all her creatures. Man's dominion is what we mean by the idea of civilization. Viewed in the austere light of history, moreover, the culture of the cities seems to be inextricably bound up with the utility, or, more quaintly, with the soundness of its monetary institutions. Let your imagination and your understanding be persuaded as we wander through the past.

Consider, for a moment that "Pithecanthropus Erectus" emerged from the dark rain forests of the primeval ooze over a million years ago. Then, his proud heirs, "homo sapiens", ushered in the urban era, beginning with the blazing glory of the golden city of Ur in Sumer, a mere two thousand years before the advent of the Christian era. In your mind's eye imagine the volatile nomadic hunting and gathering cultures which had preceded the coming of the Sumerian towns and their markets. Contemplate the improbable contingency of this urban social order which, from the standpoint of eternity, appeared almost overnight on the banks of the Tigris and Euphrates rivers. Reflect moreover on the unceasing march of its commercial civilization as urban culture spread its tenuous dominion over life and nature. The history of the city is so brief, its life so fragile a reed, that it is fair indeed to consider its origin, as I said before, no more than an improbable contingency, unless we can ascertain the ineluctable cause of the city's development and permanence. That cause, the evidence suggests, was nothing other than the systematic accumulation of productive capital in the market through the agonizing labor and savings of men. When the tribe ceased to consume all the product of its capital, when our tribal forbearers determined to defer present consumption -- that is, to save and to invest, in order to produce for the future -- a new society, civilization was born.

The city then is quite literally the creature of capital. Only its peace and order could have inspired stable expectations among men and women, especially as their civilized efforts increasingly bore fruit in freedom from want and violence. Just as urbanity was the social condition which gave rise to an exponential growth in the power of "Homo sapiens", so the characteristic financial institution of the city's political economy, the monetary unit, became the means of diffusion by which the currency of commercial civilization encircled the globe in a mere 4,000 years.

Money is then a necessary, if insufficient condition of urban civilization. Specialization and exchange, even in the most primitive commercial society, is unthinkable in the absence of money. Let me show you why. Consider, for a moment, an ancient village and its commercial life, carried on, as it was, in the farmers' markets, on the streets, and in the dwellings of its merchants. Imagine the innumerable economic exchanges among men in the absence of money: -- The farmer, burdened by his undesired surplus grain production, must find just that merchant or housewife who reluctantly might barter for the grain. But the very same merchant or housewife who, at that moment, actually desired cloth, must now, having reluctantly accepted the farmer's grain, find an unlikely seamstress who might be prepared to take the unde-sired grain inventory in payment for her cloth. Conceive therefore the required and bewildering diversity in the "Portfolio" of assets (that is to say, the varied inventory) of every farmer, merchant, seamstress, and housewife), were our primitive city bereft of the institution of money. Is it reasonable to believe that every enterprising citizen, every merchant, every housewife, albeit in a most prosperous market place, could create the necessary storage for wheat, cloth, vegetables and firewood in order to be in a position, every day, to supply the desired products to whomever would provide them the basic necessities of life?

The very description of such a marketplace evokes the absurdity of such a capital-intensive exchange process. Our historic village would have been the most overcapitalized, uneconomical, village in the world. A community without money, we now see very clearly, must overinvest too large a part of its scarce resources in the very process of exchange itself. The real economic result of a moneyless economy is to impoverish a community which might otherwise have used the real capital resources required by barter (i.e. excessive personal inventories) to produce new goods and services, thereby adding to the general economic welfare. For the purpose of economic exchange, the monetary unit, you see, is an efficient substitute for the varied and burdensome inven-tories required of both producers and consumers in a barter economy. But inventory is working capital. Therefore, money conserves this scarce capital. So the monetary unit is, among many other things, the paramount conservator of capital in a civilized community. Every producer and all consumers, by reason of the universality of the monetary unit's acceptance, reduce to zero the capital they might otherwise have invested in a diverse stock of goods which, in our imaginary city of barter, they were required to hold in order to supply what was demanded in exchange for day-to-day necessities. If, as I previously argued, the historical origin of the city coincided with the sustained accumulation of productive capital, then the monetary unit may be seen as the preliminary condition of the city's very existence. The monetary token is not only the means of exchange, nor is it simply an article of wealth, a mere good available in the market. It is above all the hemoglobin which actuates the life blood of commercial civilization.

Even an aesthete might reasonably conclude, after having been persuaded by all this, that money, no less than art, is the hallmark of civilization. But the statesman must perceive that the monetary unit is so central an insti-tution of society that its political uses are surely as important as its economic functions. It should be no strange thing to us, therefore, that from time immemorial, the power to mint the coin of the realm has been, but for rare episodes, a sovereign prerogative. Nor is it an accident to discover (even in a democracy, especially in ours, the architects of whose constitution paid such careful attention to the free market sentiments of Adam Smith) that the Congress of the United States should have reserved to itself the same dominion, a monopoly, over the coin of the realm. If, as it is often said, war is too important a matter to be left to the gen-erals, then the same statesman might have said, with equal effect, that money is too important a political institution to be left to the economists.

The monetary unit, we observe upon reflection, is much more than the adolescent totem of an industrial society's greed from which, according to some Marxists, post-industrial society will liberate itself upon maturity. We now recognize money as the means by which society conserves its scarce resources and removes from each citizen the intolerable economic burden of over-capitalizing and overdiversifying his personal assets. In a world of scarce resources, money liberates man from the uneconomical yoke of barter, enabling him to make an efficient demand (with a simple monetary token) for what he needs from the supply of goods offered by his neighbors. Money is a foundation stone in the political framework of a civilized community, the stable structure of which is the necessary condition for the development of voluntary exchange.

A stable community requires a stable currency. It follows then that if the value of money is unpredictable, then its utility will be impeached, and civilization itself, given its monetary origins, will be threatened. Let me develop this argument further. If money is the universal standard by which we measure economic value, we intuitively presume it to be what it must be, namely, a constant unit of account. Cash money is not unlike a yardstick (invariably 36"!) and other universal standards of measurement upon which the inhabitants of our ordered city may fairly well rely. Stable expectations (about the future value of cash balances) form the bases of sound money in a civilized community, just as stable expectations about the absence of violence in society undergird a lasting legal order. For we recall that money is a political institution; and if the police and the courts are the regulators of an enduring legal order, we should not be surprised to discover that sound money is the constabulary of a stable economic order.

We agree then that money, call it cash, is the most efficient voluntary and universal means by which we can make an immediate demand upon society. If we assume that the actual cash balances of the members of society are equal to their desired cash balances, we know then that one must first offer a supply to the market in order to make a demand. That is, if we will not give up any cash in order to make our economic demands, then we have no alternative but to produce something new in order to consume. And we must always accept money in exchange for what we produce anew. This unconditional style of exchange is what is meant by the obligatory phrase on every currency note: -- "This note is legal tender for all debts, public and private." Now, in a well-ordered and equitable society the incapacity to make a specific demand on society (to consume), without first sup-plying it with something of equal value (to produce), com-pletely alters human behavior. As one is required to accept cash money, legal tender, for production and labor of a sti-pulated value, we naturally expect the money we receive to retain a stable value in the future. This is what economists mean when they say of money that it is a store of value: --- The cash balances we save are the means by which we conserve the value of our labor which we choose not to expend on current consumption. Money, therefore, if it is to be any-thing, must be at least an efficient instrument by which plain people accumulate capital through savings. This process, you will remember, we identified at the beginning of this paper as the fountainhead of civilization.

Since, in our peaceful and ordered city, the stable expectations of our citizens stem largely from the stability of their political institutions, we now can understand why they must be so concerned with the stability of the key financial institution of their political economy, the monetary unit. Men and women carefully save cash balances from the proceeds of their honest labor. Surely they will insist that the future value of their money, itself the necessary condition of their original decision to save, must be directly proportional to the present value of their labor. This relationship must be so, our citizens intuitively sense, because the value of most products, offered in a free and open market, is in the long run proportional to the quantity of labor bestowed upon them before they are offered in the market.

Now, if the factors of production are mobile and the price mechanism is flexible, then the value of a product, or service, must be proportional over the long run to its real costs of production, primarily measured in terms of the sweat of a man's brow. And this sweat, this labor, (along with the anticipation of a modest profit which induced our citizen's effort in the first place) constitutes an objective basis for determining the specific value of money wages. We will not labor and save for money wages; we can almost hear the citizenry murmuring, if the real value of our money savings will not endure. And therein lies the ineluctable connection, the implied convertibility if you will, between a unit of real money, on the one hand, and an article of wealth produced by labor for the market, on the other. In order to assure the retention of its value, irrespective of the power of enemies and tyrants, the monetary unit must itself be convertible into a unit of a real commodity, itself requiring labor to be produced.

Why is that, you say? If in the long run the objective economic value of a product is regulated by its proportion-ality to its real costs of production (primarily labor), then the value of inconvertible paper money will have no regulator -- because the marginal cost of production of one more unit of a flimsy piece of paper approximates zero! But if the monetary unit must be an unvarying standard, like the yardstick, and it is set equal to a specified weight unit of a scarce and fungible real commodity which men labor to produce, then there will be an enduring relationship, a pro-portionality, between the value of the labor of men and the objective value of the monetary unit.

In the end, the fundamental relationship, the moral covenant, between laborer and society, (in a civilized community) must be joined by a real money whose value endures. From time immemorial, civilized men have chosen to set the monetary unit equal to a specified weight and quality of, among other real commodities, gold. By establishing a real money, men rule out its debasement. By choosing a monetary institution worthy of the moral covenant between working men and their beneficiaries, men choose to rule out inflation. In the long run, the value of an ounce of gold is proportional to the immense quantity of labor invested to mine and to fabricate it, in order to supply it to those who, since the dawn of civilization, have desired it. It is real, scarce, storable, measurable, immutable, transportable, malleable, and fungible. But above all these things the value of a monetary unit, defined by a weight unit of gold, has a fair and efficient regulator of its value in a civilized community, namely, its real costs of production. If it requires 50 man-hours to produce one ton of coal, and 100 man-hours to produce one ounce of gold, then approximately two tons of coal will be exchanged for monetary units sufficient to buy one ounce of gold. If in the market this relationship were to change substantially, say men could for a time exchange one ton of coal (50 hours of labor) for the money to buy one ounce of gold (100 hours of labor) – men would cease to labor to mine gold and they would labor enthusiastically to mine coal. They would produce coal for money and purchase the gold they desired, until the increased supply of coal and the increased monetary demand for gold once more reestablished an equilibrium ratio in the underlying value of the two commodities -- a ratio proportional, that is, to the quantity of labor required to produce them.

You see, the real costs of production (primarily labor) must be the underlying regulator of the value of a convertible monetary unit, just as these real costs will be the objective regulator of the value of all other articles of wealth produced for the market. Contrast this to the value of an inconvertible paper currency produced at will, under monopoly conditions, by a sovereign government. Such a currency can have no objective and reliable regulator, since the quantity and value of fiduciary paper money largely depends upon the subjective whims of the government monopoly which produces it. Human nature and history suggest that government money monopolies will, in the long run, overproduce such paper money until its value approximates its marginal cost of production, that is to say, zero. And indeed, it is just such a fall in the purchasing power of inconvertible paper money which characterizes the age of inflation through which we are living. Today, the world is inundated by inconvertible currencies and it should be no surprise to us that we are being carried away by a global inflation.

We know now that the social invention of a stable monetary unit was a midwife of our ordered and urban civilization, itself no more than an improbable contingency in this vast and eternal universe. So also must we know that the contemporary instability of the monetary unit, let us simply call it inflation, will give rise to the disintegration of the precious social order we call Western Civilization. History suggests to us that the sustained fall in the purchasing power of an inconvertible paper money, toward its zero marginal cost of production, generates first social distemper (Italy), then decline (England), and finally entropy (Ancient Rome). There is no inevitability to this devastating inflationary process. But only a bold act of political courage will arrest its frightening momentum. What must Americans do?

To assure the future of a free and ordered Western Civilization we must restore to the world a real money. To restore the spirit of free men and women, willing to labor and to save in money wages, we must restore their belief in the enduring and objective, even the moral, relationship between the value of their labor and the objective value of the monetary standard. If we would inspire once again, in all the heirs of Occidental culture, the incentive to work and to save, that is, the desire to create capital, and therefore to provide for the future of our children and of our children's children, then we must provide for them an enduring monetary unit. If the third century of our great nation is to be what it might be, truly a beneficent American century, we must restore to Western Civilization the hallmark of its birthplace, a sound and stable currency. Indeed, to raise up America, to elevate her people to preeminence once again, confident in a just and enduring reward, to set all her people free from the satanic scourge of inflation, we will have to restore to America a real money, that is to say, a convertible currency.