

# THE FOURTH PILLAR OF SOUND MONEY AND CREDIT

## THE PRINCIPLE OF MONETARY POLICY

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### **A Chinese Tale**

*Once upon a time the Treasury of the Celestial Empire was found empty. The Emperor instructed Hwa, the Chairman of the Heavenly Research Council, to work out a plan to meet the emergency.*

*Hwa suggested that the Emperor assume the title "The Son of Heaven," thereby laying claim to supernatural powers. The Emperor would then inject words and phrases such as "targeting the money supply," "clean versus dirty floating," "the crawling peg," "semi-fixed standard," "snake in the tunnel," softening the bands of hard currencies," and so forth, into the public debate on money, thereby endowing these meaningless words with sacramental effects. The purpose of this exercise would be to induce men to give up actual goods and services in exchange for fictitious ones.*

*The Emperor went along with these proposals and debased the silver coins of the Empire, while retaining the coins' outward appearance. But the people refused to be duped, and they accepted the debased coins only at a discount. Hwa threw himself at the feet of the Emperor. "Son of Heaven, it is not enough for you to claim absolute power over the value of coins and over the destiny of the people. You must also forbid any examination of your claims. You must outlaw logic. All questions about currency depreciation must be*

*tabooed. To ask them, to answer them, even to think of them must be declared an act of sacrilege, an unpardonable sin. Only then will people believe that coin-clipping is no self-mutilation, but rather the mutilation of their competitors. Only then will the coolie stop cursing and start blessing his yoke."*

*The Emperor was not impressed. "Hwa, you talk like a fool. Even a child can see through your theocratic fraud. All he need ask is whether the priest is the instrument of religion, or religion is the instrument of the priest. The proof that the people have been duped is that the priest is rich and powerful. He can taboo questions, he can adjust moral principles to suit himself. So your studied gestures and poses, your hieroglyphic messages are losing their effects because people observe your simony, the trafficking of relics. Seek as one may, there is no substitute for an informed and enlightened public opinion. It is the only remedy."*

*Then the Emperor recalled the debased coinage, and let it be known that hard times can be overcome if everybody worked, and saved, even harder. Before twelve moons had passed, the Treasury was once more replete with full-bodied silver coins.*

### **The biggest human exploitation**

Today people take it for granted that "targeting the money supply" is a legitimate objective of monetary policy. It wasn't always like that. In 1932, the Canadian economist and humorist, Stephen Leacock, could joke:

"The gold standard has fallen into opprobrium. Awhile ago it looked as safe as the rock of ages, and now it is being relegated to the age of rocks. We have been learning some new economic truths. Consider the control of the money supply. What does it mean? A lot of flowery words have grown up around this. But if that means anything at all, it means that there will be a board, a committee of people who will, when they like, expand money or contract money and boost prices up or boost prices down. There will be three men in a room somewhere who will do that. If that time ever comes. I want to be one of the three, or at least a warm personal friend of all three."

"Now I say this in all sincerity that the three-men-in-a-room stuff will do for the Soviets; it will not do for us. You cannot have a system of social controls dependent upon the will of three men in a room. You cannot have prices which can be moved up by a group in control. You cannot have wages which can be shifted down in their purchasing power by the good will of the men of the monetary caste. You must weigh that very very carefully. The board, when it boosts prices up or down, would follow or be tempted to follow, all sorts of self-seeking ends. You cannot run society like that. If you try to have a money standard based on human interest or opinion, you have started the biggest human exploitations one can possibly imagine."

### **The greatest virtue of the gold standard**

The concept of the money supply is a spurious one, and the idea of targeting the money supply by open market operations of the Fed is a modern theocratic fraud, establishing the biggest scheme of human exploitation in history. The extent to which this method of plunder is practiced is in inverse proportion to the perspicacity of the people. It is in the nature of abuses to go as far as they can. Plunderers conform to the Malthusian law: they multiply in direct proportion with the means of existence - and the means of existence for knaves is the credulity of their dupes.

If God had made man a solitary animal, everyone would labor for himself, and individual wealth would be in proportion to the services that each man performed for himself. But since man is a social creature, services are exchanged for services. Moreover, to provide for certain needs such as security the members of society organize governments and agree to tax themselves in order to cover these needs. The government too is subject to the Malthusian law. It tends to expand in proportion to its means of existence which, in the last analysis, is nothing but the substance of the people. So when the government runs out of real services, it will continue to expand by offering fictitious services to the taxpayer. Targeting the money supply is one of the most reprehensible of these fictitious services.

In private transactions each party remains the sole judge of both values: the value of services rendered, and that of services received. The individual is perfectly free either to decline the exchange or to make it elsewhere. The greatest virtue of the gold standard is that the medium through which these services are exchanged is left outside of the political arena, and hence individual valuations remain as free of distortion as possible. But when government starts targeting the money supply it interposes between the exchanging parties a medium which cannot be valued because it has, by design, no definable value. In combination with that fatal disposition, that one man could always be persuaded to live at the expense of others, this interposition by the government creates enormous disparities between the exchanging parties, while plundering both. The people are astonished to find that, while they hear of wonderful inventions that are supposed to save labor and multiply output without end, they are working as hard as ever and are still no better off than before. Meanwhile, things go from bad to worse and, at last, people open their eyes, not to remedy (for they have not yet progressed that far), but to the evil.

### **Monetary policy under limited government**

Targeting the money supply is an arbitrary and unlimited power, which is at variance with our Constitution and with the principles on which our government is based. Constitutionally, the government has a carefully circumscribed responsibility in the realm of money. This is to see to it that the value of every kind of money in circulation, namely coins, bank notes, bank drafts, bank deposits, etc.. rigidly conforms to the standard unit of value, The government is charged with the responsibility of stabilizing the value of currency and is must not aggrandize its powers by destabilizing it.