



THE GENIUS OF STABLE MONEY



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By John Tamny

What Is Money?

Seemingly every special interest group, establishment politician, and scholar thinks that his signature policy issue is the absolute political winner of the day. Call it human nature.

At the same time, and without dismissing the importance of some of these policy areas, none measure up to dollar policy in terms of importance. Figure that everyone earns dollars, has savings in dollars, and is reliant on investment that, if successful, will return dollars. Stated simply, the dollar is the most important price in the world given its status as the world's currency. As a consequence, its movements up and down affect transactions (and lack thereof) the world over.

We think it's crucial that dollar policy get the attention it's long deserved. But to revive the dollar as a driver of policy discussion, we must start with first principles.

At its core, money is simply an agreement about value among producers. As Adam Smith put it, "the sole purpose of money is to circulate consumable goods." For example, a fisherman wants a baker's loaf of bread, but the baker wants the butcher's cut of meat. Money is purely the means by which this three-way exchange can take place, by existing as a measure of value that facilitates exchange among producers with varying wants.

To be clear, no one trades with dollars, saves with them, or takes them in return for work. We trade, save and seek dollars in return for our work because of what they can be exchanged for. With trade and investment, it's always products being exchanged for products, and goods and services being directed toward a higher use (investment). Money is always and everywhere the "referee" as it were; the agreed upon measure of value facilitates the circulation of real wealth.

Since every American earns dollars, it's no stretch to then conclude that every American accepts these dollars with the understanding that they hold value throughout time, and will allow them to, in turn, go out and purchase goods and services that they need, like the fisher, the baker, and the butcher. Or, they can turn to the market and invest them in new ventures, with the hope that this effectively equates with receiving a multiple of dollars (return on investment) exchangeable for goods and services in the future.

It is easy to understand why we in America should seek to ensure that our money

remains stable; that is, ensure that the dollar holds its value over time. If money isn't stable, if it's frequently declining in value, we see the value of our work taken from us, along with the value of investments that we enter into. Let's call dollar instability what it is: frequently a tax on our work and investment. On the other hand, stability of the measure will make our economy more prosperous by virtue of it bolstering investment, without which there would be no companies or jobs. While the deregulatory agenda and tax cuts of late have resulted in a boom for the economy that exists already, economic growth begins and ends with investment. This simple truth rates serious thought.

Indeed, if there is no promise for investors that the money they invest in a business idea or a startup in any sector of the economy will result in a return greater than that which they invested, they will choose not to. When investors invest, they are once again buying future returns in dollars. If the dollar in the future is worth less than the dollar now -- that is, if devaluation occurs -- investors will not invest. Dollar devaluation is a tax on investment, which means it's a tax on economic growth. The cruel consequence of all this is a true hollowing out of industry as reduced investment saps the ability of companies to compete through increased productivity.

With this information in hand, it holds that the ultimate issue that any smart politician would choose to lead and speak on is ensuring that these dollars hold their value over time. Reestablishing policies that will stabilize our currency and promote prosperity in every corner of America is the surefire way to achieve such an end. This is called "sound money."

History of the Dollar

Now that we understand what money is, how prominent it is in everyday life and in the economy, we need to understand what affects the stability (or lack thereof) of its value. In simplest terms, the dollar needs some form of definition in order to remain stable. Of great importance, a stable dollar is a "strong dollar." Of similarly great importance, a dollar that bounces around in value - whether up or down - is a "weak dollar." Money needs a strict definition in the way that a foot is only useful as a measure insofar as it's always 12 inches. Without this, without constancy as a measure, money loses its utility. This is particularly pertinent now in consideration of the expressed policy preferences of monetary authorities: 2% inflation per year. The latter amounts to a slow and stealth thieving of our work and savings.

Implicit in a 2% preferred inflation rate is that compound interest and time, the two biggest drivers of savings growth, should be taken from us by monetary authorities. There is quite simply no benefit to money that gradually loses value. None whatsoever. Explicit in such a debauched view is that compound interest is a lie.

Very notable from a policy standpoint is that this focus on quality money is not a

Federal Reserve issue, as the dollar's exchange rate is not part of the Fed's portfolio. In the last 100 years, it has largely been an issue affected most directly by the president and the Treasury. In 1933, in fact, Federal Reserve Chairman Eugene Meyer begged President Franklin D. Roosevelt to not devalue the dollar.

President Roosevelt ignored Meyer's wishes, and Meyer resigned over it. Because of President Roosevelt, the value of the dollar was devalued from 1/20th of an ounce of gold -- which it had been defined as from the 1790s until the 1930s -- to 1/35th of an ounce of gold. This had nothing to do with the policy preferences of America's central bank.

Furthermore, the Federal Reserve did not take the United States off the gold standard -- President Richard Nixon did. President Nixon and his administration enacted policy in 1971 that ended the ability to convert dollars to gold at a defined rate. Then Fed Chairman Arthur Burns similarly begged Nixon to not sever the dollar's link to gold, only for Burns to be ignored a la Meyer.

Recognizing Nixon's monumental error, Ronald Reagan ran for president while promising to re-link the dollar to gold. Notable about this is that when he died, those who understood his presidency best made plain that Reagan's lasting regret was a failure to fulfill this campaign pledge.

Between the presidency and the Treasury Department, policy can now be influenced seriously just by the words of the Treasury Secretary, because investors take what they say as dollar policy. Generally speaking, in modern times, presidents have gotten the dollar they wanted. President Bill Clinton wanted a strong dollar, and he got it. His economy was successful precisely because a mostly stable dollar served as a facilitator of the investment that powers growth. President George W. Bush and President Barack Obama made plain their preference for a dollar that declined in value, and markets complied. This was particularly true for Bush, with predictable economic consequences. There is a clear connection between dollar-price stability and the overall success of the economy, but it does not have to and should not be this way.

Historically and constitutionally-speaking, this issue should be for Congress and Congress alone to address. If one looks in the Constitution, one would find very few powers delegated explicitly to Congress when compared to the areas of policy that Congress involves itself in. What one would also find, though, is an explicit delegation of power to Congress in addressing money.

Article I, Section 8, Clause 5 of the Constitution reads that "The Congress shall have the power... To coin Money, regulate the value thereof." Interestingly enough, though, for all of Congress' interest in meddling in areas that it doesn't have enumerated power to meddle in, it has done little to nothing to intervene in this area in which it does have explicit power.

This in and of itself is a problem. It does the electorate no favors when the presidential branch has so much power to influence what is yet again the most important price in the world. Congress must re-assert itself, and per the Constitution, it can re-assert itself in matters involving the dollar.

A Free-Market Case for a Strong Dollar

So, what does it mean when we say that the executive branch has done, overall, a poor job in the last 50 years at exercising monetary policy? Put simply, it has periodically devalued the dollar, and devaluation is a tax on every American. As the value of the dollar decreases over time, every dollar that Americans earn in their salary and savings is worth less and less.

This means that the buying power of one's salary decreases over time, incentivizing people to spend now and not save, and by extension, not invest as aggressively in new ventures. With devaluation, why would anybody put money to work in order to achieve (if lucky!) returns in dollars that are exchangeable for quite a bit less?

As proponents of free markets and believers in the good of lowering taxes and allowing more people to keep more of their money, liberty-minded or constitutional conservatives should recoil at the devaluation of the dollar for these very reasons, in the same way they would recoil at any other form of taxation. Devaluation is nothing more than another way to tax investor returns. Politicians talk about jobs and opportunity all the time, but there is no avoiding the truth that company and job creation cannot come without investment first.

Therefore, at every turn, free-market minded politicians, scholars, and citizens should look to promote pro-investment policy. By and large, politicians in this school of thought would not vote for a higher capital gains tax. Just the same, they should make plain their displeasure with dollar policy that aims to devalue the dollar. It's a penalty placed on investment that is every bit as onerous, and arguably more onerous given its stealth nature, than the capital gains tax. Investors can plan for increased taxes, while they can't as easily plan for money that bounces around in value; frequently downward.

Thankfully, all is not lost in the case of sound money. As with trade authority and war powers, Congress has constitutional power that it can exercise when it comes to the dollar. And so it should.

Impact of a Strong Dollar Domestically

The line frequently given by economists, and recently by President Trump, is that a dollar that slowly decreases in value over time is good for America. This position posits that a continually devaluing dollar will encourage consumers to consume, which is good for the economy.

What this position ignores, however, is that the economy would not exist without initial investment. What drives economic growth is investment, not spending. Spending is the easy part as we all want to consume. But consumption is crucially a consequence of savings and investment that power the production without which there is no consumption. Therefore, a stable dollar would be a huge driver of economic progress because individuals would invest in new ideas to produce future returns with more of the dollars they currently have; knowing full well that any returns wouldn't be taken from them through devaluation.

The inverse is true with a weak dollar. When individuals know that their dollars will be worth less tomorrow than those dollars are worth today, they are significantly less likely to put that money to work. There's quite simply no reason to invest if devaluation is the policy. It's wiser to consume, or buy hard assets like housing, then to buy future dollar income streams that are persistently shrinking in terms of exchangeable value.

Think about the innovation that occurs in Silicon Valley, and also the innovation that occurs in other continually-growing hubs such as Austin and Raleigh. None of this innovation would be possible without the initial investment of those who have dollars and, instead of spending them now on consumption, are willing and able to invest them for the growth of both existing and new sectors in our economy.

Stated simply, when the dollar is losing value there's an incentive to buy wealth that already exists like housing, art, rare stamps, etc. Conversely, when the dollar is stable, there's an incentive to invest in wealth that doesn't yet exist through the purchase of stock and bond income streams.

Therefore, domestically, there is nothing nobler we could seek as prosperity-driven people than a stable dollar. Money's sole purpose is to facilitate the exchange among individuals that enables specialization, and the direction of resources to higher uses in the form of investment. Unstable, debased money makes both exchange and investment more perilous, thus slowing progress.

Impact of a Strong Dollar Abroad

A common misconception is that if we pursue a single dollar price, we will have a restricted supply of dollars both at home and across the globe. But, the value of the dollar actually has little to do with money supply; in fact, it is the opposite which is true.

Defining the dollar would result in a surge of supply because good money is used as currency everywhere across the globe. When thinking internationally, this is precisely what we should wish for our currency. Money isn't wealth. It exists once again to facilitate exchange of wealth. It's products for products. Always. That's why good money most known for stability can be found everywhere. That it can be is a reminder that money is just the agreement about value that makes possible the exchange of real value.

Even now, dollars liquefy exchange in countries around the world, even in countries like Iran. The same holds in Venezuela. The currency of choice is the dollar, not the Bolívar, simply because the value of the dollar is trusted. If this is the case now, without a defined dollar, one can easily imagine how this effect would be amplified should the dollar be defined and stabilization be prioritized.

This effect can be seen also with Swiss currency, the Franc. The Swiss banking system has prioritized stability of the Franc, and as a consequence it's regularly used by producers the world over.

Having the dollar as the most trusted global currency would be exceedingly good for America's foreign policy, as well, because it would push out the bad money. Gresham's Law is a myth, while America's enhanced stature under a stable dollar regime would be anything but.

Good, stable money is the stuff of global peace, while floating money is the stuff of conflict. Is it any surprise that global trade disputes have spiked in modern times since 1971, when America left the gold standard under Nixon? Absolutely not. A dollar sans definition has fostered instability for all currencies, thus creating winners and losers in trade that by definition should only have winners. But with the exchangeable value of currencies a moving target, producers are no longer always receiving equal products for the ones they bring to market.

Some contend that a weak currency benefits manufacturers. Nothing could be further from the truth. Let's never forget that every good and service results from global cooperation, which means devaluation drives up the cost of production. To offer but one example, the Jeep Grand Cherokee is the most "American" of American cars, yet nearly 30% of the inputs that go into manufacturing it come from overseas. Devaluation to boost competitiveness is a dangerous my

What drives competitiveness is investment, and as readers hopefully know at this point, devaluation is a tax on investment. In short, a stable, trusted dollar is the ultimate enhancer of competitiveness.

Conclusion

The main takeaways of a discussion around stable money should be simple. Firstly, Americans logically want assurance that their dollars will hold their value throughout time. Translated, Americans don't want the product of their work and savings taken from them. This can be achieved through a stable dollar.

Second, when the value of the dollar is stable, it exists as a magnet for the investment without which there is no progress.

Thirdly, when the dollar is stable, the stability transmits to the rest of the world. Good money boosts trade and investment globally, on the way to prosperity that

benefits people around the world. This bolsters U.S. prestige, all the while increasing the size of U.S. markets for globalized U.S. corporations to sell into.

These takeaways are obvious positives and should be embraced by anybody in America who seeks prosperity for themselves and their families, their communities, and their country. Fortunately for these Americans, the ball is in Congress' court. It should waste no time in exercising its Article I, Section 8, Clause 5 power and stabilize the value of the dollar again.

Sarah Anderson, FreedomWorks' Director of Policy, contributed to this issue brief.