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Value Subjectivism and Monetary Instability

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Subjectivism is the philosophy that reality is what we perceive to be real and that no underlying, true reality exists independent of human perception. In other words, the nature of reality for an individual person is dependent on that individual's own consciousness. It follows that each person experiences their own reality that is not shared with others. What is true and what seems moral to one person may not be true or moral for another person, i.e., truth and morality are relative. In contrast, objectivism is the philosophy that reality exists independent of human consciousness; that human beings have direct contact with reality through sense perception; and that objective knowledge of reality can be obtained through perception, evidence and logic, e.g., through scientific methods.

A subjectivist might view the stock market as a perpetual bubble floating on the hopes and dreams of entrepreneurs and investors who invest in stocks in the same way that gamblers place chips on a craps table in a casino, without any concept of an objective economic reality outside of the game. A subjectivist might view technical analysis, which is based purely on trading activity in the stock market, as the ideal tool to understand financial markets, despite the fact that is has no direct connection to the objective economic realities of the companies that stocks represent. In contrast, an objectivist might view the stock market as a venue for participation in business ownership where stocks have value as a function of the particular businesses that they represent and because of the goods and services that the businesses provide in the objective world. A subjectivist might say that "everything is relative" (although the statement is self contradictory), while an objectivist might say that they *"…believe in justification, not by faith, but by verification"* (Thomas H. Huxley 1825-1895). Although they may not know it, Keynesian economists, bankers and day traders are often philosophical subjectivists while Austrian economists, advocates of the gold standard and value investors are often philosophical objectivists.

An objectivist interpretation of morality is that morality flows naturally from people pursuing their own interests and that immorality results from coercion. For the vast majority of individuals, "self interest" includes supporting their own family and community, simply because human beings are social animals. Parents naturally care for their own children, for example. Morality is a natural phenomenon, not a product of coercion. Human beings naturally live peacefully together in communities and the vast majority of individuals experience empathy. Both charity and resistance to coercion occur naturally and voluntarily in human communities. Those who do not experience empathy (sociopaths) and who disregard the interests of their fellow human beings or act in ways that harm the community are extremely rare. Philosopher Ayn Rand wrote *"Force and mind are opposites; morality ends where a gun begins."* Human beings do not act morally because they are being watched by police or because a gun is held to their heads. In all cultures and at all times and places throughout recorded history, and certainly before, what is immoral is initiating violent force or coercion without cause, most especially when it harms the community. Although particular rules vary from one culture to another, morality is neither subjective nor relative.

Ironically, the objectivist view of morality has been widely misconstrued as a sanction for selfishness. Selfishness typically results in the deprivation or coercion of others. In contrast, pursuing their own self interest is what human beings naturally and voluntarily do in the absence of coercion. In fact, the idea that what is moral arises in a natural way based on the freedom to pursue one's own self interest, i.e., freedom from coercion, is precisely the moral doctrine of the 1776 American Declaration of Independence:

> *"We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness."*

Where money is concerned, there are two fundamentally different concepts of "value", one rooted in subjectivism and one rooted in objectivism. In a monetary context, value subjectivism means that money has value simply because people believe that it does and that whatever people can be persuaded or coerced into using as money, such as a piece of paper bearing a government stamp, therefore has "value". In other words, value subjectivism is the view that the only "value" that exists resides in the minds of human beings as a concept or belief and that, therefore, "value" can be created *ex nihilo* by persuasion or coercion, i.e., by influencing or controlling (through coercion or fear of coercion) the minds of human beings. Value objectivism means that money has value because it contains the resources and labor required to produce it in the same way that clothing or shelter have value for the survival requirements of human life.

Of course, subjective value, e.g., the value of a Picasso painting to an art lover, does indeed exist but it is different in kind compared to value linked to biological survival (literally, life and death). The former refers to subjective mental states, while the latter refers to an objective biological reality that exists independent of human consciousness. Residents of the Warsaw Ghetto in 1943, for example, didn't value guns in the same way they valued Picasso paintings. Generally, a product of human labor that has real-world utility, such as a physical tool, will be recognized by human beings as having value relative to the material needs and survival requirements of human life. This "survival value" is absolutely pragmatic and is rooted in the natural understanding that human beings have about their biological needs and their physical relationship to the objective world.

Commodity money comes about in a natural and voluntary way and does not depend on governments or banks. Natural money develops wherever and whenever human beings obtain things that they do not strictly need purely for the purpose of exchanging them for something else. The good most commonly used as a tool of exchange is *de facto* money. The Greek philosopher Aristotle first defined the characteristics of a commodity that can be used as money as (1) divisibility, (2) durability, (3) portability and (4) scarcity, i.e., rare and valuable. More recently, money has been described as a medium of exchange, a unit of account, e.g., a standard weight of gold or silver, and a store of value. Of course, money must also be widely accepted, which can be accomplished either through natural forces or through coercion.

The supply of commodity money naturally remains constrained in proportion to the production of other goods. The resources and labor required to produce natural commodity money exist in relation to other economic resources needed for the survival requirements of human life. Production of commodity money subtracts resources that have direct survival value from other economic activities. Therefore, the law that regulates the production of commodity money is the law of survival. The law of survival is not a proscriptive law (declared by a human authority) but a descriptive law based on observation. The production of commodity money is regulated automatically according to the biological needs of human beings. Thus, commodity money is tightly coupled or "tethered" to physical economic activity in the objective world in the same way as building shelter. Human beings very rarely build more shelter than they need because the economic inputs required to do so are better spent elsewhere once sufficient shelter exists. The price mechanism in modern economics is a reflection of this underlying reality.

While it is commonly believed that any token can be used as money, this refers only to the medium of exchange, i.e., currency. Currency is precisely a "money substitute", which is a convenience, but is not, strictly speaking, money. Land deeds, for example, can circulate as a currency but they are not the land itself. Creating more currency units in a vacuum, in this case un-backed "land deeds" with no land attached, does not create more land or any other form of wealth in the objective world even if it increases the number of transactions and the size of the economy measured in "land deeds".

Throughout history, schemes have been attempted whereby currencies that cost virtually nothing to produce, and that have no survival value, have been substituted for commodity money. Artificial money, known as 'fiat currency' has putative "value" simply because it is declared to have a value by a government or central bank. Fiat currency schemes replace the survival value of commodity money with subjective value and substitute a mere medium of exchange for natural commodity money. Modern currencies, including the U.S. dollar, the British pound, the euro and the Japanese yen, are all fiat currency schemes. As a practical matter, a fiat currency unit is worth whatever it can purchase but it is not a standard by which value can be measured because its purchasing power is unstable. In fact, there are several fundamental problems with fiat currencies.

1. There Is No Spoon – In the popular 1999 film The Matrix, written by Lana and Andy Wachowski ("The Wachowski Brothers"), the protagonist, Neo, has the following conversation with a gifted child who can bend spoons with his mind:

> Child: Do not try and bend the spoon. That's impossible. Instead... only try to realize the truth.
> Neo: What truth?
> Child: There is no spoon.
> Neo: There is no spoon?
> Child: Then you'll see, that it is not the spoon that bends, it is only yourself.

There is a difference between an abstraction and an abstract concept. "Money" is an abstraction in the same way that "container" encompasses both a bottle and a jar. Abstractions are artifacts of language that generally describe the world. In contrast, an abstract concept is the mental representation of an idea, such as liberty. Abstract concepts are literally ideas that exist in the human mind. Law, for example, expresses the concept of justice but an arbitrary law is not just merely because it is law. Unjust laws certainly exist. Declaring that a stone is a seafaring vessel does not imbue it with the ability to float on water, even if it can skip on the surface if it has enough spin. Such a declaration would be an illogical misuse of language masking an obvious absurdity. Nonetheless, the same obvious absurdity underlies fiat currencies. The erroneous conflation of "money", which is an abstraction, and "value", which is an abstract concept, is an example of sophistry; a trick of words played on unsophisticated minds. In fact, fiat currencies which exist today, not principally as notes or coins, but as electronic digits in computers, have no value.

2. Coercion – Coercion characterizes fiat currencies because most people would not accept them unless forced to do so against their will. In the United States, for example, the replacement of gold-backed money in 1933 required the use of legal force (criminal penalties of $10,000, ten years in prison, or both) to compel U.S. citizens to accept irredeemable Federal Reserve Notes in place of gold certificates.

3. Rent Seeking – Fiat currency schemes extract economic rents by forcing commerce to take place in the fiat currency system. Since human beings trade with one another to survive, the ability to freely exchange value for value is a natural right having the same moral foundation as the right to life, liberty and the pursuit of happiness. In a marketplace based on voluntary arrangements, there is no middleman extracting an economic rent in exchange for permission to participate in commerce.

4. Immorality – Fiat currency schemes are immoral because the primary thing that makes them acceptable is coercion. Forcing people to accept artificial money that has no objective value against their will and self interest is an immoral act. Additionally, fiat currency schemes allow those who control the currency to redistribute wealth by altering the availability, quantity and distribution of the currency, which is little more than legalized theft.

5. Central Planning – Since fiat currencies are based on coercive, rather than voluntary market relationships, a central authority is required that has the power to eliminate competing currencies, i.e., to establish a monopoly. Central economic planning is not only anti-democratic and the antithesis of a free market, but also inevitably fails. Human society is not blessed with the omniscient and infallible individuals required to make financial and economic decisions in place of the decisions of millions of individuals, households, entrepreneurs and businesses. The record of history, e.g., the USSR, is absolutely clear. Central planning of an economy produces a never ending stream of unintended consequences that lead to never ending interventions and that ultimately destroy economic activity.

6. Price Instability – Fiat currencies, because they require relatively insignificant physical economic inputs, have no direct relationship to the survival requirements of human life. Since it is decided by central planners, the quantity of currency in a fiat currency scheme is always and inevitably incorrect. This causes price instability and artificially stimulates or depresses economic activity as a function of how much currency is produced and of how it is distributed. As a practical matter, price stability can never be achieved in a fiat currency scheme.

7. Economic Volatility – Since fiat currencies are loosely coupled to physical economic activity in the objective world, they tend to become increasingly de-coupled and eventually "un-tethered" over time. An economy is the aggregate of millions of independent, individual human actors and there is no way that those responsible for a fiat currency can guess the correct quantity, although they can recognize incorrect quantities after the fact by their consequences, e.g., credit booms, recessions, large-scale price bubbles and economic collapses, such as the Great Depression, which began only sixteen years after the U.S. Federal Reserve was established. Of course, economies can be volatile for many reasons. The effect of fiat currencies, however, is to greatly magnify economic volatility.

8. Currency Debasement – Voltaire famously wrote that *"Paper money eventually returns to its intrinsic value—zero."* Fiat currencies issued by governments or central banks represent intangible, subjective concepts of value like "full faith and credit" but the currency itself has no lasting value. Specifically, fiat currencies have a built-in tendency to decline in purchasing power over time as more currency is produced, particularly in fractional reserve and debt-based fiat currency schemes. In debt-based fiat currency schemes, the currency must be constantly inflated or a deflationary vicious circle (a collapse of debt) will set in. Those responsible for the currency predictably produce more than is necessary to maintain stable prices or to sustain stable economic activity, e.g., to diminish the risk of deflation, for political promises and favors, to wage war, etc. Price instability and economic volatility are the result. Currency debasement eventually undermines the basic economic structure of society. In <u>The Economic Consequences of the Peace</u> (1919), John Maynard Keynes wrote:

> *"Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."*

9. Wealth Redistribution – Arbitrarily increasing the quantity of currency in an economy distorts the distribution of money and, therefore, redistributes purchasing power, effectively stealing wealth from the majority, e.g., savers and wage workers, to serve the interests of a privileged minority. Redistribution of wealth, as opposed to production of wealth, causes a net loss of wealth to society. Government deficit spending, although it may be motivated by good intentions, changes the quantity of currency and results in currency debasement. Thus, government deficit spending operates as a dishonest, hidden tax on savers and wage workers. In his well known 1966 essay, Gold and Economic Freedom, former Federal Reserve Chairman Alan Greenspan, wrote:

> *"Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard."*

10. Concentration of Wealth – Over time, fiat currency schemes cause wealth and property to accrue to those who enjoy the extraordinary privilege of creating the currency, thus increasing the concentration of wealth in society. Extreme concentration of wealth is economically and ultimately politically destabilizing. An individual with a one million dollar income, for example, will not buy as many consumer products, cars or appliances as ten households with incomes of one hundred thousand dollars. In his remarks at a symposium sponsored by the Federal Reserve Bank of Kansas City in Jackson Hole, Wyoming (August 28, 1998), then Federal Reserve Chairman Alan Greenspan pointed out that:

> *"Ultimately, we are interested in the question of relative standards of living and economic well-being. Thus, we need also to examine trends in the distribution of wealth, which, more fundamentally than earnings or income, represents a measure of the ability of households to consume…"*

11. Moral Hazard – Baron Acton observed in 1887 that *"Power tends to corrupt, and absolute power corrupts absolutely."* Since fiat currencies are created by monetary monopolies *ex nihilo*, e.g., through loan contracts, they provide a legal means of obtaining something for virtually nothing. As a result, those responsible for fiat currencies enjoy almost unlimited influence over economic and, therefore, political life. Sadly, human beings can never be good stewards of a currency system that provides one group in society with the means to obtain something for nothing. In fact, societies dominated by immoral fiat currency schemes eventually develop a something-for-nothing culture; a culture of entitlement in which, rather than producing wealth, everyone endeavors to live at the expense of everyone else.

12. Corruption and Cronyism – As a consequence of moral hazard, fiat currencies tend to encourage cronyism and corruption and ultimately produce a culture of corruption. The Roman poet Juvenal wrote "*Quis custodiet ipsos custodes?"* ("Who will guard the guards themselves?"). History is replete with the horrors of absolute power and with monetary abuses resulting in economic collapse. Just as democide has been a leading cause of death in the last one hundred years, fiat currencies have been a leading cause of poverty. Fiat currency schemes redistribute and concentrate wealth, resulting in a tiny and exceedingly wealthy minority, but they do not produce wealth. Francisco d'Anconia, one of the central characters in the novel Atlas Shrugged by Ayn Rand, explains the following in his famous "money speech":

> *"…Money is a tool of exchange, which can't exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers, who claim your product by tears, or the looters who take it from you by force. Money is made possible only by the men who produce... Not an ocean of tears nor all the guns in the world can transform those pieces of paper in your wallet into bread you need to survive tomorrow… Whenever destroyers appear among men, they start by destroying money, for money is men's protection and the base of a moral existence. Destroyers seize gold and leave its owners a counterfeit pile of paper. This kills all objective standards and delivers men into the arbitrary power of an arbitrary setter of values… Paper is a mortgage on wealth that does not exist,*

> *backed by a gun aimed at those who are expected to produce it. Paper is a check drawn by legal looters upon an account which is not theirs: upon the virtue of the victims…"*

13. Confidence Failure – Since the value of fiat currencies is essentially subjective, maintaining the perception of "value" in the face of economic decline and despite rising prices can be challenging. Fiat currencies are ultimately dependent on confidence and trust in those responsible for the currency. When fiat currencies are abused, confidence fails and they revert to their intrinsic value (zero). Thus, monetary policy in a fiat currency scheme focuses directly on maintaining confidence. Behavioral economics, for example, has become a primary tool of monetary and economic policy implementation. As a consequence, economic reporting by governments and central banks, and by the news media, does not reflect an objective viewpoint. Management of perception has the effect of influencing the subjective mental states of those who use a particular fiat currency so as to maintain the perception of "value". However, in the best case, perception management is one-sided "spin", and, in the worst case, it is propaganda that is contrary to fact and that simply prevents ordinary people from recognizing the steps they need to take in order to protect their financial interests against currency debasement and other risks associated with fiat currencies. Nonetheless, cognitive dissonance (a psychological tension between conflicting cognitions) can result in the sudden collapse of fiat currencies when economic conditions deteriorate sufficiently or when prices rise too quickly, i.e., the spell of value subjectivism is broken.

14. Counterparty Risk – The "value" of fiat currencies requires trust in counterparties, but trust, like confidence, is an ephemeral, subjective mental state. In the objective world, agreements between governments and central banks and those who rely on their fiat currency schemes can be arbitrarily modified or broken. In fact, they are implicitly broken whenever a currency is debased. The promises of deposed governments and failed banks become instantly worthless.

15. Transaction Settlement – A transaction in commodity money is a direct exchange of value for value. When a fiat currency transaction is performed, one party holds fiat currency and the other is the recipient of goods or services, but, like a retroactive breach of contract, the value of the fiat currency can be changed and may even become zero. Since there is always a residual third party to the transaction, i.e., a government or central bank, transactions remain unsettled.

Fiat currency schemes are philosophically misguided, fundamentally immoral and ultimately unstable. Fiat currencies are premised on value subjectivism and erroneously conflate money and value. They represent a mere medium of exchange and rely on unstable subjective mental states such as confidence and trust. As a result, they are ultimately fragile and prone to fail suddenly when those using them wake from the dream of value subjectivism.

Fiat currencies are immoral because they are forced on people against their will and contrary to their self interest and because they are a mechanism for legalized theft through currency debasement. Monetary monopolies extract economic rents by holding hostage the rights of individuals to freely exchange value for value. Central economic planning, redistribution of wealth and concentration of wealth undermine economic activity and encourage a culture of entitlement. Since fiat currency schemes are the source of exorbitant power, they engender extreme moral hazard, produce cronyism and corruption and foster a culture of corruption.

Fiat currencies are subject to the decisions of central planners and are invariably debased producing price instability and increasing economic volatility. Governments and central banks that promulgate fiat currency schemes remain as perpetual counterparties to transactions posing a constant and unlimited risk. Resulting transactions are not fully settled because the value of the currency can be arbitrarily altered after the fact.

History has shown that fiat currencies are always debased and that confidence in them eventually fails causing vast economic disruptions, losses of wealth, social and political chaos and even loss of life. The inevitable disasters caused by fiat currency schemes are usually followed by a return to commodity money but, once stability is achieved, a new fiat currency scheme is put in place repeating an unnecessary and destructive cycle that benefits few and harms many. Ironically, while commodity money is denigrated by those who benefit from fiat currency schemes, former Federal Reserve Chairman Alan Greenspan noted as recently as 1999 that *"Gold still represents the ultimate form of payment in the world. Fiat money in extremis is accepted by nobody. Gold is always accepted."*

Defenders of fiat currency schemes claim that they promote stable prices and moderate economic volatility. In fact, the opposite is true. Fiat currencies not only destabilize economies but undermine the moral basis of society. Without exception, in every historical case when a currency has been de-coupled from the objective world, i.e., from commodity money, the result has been disaster. Fiat currency schemes guarantee unending monetary and resulting economic, social and political chaos marked by brief periods of calm between inevitable abuses, bubbles and collapses.

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