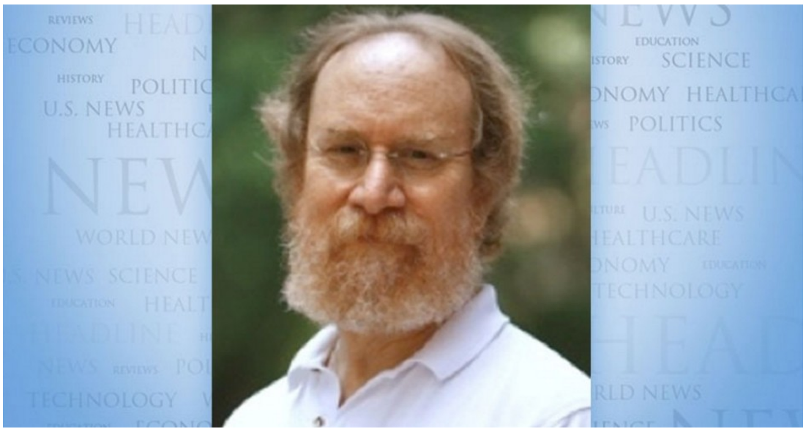
Progressives Believe in Money Magic



It's hard to believe that in the 21st century, educated people believe the government can produce real wealth by creating money. It's especially ironic that the main preachers of this superstition fancy themselves progressives and are the first to accuse their opponents of being against science. What could be more antiscience than the alchemic proposal to create wealth by having the Federal Reserve make entries in a digital ledger? It's more absurd than alchemy: Alchemists claimed they could turn base metals into gold. Inflationists require only thin air.

The commonsense reaction is: "Balderdash!" So it takes real devotion to the power of government to embrace such a ridiculous idea. Consider Chris Hayes, the MSNBC host. Last Saturday on his program, *Up*, he said this in introducing a segment on the proposal that the Treasury mint a $1 trillion coin to get around its debt limit:

> The simple truth is it [the government] creates money simply out of thin air. Someone at the Federal Reserve punches in a number on a spreadsheet and — voila! — more money.… While there are rules that guide legal tender, at base, what makes money valuable is simply social convention, a norm. We all agree it's valuable, so it's valuable. The genius of the trillion dollar coin isn't just that it provides some much needed leverage against a foe unencumbered by any sense of propriety, it also illustrates the uncomfortable, foundational reality of modern capitalism: money is nothing more than a shared illusion.
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> It's a kind of magic. But is it good magic … or bad magic?

At least he admits that in this case he believes in magic.

The value of money is a convention, a norm, a shared illusion? Did society agree that the dollar should lose 95 percent of its purchasing power since the Federal Reserve opened its doors nearly a hundred years ago?

This view is as unscientific as one can imagine. The science it rejects is economics. Beginning with Adam Smith (actually well before that), the most enlightened thinkers understood that economic regularities exist apart from human will; they are forces, or "laws," generated by intrinsic features of human action, particularly exchange. It is not a social convention that, for example, when the supply of a good increases relative to demand (other things equal), the price falls, and vice versa. Nor is it a convention that when demand for a good rises relative to supply (other things equal), the price increases. It is the result of the "logic of choice," which has been the "mainline" of economic thinking for hundreds of years, Peter Boettke writes in his new book, *Living Economics*.

To hold otherwise is to believe that a society could have generated other norms, under which, say, a fall in supply relative to demand caused prices to drop, or a fall in demand relative to supply caused prices to rise. But it is not by social agreement that those things never happen. As the great Austrian economist Ludwig von Mises wrote,

> The development of economics … did more to transform human thinking than any other scientific theory before or since. Up to that time it had been believed that no bounds other than those drawn by the laws of nature circumscribed the path of acting man. It was not known that there is still something more that sets a limit to political power beyond which it cannot go. Now it was learned that in the social realm too there is something operative which power and force are unable to alter and to which they must adjust themselves if they hope to achieve success, in precisely the same way as they must take into account the laws of nature.

Disbelief in economic laws that operate independently of human will is the sign of a primitive mind. No one has a good excuse for believing that government can create real wealth simply by creating money. The value of money is not determined by social convention. It is determined by supply and demand. When the central bank creates money, it doesn't create useful goods. It may merely shift purchasing power from the people to the Treasury or to special interests. That is, inflation is a form of theft.

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