Paul Artale 11.1.25

Review: Milton Friedman, *Money Mischief: Episodes in Monetary History*, Harvest Books, NY, 1992 (1994 edn.)

Pages: 286

Mammon's Works Brought to Light

This provides critical knowledge of a 'boring' topic, in reality a highly occultic and Satanic force which Jesus revealed as the god "mammon" in Mt 6.24, &c.

Apart from one chapter there are no complex equations, the most important to understand is the simple $MV = PT$ identity, foundation of modern monetary theory.

The principles taught are simple: money creators debase and tax without representation; collapse economies by shutting off supply; and blame workers attempting to regain purchasing power as a *result* of money supply (and P) increases, not the cause.

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Foreword (pp. ix-xiv)

"Who knows what will be the future incarnations of money? Computer bytes?" [pxii]

I) The Island of Stone Money (pp. 3-7)

German Government assumed ownership of the Caroline Islands in 1898 after buying them from Spain.

"How many of us have literal personal direct assurance of the existence of most of the items we regard as constituting our wealth?" [p6]

II) The Mystery of Money (pp. 8-50)

“Money is whatever is generally accepted in exchange for goods and services.” [p16]

High-powered money is currency plus bank deposit.

The entire super-structure of liquid assets is an inverted pyramid resting on the small quantity of high-powered money.

The real quantity of money is always what matters in an economy.

Cash holdings are determined by usefulness of a temporary abode of purchasing power, and cost of storage (including security arrangements).

Attempts to spend from Government “helicopter money” will only frustrate as people bid up nominal values of fixed goods and supply quantities. However, the deception involved creates winners (early spenders) against losers (firms and late spenders) due to a lapse in market information. In the end everyone is poorer.

Most money mischief is a result of asymmetry between individual action and impact on the real economy.

M [nominal money quantity] x V [circulation velocity p.a.]
=
P [average price index] x T (Total final quantity G & S purchased)

Critically, nothing can affect except other variables in the relation.

19^{th}C gold discoveries in California and Australia simply raised prices in all gold-standard countries as it was distributed. The ones who were enriched were the discoverers.

David Hume (1742): “augmentation [of money quantity] has no other effect than to heighten the price of labour and commodities.”

Seignorage includes the mint’s charge for converting bullion into coinage.

“Clipping” was collecting shavings off coin edges.

“Sweating” was shaking coins in a leather bag and collecting the dust. Serrated milling technology ended the practices of clipping and sweating. The ancient Athenian *drachma* had a constant 67 grains of Ag, until Alexander reduced it to 65.

In 269 BC, Rome created the *denarius* based on the *drachma*. It made the gold *aureus* in 87 BC.

Rome preferred currency debasement than explicit taxation.

The French Revolutionary government printed *assignats* from 1789 to 1796.

There is a consistent relation between money quantity and nominal income, with changes in the latter lagging the former by six to nine months. Pricing effects take twelve to eighteen months, however, official inflation measures two years.

Substantial money declines are a necessary and sufficient condition for major depressions.

III) **<u>The Crime of 1873 (pp. 51-79)</u>**

Congress passed the Coinage Act of 1873 by 110 to 13, which excluded Ag coinage.

In 1792, the first Coinage Act stipulated a cent, half-disme (nickel), disme (dime), quarter, etc. as decimal nominations. The dollar itself was set to 371.25 grains of Ag or 27.75 grains of Au (i.e., a 15:1 ratio).

The U.S. was effectively on an Ag standard from 1792 to 1834.

Gresham’s law: “cheap money drives out dear money.”

The Civil War temporarily ended the Au standard; adoption of paper money was a reaction to financial pressures.

The 1873 act drove up the Au:Ag ratio from 15 to ~40.

In 1893, a syndicate headed by J.P. Morgan bailed out a run on the U.S. Au reserves by foreigners.

IV) <u>A Counterfactual Exercise: Estimating the Effect of Continuing Bimetallism After 1873 (pp. 80-103)</u>

A rise in prices under a Au (Ag) standard means the real value of Au (Ag) is falling.

V) <u>William Jennings Bryan and the Cyanide Process (pp. 104-125)</u>

VI) <u>Bimetallism Revisited (pp. 126-156)</u>

After 1879. only China and India were using a Ag standard.

France lost the 1870-1 Franco-Prussian War and was forced to pay Germany a huge indemnity convertible into Au.

Bimetallism spreads any fluctuation effects in either metal over both markets.

Merchants favour fixed exchange rates to avoid risk.

VII) <u>FDR, Silver, and China (pp. 157-188)</u>

The U.S. began buying Ag in 1933 under Franklin Roosevelt. This had the effect of driving China, Mexico, and Latin America off Ag, causing deflation in those places. In China this undermined Chiang Kai-shek's government and conversely assisted Mao Zedong and the Communists.

C. Martin Wilbur: "There seemed little doubt that China's wartime and postwar inflation was one of the prime factors which caused the downfall of the Nationalist government and the conquest of the mainland by the Chinese Communist Party." [p159]

From 1670BC to 1873, the Au price was never more than 16X Ag; the lowest was 9X in 50BC.

The Japanese invasion of China caused the latter to print money for funding a rushed arms program.

50% p.a. is the arbitrary line between inflation and hyperinflation.

VIII) <u>The Cause and Cure of Inflation (pp. 189-233)</u>

100% inflation in Brazil in 1954 created a military government.

No government willingly accepts responsibility for inflation, appealing to greedy businessmen and trade unions.

Japan's post WWII growth never exceeded 10% p.a.

Wage increase in excess of productivity increase is a result of inflation, not its cause.

Higher government spending is neutral if financed by higher taxation or public borrowings.

Inflation raises effective tax rates via "bracket creep".

Initial side effect of monetary expansion is prosperity due to money illusion.

Price and wage controls distort pricing structures which reduces efficiency.

IX) <u>Chile and Israel: Identical Policies, Opposite Outcomes (pp. 234-248)</u>

Fixed exchange rates impose economic discipline.

Chile tried pegging the peso to the dollar, but at the time, the U.S. was restricting money to control inflation, which raised domestic peso prices of all goods causing disaster.

X) <u>Monetary Policy in a Fiat World (pp. 249-260)</u>

<u>Epilogue (pp. 261-265)</u>

Money is too much of a serious matter to be left in the hands of central bankers.

Debasement is taxation without representation.

For economies, at any given time money quantity is fixed and price variable, but the situation is the opposite for individuals.