

The Dollar's Origin

The neoclassical principle of marginal utility establishes that a good has a price because it has use value. But for money, its use value is its exchange value for other goods with use value. Money has utility for its future use in buying goods and services. Other goods are valued for their own sake. We are less dependent on their potential future exchange value than on money. Thus, to be confident about the future value of money, we must know its market value in the immediate past. The question arises as to how monetary units that today are mere printed or digital certificates, not claims to anything of material value, came to be endowed with exchange value.

Neoclassical explanations treat money as different from goods in that its units have no marginal utility to start with. Utility is only made possible by declaration (fiat) by the state. So, a circular explanation of value for money results. Its current value depends on its value in the immediate past. And history shows that the dollar has a continuous valuation link through the past. We know that it was defined by Congress as 1/20.67 Troy ounces of gold in 1900.

It originated not as the U.S. government's money, but as society's money, according to von Mises' Regression Theorem, which links money with marginal utility theory. Unlike other goods that are consumed, money is used for exchange. Its value derives from recent exchanges and is traced iteratively back to the barter commodity, which, in turn, is tied to the original non-barter commodity valued by marginal utility. Legal tender by fiat is yet applied to customary money.

So, our money is backward-looking in value: in the immediate past, we assess its price or value in the previous period, and so on, as we regress back to the original valuation, even as a commodity that might begin with no exchange value. This regression theory of money, an insight of von Mises, is one of the most significant yet most neglected propositions in economics.

Instituting change

Sensible proposals for reform include a market regime without a government central bank. To steer policy toward this correction is hard enough; any long-term dominion over money is more difficult, since all government programs are subject to capture by organized interests that have more clout than the dispersed, albeit majority, interests of the people.

Some advocates of hard money believe that the issue lies in getting gold into the hands of the public and the Treasury, so they suggest reforms that would require gold for partial tax payments or for new expansions of the money supply. This approach once again assumes that a smooth transition to a gold currency would naturally occur in the market, but no second set of prices will be desired; people will continue thinking in dollar terms and quoting gold prices in dollars.

It only makes sense to link gold by establishing a plan for future dollar-to-gold conversion, which involves setting a dollar price for gold. Of course, the more gold the Treasury holds, the easier this becomes, but instead of collecting gold through taxes, it can also buy gold with tax receipts—there is no economic difference to the gold market. It's misguided to think that people will gradually start thinking in terms of gold or use more gold. We already have a form of money derived from gold: the gold dollar, whose value reflects this historical link to gold, even though it's now fiat money. In this sense, people already accept gold; some even believe that the gold in Fort Knox backs the dollar. All that's needed is to recognize this fundamental aspect of money and reject the current deceptive, misguided, and impractical scheme to overcome money's commodity nature through unstable, unpredictable, and reckless government fiat policies.

Under the doctrine of enumerated powers, powers not conferred to the government are invalid. The authority was to regulate and coin currency, not to print money out of thin air. Neither the Federal Reserve nor the Treasury's money creation complies with the Constitution. Freedom to issue bills of credit (non-interest-bearing paper) was never authorized, even though 19th-century courts permitted the issuance of legal tender. Clearly, there has been no Article V (due process) amendment to grant such power, (government) Supreme Court decisions notwithstanding.

The best option, according to Rothbard, is a renewed specie linkage with the dollar imprimatur, rather than dollar replacement and seigniorage skimming (e.g., Liberty Coin, E-Gold)