

Money

by

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caveat lector

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The Rules of Money

This essay is about money. Most people know a little about money, or think that they do. They've been told that it makes the world go 'round. They aren't sure if it will buy friends but they've heard that it can rent some interesting companions. They might have heard that it's the root of all evil. Maybe that's because of the companions. Beyond that, however, lies ignorance. Here's the first new thing about money that you'll learn from this essay. Like sex and dynamite, insufficient knowledge of money can be dangerous. Most people can at least recognize sex and maybe even dynamite, but would they know money if they saw it?

Many things have been used as money. Some of those things have worked well and some haven't. The success or failure of those various things, when they've been used as money, has revealed a certain set of rules about money. In this essay, I'm going to explain those rules. To do that, I'll suggest as money some things that won't work very well. I hope that my examples will make the same deficiencies easier to recognize in other things that are alleged to be money in the real world. From those deficiencies come the Rules of Money.

Before examining what money is, let's make sure that we know its purpose. Money is for exchange. It's a thing that's exchangeable for other things. As a **medium of exchange**, money makes barter much easier. Using it is only a convenient form of standardized barter, nothing more.

Durability

Here's the first rule of money. Suppose that you go to the bank to cash a check and they give you ice cubes as money. You'll notice something wrong with the money by the time that you get over to Safeway. You'll arrive at the checkout stand with a wet pocket but without any money. The loss in value of your money between the bank and the store will reveal to you one of the Rules of Money. To be good money, a thing must be **durable**. If it isn't durable, then it won't hold its value between the time that you receive it and the time that you need to use it. Thus, it won't make very good money.

Portability

Suppose that you learn from your mistake and refuse to accept non-durable things as money. Suppose that you sell your extra car and accept as payment a large lot full of timber. After all, even laying on the ground a redwood log will survive for years and will be unaffected by temperatures that would melt even a big block of ice. If your money is in that form, then it will be durable. However, when you run out of corn flakes you'll have a problem getting your money to the food store. A redwood log won't fit in your wallet. It won't even go into your Mercedes. As you ponder your difficulty,

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you'll discover another of the Rules of Money. To work well as money, a thing must be **portable**. When they said that you couldn't take it with you, they meant — later.

Divisibility

Knowing that to be money, a thing must be both durable and portable, you're far better educated than you were before. Your next acquisition of money might be in the form of Levi's jeans. They're durable, if the advertisements are true, and they're portable. Some people carry them around all of the time. Some people do it quite nicely. However, if you accept Levi's jeans as money and then go to the Quik Stop to buy a half gallon of milk, you'll discover the milk to be worth about 1/30 of the value of one pair of jeans, which is your smallest unit of money. If you divide a pair of jeans into 30 equal pieces, then none of the pieces will be worth 1/30 of the value of the original jeans. The problem of making a small purchase with indivisible money will reveal to you yet another of the Rules of Money. That is, to work well as money, a thing must be **divisible without loss**.

Availability

All of this will probably have caused you to give serious thought to the nature of money. Perhaps you'll next arrange to be paid in pecans. A box of pecans is durable, portable, and can be divided without loss down to the size of a pecan, which is pretty darned small. Your next trip to the furniture store might be quite successful. In exchange for a trunk of pecans, you might buy an end table. In exchange for a bag of pecans, the Quik Stop might sell you a loaf of bread. All will seem well for a while and you might not notice the sudden appearance in vacant lots and back yards of a large number of young recently planted trees. However, after several years of happily doing business in pecans, you'll notice that the cost of that loaf of bread has crept from one bag of pecans to two bags of pecans, and you might start to wonder what's wrong. The answer is another of the Rules of Money. This is what happened. When people noticed that pecans were circulating as money, every available space in town was planted with pecan trees. As the trees matured and began to produce, the supply of pecans grew quickly and their value dropped. Thus, you learned that to work well as money, a thing must be **available in limited quantity**. All things have value in relation to other things and any thing whose availability can be easily manipulated will not work well as money.

Consensus

Desperately you consider many possible things and arrive at plutonium. It lasts a long time. If you don't believe it, then ask the Union of Concerned Scientists. It's easily portable. If you don't believe it, then ask the FBI. It's divisible without loss. If you don't believe it, then ask any Third World nation. It's also available in limited

quantity, at least until they get a breeder reactor going. Good deal! Take a bag of plutonium pellets down to the sporting goods store and try to buy a Colt revolver with it. You'll be in for a surprise. You'll get a lot of attention but you won't get your Colt revolver. They won't take your plutonium. It lacks one of the characteristics of money. To be money, a thing must be **generally accepted as money**. Most things will be theoretically acceptable as money but if a thing smells bad, or glows in the dark, or makes people break out in hives, then it might not be generally accepted. You'll also be in for an even bigger surprise. Unless you have a plutonium tree in your backyard, the Nuclear Regulatory Commission will probably want to see your license to operate a breeder reactor.

Intrinsic Value

After the trial and your eventual release from prison, you'll probably continue to study money. Suppose that you repair a car and the owner gives you in payment a note instructing his most trusted friend to give you some money. You take the note across town to the correct address and when you ring the bell the door is answered by a voluptuous redhead. This guy has some kinda friends! When you show her the note, she explains that she spent all of his money. You return with the note to the man's house. He and the newly repaired car are gone. The neighbors tell you, when you ask them, that he was driven batty by his former wife, a certain voluptuous redhead, and sold the house to pay for the divorce. All that he had left was a broken car and he drove away the moment it was repaired. Your worthless note is an example of another of the rules of money. To be money, a thing must have **intrinsic value as money**. Intrinsic value is the value that derives from the inherent nature or character of a thing. The value of money must derive from the intrinsic value of the thing used as money and not be dependent upon the source of a payment. The note had whatever is the intrinsic value of paper. The source of the note lacked integrity. Therefore, the note wasn't very good as money.

Real Money

That's what it takes. To be money, a thing must be durable, portable, divisible without loss, available in limited quantity, generally accepted as money, and must have intrinsic value as money. The better a thing satisfies those rules, the better it will work as money.

And now, here's the part for which you've all been waiting. What about **real** money? I mean the stuff that we all spend every day. You know, Abraham, Martin, and John, or whoever those pictures are. It turns out that Federal Reserve Notes are made from a thing that's more durable than ice but less durable than a log and that can be cheaply manufactured faster than pecans grow. It's intrinsic value is difficult to determine. I suppose that it could be used for paper planes or to write messages but

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those uses threaten its durability. It could certainly warm a house, if you had enough of it, but then it wouldn't have any durability at all. If you use it for Kleenex, then folks will probably not want to accept it as money. There's also some question as to the pedigree of a Federal Reserve Note. It is, after all, a *note*. From whom? To whom? Saying what? So is it money or not? Is that what makes the world go 'round? No wonder it won't buy friends. I'm amazed that it will even rent companions.

It gets even worse. Most of the time, we don't even **use** Federal Reserve Notes. How are you paid for your labor? With a check. Is it money? No. It isn't even a Federal Reserve Note. When you take it to the bank, do you get money for it? Probably not. You probably put it in the bank and then pay your debts with other checks. Are they money? No. Do the people to whom you give them ever get money for them? No. They deposit them. So where's the money? A check is a promise to make payment of something but the only things that change as a result of checks are numbers in a computer. Now here we go. Watch this. A check represents numbers in a computer. They can be erased in a microsecond, so they're a lot less durable than ice. They can be duplicated an unlimited number of times, so the supply of them is unlimited. If numbers are money, then making a backup copy of the data should, in theory, result in 100% inflation. What an awesome thought! And do you think numbers, used as money, have intrinsic value? Well, here are some numbers. \$500,000. They came right out of my computer. Go buy yourself a house.

Real Problem

Did you get the house? Of course not. The numbers are worthless by themselves and that's all you get when you deposit your check — worthless numbers in a computer.

What if we don't have good money? So What? You can still go down to Lucky's with your piece of plastic and get your Twinkies and Budweiser. So what's wrong with an economy based on the Vapor Standard? I'll tell you. The value of good money is derived from the thing used as money and depends upon how well the thing satisfies the Rules of Money. The value of good money is stable over a long period of time and is difficult for anyone to manipulate. The value of bad money isn't stable. With bad money, you might work for 1 hour to pay for a six-pack and the next year the same purchase might cost you a day's labor. Or, if you're selling the stuff, then you might get a lot of money one year and a lot less the next. When that sort of thing happens more than occasionally, some deficiency of the money is probably the cause. With our present "money," based mostly on digits in computers, the only stability comes from policy decisions of the Board of Governors of the Federal Reserve System. Your ability to survive in our economy depends upon their integrity. If you trust those men, then you're home free. It's their notes that circulate as money. However, before you open another Budweiser and settle back in front of the tube, maybe you should check and see if those guys know any voluptuous redheads.

So now you know how to tell good money from bad money and you can make an educated guess about whether a thing isn't money at all. You have some insight into our present system of non-money, based on the Vapor Standard, and you have an inkling of who controls it. Maybe you're even beginning to suspect that you've been robbed and you're wondering what to do about it. I suggest that you start by trying to get paid for your work with money. That exercise will be even more educational than reading this essay.

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Addendum

Some time later, I discovered the following passage in Chapter 32 of *the Restaurant at the end of the Universe*, by Douglas Adams.

All this while, the management consultant had been sitting in stony silence, his fingertips pressed to his temples to indicate that he was waiting and would wait all day if it was necessary.

At this point he decided he would not wait all day after all, he would merely pretend that the last half hour hadn't happened.

He rose to his feet.

"If," he said tersely, "we could for a moment move on to the subject of fiscal policy..."

"Fiscal policy!" whooped Ford Prefect. "Fiscal policy!"

The management consultant gave him a look that only a lungfish could have copied.

"Fiscal policy..." he repeated, "that is what I said."

"How can you have money," demanded Ford, "if none of you actually produces anything? It doesn't grow on trees you know."

"If you would allow me to continue..."

Ford nodded dejectedly.

"Thank you. Since we decided a few weeks ago to adopt the leaf as legal tender, we have, of course, all become immensely rich."

Ford stared in disbelief at the crowd who were murmuring appreciatively at this and greedily fingering the wads of leaves with which their track suits were stuffed.

"But we have also," continued the management consultant, "run into a small inflation problem on account of the high level of leaf availability, which means that, I gather, the current going rate has something like three deciduous forests buying one ship's peanut."

Murmurs of alarm came from the crowd. The management consultant waved them down.

"So in order to obviate this problem," he continued, "and effectively revalue the leaf, we are about to embark on a massive defoliation campaign, and...er, burn down all the forests. I think you'll all agree that's a sensible move under the circumstances."

The crowd seemed a little uncertain about this for a second or two until someone pointed out how much this would increase the value of the leaves in their pockets whereupon they let out whoops of delight and gave the management consultant a standing ovation. The accountants among them looked forward to a profitable autumn.

"You're all mad," explained Ford Prefect.

"You're absolutely barmy," he suggested.

"You're a bunch of raving nutters," he opined.

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