

FREEMarket

PUBLISHED 12 TIMES PER YEAR BY THE LUDWIG VON MISES INSTITUTE

THE CASE FOR HOARDING

George F. Smith

George F. Smith is the author of The Flight of the Barbarous Relic (george@libertyasylum.com) .

Most people would admit to hoarding money only with a tinge of guilt, because to be a hoarder carries with it the suggestion of being a miser—a Scrooge. And yet, every participant in an economy based on indirect exchange holds some amount of money and can be said to be hoarding it; that is, declining to spend it. Hoarding is a strategy for achieving personal goals or for dealing with economic uncertainty.

However, some economists argue that hoarding money causes recessions. In the Keynesian universe, hoarding is a great evil because it means people are stifling demand for the economy's products and services.

Unspent dollars means reduced sales, and as sales decline, profits drop, layoffs increase, and the total social income decreases, making less money available for consumption. Hoarding induces more hoarding as the economy sinks into a downward spiral. If not corrected by timely government policy—deficit spending and inflation—the hoarders could shut down the economy.

Money, of course, has to be easily inflatable for Keynesians to execute their policies. And this means that money needs to be severed from its roots in trade.

As Menger, Mises, and others have written, a commodity becomes money only gradually, as increasing numbers of market participants, on their own, decide to use it rather than other consumer goods. To become a common medium of exchange, a commodity needs to possess certain objective characteristics, such as being durable, transportable, recognizable, divisible, fungible, and scarce. Another needed quality, often overlooked, is a commodity's suitability for hoarding.

As we learn from Mises, money as it arose on the market served as a transmitter of value through time and space. In more formal terms, hoarding refers to an individual's increased demand to hold cash balances. Holding cash balances is an expression of the fact that money's value lies in its *potential for future exchanges* as well as present ones.

As people increase their demand for cash balances, prices will tend to fall, and the purchasing power of the money unit will rise. The production structure of the economy remains intact—hoarding as such does not wipe out goods on store shelves, or machines in factories. If anything, it makes them cheaper.



In this world of uncertainty, there are strong incentives to hoard, and given the “solutions” pushed on us for the current crisis, those incentives could easily explode into full-time obsessions. People don’t know what will happen to them, and the greater their uncertainty and fear, the greater their demand to hold cash balances to meet the unexpected.

But what happens if people hoard today’s cash, the stuff of Fed “accommodative” policies? To the holder of the cash, it’s like trying to hold air in an inflated balloon. Over time, it will leak out.

But even if Ben Bernanke decides to take an extended vacation, how can hoarding work for the public at large? Total cash balances equals the total supply of money. When someone adds to his cash balance, some other person subtracts from theirs—“What Peter spends, Paul receives,” as Hazlitt expresses it. It would seem, then, that Peter and Paul cannot both hoard at the same time.

However, let us consider the change in public demand. While the total cash balances cannot increase without increasing the supply of money, real cash balances can increase if the value of the dollar increases. As people value cash balances more highly, the demand for money increases (relative to their demand for other things), and prices will fall. When people hoard, the same total cash balances will buy more goods and services.

As Rothbard points out, people always say they want more money, but what they really want is “greater command of goods and services bought by

money.” Inflation frustrates this desire; hoarding satisfies it.

One of the assumptions of the pro-inflation camp is that consumption is the driving force of prosperity. The more people spend, the better off we will all be. But if this were true, poverty would exist only in history books.

Putting money in people’s hands and telling them to spend it is not a problem. Producing the goods to spend it on is. Nevertheless, many people profess to believe that spending is our salvation. And one way to get people to spend is to roll the presses and give them more money.

The Great Depression brought hoarding and inflation to center stage. Before 1933, gold coins and banknotes were accepted media of exchange, with the banknotes serving as money substitutes of coins. As long as gold was available to the public, people could protect themselves against bank failures by hoarding gold coins. But if they deposited their gold in banks, it was soon on its way out of town.

After 1917, gold could no longer be part of a bank’s legal reserves; it had to be deposited at the Fed. As the Depression got worse and people lost their confidence in the banks, they decided to take custody of their cash. Seeing people in large numbers pulling their money out of banks—money the banks had promised to provide on demand—President Hoover, in 1932, blasted them for their “traitorous hoarding.”

As Rothbard notes, Hoover’s campaign against hoarding seemed to help;

Copyright © 2009 by the Ludwig von Mises Institute, Creative Commons 3.0. ISSN: 1051-4333.

Editor: Jeffrey A. Tucker

Contributing editors: Thomas J. DiLorenzo, Jeffrey M. Herbener, Robert Higgs, Mark Thornton

Publisher: Douglas E. French

The Free Market is published 12 times a year.

Note: the views expressed in the Free Market are not necessarily those of the Ludwig von Mises Institute.

Ludwig von Mises Institute, 518 West Magnolia Avenue, Auburn, Alabama 36832-4501

Phone: 334-321-2100; Fax: 334-321-2119; Email: info@mises.org; Web: mises.org

hoarding peaked in July, and never rose above that amount until February, 1933. Consequently, bank liquidation was postponed and the final crisis intensified. But perhaps worse, Hoover's campaign kept the public from learning firsthand the truth of fractional-reserve banking.

President Roosevelt took matters even further. On March 12, 1933, he delivered his first fireside chat and told the American people that the new dollar, which they could no longer redeem for gold coin, was money they could trust. "This currency is not fiat currency," he insisted. "It is issued only on adequate security—and every good bank has an abundance of such security."

He told his audience their confidence in the "readjustment of our financial system" was the most important element in its success—even, he said, "more important than gold." "Have faith," he pleaded. Do "not be stampeded by rumors or guesses."

Lingering doubts about the soundness of Roosevelt's policies were all but eliminated three years after he took office, with the publication of John Maynard Keynes's *General Theory* in 1936. Economists swooned over it. Keynes already had strong political ties, and with the right promotion his book could serve as a kind of Scotchgard for government agendas. If enough elites prostrated themselves in its presence, who would believe its critics?

Neither Keynes nor Roosevelt ended the Depression, though most historians were slow in conceding this point. The current mainstream view is that World War II, with its enormous government outlays for the war effort, was the incentive needed to administer Keynesianism in doses strong enough to get everyone working again.

True, the unnecessary war "solved" the unemployment problem with massive conscription, which, according to Robert Higgs, pulled "the equivalent of 22

percent of the prewar labor force into the armed forces." But prosperity didn't return until government wartime controls were gone, and government spending and employment had fallen sharply.

Keynesian economists had predicted that the two-thirds reduction in spending after the war would bring on another depression. On the contrary, with government out of the way, the private economy quickly recovered.

President Nixon completed the process of severing the dollar's gold roots in 1971. Since then, the accelerated depreciation of the dollar has relegated monetary hoarding to the days of our grandparents and earlier—almost.

Even before the Fed, hoarding was not the way to get rich. But because gold retained its value "through time and space," holding it was a way of avoiding penury and saving for old age. The present fiat money system pressures people to drop a portion of their income into the great slot machine of the investment world, most often by means of financial intermediaries.

People's portfolios fatten during the boom years, but working below the radar is the central bank's monetary policy, silently siphoning off the value of their money while orchestrating a disaster. Whether the boom ends in depression or a spurt of aggressive inflation, Fed policy will ruin investors who don't time their bets properly.

One way to hoard money today is in precious metals, particularly gold and silver. Thanks to Congressman Ron Paul's work, it has been legal for Americans to own and trade gold coins since January 1, 1975. Buying gold and silver coins and holding them is not only a way of protecting oneself against inflation, but it is also, in a sense, a way of boycotting the federal reserve. That in itself would be reason enough to own them. ■

MORTGAGE SOCIALISM

Llewellyn H. Rockwell, Jr.

Llewellyn H. Rockwell, Jr. is chairman of the Mises Institute (Rockwell@mises.org).

The economic meltdown has put the country on the fast track to socialism, but through a series of tiny steps. One need only to examine the supposed victories in the war on depression to see how this is happening. The latest is the claim that the Obama administration has successfully renegotiated many mortgage obligations in a way that allows people to keep their homes.

Before looking at the program, we have to ask, is this really a victory? If people are in over their heads, drowning in debt, it is a far wiser path to lift them out rather than hand them a snorkel through which to breathe. The answer for most of the sad cases of people with homes larger and more expensive than they can afford is to move to a new abode. I don't know why or how such thoughts became unthinkable: we not only have a right to a home now, but we have a right to live forever in a discounted home.

If people would move to cheaper places, their debt problems would be solved in shorter order. If many people bailed out of expensive homes, their prices would go down and approach reasonable levels, and perhaps then the people who are living beneath their means could actually ramp up their standard of living by buying from the glut out there. And isn't this something that has been a national priority for several decades, providing better housing for the poor? Here it is within our grasp: let the prices fall!

In any case, how was the Obama administration able to accomplish the miracle of letting people continue to live in lifestyles they can't afford? They

offer to pay \$1,000 for every loan that a mortgage company could renegotiate. Why didn't they just agree to pay the mortgages? It's unclear. Seems like that would have been an easier path from A to B. Instead, they wanted the mortgage companies in on the deal.

And where is this money coming from? You can use all the fancy words you want, but in the end government has no money. Everything government has it gets from you. That is the most fundamental lesson of political economy, without which no clear thinking takes place. And yet it seems to be the most covered-up truth of our times. So if you know this one point, you will be leagues ahead of almost everyone else in thinking about these issues: one way or another, you will pay.

How will you pay? It can happen through the old-fashioned method of taxation. Or it can happen through more debt that will have to be paid in the future. Or it can happen when the Fed creates new money that eventually shows up in the form of dollar depreciation—and this is the most insidious method there is. This is, of course, how the current crew believes it can make the magic happen. It's a form of counterfeiting.

It's not compassion to steal from some to give to others. It is using violence to accomplish your ends, which, in this case, only delays necessary pain. No new wealth is created. It is merely shuffled around from spot to spot by force. It is you who are being robbed to pay for the mistakes of these homebuyers. Even Americans who didn't participate in the

boom are being punished, made to cover the bad purchases of others.

Thus can we see that there is no amazing thing taking place here—no genius policies nor dazzling acts of the supernatural. This is old-fashioned redistribution, to sustain the unsustainable.

It's odd to watch the ethos of public affairs these days. Everyone seems to agree that mistakes were made in the past. People lived beyond their means. The boom created nutty financial arrangements in which people with no money and no jobs and no prospect of paying were able to enter into massive credit obligations lasting decades. Everyone seems to understand that there is something wrong here.

Where the split occurs is what to do about it. The party in power is under the belief that the way to fix a problem is to continue the practices that caused the problem in the first place, and delay for as long as possible the correction that must take place. On the other side are people who believe that reality needs to reassert itself, and the sooner the better.

Take note that I'm not talking about the need for blood in the streets or for

lives to be shattered. I'm talking about moving to a different neighborhood, possibly renting rather than "owning," and generally downscaling. Is that really too much to ask?

Not really, so the question appears: why is the government not insisting on this? The answer comes down to the banks and institutions that continue to hold bad assets. They don't want them repriced because that would be liquidation, and they are powerful enough to concoct policies that prevent that, for now.

So what appears to be this glorious favor to the American middle class is in actual fact another form of bailout for the banking system, however temporary it might be. But mark my words: home prices will fall, and these mortgages will eventually be repriced. There is not enough financial trickery available to postpone this. And when stage two of the great meltdown happens, we will once again be suffering regret. Then there will be yet another chance to do the right thing.

Let the market speak. It is the only institution that seems willing to tell us the truth anymore. ■

ASC

2010

Austrian Scholars Conference

March 11–13 • Auburn, AL

The Austrian Scholars Conference is the international, interdisciplinary meeting of the Austrian School, and for professionals interested or working in this intellectual tradition, it is the event of the year. The director of the conference is Joseph Salerno of Pace University. Over the course of three full days, the Austrian Scholars Conference offers 80-plus presentations on economics, history, philosophy, and the humanities, in addition to named lectures by the leaders in the field.

The deadline for submissions is January 1, 2010.

For further information and submission details, see mises.org/events.

News from the Institute

From the Mises.org Store

There is a great demand for small monographs that are part of the core of the Mises Institute's mission and we've begun printing these as never before. They are written by the critical thinkers in the Austrian tradition, including Mises, Hayek, Rothbard, Menger, Hoppe, and more. Each sells for \$7 or less, and people are buying them in large quantities for distribution. You can see what is available at Mises.org/store.

There were very few busts of Ludwig von Mises that were produced in the 1950s after Mises sat for a sculpturing session. In the meantime, the demand for these bronze busts has grown very intense. The Mises Institute this year has addressed the issue by producing a stunning and heavy half-size bust of the original, each handcrafted by experts. It is a near-exact replica of the original and extremely handsome. They are available for purchase, for your office or home, at mises.org/store.

Along the same lines, the bestselling item in the store right now is the Mises coin, which permits you to obtain precious metal for its enduring value and also honor the great hero of the twentieth century. It was crafted especially for the Mises Institute. ■



Time is Running Out!

Don't Miss This Opportunity!

With only a few weeks until the year end, now is the time to give a gift that will benefit our mission and provide you with a tax deduction.

To find out more, please contact us!

James W. Fogal, CFP®
Director of Development
334.321.2106
James@mises.com



Mises Institute EVENTS

Register for any conference
online at mises.org or by
phone at 800-636-4737.

- THE MISES CIRCLE IN HOUSTON, TEXAS (Sponsored by Jeremy S. Davis)
January 23, 2010 • Hilton Houston Post Oak
- AUSTRIAN SCHOLARS CONFERENCE
March 11–13, 2010 • Auburn, Alabama
- ROTHBARD GRADUATE SEMINAR
June 6–11, 2010 • Auburn, Alabama
- MISES UNIVERSITY
July 25–31, 2010 • Auburn, Alabama
- SUPPORTERS SUMMIT AND SCHLARBAUM AWARD
October 8–9, 2010 • Auburn, Alabama

Join the

Mises Circle

in Houston, Texas

The Failure of the Keynesian State

Saturday, January 23, 2010

Hilton Post Oak

Sponsored by Jeremy Davis

Speakers: Ron Paul, Thomas Woods,
Douglas French, and Lew Rockwell

To register, see Mises.org or
phone 800-636-4737.





Ludwig von Mises Institute
518 West Magnolia Avenue
Auburn, Alabama 36832-4501

Nonprofit Org.
U.S. Postage
PAID
Ludwig von Mises Institute

RETURN SERVICE REQUESTED