

MONEY AND ITS IMAGE PROBLEM

by Daniel Lapin

If there is one political reality to be learned from the past three decades it is that public perception shapes real-life outcomes. A frightening change during this period has been a war on the wealthy conducted in response to the public perception that somehow the rich got that way by stealing from the poor. This perception includes the notion that wealth-producing activities are faintly unseemly and that economic activity causes rather than cures poverty. There is a way to restore the prestige of business success that requires a return to tradition. In order to examine it we must first analyze the nature of money.

Decades before our computer-controlled “virtual laboratories,” Einstein created his famous “thought experiments.” They allowed him to solve problems for which actual laboratory experiments would have proven too expensive, if not impossible, to conduct. Rather than measuring gravity in an elevator dropping down a three-mile elevator shaft, the great physicist showed that we can just as well, and a lot more safely, analyze the situation from the comfort of our desks.

In the social sciences, too, we can make excellent use of thought experiments. Let us

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conduct a thought experiment to see if we can understand the origins of our own calendar. The protocol proceeds as follows. We deposit a young boy and girl on an otherwise-deserted tropical island. Taking care that they have enough to eat, we set up concealed surveillance equipment and observe their development.

After a century or two, they will have increased their numbers substantially. By now a full-fledged society, they remain oblivious of any other people or any human history. However, they will certainly notice periodicity in the heavens, eventually developing a calendar. After further centuries of experience, they will most likely discover that the solar year contains $365\frac{1}{4}$ days, in the same way that prolonged scrutiny of the skies will eventually yield them a lunar month of about 30 days.

However it is highly unlikely that they will adopt a seven-day week. Not only is there no visible astronomic seven-day cycle, but seven does not divide evenly into 365, or into 30, which makes it an illogical choice. They would most likely establish a five-day week, as this would make each year a calendar replica of the preceding one.

Why, then, do we have something as confusing and artificial as a seven-day week when switching it to five would make so much sense? Only because we retain a primeval, collective memory: that long ago, God initiated a seven-day cycle as a kind of

divine circadian rhythm. It is hard otherwise to account for the wide acceptance of the seven-day week.

As the seven-day week is the product of a collective memory of a religious tradition, so too is money. While our clandestine survey will reveal the islanders bartering with one another, it is less certain that they will make the leap of assigning value to disks of metal. That, in all probability, would not happen on our island, as indeed it failed to happen in many parts of the real world. Most populations that were isolated from Bible-based religious tradition failed to make the leap from barter to coins and capital.

Where the Bible served as the earliest source of wisdom, people understood the role of gold and silver. They learned how greatly to expand trade—and therefore wealth—by employing precious metals as an exchange medium. They understood the role of private property and the role of the law in protecting that property. Naturally, these peoples enjoyed a gigantic head start over those who had to discover this all by trial and error.

The Faith Habit

There was another reason why those Western civilizations based on the Bible flourished economically. The individual character traits that Judeo-Christian thought promoted are the very qualities that best prepare people for effective roles in commerce. One of the most important of these is the faith habit. This accustoms people to the real world, wherein almost every worthwhile venture requires one to make a major commitment without assurance of success. For example, couples must marry without the help of a crystal ball that would predict all the ups and downs of their life ahead. Farmers plant and await crops that may or may not ripen. And, of course, investments of capital always involve risk.

In fact, the very act of accepting metal disks or even pieces of paper, in exchange for a day of backbreaking labor, requires enormous faith. To understand the true dimensions of that faith, observe how things

change in its absence. When investors lose faith in markets, when depositors lose faith in banks, when citizens lose faith in the currency, disaster strikes.

As long as the faith habit is intact, however, people will accept payment for their goods and services. They do so out of faith that when they require some commodity, a vendor will, in turn, accept their little metal disks or scraps of paper. As long as the future remains uncertain, people who maintain Bible-inspired faith have a great advantage whether as spouses, farmers, or investors.

Judeo-Christian thought nurtures another personality trait which well serves those who practice capitalism: deferment of gratification. A religious outlook helps to promote saving rather than impulse spending. It also inculcates in people the idea that there is merit in doing the right thing for its own sake, rather than for reward. This too is a valuable mindset for the ambitious entrepreneur who must focus on filling a need rather than on other people's purses. Everybody wants money; but those who pursue it directly instead of seeking a niche, usually fail. The most conspicuous commercial successes are won by those who find a way to serve other people, or provide them with things they want.

Religious teachings that emphasize the virtue of charity, would thus fit well into business school curricula. Charity helps to loosen the tight grip many of us have on our funds. No miser ever made a great investor. Religion encourages people to raise families, the best incubators of capitalism. There, the young future business professional learns the value of labor and its specialization. From wise and responsible parents, he learns virtually all the skills necessary for a first job. Finally, religion's emphasis on family helps an economy because few great commercial enterprises are built in one generation. It is children that fuel a man's ambition to drive himself beyond the needs of his own lifetime.

For these reasons, the world still awaits a society that has embraced atheism and also operates a successful free market. That this

has not happened is no coincidence, but rather a consequence of the spiritual nature of money.

The Spiritual Nature of Money

Let us further analyze the spiritual nature of money. All human activities can be located somewhere on the spectrum that is anchored at one end by spirituality and at the other, by physicality. Praying is near the spiritual end; reading and writing, composing music and making tools are its neighbors. As the source of both great sensual pleasure and also of all new life, sex might be somewhere near mid-spectrum, while eating and excreting belong over toward the physical end.

One way of identifying a spiritual act is by determining whether a chimpanzee would understand it. This is because God endowed man with His spirit and so distinguished between man and chimpanzee. When I return home from work and slump into a comfortable armchair, a primate could undoubtedly sympathize. As I move to the dinner table and begin eating, he certainly understands. When I open a newspaper, however, and hold it motionless before my face, he becomes quite confused.

This test suggests that a business transaction is more spiritual than physical. A chimpanzee would not have the slightest idea of what is transpiring between proprietor and customer at the counter of a store. Economic exchange takes place only after two thinking human beings will it. The process is spiritual.

Human beings are always slightly uneasy about pursuits that have no spiritual overtones at all. When necessary, we superimpose spirituality precisely to avoid being exclusively physical and thus uncomfortably animal-like. We apply ceremony and ritual to those of our actions that are also animalistic. Only people read a book or listen to music; hence these activities require no associated ritual. On the other hand, all living creatures eat, engage in sexual activity, give birth, and die. If we do not confer a uniquely human ritual upon

these functions, we reduce the distinction between ourselves and the animal kingdom. Therefore, we celebrate the birth of a child, often by a naming ceremony; no animal does that. Even if our hands are quite clean, we wash them before eating rather than after, like a cat. We prefer to serve food in dishes on a tablecloth rather than straight out of the can, although the physical, nutritional qualities have not been enhanced. We even say a grace or a benediction. After encountering an attractive potential partner, people do not proceed directly to physical intimacy. An engagement announcement followed by a marriage ceremony serves to accentuate that all-important distinction; no animal announces its intention to mate and then defers gratification for three months while it calmly prepares its wedding and future home.

The more physical the activity, the more awkwardness and subconscious embarrassment surround it. Photographer Richard Avedon shattered a barrier by capturing images of people as they ate. Frozen in the act of chewing, humans resemble apes rather than angels. Our mothers, themselves raised in America's Judeo-Christian tradition, taught us never to eat in public. Similarly we express a normal and healthy reticence about bathroom activities. On the other hand, as purely spiritual occupations, reading and art evoke no discomfort.

Likewise, buying and selling should evoke no psychic discomfort. Economic activity is another way in which we satisfyingly distance ourselves from the animal kingdom and justify our humanity. This helps to explain why the most secular elements in America commonly lead assaults on the free market. Those who have rejected religion are eager to find other outlets for their moral expression. There is no better way than to exhibit a revulsion for ethical capitalism. Today we hear people referring to the eighties as a period of moral depravity. Being unaware of the spiritual nature of money and wealth creation, these individuals consider the miracle of economic enterprise to be the human equivalent of dogs fighting over a bone.

The Origins of Man

The great historic clash between socialism and the traditional wisdom of the West is really just a reflection of a far more fundamental disagreement. This is over the question of the origin of Man. This is not a question that needs to be debated in churches and divinity schools as much as it is a question that needs to be settled in corporate board rooms and business schools. Either God created us, or we evolved from primeval protein sludge, passing through a primate-like phase on the way. No one has yet proposed a third alternative.

If we accept the Godless alternative, then indeed we do not differ in kind from monkeys or other animals, only in degree. We are less facile in speed, strength, and hearing than some animals but we think and speak a little better. Animals do not create wealth, they merely seize the commodities they need and people obviously do the same. They may employ more sophisticated methods like bonds, debentures, and other tools of trade, but it is seizing nonetheless. Clearly, morally sensitive people must decry this activity. Sure enough, American politics and academia long dominated by those hostile to a traditional view, echo this approach. Those that most strongly advance evolution as the one and only approach to studying the question of our origins are also those that most strongly oppose the free market.

On the other hand, if God created us and touched us with His abilities, then we are qualitatively different from animals. Our ability to speak and to create is unique. Therefore, animals plunder but people profit; the creation of wealth is an expression of our godly origins. This view of Man's origins helps to subdue the feelings of guilt often brought on by success. Frequently those with little religious faith who enjoy sudden success, such as Hollywood celebrities for instance, develop an almost irrational dedication to socialist causes. The idea that we are descended from angels rather than ascended from apes has undoubtedly played a role in one of the most magnificent conse-

quences of history: American ethical capitalism.

Revealing his own brand of genius in *Paradise Lost*, John Milton etched the Bible's centrality in man's literary consciousness. He showed how the opening chapters of the Bible focus on the eternal tug-of-war for man's soul between the angels and the apes. There is a Titanic struggle between the Divine aspirations of a person's nobility and his basest indulgences. Whom would Adam obey, God or the serpent personification of the animal kingdom? After thousands of years of human history, the lingering memory of that tussle still resonates in the human soul. All heirs to the Judeo-Christian tradition feel the need to distinguish themselves from animals and to unequivocally demonstrate who won that Eden conflict. Seizing another's property by force is animalistic and a victory for the serpent, purchasing it voluntarily for the price set by the seller finds favor in God's eyes. A store or market is one of the few places in which people interact voluntarily leaving each party happier than he was before. No wonder then that God smiles upon the marketplace. Freedom from tyranny is a necessary precondition for both worship and trade.

It is therefore not surprising that economics used to be a field of study that belonged with religion and theology. Adam Smith as well as many other eighteenth-century economists were religious philosophers before they were economists. Smith wrote *Theory of Moral Sentiments* before he wrote *Wealth of Nations*. When the great universities moved the study of economics from their religion departments to their science departments they were actually driving a wedge between capitalism and the moral arguments and spiritual dimensions that underpin its validity. After all, whether a man dissipates his money frivolously or invests it wisely and whether or not he will bend rules to earn it depend mostly on his character and on his moral makeup. No wonder that the science that seeks to predict these things, economics, is known as the dismal science. Money is spiritual and how men relate to it depends mostly on the state of their spirit.

Faith is the fuel that drives both commerce and religion.

God and the Marketplace

Establishing that a close relationship exists between God and the marketplace helps us in three crucial areas. Firstly it helps to explain why atheism and business are not natural allies. One would have supposed that a philosophy of secular humanism, recognizing no authority and sanctioning all behavior would be naturally drawn to the world of money and power. One would have expected the political Left to excuse what it calls the "greed" of capitalism and to recognize it as nothing other than Darwinian law applied to the life of modern man. Yet, this is not possible; something as truly spiritual as commerce simply cannot coexist with socialism. The atheist himself recognizes that to be true to his credo, he must reject the free market because of its Godliness.

Secondly, it helps us integrate our careers into our lives instead of regarding those daily eight or ten hours as a distasteful and isolated part of life.

Finally, recognizing the congruence between work and spiritual reality, the business professional is all the better able to sell himself and his product. His work is creative and therefore a legitimate way of emulating God and His infinite creativity. Anyone with a sneaking conviction that socialism has a point, that Man and his abilities are finite as is the economic pie and that he who brings that pie to market and slices it for customers exploits both the baker and the public, is forever handicapped as a businessman. Nobody throws himself wholeheartedly into an endeavor he secretly considers demeaning and unworthy. The difference between the animal instinct of a squirrel gathering nuts and the inherent nobility of a human being earning a living becomes clear when you perceive economic enterprise in its correct position, at the spiritual end of the spectrum.

Failure to grasp the interdependency between a people's morality and their economy can levy a high cost. People often lose sight of how a statist government and its confiscatory tax policies will force increasingly desperate citizens to become petty felons as they struggle futilely to preserve the fruit of their labors. As people inevitably begin to cut corners, they lose some of their moral self-esteem, thereby lowering the trigger threshold of their internal moral alarms. This corrosive effect ripples out to every corner of the population.

Americans are just beginning to sense that many of the social pathologies that have made life more dangerous and squalid over the past three decades have their roots in the uprooting of religion from public life. We should also realize that the furious secularization that has wreaked havoc on our schools and families has not left our economy immune. It does not require a very elaborate thought experiment to demonstrate how much our economy would be boosted by restoring a traditional view of money. We need only contemplate why so many people glorify art and music and why they treat galleries and concert halls with an almost religious fervor. They do so out of a deep human need to devote at least part of their existence to activities which uplift. Art and music elevate because they are God-given and therefore unique to humans.

America's wealth-producing institutions ought to arouse the same feelings of respect and awe, for precisely the same reasons. By joining the frantic rush to abandon every vestige of our religious tradition, we free market enthusiasts have unwittingly contributed to the sabotaging of our prosperity. Our thought experiment will show that once our business infrastructure enjoys similar social esteem to that of the art establishment which it so generously underwrites, there will be at least one very valuable outcome. Politicians will tremble in fear before venturing an assault on that fountainhead of prosperity that for so long has been American business. □

COMMERCIAL BANKING IN A FREE SOCIETY

by Steven Horwitz

Although we can say a great deal about the *institutions* of a free society, and why they are desirable, speculating about the specific ways in which people will choose to organize themselves *within* such institutions is always a tricky matter. After all, the whole justification for the institutions of a free society is that only through its institutions can human beings discover progressively better ways of dealing with scarcity (of both goods and knowledge) and thus improve both our material and non-material welfare. Our ignorance of the details of a free society is precisely why having a free society is so important.

Nonetheless, this need not completely discourage us from imagining what the details of some aspects of a freer economy might look like. One way to go about this task is to look at the various ways a particular industry is unfree and imagine what removing those restrictions might do. In conjunction with such a thought experiment we might also look for historical examples where the industry in question was more free and explore the ways in which it operated and organized itself.

The banking industry is especially suited for just this kind of analysis. If we want to know what commercial banking might look like in a free society, we need only turn to

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contemporary regulation and the historical record to begin to piece together a coherent story.

There are four major areas in which the freedom of American commercial banks is restricted. The first area is the set of prerogatives taken away by this existence of government central banks, particularly the private issuance of currency. The second deals with restrictions on geographic location, while the third concerns the relationship between banks and non-bank firms. Fourth, as a result of the first three, is mandatory deposit insurance.

Central Banks and the Issuance of Currency

In order for central banks to undertake the activities they, or their political overseers, have deemed necessary, they must acquire a monopoly over the production of currency. This restriction on the freedom of individual banks to create the kinds of financial instruments their customers might want has large and pervasive effects on the macroeconomy and the size of government more generally. Because “customers” must use the government-issued currency, they have no way of indicating their dissatisfaction with its quality or value. This is what enables governments to use the banking system to raise revenue; if they create more