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The Importance of Sound Money System

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The Importance of Sound Money System

The greatest challenge the business world continuously face is supplying the global economy with sound money. In a society whose existence depends on the exchange of goods and services and labor division, sound money holds a significant place besides being crucial. Presently, money is typically utilized across all economic dealings; hence one essential requirement for today's economy is a sound monetary system. This is because it facilitates the efficiency of trade as well as social stability. This paper will deliver a dichotomized discussion of the importance of a sound money system based on a critical analysis of Steve Forbes's Money book and In Money We Trust? Documentary.

Chapter One

From 1978 to the time the housing bubble was conceived, the nominal house prices had been increasing. Likewise, the United States house prices began to shoot on rapid growth in the 1990s after some years of gradual change. To this rise, Forbes mentions a 7-8% annual rate of house prices in 1998 and 1999 and a subsequent rate of 9-11% in 2000 and 2003 (Forbes & Ames, 2014). It is the last run-up in housing prices that predated an era of profoundly accommodative monetary policy. Moreover, 2004 and 2005 experienced the most rapid gain in housing prices, when the annual housing price appreciated and ranged between 15% and 17% (Forbes & Ames, 2014). Thus, based on this understanding, Forbes sees the then prevailing monetary policy's failure as one of the housing bubble's contributory aspects. Correspondingly, the Federal Reserve weak dollar equally contributed to the housing bubble of the mid-2000. Most people were duped into believing that loans were low-priced; hence they made haste to procure homes in a housing market that promised to have its prices go up in the imminent future (Forbes & Ames, 2014). Nonetheless, this market collapsed following an eventual move by the

Fed to raise rates. Thus, Forbes not only considers the weak dollar as the only factor for the housing bubble but also the Fed's resolve to flood the subprime mortgage market with cheap dollars.

Relative to other foreign currencies, a downhill trend of the United States dollar price accentuates the definition of a weak dollar (Krause, 2019). The dollar is said to be weakening at any given time when an alternative foreign currency such as the Euro is on the rising trajectory of price as compared to the dollar. When a dollar weakens, it creates both positive as well as negative issues. When a dollar weakens, imports into the United States become more expensive. On the other hand, exports become more attractive to alternate consumers that fall outside the United States boundaries. Similarly, a weakening dollar allows developed nations such as the US to pursue policies likely to favor weaker currencies (MPT, 2018). For instance, in the 2008 financial crisis, the weaker dollar allowed the United States factories to remain competitive through the workforce's mass employment, thus stimulating the United States' economy.

Finally, the unprecedented impact of unstable money is one concept that stood out in this chapter for me. Here, just like the carbon monoxide gas, unstable currency's influence is not easily perceived by many until it is too late. The latter blindness is because most folks prefer to invest commodities and hard assets to preserve their affluence in the face of a weakening currency. Since the prices of housing, food, and fuel appreciate, many may not be keen to fathom the hidden havoc a weak currency may cause.

Chapter Two

In this chapter, the author introduces a concrete definition of money through money's three acclaimed economic functions. According to the author, money acts as value measure (Forbes & Ames, 2014). Secondly, currency acts as a trust instrument allowing transactions to

transpire between strangers. Lastly, money provides a communication system transversely across a given society. Based on these critical roles of money in an economy, money should remain stable for two reasons. Firstly, since money acts as a store of value, it should be dependably saved, stored, and retrieved (Goodhart, 2017). This necessitates the value of money to always remain stable for any given time. Money's ability to act as an instrument of trust allowing transactions among strangers is an intersection of money working as a medium of exchange. Here, money enables the exchange of goods and services by acting as an intermediary (MPT, 2018). Since the latter role eliminates other systems such as barter system ineptitudes, it necessitates money to continually exhibit a stable purchasing power to serve as an accepted medium of exchange extensively. Thus, it should demonstrate the following attributes: transportability, valuation of joint assets among others. Unlike the *fei*, money should have intrinsic ease of transportation from one point to the other. Also, as a valuation of joint assets, money's stability is crucial to guarantee it as is a unit of measurement.

Forbes predicts that Bitcoin will soon be debased (Forbes & Ames, 2014). Although many mention Bitcoin's anonymity and lack of regulation as the primary reasons this digital currency failed. The author points out that Bitcoin failure stemmed from the fact that it was not real money. The high fluctuations exhibited by this currency were unable to guarantee it as a measure of value which is stable; hence could not operate as a trust instrument. Likewise, due to Graham's principle of *bad money drives out good*, Bitcoin would not last in an unstable environment since no refuge is available from the destruction fueled by money debasement.

² Below statement "Money measures wealth, however it does not create it" argues that currency should never be mistaken for wealth, but it is essential in helping individuals create wealth.

Chapter Three

In 1971, President Nixon ended the convertibility of the United States dollars to gold (Forbes & Ames, 2014). Nixon and his advisors viewed the world from a narrow-minded standpoint of the ancient time mercantilists. They believed that the United States imported more products from other countries than the former were buying from the States, hence a merchandise trade deficit (Forbes & Ames, 2014). Thus, the president and his team held an intrinsic conviction that keeping the United States dollar fixed at its then-current ratio meant an overrated dollar. The latter state of the dollar could eventually allow other nations counting Japan and Germany, to maintain a trade advantage. Therefore, the ultimate option that would deter the situation mentioned above from materializing was to devalue the dollar. Hence, Nixon's announcement in 1971 saw United States not redeeming dollars for gold, thus terminating the gold standard. As a consequence, temporary tariffs were imposed on imports in a bid to turn around the country's balance of payment. Also, a ninety-day wage as well as price freeze was declared in trying to stabilize inflation.

Subsequently, international monetary system that went by the Bretton Woods System's appellation was declared dead (Forbes & Ames, 2014). Bretton Woods System brought together 40 countries that had convened at Bretton Woods and reached a consensus to keep their respective currencies fixed (but certain situations could necessitate their adjustment) to the United States dollar and the dollar fixed to gold. The elapse of dollar link to gold equally terminated fixed exchange rates for the world's currencies connected to dollar as demonstrated above, creating a 1973 situation where there was no country on a gold standard for the first time (Forbes & Ames, 2014). Forbes believes that trade deficits are meaningless as they lead to more confusion in economic-related computations (Forbes & Ames, 2014). He provides

intriguing examples of how scholars of this concept led to misunderstanding in GDP, imports, and exports related computations. Thus, his viewpoints are universally convincing hence good.

The trade deficit fallacy was the idea that stood out most for me in this chapter. Due to the confusion surrounding the trade deficit concept, many governments have been misguided to consider the concept as a sign of economic feebleness. Thus, this concept has influenced how the government computes their Gross domestic product (GDP), where exports are regarded as wealth creators, while imports are subtractors. It has also led to a puzzling computation of government expenditure, which is considered a positive contributor to GDP. However, I agree that the trade deficit is just but a brainchild of theoreticians, hence pointless.

Chapter Four and Five

Monetary expansion does not create wealth but destroys it. The Mississippi bubble, colonial inflations that preceded the American Revolution, and the German hyperinflations are a clear example of the above premise (Forbes & Ames, 2014). On the flip side, the money supply is crucial to economic activity since money is used in typically all monetary transactions. An increase in the supply of money could be achieved through reduced interest rates and placing additional money in consumers' hands (Islam, 2010). When interest rates are lowered, more investments are spurred. Correspondingly, putting more money in the consumers' hands makes them feel more affluent, thus encouraging spending. Therefore, the latter spread of business activity increases labor demand besides raising the need for capital goods. Eventually, the public expects inflation prompting money lenders to insist on heightened interest rates to balance the projected decline in purchasing power throughout their loans.

A change in monetary policy has several resultant effects or outcomes, counting an increase in liquidity to create economic growth. It also lowers liquidity to deter inflation from

occurring. All these possible outcomes prompt central banks to utilize bank reserve requirements, government bonds banks are likely to hold, and the interest rates. Thus, the collection of all these tools communicate the number of money banks can loan. In turn, the money supply that influences both inflation and interest rates communicates to the public the future of employment, consumption levels, and debt cost (MPT, 2018).

Money and trust are closely related and tied together since the duo forms the basis of a transaction between strangers. Although they mutually depend on each other, money works to promote trust by offering one stable measurement unit individuals in a given market can come to an agreement. Conversely, according to Forbes & Ames (2014), money is a trust basis, and social trust rely on the stability of money. Here, this latter understanding explains why trust and money must work together in a quest to create wealth. For instance, a combination of trust and money in the US, Germany, and Japan promoted rapid corporation formation and prosperity.

In chapter five, the ability of unstable money to turn society against itself is the concept that stood out most. Drawing from the ethical side of education, this concept provides the necessary explanation of why the community is likely to experience political instability and insecurity issues fueled by a sense of unfairness. For instance, individuals with fixed income who struggle with rising prices in an uncertain economy may become enraged with their affluent compatriots who seem to get rich through speculation or unscrupulous means.

Chapter Six

The gold standard represents a type of monetary system given region currency value is directly connected to gold (Officer, 2010). Thus, governments resolving to use gold standard must set a given price for traded gold and buy as well as sell this precious stone at that price. Here, the currency value is determined by the determined fixed price of gold (MPT, 2018).

Although the United States does not currently use the gold standard, its resolve to use it will imply setting the price of gold at an imaginary figure like \$ 400 per ounce. Hence, ¹the value of the dollar will be $1/400^{\text{th}}$ of an ounce of gold.

Among the various methods used to value currency, Steve Forbes is convinced that the gold standard is the best way for the United States to go. According to Forbes, when the dollar weakens, it poses a severe threat to the global economy (Forbes & Ames, 2014). Hence, the only way to stop the dollar from declining is to introduce the gold system. Forbes asserts that money can best measure value when it has a fixed value achieved through the reintroduction of the gold standard.

In summation, Steve Forbes employs a global and noble perspective to deliver a convincing explanation of the current erroneous led monetary policies that are gradually setting the stage for a novel worldwide economic and social devastation likely to rival the dismays of the 1930s and 2008 financial crisis. Forbes's deliberations demonstrate that he believes money to be the specific means through which the United States and other nations could overcome today's economic challenges. Still, he is quick to point out a dozen reasons why the world has not realized the latter. In Forbes's view, the world is yet to set up a sound monetary system that will catapult it to his dream position. Similarly, Forbes believes that stable money is the key to the global economy's actual recovery and prosperity. In that regard, he is inherently and theoretically convinced that the only means through which stable money could be realized is through the gold standard's return. Hence, policymakers should work to eliminate fiat money that has perpetually hurt the world's economy and America.

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