$1,000? Why not have the government do it every year or every month or, better yet, every week?

Of course, such a system would not work. But why not? When we understand why not, we will know why every attempt to create prosperity by creating more money will not work. When we have learned the answer, we shall have taken a long step toward eliminating the greatest cause of both human misery and the decay of great civilizations.

One way to find the answer is to analyze the logic which seemingly supports the idea that more money in a nation's economy means more prosperity for all. If we can spot an error in the chain of reasoning, we should be able to make it clear to others. Once such an error is generally recognized, the popularity of government money-creation programs will soon disappear. Neither moral leaders nor voting majorities will long endorse ideas they know to be false.

Stable Price Argument

Perhaps the basic thought that supports an ever-increasing money supply is the popular idea that more business requires more money: if we produce more goods and services, customers must have more money with which to buy the additional goods and services. From this, it is assumed that the need for prosperity and "economic growth" makes it the government's duty to pump out more purchasing power to the politically worthy in the form of more money or subsidies paid for by the creation of more money.

Support for such reasoning is found in an idea that goes back at least to medieval days. In the thirteenth and fourteenth centuries some of the world's best minds believed there was a "just price" for everything. The "just price" was then thought to be determined by a fixed cost of production. Actual prices might fluctuate slightly from day to day or season to season, but they were always expected to return to the basic "just price," reflecting the supposedly never-changing number of man-hours required for production.

From such thinking, it naturally follows that increased production can only be sold when consumers have more money. More goods might be needed for any of several reasons, let us say for an increased population. However, no matter how much they were needed, they would remain unsold and unused unless buyers were supplied additional funds with which to buy them at, or near, the "just price."

What is the situation in real life? What do businessmen do

when they have more goods to sell than customers will buy at their asking price?

They reduce prices. They advertise sales at mark-down prices. If that doesn't work, they reduce their prices again and again until all their surplus goods are sold. *Any economic good can always be sold, if the price is right.*

The way to move increased production into consumption is to adjust prices downward. Businessmen, who have made mistakes in judging consumer wants, will suffer losses. Those who provide what consumers prefer will earn profits. Lower prices will benefit all consumers and mean lower costs for future business operations. Under such a flexible price system, there is no need for more money. Businessmen soon learn to convert available supplies of labor and raw materials into those goods for which consumers will willingly pay the highest prices.

What Are Prices?

Prices are quantities of money. They reflect a complex of interrelated market conditions and individual value judgments at any one time and place. Each price reflects not only the available supply of that good in relation to the supply of all other available goods and services, but also the demand of individuals for that good in relation to their demand for all other available goods and services.

But even this is only one side of price-determining factors. The money side must also be taken into consideration. Every price also reflects not only the supply of money held by each market participant, but also – since very few people ever spend their last cent – how much money each participant decides to keep for his future needs and unknown contingencies.

Prices thus depend on many things besides the cost of production. They depend primarily on the relative values that consumers place on the satisfactions they expect to get from owning the particular mixture of goods and services that they select. However, prices also depend on the amount of money available both to each individual and to all individuals. In a free market economy, unhampered prices easily adjust to reflect consumer demand no matter what the total supply of money or who owns how much of it.

What Is This Thing Called Money?

Money is a commodity that is used for facilitating indirect exchange. Money first appeared when individuals recognized the advantages of the division of labor and saw that indirect exchange was easier and more efficient than the