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1

THE VALUE OF MONEY

> So when the money failed in the land of Egypt and in the land of Canaan, all the Egyptians came to Joseph and said, "Give us bread, for why should we die in your presence? For the money has failed" (Genesis 47:15).

Daniel Defoe wrote a novel in 1719 about a man whose ship sank, and who wound up on a deserted island for 28 years. It was called *Robinson Crusoe*. Economists love to use Robinson Crusoe as their example when they begin an introductory textbook on economics. Why? Because he was alone initially. We can then talk about scarcity and its economic effects in a world without a money economy. Why didn't Crusoe's economy have money? Because it was a world without exchange (trade) and the division of labor.

Crusoe faced a hostile world. How was he going to overcome scarcity? He needed food, clothing, and shelter. Fortunately for him, he was able to get a lot of his tools from the ship; if he hadn't, he wouldn't have survived even 28 days.

The reason why economists use Robinson as an example is that they don't have to begin with the difficult problems of the division of labor and voluntary trade. Only when the economist has explained basic production, saving, and the allocation of time and capital does he introduce Friday, the native partner. That was Defoe's strategy, too.

The textbook Crusoe initially has to decide what his highest priorities are. What is his order of preferences? Is it fresh water, food, shelter, or clothing? What need does he attempt to satisfy first? The whole point of the illustration is to show that in a world of limited resources, a person has to make decisions about how to achieve his goals. He can't achieve all of them at the same time. He has to decide what he needs to do—first, second, and so on, down to a hundred and thirty-fifth or more—and then he has to compare this list with his available resources, including his personal skills and time.

One day he may pick berries. But they don't last forever, and besides, he wants something else to eat. He can climb a tree and pick coconuts, or he can spend several hours to make a sort of poking stick that he can use to knock down fruit or coconuts from trees. But the time he spends locating a suitable stick can't be used to climb trees and get food directly. The point is that he has to give up income (food) in order to get the time to produce or discover capital (the stick).

He may want to go fishing. That means he needs a fishing pole, some line, a hook, and maybe some bait. Or he needs a net. But unless he finds it as a free gift (the ship's warehouse), he has to make it. He can't become too fancy, or else he will die of malnutrition before he finishes the project.

Decisions on Board

Say that he has a pile of goods to take from the ship. He has put together a crude and insecure raft that he can use to float some goods back to shore. The ship is slowly sinking, so he has limited time. A storm is coming up over the horizon. He can't grab everything. What does he take? What is most valuable to him? Obviously, he makes his decision in terms of what he thinks he will need on the island. He tries to estimate what tools will be most valuable, given his new environment.

The value of a tool as far as he is concerned has nothing to do with the money it cost originally. He might be able to pick up a sophisticated clock, or an expensive musical instrument, but he probably won't. He would probably select some inexpensive knives, a mirror (for signaling a passing ship), a barrel (for collecting rain water), and a dozen other simple tools that could mean the difference between life and death.

In short, value is subjective. The economist uses fancy language and says that Crusoe *imputes* value to scarce resources. He decides what it is he wants to accomplish, and then he evaluates the value to him personally of each tool. In other words, the *value of the tool* is completely dependent on the *value of the tool's expected future output*. He mentally calculates the future value of the *expected future* output of each tool, and then he makes judgments about the importance of any given tool in producing this output. Then he calculates how much time he has until the ship sinks, how much weight each tool contributes, how large his raft is, and how choppy the water is. He selects his pile of tools and other goods accordingly.

In other words, he doesn't look to the past in order to evaluate the value to him of any item; he looks to the future. The past is gone. No matter what the goods cost originally, they are valuable now only in terms of what income (including psychic income) they are expected to produce in the future. Whatever they cost in the past is gone forever. Bygones are bygones. The economist calls this the doctrine of *sunk costs*. In the case of Crusoe's ship, that's exactly what they are about to become: sunk. That's why he has to act fast in order to avoid losing everything.

There are objective conditions on the island, and the various tools are also objective, but everything is *evaluated subjectively* by Crusoe. He asks the question, "What value is this item to me?" His assessment is the sole determining factor of what each item is worth. He may make mistakes. He may re-evaluate (re-impute) every item's value later, when he better understands his conditions on the island. He may later wish that he had picked up some other item instead. The point is, it's his decision and his evaluation that count. Because he is all alone, he and he alone determines what everything is worth. He doesn't ask, "How much money did this item cost in the past?" He asks instead, "What goods and benefits will it produce for me in the future?" Then he makes his choices. He *allocates* the scarce means of production. He allocates some to the raft and the rest he leaves on the sinking ship. He loads his top-priority items onto his raft, and floats it back to shore.

The Function of Money

What has money got to do with all this? Absolutely nothing. Crusoe doesn't use money. He simply makes mental estimations of the value of anything in terms of what he thinks it will produce for him in the future. If whatever an item will produce isn't worth very much to him in the future, it won't be worth very much today.

He doesn't ask himself, "I wonder how much money all this cost before it was loaded onto the ship?" Unless he expects to be rescued shortly, thereby enabling him to resell the item, he wouldn't bother with such a question. What does he care how much money any item cost in the past? All that matters is what actual services (non-money income) it will produce for him in the future.

Assume that he has really little hope of being rescued. The ship is sinking. His raft is almost sinking below the water. The storm is coming. He has to get back to shore fast. As he is about to climb off the ship and onto the raft, he remembers that the captain of the ship was rumored to own a chest full of gold coins. Would Crusoe run back to the captain's room to try to find this chest? Even if he had enough time, and even if he really knew where it was, would he drag it to the edge of the ship and try to load it onto the raft? Would he toss the tools into the ocean to make way for a chest of gold coins? Obviously not.

But money is wealth, isn't it? Gold is money. Why wouldn't he sacrifice some inexpensive knives and barrels in order to increase his wealth (money)? The answer is simple: in a one-person environment, *money cannot exist*. It serves no purpose. Crusoe knows that gold is heavy. It displaces tools. It sinks rafts. It's not only useless; it's a liability.

The value of money is determined by what those who value it expect that it will do for them in the future. A lonely man on a deserted island can't think of much that money will do for him in the future. If he remains alone for the rest of his life, there is nothing that money can do for him at all.

So the value of money in this example is zero.

Joseph in Egypt

Now let's take a real historical example, the famine era in Egypt. Joseph had warned the Pharaoh of the famine to come, and for seven years, the Pharaoh's agents had collected one-fifth of the harvest and had stored it in granaries. Then the famine hit. The crops failed. The people of nearby Canaan also suffered. No one had enough food.

"And Joseph gathered up all the money that was found in the land of Egypt and in the land of Canaan, for the grain which they bought; and Joseph brought the money into Pharaoh's house. So when the money failed in the land of Egypt and in the land of Canaan, all the Egyptians came to Joseph and said, 'Give us bread, for why should we die in your presence? For the money has failed' " (Genesis 47:14-15).

What did they mean, "the money has failed"? They meant simply that *compared to the value of life-giving grain*, the money was worth nothing. Why would a man facing starvation want to give up his remaining supply of grain in order to get some money? What good would the money do him? He wanted life, not money, and grain offered life.

Because the money "failed," it had fallen to almost zero value. Thus, in order to buy food, the people had been forced to spend all of their money. Now they were without food or money.

"Then Joseph said, 'Give your livestock, and I will give you bread for your livestock, if the money is gone.' So they brought their livestock to Joseph, and Joseph gave them bread in exchange for the horses, the flocks, the cattle of the herds, and for the donkeys. Thus he fed them with bread in exchange for all their livestock that year." (Genesis 47:16-17).

Were the Egyptians foolish? After all, all those cattle and horses were useful. But animals eat grain. The grain was too valuable during a famine to feed to animals. All that the animals were worth was whatever they would bring as food, ana in Egypt, the meat wouldn't last long. Dead animals in a desert country don't remain valuable very long. Why not trade animals for grain,