

THE MAGIC COIN



BY JONATHAN NEWMAN

ILLUSTRATED BY ADAM RIONG

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MISESINSTITUTE

AUBURN, ALABAMA

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TABLE OF CONTENTS



LILY FINDS A MAGICAL COIN 7



CRUSOE DOESN'T NEED MONEY 13



THE ORIGIN OF MONEY 17



THE ORIGIN OF BANKING 21



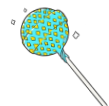
THE BANK GETS IN TROUBLE 27



A DARK MEETING IN A DARK ROOM 31



MONETARY CHAOS 35



JUST MONEY 39

Chapter 1

LILY FINDS A MAGICAL COIN

“TWENTY-FIVE CENTS?!” But a piece of candy used to be **ONE CENT!**”

Lily didn’t have a quarter with her, and she wasn’t sure she would pay that much for a piece of candy even if she did have one. She turned around to go home.

Just a few steps from the candy store, she saw something shiny on the ground. It was a coin! She picked it up.

What Lily saw confused her. The coin was bigger than a quarter, and even though it looked a little old, it was brighter than the gray quarters in her piggy bank at home. On the face a smiling man sported a bowtie and thick-rimmed glasses.



Suddenly, the coin started

E X P A N D I N G,

and it made a ringing sound, like a bell. In her shock, Lily dropped the coin, which had become quite heavy.

The coin clinked as it hit the ground, and it wobbled noisily without coming to a rest. It looked like it was beginning to spin even faster. Finally, it spun itself upright and started

LEVITATING



Lily took a step back and looked around. The few people around her seemed completely unaware of the floating coin, which had grown the size of Lily's head and stopped spinning.

Then the face of the man on the coin turned toward Lily and said, "Twenty-five cents for a piece of candy is an outrage! But the problem isn't with the candy or even the candy store owner. The problem is with that penny in your pocket."

Lily was speechless. She wasn't scared, but she didn't quite know what to say to a magical floating coin.

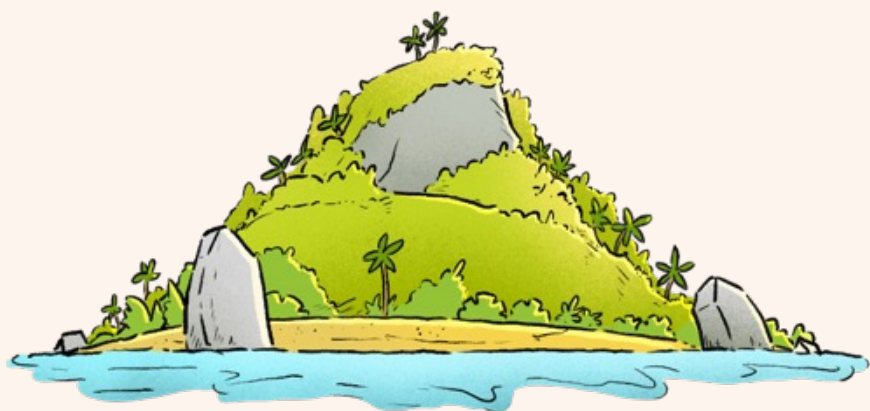
“Let me introduce myself: I’m Newton, which I know is a little funny, since I’m defying all the laws of physics. But I’m not here to talk about physics. I’m here to show you

WHAT GOVERNMENT HAS DONE TO OUR MONEY!”

Lily blinked and then finally spoke, “You’re going to *show* me? How?”

Newton laughed. His laugh was a little high-pitched and nasal but endearing all the same. “Just watch!”

The coin started spinning again, but this time there was a faint white glow around it that became brighter and brighter until all Lily could see through her squinting eyes was white light.



Chapter 2

CRUSOE DOESN'T NEED MONEY

She heard the sound of waves and tropical birds. The brightness faded and Lily found herself standing on a sandy beach next to a forest.

“Where am I?” Lily asked.

“Few economic subjects are more tangled, more confused than money. To untangle it, we need to see the *why* of money. So our first stop is this remote island, where a poor fellow named Crusoe has been stranded.”

“Hey, I read about him! But what does he have to do with economics or money?”

“You’d be surprised! We can learn a lot from Crusoe. He helps us simplify complex topics to their bare bones. For our purposes today, he shows us that money is a product of trade.”

“But Crusoe doesn’t exchange—he’s all alone.”

“Exactly! And he doesn’t have or need money!”

Just then Lily heard footsteps in the jungle behind her. She ran and hid behind a big banana leaf. Newton quickly shrank back to his original size, and the coin plopped down into the sand.

Crusoe emerged from the jungle with a fishing net and headed toward the ocean. He saw the silver coin in the sand and picked it up with a curious look on his face. After a moment, he shrugged and flipped the coin up into the air. Before it fell back into the sand, Crusoe continued moving toward the water.

Lily tiptoed out from behind the banana leaf toward Newton.

“See?” Newton whispered, “Crusoe doesn’t need me. I can’t help him get any of the things he needs. There’s nobody to trade with! He needs food, water, and shelter. Money is worthless here.”

Lily nodded with understanding. “So where does money come from, then?”

“I’m glad you asked,” Newton said as he began to spin, hover, and grow. Sunlight glinted off him as he spun, and Lily and Newton vanished in a flash of light.





Chapter 3

THE ORIGIN OF MONEY

Lily and Newton were peering over a stone wall. Just on the other side, a woman had some eggs laid out on a wooden table. People carried different goods around in carts and baskets, and Lily could tell that the woman was looking for something or someone.

“She’s looking for some fabric to make clothes for her family,” Newton said. “Her family is well-fed with all the eggs their chickens produce, but their clothes are in tatters.”

Lily scanned the crowd but didn’t see anybody carrying fabric or clothes.

A man with a basket of shoes approached the table of eggs and said, “Good morning, Abigail! I sure would like a basket of eggs. Can I interest you in a pair of these shoes?”

“Good morning, Joshua!” Abigail responded. “I don’t need any shoes today, but I would like some fabric. Do you have any?”

Joshua frowned. “No, but I just saw Lauren with a big stack of fabric and clothes across town. She was very interested in my shoes, but my family doesn’t need new clothes these days, so I went on my way.”

“Watch this,” Newton whispered. “Something amazing is about to happen!”

Abigail was thinking. It looked like she was doing some complex calculations in her head. Then her face lit up.

“I’ll take your whole basket of shoes, Joshua!”

Joshua was about as perplexed as Lily was when she had first seen Newton levitate. But he was not about to let this opportunity go by. “Sure, here you go.”

“Thanks! You can take as many eggs as you can carry,” Abigail said gleefully and ran off with the shoes.

After Joshua left, Lily said, **"I SEE WHAT HAPPENED!"**

Newton giggled with excitement as Lily continued. "Abigail realized she could use Joshua's shoes to trade with Lauren. Joshua had shoes but wanted eggs, Lauren had fabric but wanted shoes. Abigail connected the dots and traded with Joshua so she could get the clothes she needed!"

"That's right!" Newton exclaimed. "This is the first time anybody thought about indirect exchange. Barter—direct exchange—is tough because you have to find somebody who has what you want to buy but who also wants what you have for sale. Abigail realized she could use the shoes as a medium of exchange. She didn't want them for herself, but only to trade them for the thing she wanted. Pretty clever!"

"Yeah," said Lily. "But we still haven't seen where money comes from. I thought we'd see a king putting his face on a coin or a piece of paper, not people trading shoes and eggs."



“Au contraire, mademoiselle. This is the origin of money. People didn’t go straight from bartering to using coins—it started with that basket of shoes. But as you can imagine, shoes would make a lousy money. They’re too big to put in your pocket, and they get smelly and worn out over time. Also, it would be tough to buy something small like a piece of candy with a shoe. You can’t divide a shoe into smaller parts and expect people to accept that.”

“Oh, I see,” said Lily. “Over time, people figure out that some things work better as media of exchange, and eventually everybody starts using the same thing.”

“RIGHT AGAIN!” Newton started spinning and glowing. Lily realized that they were on their way to another episode in the history of money.

Chapter 4

THE ORIGIN OF BANKING

As the bright light faded, Lily could see, hear, and smell horses. She was wearing a dress like all the other girls in town, and she was holding Newton in her hand.

They were on a cobblestone street lined with storefronts. She could see inside some of the stores through the wavy-looking windowpanes—it reminded her of the candy store back home.

“Welcome to early seventeenth-century London!” Newton announced. “As you can see, there’s a bustling economy. People are keeping their shoes on their feet and trading with coins made of precious metals like **GOLD** and **SILVER**.”



Lily saw goods for sale and prices on little signs. Across the street, a vendor was swapping one sign for a new one with a lower price.

Newton saw that Lily was watching the price change. “He has just decided to decrease the price of his butter because he estimates that he will earn more money as a result. All the merchants can use money prices to help them make decisions like this.”

“I can see how having numbers like that makes it easier to do business,” Lily said. “It’s nice for the customers, too, because they can shop around and compare prices.”

“THAT’S RIGHT!” Newton said. “Let me show you something else down the street.”

Lily walked down the street, admiring the charm of the marketplace. She noticed that people weren't carrying as much as they were in the primitive village. Instead, they had little coin bags.

"It looks easier to trade here than in the last place," Lily remarked. "You don't have to carry around shoes or eggs. You can just carry the coins you want to spend, and you know that everybody will accept them."

"Great point, Lily!" Newton replied. "Not only are the coins a medium of exchange, but they are a widely accepted medium of exchange—that makes them money, by definition."

Once Lily reached the street corner, Newton said, "Ok, we're here! What do you see?"

Goldsmith



Lily watched people entering and leaving the building on the corner. “People are bringing in jewelry and other stuff made out of gold and silver, and they are leaving with coins.”

“Yep! This is a goldsmith bank. They’ll take those items, melt them down, and mint them into shiny new coins. They can also keep people’s money safe. You can bring your coins in, and they’ll give you receipts so you can come withdraw your coins at any time.”

Lily saw a man go in with some coins and then leave with some pieces of paper.

Newton said, “Those are banknotes—receipts for his coin deposit.”

“Paper is even easier to carry around,” Lily replied. “It would be much easier to use those than coins for big transactions.”

“Yes, but there is a catch. Let’s

F A S T - F O R W A R D

a few years.”



Chapter 5

THE BANK GETS IN TROUBLE

Newton hovered above Lily's hand and started spinning. The people around them zipped in and out and around while the sun quickly vanished over the horizon. The world turned into a blur as the sun raced across the sky hundreds of times. The seasons changed every half second. She could see a wash of green each spring and then a heavy coat of white snow each winter.

IT WAS DIZZYING.

Finally, time slowed back to its usual flux and Newton landed in Lily's hand. They were still outside the goldsmith bank, but the building showed some signs of age. The people inside looked a little nervous.

"Watch this," Newton said.

A man walked in with no coins or receipts, and then a few minutes later came out with a stack of banknotes.

"What did he do?" Lily asked.

“He just got a loan. People have started using the banknotes as money, and the bankers have realized that they can make even more money by lending out the banknotes.”

“What’s wrong with that?”

“Well, there’s nothing wrong with loans per se, but these bankers have lent out more banknotes than the gold in their vaults! They figure that they can earn some interest as long as people don’t come asking for their gold back. It’s profitable hanky-panky.”

“Uh-oh,” Lily said. “What if too many people come back wanting the coins they deposited?”

“That would be

A BANK RUN!

A CRISIS!

TROUBLE!”

A group of people overheard Newton and ran toward the building in a panic. The commotion attracted even more people, and Lily saw a stampede of depositors coming down the street.

“Let’s get out of here!” Newton exclaimed, and they vanished in a flash.





Chapter 6

A DARK MEETING IN A DARK ROOM

Lily found herself behind a desk in a dark room. She saw a group of well-dressed men sitting at a conference table.

“What are they talking about?” Lily asked.

Newton whispered, “These men are politicians and bankers. They are deciding to work together to try to solve the bank-run problem we just saw.”

“Oh, good. So, they are agreeing to keep enough gold to avoid a bank run?”

“Unfortunately, no. They are trying to make it so they can expand their loans together and make it difficult for people to withdraw their gold.”

Lily was confused. “How are they going to do that?”



“By creating a central bank. It will be a bank for the banks and for the government. If any bank gets into trouble, the central bank will bail them out. It will also buy the government’s debt to help them spend as much as they want.”

“But where does the central bank get its money?”

“Excellent question, Lily. It just prints it up.”

“How would more paper fix the problem of too much paper?”

“It doesn’t, but it helps the banks and the government hide their own problems and pass the costs of their mistakes on to ordinary people. Nobody likes paying taxes, but with a central bank, the government can sneakily tax people with inflation.”

“HOW TERRIBLE!” Lily gasped. A man at the end of the table closest to Lily and Newton quickly turned toward them. Lily ducked behind the desk just in time and Newton transported them out of the dark room.



Chapter 7

MONETARY CHAOS

It was daytime again, and they were on a busy street. People were pushing carts and carrying baskets like in the primitive village, but this time they were filled with the central bank's paper notes instead of goods.

A woman parked a wheelbarrow full of notes outside a grocery store and went inside to do her shopping. A thief dumped the cash out and ran off with the wheelbarrow.

Lily saw price signs like she had seen in London, but the prices were getting higher and higher. Merchants were adding zeroes to each number every minute.

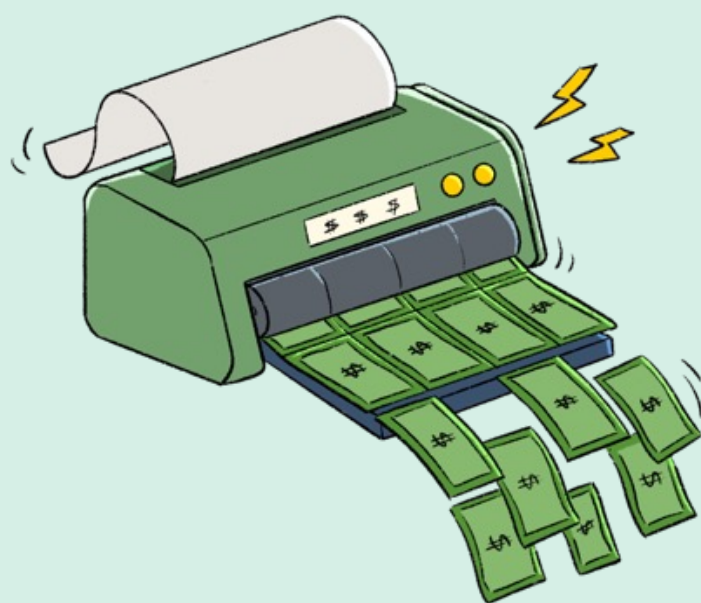
All the stores had long lines of people waiting to get in. As soon as people received any money, they rushed to spend it, since its value was dropping every second.

“WHAT CHAOS!” Lily exclaimed.

“You’re right,” Newton said. “The whole economy is in chaos because of the money printing. Consumers are rushing to buy whatever they can because their money is losing value faster than they can spend it.”

“How can they fix this mess?” Lily asked.

“It won’t be easy, but the first step is to stop the money printing. They’ll have to abandon the hyperinflated money and choose a new one, and they’ll have to place strict limits on how much of it can be created.”





Chapter 8

JUST MONEY

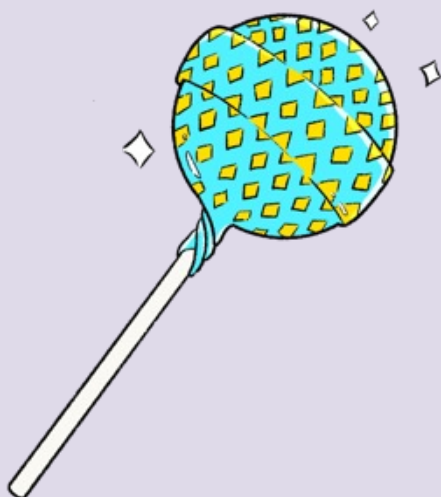
Lily found herself where she started: the sidewalk outside the candy store. Newton was back to his original size, and he looked like a regular silver coin.

Lily realized she had never seen the other side of the coin. Now she turned it over in her hand, revealing a beautiful engraving of a scale.

She immediately understood the significance: sound money is based on weight. When irresponsible banks and the government print up a bunch of paper notes, they devalue the money because there's way more paper than gold and silver.

But then she realized something else: the balanced scale doesn't just refer to weight, but it also represents justice. People started using money because it helped them trade with one another. All the chaos started with trickery. The banks tricked people into thinking that their money was safe in the bank, and the government tricked people into using official-looking paper instead of real money.

Lily still wanted that piece of candy, but she only had a penny and a silver coin. She certainly didn't want to spend the silver coin—she intended to keep it as a souvenir of her fun adventure through the history of money.



She walked into the candy store and saw the owner behind the counter. "Hello! I saw that your candy is twenty-five cents now, but I only have a penny."

The owner frowned and said, "Yeah, sorry about that. It seems everybody has more money to spend these days, and also my costs have gone up."

Lily looked around and then she asked,
**"HOW MUCH CANDY CAN I GET FOR
A SHOE?"**

The owner looked bewildered at first and then laughed. "You know what? Here." He handed her a lollipop. "This one's on me. Thanks for the laugh!"

For Parents and Teachers:

WHAT HAS GOVERNMENT DONE TO OUR MONEY?

Murray Newton Rothbard wrote *What Has Government Done to Our Money?* in 1963. At the time, the US dollar still had some tenuous ties to gold under the Bretton Woods system. But the inexorable consequences of government spending enabled by money creation eventually led to the severing of those weak ties on August 15, 1971. President Richard Nixon announced a “temporary” suspension of gold redemption, scapegoating “international money speculators,” who were allegedly “waging an all-out war on the American dollar.” Of course, the true villain was the US government itself, for it had financed much of its spending on the Vietnam War, the Great Society programs, and other programs with newly printed money. At the end of World War II, the US government had promised foreign governments to maintain a ratio of \$35 per gold ounce. By the 1970s, it had become impossible for the government to preserve this ratio without a total depletion of its stock of gold.

Rothbard understood that this event was not a sudden surprise but just another government intervention (albeit a big one) in the monetary arena. *The Magic Coin* takes Rothbard’s history of money, including the history of it being co-opted by the state, and turns it into a magical adventure. It’s *What Has Government Done to Our Money?* for kids.

Our story begins with Lily’s discovery that the price of candy has risen from one cent to twenty-five cents (a nod to Richard Maybury’s *Whatever Happened to Penny Candy?*). She finds a magic coin engraved with the image of a man named Newton, who takes

her through the origins, evolution, and devolution of money. Let's compare Newton's destinations in *The Magic Coin* with Rothbard's *What Has Government Done to Our Money?*

Lily and Newton's first stop is Robinson Crusoe's island, where Newton shows that Crusoe doesn't need money. Crusoe was Rothbard's first stop as well. His book begins this way: "How did money begin? Clearly, Robinson Crusoe had no need for money. He could not have eaten gold coins." Crusoe needs food, shelter, and fresh water. He can only obtain these by laboring—he cannot trade with others. This means that money must somehow be the product of people trading with each other.

Next Newton takes Lily to a primitive village where *direct exchange*, or barter, is commonplace. We find Abigail and Joshua struggling to overcome the hurdle economists call a *double coincidence of wants*. In short, Abigail wants new clothes and Joshua wants eggs, but even though Abigail has eggs for sale, she can't trade with Joshua because he doesn't have clothes to sell—he only brought shoes to market. Abigail learns that Lauren wants shoes and is selling clothes, and then she has the bright idea to engage in *indirect exchange*. She decides to trade with Joshua even though she doesn't want shoes, realizing that she can offer the shoes to Lauren in exchange for what she actually wants. Thus, a *medium of exchange*, in the form of shoes, is born.

Rothbard discusses the problem of the double coincidence of wants with the same kinds of goods: "If A has a supply of eggs for sale, and B has a pair of shoes, how can they get together if A wants a suit?" Later, Rothbard explains the emergence of indirect exchange: "Under indirect exchange, you sell your product not for a good which you need directly, but for another good which you then, in turn, sell for the good you want. At first glance, this seems like a clumsy and round-about operation. But it is actually the marvelous instrument that permits civilization to develop."

Rothbard wasn't exaggerating. It seems like a simple step for a primitive economy to take, but it actually opens the door for *money*, a widely accepted medium of exchange, to emerge in the market. Money allows the division of labor to expand and makes it possible to employ *economic calculation* (the use of profit and loss to guide production decisions). These conditions allow more productive and capital-intensive projects to be undertaken (the lengthening of the *structure of production*).

The development of civilization is depicted in *The Magic Coin* when Lily and Newton visit seventeenth-century London. There is a much greater quantity and variety of consumer goods available. Businesses and consumers also use money prices to make decisions.

Newton shows Lily a special kind of business: a goldsmith bank. They discover that a *100 percent reserve bank* does not increase the money supply. Depositors come in with gold and silver and leave with banknotes. As long as people trust the bank to redeem these notes on demand, the notes themselves are used in exchanges. The banknotes become a *money substitute*. And as long as the bank keeps a one-to-one ratio of gold to banknotes, its reputation will remain intact and the money supply cannot expand.

But what happens when this gold warehouse decides to engage in what Newton and Rothbard refer to as “profitable hanky-panky?” Here's Rothbard's description from *What Has Government Done to Our Money?*:

More warehouse receipts are printed than gold exists in the vaults. What the bank has done is to issue gold warehouse receipts which represent nothing but are supposed to represent 100 percent of their face value in gold. The pseudo-receipts pour forth on the trusting market in the same way as the true receipts, and thus add to the effective money supply of the country.

Not only has the money supply expanded, but the bank has opened itself to a run. In *The Magic Coin*, Newton inadvertently starts a run, highlighting the fragility of such a bank (a *fractional reserve bank*). Banks don't like runs, but they also don't want to miss out on the profits that can be earned by keeping fractional reserves. It turns out that if banks compete with each other freely (a system known as *free banking*), they check each other's expansion of reserves, preventing overexpansion of pseudoreceipts (*fiduciary media*).

But the story of money and banking took a different path. Banks and the government became aware of the enormous benefits of *central banking* over free banking. Lily and Newton watch the politicians and bankers work together to cartelize the banking system by forming a central bank. Now the system is based not on gold and silver, but on paper. Now all the banks in the country are clients of the central bank, as Rothbard pointed out. Now banks can expand together without fear that a rival bank will bring them down. Individual banks no longer issue their own banknotes, just central-bank notes, like the US dollar. The central bank isn't subject to a bank run because it doesn't accept deposits from the public and because it has the authority to create more central-bank notes.

Governments also win with a central bank because they can spend as much as they want and the central bank will buy their debt with, you guessed it, new money. It's no surprise, then, that once the US government finally severed all ties to gold in 1971, government spending increased even more. The national debt has increased astronomically since then. The government seems to grow and grow with no limit.

What has been the result of the government's stewardship of money and banking? Business cycles (see *Ludwig the Builder* for a children's book on that topic), financial crises, bank runs, price inflation, and all the other bad things we would expect from putting the government in charge of something so important.

While we haven't (yet) seen hyperinflation in the US, this disastrous scenario has played out in other countries. Lily and Newton see a thief dump all the paper notes out of a wheelbarrow and then steal it. This is not fiction! This actually occurred in the famous Weimar hyperinflation of the early 1920s.

In *What Has Government Done to Our Money?* Rothbard explains how hyperinflation becomes a self-feeding spiral:

Soon, the country reaches the stage of the “crack-up boom,” when people say: “I must buy anything now—anything to get rid of money which depreciates on my hands.” The supply of money skyrockets, the demand plummets, and prices rise astronomically. Production falls sharply, as people spend more and more of their time finding ways to get rid of their money. The monetary system has, in effect, broken down completely, and the economy reverts to other moneys, if they are attainable—other metal, foreign currencies if this is a one-country inflation, or even a return to barter conditions.

Newton's explanation about how to “fix the mess” conveys this wisdom to Lily.

At the end of her adventure, Lily reflects on what makes for sound money. The short answer is justice. The problems all come from dishonest banking practices that have been institutionalized via central banking. A sound money is a just money, and a just money is, well, just money. We need to regain what was taken from us: the money that originated on the market. That doesn't necessarily mean gold or silver or bitcoin or shoes or any type of money in particular. It simply means that the market should decide, not the government.

**GET A FREE
COPY!**



*What Has Government
Done to Our Money?*

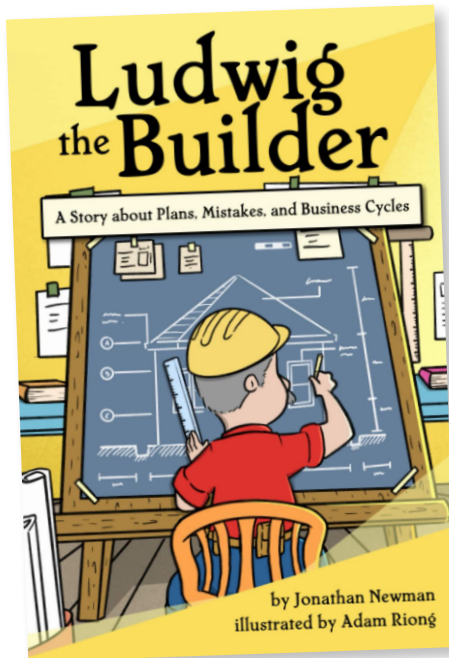
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OTHER CHILDREN'S BOOKS BY JONATHAN NEWMAN

LUDWIG THE BUILDER

This book tells the story of a builder named Ludwig and his experience building a house for a family moving into the neighborhood. This story teaches Austrian business cycle theory, based on the example of the great Austrian economist Ludwig von Mises.



THE BROKEN WINDOW

This book is a rhyming and illustrated retelling of Frédéric Bastiat's 1850 story about the broken window fallacy. It is a lesson for people of all ages to consider the opportunity costs of destructive events and government policies.

“With his new book *The Magic Coin*, Mises Institute Research Fellow Jonathan Newman takes up the most important task of all: teaching children about money and how the government tries to destroy its value. I encourage all parents to pick up a copy of *The Magic Coin* and read it to their children. They’ll thank you later!”

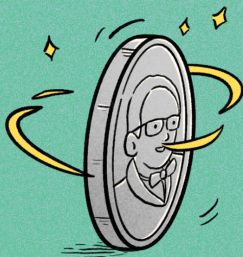
—DR. RON PAUL

Former Texas Congressman and chairman of the
Ron Paul Institute for Peace and Prosperity

“This slim book engagingly written in plain language is a magnificent achievement. Dr. Jonathan Newman encapsulates the basic lessons of money and of how it is deformed by government and central banking in a magical story that will charm and enlighten young readers.”

—JOSEPH T. SALERNO

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