

Rejoinder to Davidson on Counterfeiting

By WALTER BLOCK

Block (1976) makes the case that while counterfeiting legitimate money (e.g., gold) should indeed be considered a crime, the creation of fake, fraudulent copies of money that is itself fake and fraudulent (fiat currency) should not be characterized as illicit behavior. Rather, as in stealing from a thief (which, logically, cannot be done; one can only *liberate* the crook's ill gotten gains), the same applies to the present case. If A is the victim of the initial counterfeiting, and B (the bank, and/or the government) is the guilty party, responsible for the first, and illegitimate, episode of counterfeiting, then when C (the counterfeiter) counterfeits the counterfeit money improperly created by B, C is innocent of any wrongdoing.

Davidson (2009) demurs. She charges that in my focus on A, B, and C, I have ignored X. And who are these worthies? States Davidson (2009): they are "the private holders of B's counterfeit notes who are neither the original owners of gold or silver nor a part of any counterfeiting scheme." My critic goes on to wax eloquent about how truly innocent and victimized are the Xs, all of which, unhappily, is completely true. I regard Davidson's argument as extremely original, pertinent, and insightful in general, and in particular with regard to her creative introduction of the Xs. Nevertheless, I remain unconvinced. No doubt the Xs have little or no choice. But, still, I contend, they are not *entirely* innocent,¹ such that they have a right not to have the value of their dollar notes reduced by our counterfeiter of counterfeit bills.²

Suppose that one day, all the Xs of the world become fed up, sick and tired of the fiat currency that has been foisted upon them for lo these many years. However, they are powerless to overcome the powers that be; the central banks, the Fed, the government that backs up these illicit organizations at the point of a gun. One of the Xs says to his confreres: "Hot diggity; I have an idea! Let us all become counterfeiters (of course of counterfeit, not legitimate, money); if we all do so, the powers that be will be unable to stop us all; then and

only then can we rid ourselves of this monetary pox. With massive counterfeiting, we will make the Germany of 1923, and the Zimbabwe of the early 21st century look like pikers.”

This sounds like a pretty good plan to me; at least, I have heard worse, far worse. However, squarely standing in the way of this wonderful idea is what I would characterize as the mistaken analysis of Davidson (2009).³ For, it is her view that counterfeiting counterfeit money is *per se* illicit. If so, then the long suffering masses of whom Davidson is so protective will have this road to freedom barricaded, paradoxically, by her perspective. If a slave objects to freedom, one has to wonder whether there is real slavery afoot or not.

Suppose, now, that only some of the Xs adopt this policy of undermining fiat currency through massive counterfeiting, thus creating hyperinflation, which will bring this system to a halt. Call them the As. In contrast, the Bs refuse to go along with the other Xs, and thus in effect support the status quo.⁴ The Bs, as does Davidson, oppose counterfeiting counterfeit money. What can we say about the Bs, under such circumstances? At the very least, their claim to complete innocence starts to look a bit tarnished (as in the case of the slaves who oppose liberation). But, if so, then, so does the coherence of their (and Davidson’s) opposition to counterfeiting counterfeit money start to crumble.

I have some difficulty with this statement of Davidson’s (2009): “since members of X are *forced* to use fiat money, and have only one viable medium of exchange, it can be seen that such money, in fact, *ceases to be* counterfeit in their hands.” First, it is not strictly true that the Xs are *forced* to use U.S. fiat currency. Rather, they are all but prevented from using anything else.⁵ Second, it is not clear why counterfeit money radically changes its status due to this force imposed by governmental central banking. For all that, fiat currency is *still* a counterfeit of the original gold money. I cannot see why government coercion renders counterfeit fiat currency legitimate.

I cannot see my way clear to agreeing with Davidson (2009) that “*everyone* is aware that government notes are not redeemable in gold or silver and that all current notes in circulation are merely copies of originals that once were.” This smacks too much of rational expectations, or the full knowledge assumption of perfect competition to

fit my taste. In my view, no one ever went broke underestimating the intelligence of the lay public in matters of (to them) esoteric macroeconomics.

Davidson and I both agree that fractional reserve banking is illicit (de Soto 2006; Hoppe et al. 1998). But this is true even if all participants in the system agree to it, and thus there is no “deception.” Thus, I cannot accept her claim that “if no members of X can be said to be using any kind of deception when using this currency, and all are equally aware of its true nature, . . . (then) the currency itself is not in any sense ‘stolen property.’”

To conclude. I confess, Davidson’s position is by far the more conventional, and she does an excellent job of defending it. Mine sounds eccentric, even to me. However, to mix metaphors, sometimes the turtle beats the hare. I think this is one of these times.

Notes

1. Rothbard (1998: 184) calls for repudiation of government bondholders. This would appear to apply to U.S. fiat currency too. Yes, the analogy between a holder of government bonds and a holder of government currency is not a perfect one. But, in some important respects, there are strong similarities between government notes and bondholders. Says Rothbard: “Many libertarians fall into confusion on specific relations with the State, even when they concede the general immorality or criminality of State actions or interventions. Thus, there is the question of default, or more widely, repudiation of government debt. Many libertarians assert that the government is morally bound to pay its debts, and that therefore default or repudiation must be avoided. The problem here is that these libertarians are analogizing from the perfectly proper thesis that *private* persons or institutions should keep their contracts and pay their debts.”

2. Hoppe and Block (2002) argue that owners have a right only to their physical property, not to its value. But the counterfeiter does not interfere with the physical property of the Xs, only with its value.

3. And also that of Murphy (2006) and Machaj (2007).

4. $A + B = X$.

5. Apart from barter, which as Davidson correctly insists, would in effect spell the death knell for millions.

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