Ayn Rand's *Atlas Shrugged*

A Philosophical and Literary Companion

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Chapter 21

Francisco d'Anconia on Money: A Socio-Economic Analysis

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Introduction

The fiction of Ayn Rand has, perhaps, more economic content to it per page than that of any other novelist. This is not surprising given that her uncompromising belief in both the efficacy and morality of markets and capitalism is the driving force behind her work, especially *Atlas Shrugged* (1957). There are a variety of topics in political economy that one could explore using the novel, and several other essays in this volume tackle some of them. Perhaps the most direct statement on economic matters in the novel is Francisco d'Anconia's speech denouncing the view that money is the root of all evil. In a few short pages, Rand, through her character, raises a whole number of issues about money's roles both in the marketplace and in the social order more broadly. The speech takes place about a third of the way through the book, and d'Anconia is a fairly typical Randian protagonist. The setting is a dinner party the night before the value of d'Anconia's company will be wiped out by his own actions as a way to bankrupt the various villains of the novel who have invested in his firm. In classic Rand fashion, d'Anconia's speech is a long reply to an off-the-cuff remark by another character about money being the root of evil, made under the assumption that everyone in the room would agree and that no one who disagreed would have the temerity to respond with equal or greater vigor. By refusing to acquiesce in the face of a claim to the moral high ground, d'Anconia exemplifies Rand's notion of refusing to provide the sanction of a moral code's victim.

Although the overriding theme of that speech is the morality of money, both as a social institution and as an object of human acquisition, it also elucidates, in a very concise way, several fundamental aspects of the economics and sociology of money. For the most part, Rand is right on target with these observations, and in this essay, I hope to expand on some of her insights and tie them to scholarly work in economics and beyond.

Money as a Medium of Exchange

Any attempt to understand the socio-economic significance of money must begin by recognizing that money is, most fundamentally, nothing more or less than a generally accepted medium of exchange. The formulation "generally accepted medium of exchange" contains two elements: the social notion of being "generally accepted" and the individual intention captured by being a "medium of exchange." That is, money relies both on individuals wanting to exchange and on using something in exchange that other individuals are willing to accept. It is a social convention resting on mutual trust. As Rand (1957, 387) says through Francisco: "Money is made possible only by the men who produce. … When you accept money in payment for your effort, you do so only on the conviction that you will exchange it for the product of the effort of others." In this way, money is the epitome of a society based on mutual exchange, whether of goods and services more specifically, or "value" more generally.

Rand's ethical code is centered around the trader as the symbol of ethical behavior and justice (Rand 1971). For her, all human interaction can be understood in terms of trade and exchange, whether it is an economic relationship or a romantic one. This leads naturally to seeing money in moral terms, as it is through the use of money that exchange not only becomes genuinely possible, but is also able to spread across human societies and become the dominant mode of economic discourse. Money gives to each individual no more or less than they deserve: "Money permits you to obtain for your goods and your labor that which they are worth to the men who buy them, but no more. Money permits no deals except those to mutual benefit by the unforced judgment of the traders" (1957, 388). The result of this process of exchange is that those who produce the most value will see their goods and services sold more and will accumulate more wealth as a result. That accumulation of wealth by producers will correspond to consumers seeing the best products emerge from the process of competition:

> And when men live by trade—with reason, not force, as their final arbiter—it is the best product that wins, the best performance, the man of best judgment and highest ability—and the degree of a man's productiveness is the degree of his reward. This is the code of existence whose tool and symbol is money (1957, 388).

Money both symbolizes and facilitates the behavior that exemplified Rand's moral code.

A further element of Rand's view of the interplay between money's socio-economic functions and its moral standing is her discussion of money as a "tool" (1957, 388). This is an aspect of its role as a medium of exchange. Money cannot determine which exchanges to make; it can only facilitate those one wishes to make. For Rand, even though money epitomizes the ideal world of her moral code, it also makes possible the sorts of immoral behavior that she deplored.[1] Just after Francisco's speech concludes, he makes it known to those at the party that his company's stock is about to collapse, and a near-panic ensues as the array of Randian villains in attendance scramble to save the fortunes they have accumulated while simultaneously denouncing money as evil (1957, 397–8). The moral of that story for Rand is that those who attempt to acquire wealth by immoral means (e.g., working for monopolistic favors from the government or more directly shaking down those who produce) ultimately do not understand what it means to "make" money, and thus do not really understand money. As she says through Francisco, "money will not give [man] a code of values, if he's evaded the knowledge of what to value" (388). Had they really understood what Francisco is saying about money, they would have long ago realized that there was no way he was going to continue to allow the immoral to profit from his productivity.[2] In this sense, money cannot be the root of all evil. As a tool it will further the values of those who use it, and it is only humans who can be good or evil.

Though Rand correctly understands money's role as a medium of exchange, and, by implication, the idea that it is essentially a tool for achieving whatever values we might have, Francisco's speech does blur one important distinction in places. Throughout the speech, Rand has Francisco moving back and forth between money considered as a social institution and money as a synonym for wealth. In both cases her arguments are largely right, but the speech does move back and forth between the two notions of money without indicating the difference. The arguments for why the social institution of money is not the root of all evil and for why possessing a great deal of money/wealth is not the root of all evil may well be related, but they are distinct.

More generally, it is important to distinguish between "money" and "wealth." Rand never does so explicitly, so she moves from the argument that Americans "created the phrase 'to make money,'" to saying "Americans were the first to understand that wealth has to be created" (1957, 391). It is clear that Rand is treating those two statements as equivalent, even though she never makes the explicit point that when we say "make money" we really mean "create wealth."[3] Understanding money's role as a medium of exchange should also make it clear that when we trade money for goods, we are simply changing the form in which we hold wealth. Buying something does not reduce our wealth because we part with money; in fact it increases our wealth, at least subjectively, as we are presumed to value the good or service more than the money we gave up. That Rand understands these issues is clear from the context, but a more explicit discussion of these distinctions can help shed new light on her already powerful insights.

Money and Say's Law of Markets

Implicit in Francisco's speech is an understanding of one of the most important principles in economics: Say's Law of Markets.[4] The colloquial interpretation of Say's Law is that "supply creates its own demand." However, if taken literally, that version of the Law simply cannot be true. Is this version to be understood as saying that the mere act of supplying a good creates a demand for it? If so, then it is clearly false, because were it true, firms would never go out of business. Say's Law must refer to something else in order to be meaningful in any sense.

Another understanding of Say's Law has to do with the aggregate supply and demand for goods and services. In the hands of critics such as Keynes, the Law was understood to be saying that the aggregate demand and aggregate supply of goods and services could never be in disequilibrium. That is, under any and all circumstances, a capitalist economy would demand, in the aggregate, exactly what it had produced, in the aggregate. This version too seems implausible, as hundreds of years of periodic recessions and depressions in largely capitalist economies would attest to.

Neither of these versions of Say's Law gets at the meaning in the original text, however. What concerned Say was explaining how demand, in general, was determined. Working from where Adam Smith's insight that "the division of labor is limited by the extent of the market" left off, Say tried to explain what would determine just how large a market there would be for products in general. His insight is worth quoting directly:

> A man who applies his labor to the investing of objects with value by the creation of utility of some sort, can not expect such a value to be appreciated and paid for, unless where other men have the means of purchasing it. Now, of what do these means consist? Of other values of other products, likewise the fruits of industry, capital, and land. Which leads us to a conclusion that may at first sight appear paradoxical, namely, that it is production which opens a demand for products (Say 1971 [1821], 133).

Say's last line, "that it is production which opens a demand for products," captures the essence of his Law of Markets: production is the source of demand. What creates a great market for sellers is that there are many other sellers in the same market. At one point in his discussion Say asks whether it is better to be a monopolist in a small town or one of many sellers in a large city. His answer is the latter, precisely because it is in the large market where there are enough other sellers who have the resources to purchase your wares, even if you are in competition with numerous other sellers. Put differently, one can only afford to demand products from other sellers if one has already successfully sold one's own products. Income comes before expenditure; production is the source of demand.

Say's Law has some implications for money that resonates with points Rand makes through Francisco's speech. Given that in an economy based on monetary

exchange buying and selling do not happen simultaneously (i.e., we sell our labor services or products, acquire money, then at some later point purchase what we want), there is a period of time during which those who have already sold their products are in possession of money awaiting the opportunity to purchase from another. In this way, holdings of money represent production that has already taken place and been deemed valuable by others. Rand understands this point when she says, "Those pieces of paper … are a token of honor—your claim upon the energy of the men who produce" (1957, 387). She later adds that "Money is made—before it can be looted or mooched—by the effort of every honest man, each to the extent of his ability. An honest man is one who knows that he can't consume more than he has produced" (1957, 387–8).

The notion that money is a "claim upon the energy of the men who produce" resonates with the "production is the source of demand" understanding of Say's Law of Markets. When one is holding a stock of money, that money represents value that has been created for others with the implicit understanding that the holder will soon enough come calling for values created in return. In a properly functioning capitalist economy, money represents claims to future wealth.[5] Money holders have created value already and hold "claims upon" the value created by other producers. The temporal separation of ultimate purchase and sale that money makes possible not only permits the kinds of advanced, complex exchanges that drive economic growth, but also embues the holding of money with the status of a claim to the "energy of the men who produce." However, as economies move away from voluntary exchange as the basis of human interaction and toward what Rand calls "looting" and "mooching," this description of money's role becomes progressively less accurate.

The Debasement of Money

One prominent example of how money's role gets undermined is inflation. There are two steps in the process of moral and economic destruction that inflation engenders from a Randian perspective. First, inflation undermines the role of money as an "objective" standard by which human actors can determine market values. In doing so, it also undermines rationality and the efficacy of human choice. Second, with money's role as an arbiter of market value weakened, human interaction becomes less and less a matter of voluntary exchange and increasingly subject to regulation and other forms of coercion. It shifts the social power base from those who produce and trade, to those who have a comparative advantage in the direct or indirect use of force. For Rand, this shift represents the undoing of human morality.

In Francisco's speech he recognizes the role of money as a "barometer of a society's virtue" (1957, 390). Rand has Francisco make the two step argument from above in the reverse order presented there. He begins this section of the speech with a somewhat apocalyptic vision of the collapse of civilization, and then suggests that we "watch money" for the signs of that collapse. Specifically, "when you see that trading is done, not by consent, but by compulsion—when you see that in order to produce, you need to obtain permission from men who produce nothing … you may know that your society is doomed" (1957, 390). Rand identifies the shift from monetary exchange to political exchange as being the evidence of the collapse of the moral code that makes civilization possible. When Francisco says "when you see that money is flowing to those who deal, not in goods, but in favors—when you see that men get richer by graft and pull than by work," he is identifying the sort of political or "crony" capitalism that characterizes economies in which monetary exchange has been undermined for one reason or another.

He then argues that the debasement of money is one path to that destruction: "Whenever destroyers appear among men, they start by destroying money, for money is men's protection and the base of a moral existence" (1957, 390). Specifically, money can be destroyed by inflation and similar forms of devaluation. Francisco's speech notes only one, which is the substitution of paper for gold. The passage (1957, 390) in full reads:

> Destroyers seize gold and leave to its owners a counterfeit pile of paper. This kills all objective standards and delivers men into the arbitrary power of an arbitrary settler of values. Gold was an objective value, an equivalent of wealth produced. Paper is a mortgage on wealth that does not exist, backed by a gun aimed at those who are expected to produce it.

Although the general thrust of this argument is right, it is worth spending some time on the details to get a better sense of the dangers of inflation.

The premises that gold is an "objective value" and that the substitution of paper for gold is, in and of itself, a significant problem are both open to criticism on more careful consideration. The "objectivity" of gold is nothing inherent in gold, but rather a statement about the need for any monetary system to have an anchor in something of value outside of that system itself. Historically, gold (and other precious metals like silver) have played this role as an anchor. That role for gold reflects a convergence of cultural selection processes (but not a unanimity, as things other than gold have served this role in other societies) on that particular precious metal as being both subjectively valued by actors and being sufficiently scarce to function as a medium of exchange. As the economist Carl Menger (1892) argued over 100 years ago, a medium of exchange must emerge from the actual exchange activities of economic actors, so that any good serving as money must have a value of its own before it became used as money. In this sense, Rand's observation that gold had "objective value" is accurate. One cannot start a monetary system literally from scratch; the value of the money commodity must be linked up with the value the money commodity had as a commodity.[6]

The transition from gold to paper need not be problematic in and of itself. The use of paper currency and checks was, historically, a matter of convenience so as to avoid the costs of physically exchanging gold every time trades occurred. The key was that the paper instruments were still redeemable in gold if the holder so desired. When Rand has Francisco talk about the gold being "seized," presumably this refers to removing any role for gold in the monetary system. If so, then the claim that what is left is just a "counterfeit pile of paper" is somewhat closer to the truth. However, even in that case, the paper is not literally worthless. As long as people continue to believe that the paper can be used as a medium of exchange, it will retain some value. The issue that is more important than the move from gold to paper is the degree of discretion to change money's quantity without regard to the demand for its services that any change in the monetary regime gives the producers of money.

What the "seizing" of gold does is dramatically weaken, if not eliminate, the penalty to money producers who inflate the money supply. With commodity-backed money, excess supplies of money will eventually be returned to the producer in exchange for the underlying commodity (e.g. gold). In this case, the money producers face constraints on how much money they can produce. Without the commodity backing it, there are only political costs to inflating the money supply, and the political benefits of inflation often outweigh them. It is here where the economy is, in Francisco's words, delivered into "the arbitrary power of an arbitrary setter of values" (1957, 390). When the money producer only faces political, as opposed to economic, costs, inflation is a likely result. As inflation permeates the economy, it undermines the signaling function of prices, thus weakening their ability to serve as "objective" measures of value. Rather than prices reflecting the best judgments and knowledge of traders, individual prices are distorted by the degree to which they are affected by the injection of the excess money supplies. This causes prices to change from reasonably reliable indicators of mutually agreed upon value too much more arbitrary and less reliable social signals.

As prices lose their ability to provide knowledge to economic actors, the very rationality of markets begins to fall apart. From this Hayekian (1945) perspective on the role of prices, the rationality that capitalism makes possible is not something that is a psychological or even ethical feature of individual humans, but is rather a pattern of behavior that is made possible and induced by the structure of market prices. The link between money and reason is to be found here—it is money, and commodity-backed money at that, that makes possible exchange and therefore money prices. With money prices, humans are able to engage in calculative/rational behavior in the economic realm. Prices allow for the calculation of possible future benefits and costs as well as figuring the costs and benefits of past actions as a way of informing future ones. More generally, a well-functioning price system (i.e., one that does not suffer from inflation or deflation) makes possible levels of human rationality that would otherwise not be possible.

With the demise of the market as an arena for rational planning and action, and exchange at the basis of human interaction, thanks to inflation destroying the signaling function of prices, humans look to other forms of interaction, such as "favors, graft, and pull." On the margin, even the most well-intentioned producers will find turning to the political process to be more productive as inflation scrambles prices. And those with a comparative advantage in dealing in "favors, graft, and pull" will quickly move in to take advantage. Inflation's destruction of the price system increases their ability to command resources and direct them in ways they value, rather than by the consumer/producer rationality of the market. It is not coincidental that the chapter containing Francisco's speech is titled "The Aristocracy of Pull," as that is a result that is made possible when money is debased through inflation or other means. In an otherwise unhampered market with a well-functioning money, there is no "aristocracy" as only those who serve the needs of consumers gain power and influence, and for only as long as they produce what others want. When the means for determining which actions are rational are taken away—when those who are producers are blinded—it will be those with a comparative advantage at gaining and keeping power who benefit. That group can maintain its hold on power in ways that the producers cannot. However, as the main theme of *Atlas Shrugged* points out, their power ultimately rests on the sanction of the victim, namely the willingness of the producers to continue to produce wealth that the aristocracy of pull can "loot or mooch." Through Francisco, Rand shows a keen understanding of how the debasement of money will undermine the rationality and morality of the marketplace, replacing the creators and producers with, in her words, the looters and moochers, and lead to the eventual demise of the market and impoverishment of all.

Blood, Whips and Guns—or Dollars

One of the most provocative sections of Francisco's speech is the final paragraph, particularly the last three sentences: "When money ceases to be the tool by which men deal with one another, then men become the tools of men. Blood, whips and guns—or dollars. Take your choice—there is no other—and your time is running out" (1957: 391).

The imagery is powerful here (critics would say "hyperbolic"), but the underlying argument is a sound one. Unpacking the argument we can note that there are, at bottom, three ways in which individuals can interact with each other: coercion, verbal persuasion, and exchange. Although the lines that divide each from the other are sometimes hazy, it seems unarguable that these are three distinct modes of human action.[7] If we want others to act in particular ways, we can either attempt to force them to do so, attempt to persuade them (verbally) to do so, or we can attempt to offer them something in exchange for them undertaking the action. If we wish to obtain a book from the person who possesses it, we can either club her over the head and steal it, try to talk her into giving it to us, or offer her money or some other good or service in exchange for it. The same would be true of actions that did not involve the movement of physical goods. Other options for human interaction in such situations seem non-existent.

To see Rand's point, we need to understand why Francisco's conclusion excludes (verbal) persuasion as one of the options. As early as *The Wealth of Nations*, Adam Smith (1976 [1776]) understood the reasons why exchange would come to dominate persuasion. In the beginning of the book, he notes that humans, like other animals, generally try to "fawn upon" others in order to get them to do what we wish. Through various forms of persuasion or sycophancy, we might try to get others to do what we would like them to. In addition, sometimes we might attempt to get to know a person well enough to be able to determine what he or she wants and provide it in an act of pure altruism. Conversely, we might try to let others know us well enough so that they will act with accurate altruism toward us. What Smith notes is that all of these strategies are limited when we move into the world beyond our close friends and family.

The world of what Hayek (1973) called "The Great Society" is a world of anonymity. The vast majority of the people we interact with, and in some sense must interact with, are people we know very little about. Smith (1976 [1776], 18) understood this over 200 years ago when he wrote:

> In civilized society [man] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. ... But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. ... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk them of our own necessities but of their advantage.

In the anonymous order of modernity, we cannot know most of the "others" with whom we must interact well enough to act altruistically toward them, nor do we have the opportunities to engage in the face-to-face contact necessary for the sorts of verbal persuasion that is the only other non-coercive alternative to exchange. Within the realms of face-to-face contact, such as the family or a workplace or other intimate social groups, persuasion of this sort remains a viable option, as does altruism, but in the anonymous world of the Great Society, the choice is between coercion and exchange.[8]

As I have argued above, for exchange to coordinate behavior beyond a very small group, it will have to make use of money. In any society that has reached even a minimal level of economic well-being, monetary exchange will be the dominant way through which humans move goods and services. If that society rejects money because it is "the root of all evil," it is implicitly rejecting monetary exchange as this crucial form of human interaction. Without monetary exchange, Rand is arguing through Francisco, there is no alternative but coercion as a way to coordinate human action. One of the central themes of *Atlas Shrugged* is that all of the machinations of the "aristocracy of pull" and the exchange of favors it involves are but a thin veneer over the acts of coercion that ultimately back them up. Those who moralize against money can argue for whatever alternative way of solving the problems money solves that they wish, but Rand's point is that all such alternatives eventually boil down to coercion: "Blood, whips, and guns—or dollars."

When money is weakened as a social institution, the whole basis of the anonymous order of the Great Society is undermined. If money is declared to be morally evil, or debased through inflation, it will be less frequently used and the various ancillary institutions that rely on it will be weakened as well. Contracts will be difficult to write and execute, the calculation of profit and loss will be difficult to impossible, and consumers will find it challenging to create budgets and track expenditures. Most important, the undermining of money will cause the destruction of the whole price system, depriving actors of the knowledge necessary for economic coordination. In short, as money is weakened, so is the market and voluntary exchange more generally. With markets less appealing as processes for wealth accumulation, actors will, on the margin, be more likely to use political means or other forms of coercion to acquire it.[9] These forms of wealth acquisition are not, as the market is, mutually beneficial, rather they are zero-sum at best. The use of "blood, whips and guns" rather than dollars is not only morally problematic but also destructive of economic well-being. Of course we normally do not equate "political means" with "blood, whips, and guns" in democracies, but Rand's point was that even in democracies, political power ultimately rests on coercion.

Conclusion

The enduring popularity of *Atlas Shrugged* is as much a result of Rand's shrewd insights on politics and culture as anything else. Her ability to understand human motivation and behavior has made it into a moral guide along the lines of something like a "secular Bible." But beyond those observations about human behavior and the moral context in which they sit, Rand had a solid understanding of the operation of social and economic institutions. In numerous places in the novel, the plot turns on interpretations of events that demonstrate Rand's knowledge of political and economic theory and history. Francisco d'Anconia's speech on money as the root of all evil is an excellent example of this point. As I have argued above, Rand packed a large number of important insights about money into a few short pages of prose. Unpacking those insights reveals the depth and breadth of Rand's insights. *Atlas Shrugged* remains not just a great philosophical novel, but a great social-scientific one as well.

Notes

1 In this way, money is much like language and other similar social institutions. On the parallels between money and language, see Horwitz (1992).

2 This is one of several examples in the book of "Atlas shrugging."

3 After all, counterfeiters could also be described, literally, as "making money," as could the U.S. Treasury. Again, Rand's meaning here is clear, but for some purposes of more technical economic analysis, it is vitally important to distinguish between money and wealth, and to recognize that one can be quite wealthy without having a large holding of money.

4 Complementary scholarly discussions of this issue can be found in Horwitz (2003a), Sechrest (1993), and Hutt (1974).

5 The next section will explain the need for modifying "capitalist economy" with "properly functioning" in this context.

6 This is the result that is known as the "regression theorem" and was first and most clearly articulated by Ludwig von Mises in his 1912 book *The Theory of Money and Credit* (1980 [1912]). The argument is really an extension, though a crucial one, of Menger's insight that a medium of exchange must start as an object of exchange itself.

7 Even so, there is a line of argument that dates back to Adam Smith that sees exchange as a form of persuasion. More on this argument will follow.

8 For a discussion of the relationship between Rand and Hayek on these issues of the differences between intimate groups and the anonymous Great Society, see Horwitz (2005).

9 See Horwitz (2003b) for a more thorough discussion of this point in the context of the costs of inflation.

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Chapter 22

Human Productivity in *Atlas Shrugged*

Jack Criss

With the publication of *Atlas Shrugged* in 1957, novelist Ayn Rand provided a heretofore unprecedented explanation, defense and thorough breakdown of the workings of the free market system. By doing so in a work of fiction, Rand was able to demonstrate—through the actions of various characters—the tangible results of a given person's moral code, character, commitment to principle (or lack thereof) as well as how these individual traits affect the work habits of the character.

The latter is of special importance for the study of economics and remains one of the great contributions of Rand in *Atlas Shrugged*. In providing an integrated view of her characters, Rand took the dry and overly analytic subject of economics and made it real, flesh and blood with demonstrable results, both for good and ill. The "organization man" became, in *Atlas Shrugged*, the integrated man: those characters who practiced a commitment to reality and concomitant love of and passion for work generally succeeded; those that denied responsibility and relied on evasive excuses, failed. This is made clear in the book due to Rand's presentation of the respective characters' own personal thinking habits, or philosophy.

Production and creative ability in Atlas is shown time and time again to be as "human" as romantic love. The emotions for both, in fact, are quite similar and equally intense. Thus, instead of the blood, sweat and tears of Marxist mythology (read: struggle), *Atlas Shrugged* dramatically presents the thoughtfulness, planning and creativity (read: love) of a true capitalist.

Human Productivity Requires Freedom

Economics requires careful and diligent human thought. Production is the result of a mind envisioning potential and then reasoning to produce tangibility. In order to think to engage in such production, man first must be free to do so. Productivity is not possible when commanded by force. Directive after directive is issued by the government in *Atlas Shrugged* to stop the economic hemorrhaging caused by the exodus of the producers, yet such commands can no more foster growth than wishing or hoping. Whereas, historically, relative freedom produced the greatest