

**Letter****Letter: Money as a machine is not just extraordinary – it has a soul**

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In *Principles of Political Economy*, John Stuart Mill writes that money “is a machine for doing quickly and commodiously, what would be done, though less quickly and commodiously, without it: and like many other kinds of machinery, it only exerts a distinct and independent influence of its own when it gets out of order”.

Conceptualising on the role of monetary policy, Milton Friedman adds that the money machine is an extraordinarily efficient one since it has a feature that other machines, which help real economy grow, do not share; “when it gets out of order, money throws a monkey wrench into the operation of all the other machines”.

When it comes to this, it is rather unfair to blame central banking. In fact, Martin Wolf reminds us (“A matter of interest — the battle over monetary policy”, [FT Books Essay](#), July 27) the world of 19th-century America, without central banking, saw plenty of financial crisis.

As Friedman puts it, “The monetary machine has gotten out of order even when there has been no central authority with anything like the power possessed by the Fed. There is therefore a positive and important task for the monetary authority — to suggest improvements in the machine that will reduce the chances that it will get out of order and to use its own powers so as to keep the machine in good working order”. To continue Mill’s analogy, central banks shall keep this machine well oiled.

Yet money as a machine is extraordinary for one more reason. It has a soul. As Agustín Carstens of the BIS recently put it — answering to Goethe’s “Gretchenfrage” (the fundamental question of life, in “Faust”) — the soul of money is trust.

And central banks, together with other public authorities, are still the glue that holds the monetary and financial system together. After all, as Carstens concludes, trust can neither be outsourced nor automated.

Wolf intriguingly argues that the holy grail of central banking is unlikely ever to be found. I would add that, at the same time, monetary policy without central banks is like money without soul.

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### **Letter in response to this letter:**

[Money, machines and fundamental mistakes / From Alex J Pollock, Senior Fellow, Mises Institute, Lake Forest, IL, US](#)

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