Widespread Inequality, Road to Serfdom, Denationalization of Money

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Purpose of this lecture

1. **Recap of the last lecture**
2. **Widespread inequality**
3. **Road to Serfdom**
4. **Denationalization of Money**

Recap of the last lecture

1. **Problems of banks and governments**
   - ✧ **2008 FED's LSAPs**
   - ✧ **Creation of US Dollars out of thin air**
   - ✧ **Congress' TARP Bailouts -- Too big to fail problems**
   - ✧ **Devaluation of money continued**
   - ✧ **Promotion of bubble economy (spending economy)**
   - ✧ **Bubbles in the asset and housing markets**
   - ✧ **Frequent financial crises with booms and busts cycles**

2. **Realization**
   - ✧ **Government makes deficit spending plans.**
   - ✧ **Mounting debts are accumulating by FED. Who are paying them?**
   - ✧ **FED creates fiat by adding further debts and lowers interest rates.**
   - ✧ **A few elites make critical decisions.**
   - ✧ **Bubbles are created, fostering borrowing, and spending economy.**
   - ✧ **Many people are affected by them but hardly aware of bad consequence.**
   - ✧ **Congress passes laws aiming to bailout banks in a financial panic.**
   - ✧ **Hard hit are those who are less aware of what's going on.**
   - ✧ **Benefited are those who take advantage of de facto standard.**

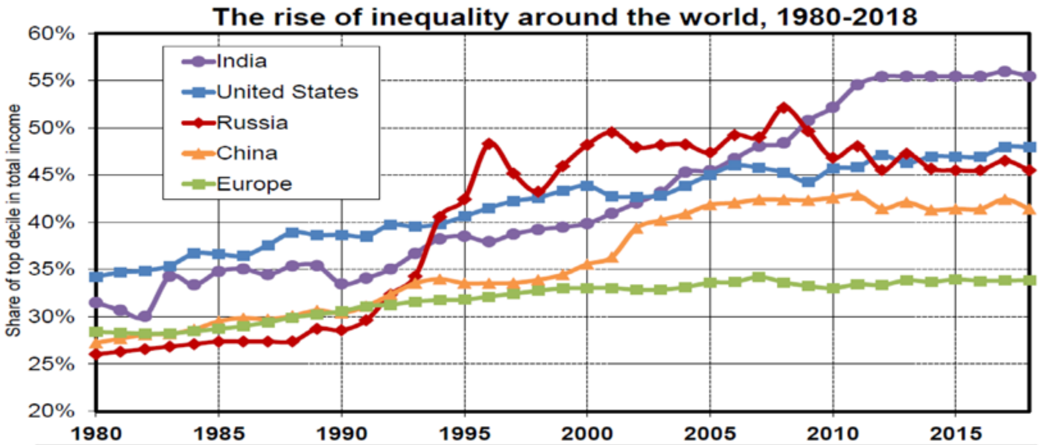
Widespread inequality, why?

Let us see the impact of cheap money.

Capital and Ideology, Thomas Piketty, March 2020:

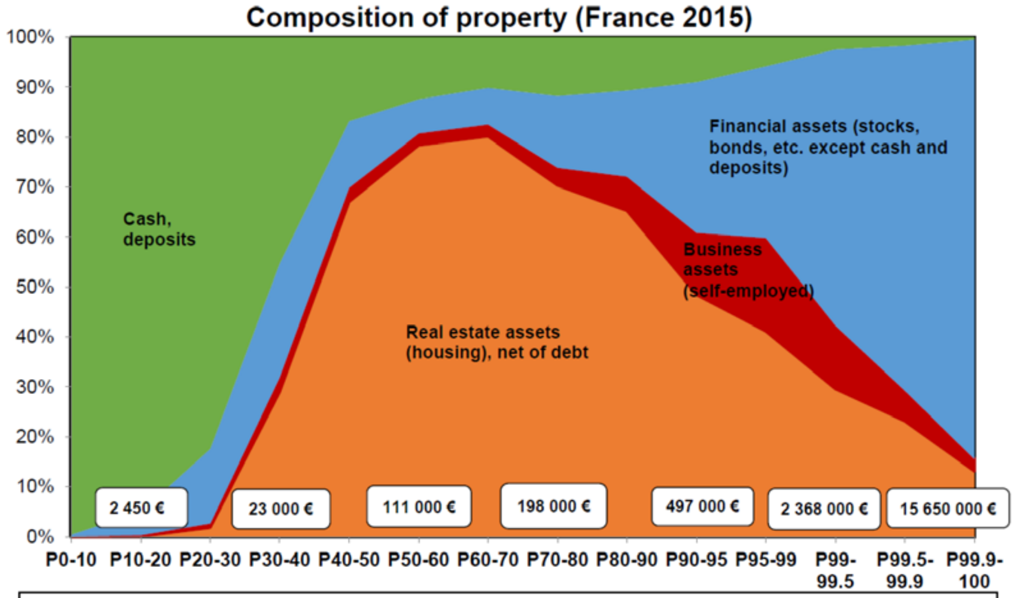
- **Find Piketty2020SlidesLongVersion.pdf for the charts**
- **Piketty seems not concerned with cheap money**
- **He’s more concerned about increasing tax to rich (progressive, inheritance).**

Share of top 10% in total national income has grown everywhere.



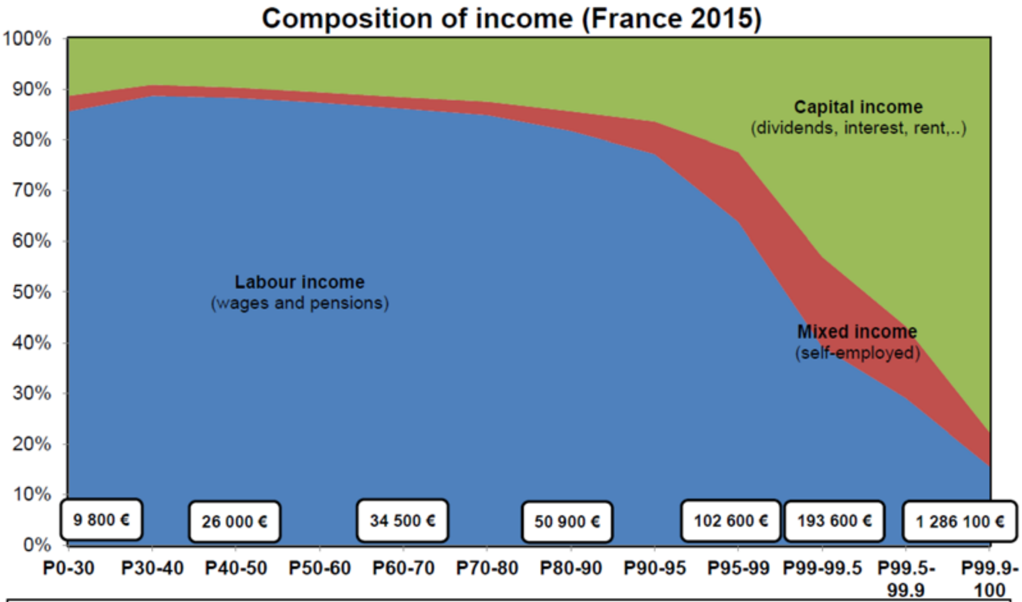
Interpretation. The share of the top decile (the 10% highest incomes) in total national income ranged between 26% and 34% in 1980 in the different parts of the world and from 34% and 56% in 2018. Inequality increased everywhere, but the size of the increase varies greatly from country to country, at all levels of development. For exemple it was greater in the United States than in Europe (enlarged EU, 540 millions inhabitants), and greater in India than in China. **Sources and series**: see piketty.pse.ens.fr/ideology (figure 0.3).

The property of the top 1% is mostly financial assets.



Interpretation. In France in 2015 (as in most countries where data are available), small fortunes consist primarily cash and bank deposits, medium fortunes of real estate, and large fortunes of financial assets (mainly stocks). **Note**: the distribution shown here is per adult wealth (wealth of couples divided by two). **Sources and series**: see piketty.pse.ens.fr/ideology (figure 11.17).

The income of the top 1% is capital income, while that of the lower 90% is labor.



Interpretation. In France in 2015 (as in most countries where data are available), bottom and middle incomes are mostly made of labour income, while the highest incomes mostly consist of capital income (especially dividends). **Note**: the distribution shown here is annual income per adult, before taxes but pensions and unemployment insurance. **Sources and series**: see piketty.pse.ens.fr/ideology (figure 11.16).

Nasdaq index has grown four times 2009 – 2017 (8 years), doubling every 4 year.

DW(Deutsche Welle) **Documentary**

Money in the world economy

- **Where does all the cheap money go? That's the question.**
- **Exploding real estate prices, zero interest rate, and a rising stock market – the rich are getting richer. What danger lies in wait for average citizens?**
- **For years, the world's central banks have been pursuing a policy of cheap money. The first and foremost is the ECB (European Central Bank), which buys bad stocks and bonds to save banks, tries to fuel economic growth, and props up states that are in debt. But what relieves state budgets to the tune of hundreds of billions annoys savers: interest rates are close to zero.**
- **The fiscal policies of the central banks are causing an uncontrolled global deluge of money. Experts are warning of new bubbles.**
- **In real estate, for example: it's not just in German cities that prices are shooting up. In London, a one-bed apartment can easily cost more than a million Euro.**
- **More and more money is moving away from the real economy and into the speculative field. Highly complex financial bets are taking place in the global casino - gambling without checks and balances. The winners are set from the start: in Germany and around the world, the rich just get richer. Professor Max Otte says: "This flood of money has caused a dangerous redistribution. Those who have, get more."**
- **But with low interest rates, any money in savings accounts just melts away. Those with debts can be happy. But big companies that want to swallow up others are also happy: they can borrow cheap money for their acquisitions. Coupled with the liberalization of the financial markets, money deals have become detached from the real economy.**
- **But it's not just the banks that need a constant source of new, cheap money today. So do states. They need it to keep a grip on their mountains of debt. It's a kind of snowball system.**
- **What happens to our money? Is a new crisis looming? The film 'The Money Deluge' casts a new and surprising light on our money in these times of zero interest rates.**

How wealth becomes power (Videos 1/3, 2/3, 3/3)
Watch the videos and answer the following questions.

- **Why do you think are a real-estate tycoons welcomed by politician looking for investment in their area?**
- **Blackrock assets 6 trillion USD > Revenue sum of US, Britain, Germany.**
- **How does the wealthy make more money using cheap money, loans and investment money?**
- **How cheap money is used by the riches?**
- **Why do you think is the reason for housing price and rents are soaring in major cities worldwide?**
- **What happens to the ordinary working people?**
- **What is the politicians' role for this problem? Are they offering solutions?**
- **Does the elections help the people—nurse, moms, working people?**
- **Can the people achieve change with voting?**
- **What, they say, happens when the elected has no longer any power?**

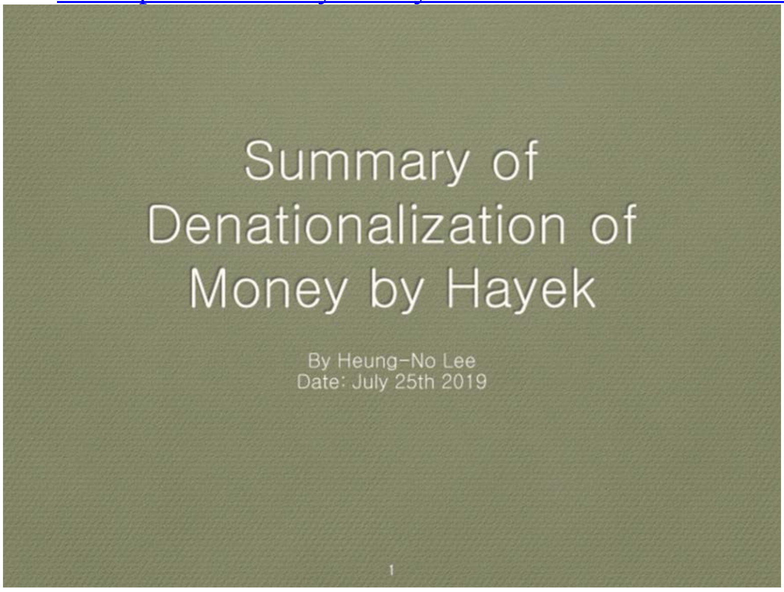
Road to Serfdom (1944, F.A. Hayek)

F. A. Hayek (Nobel Laureate 1974)

Contents

De-Nationalization of Money (1976)

Download: Denationalization of Money
See Incomplete Summary of Hayek's Denationalization of Money



F. A. Hayek (Novel laureate in Economics, 1974) argues that money is a commodity that would be better off supplied through competition.

- **Monopoly of government vs. competition by private issuers.**
- **The advantages of competitive currencies are not only removing the power of government to inflate the money supply but also that they would go a long way to prevent the destabilizing fluctuations that government monopoly of money has precipitated over the last century.**
- **In addition, it makes it difficult for government to inflate its own expenditures.**
- **The central theme is crystal clear: government has failed, must fail, and will continue to fail to supply good money.**

Which money would public select?

[pg66, Hayek's DeNationalization of Money]

- **Public selects a better money system.**
- **The process of selection through competition is the key!**
- **Four uses of money**
    - **Cash purchases of commodities and services**
    - **Holding reserves for future needs**
    - **Deferred payments**
    - **Unit of accounts**
- **The prevailing currency is the one preferred by the people.**

The Practical Proposal (pg. 23)

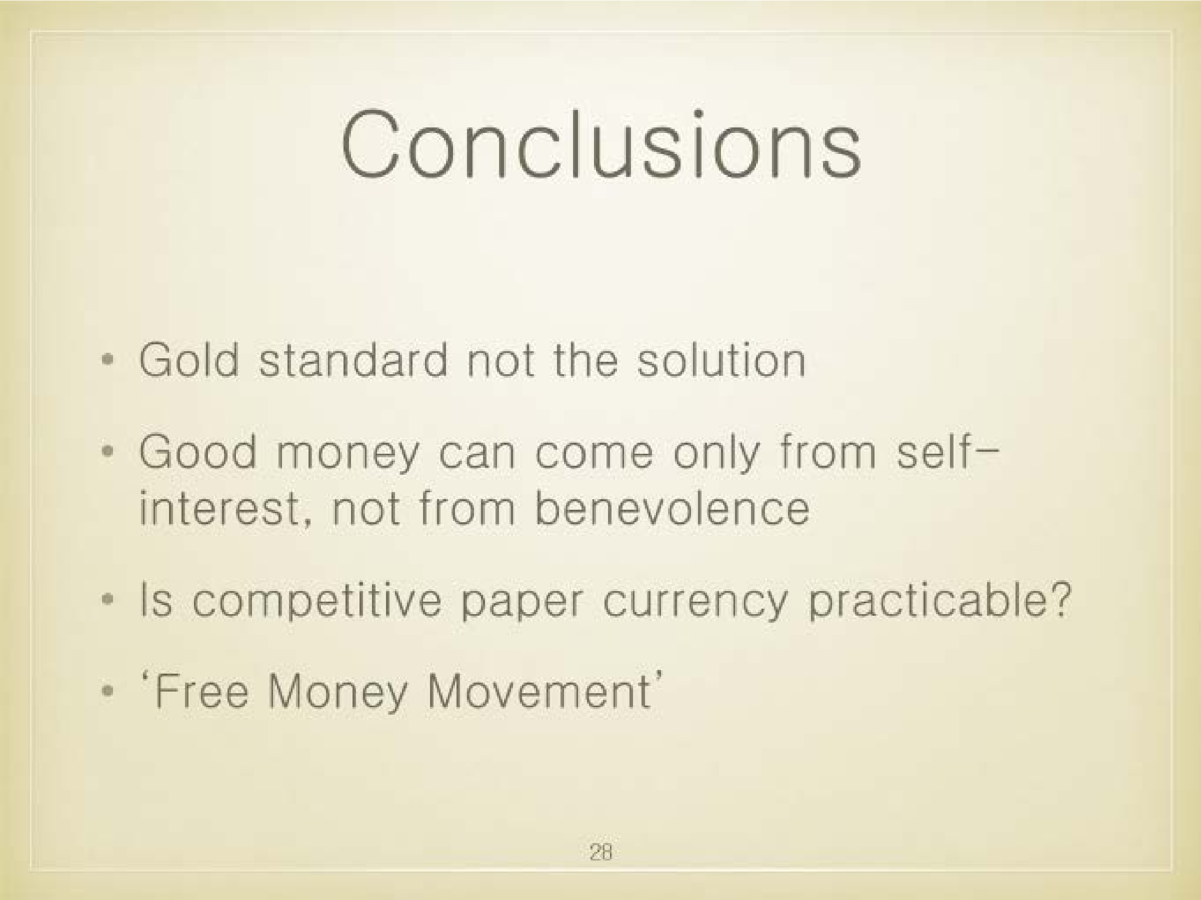
The concrete proposal for the near future, and the occasion for the examination of a much more far-reaching scheme, is that

the countries of the Common Market, preferably with the neutral countries of Europe (and possibly later the countries of North America) mutually bind themselves by formal treaty not to place any obstacles in the way of the free dealing throughout their territories in one another's currencies (including gold coins) or of a similar free exercise of the banking business by any institution legally established in any of their territories.

This would mean in the first instance the abolition of any kind of exchange control or regulation of the movement of money between these countries, as well as the full freedom to use any of the currencies for contracts and accounting. Further, it would mean the opportunity for any bank located in these countries to open branches in any other on the same terms as established banks.

Free Trade in Money

The purpose of this scheme is to impose upon existing monetary and financial agencies a very much needed discipline by making it impossible for any of them, or for any length of time, to issue a kind of money substantially less reliable and useful than the money of any other. As soon as the public became familiar with the new possibilities, any deviations from the straight path of providing an **honest money** would at once lead to the rapid displacement of the offending currency by others. And the individual countries, being deprived of the various dodges by which they are now able temporarily to conceal the effects of their actions by 'protecting' their currency, would be constrained to keep the value of their currencies tolerably stable.



XXV. CONCLUSIONS

The abolition of the government monopoly of money was conceived to prevent the bouts of acute inflation and deflation which have plagued the world for the past 60 years. It proves on examination to be also the much needed cure for a more deep-seated disease: the recurrent waves of depression and unemployment that have been represented as an inherent and deadly defect of capitalism.

Gold standard not the solution

One might hope to prevent the violent fluctuations in the value of money in recent years by returning to the gold standard or some regime of fixed exchanges. I still believe that, *so long as the management of money is in the hands of government,* the gold standard with all its imperfections is the

only tolerably safe system. But we certainly can do better than that, though not through government. Quite apart from the undeniable truth that the gold standard also has serious defects, the opponents of such a move can properly point out that a central direction of the quantity of money is in the present circumstances necessary to counteract the inherent instability of the existing credit system. But once it is recognised that this inherent instability of credit is itself the effect of the structure of deposit banking determined by the monopolistic control of the supply of the hand-to-hand money in which the deposits must be redeemed, these objections fall to the ground. If we want free enterprise and a market economy to survive (as even the supporters
of a so-called 'mixed economy' presumably also wish),
we have no choice but to replace the governmental currency monopoly and national currency systems by free competition between private banks of issue. We have never had the control of money in the hands of agencies whose *sole* and *exclusive* concern was to give the public what currency it liked best among several kinds offered, and which at the same time staked their existence on fulfilling the expectations they had created.

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It may be that, with free competition between different kinds of money, gold coins might at first prove to be the most popular.
But this very fact, the increasing demand for gold, would probably lead to such a rise (and perhaps also violent fluctuations) of the price of gold that, though it might still be widely used for hoarding, it would soon cease to be convenient as the unit for business transactions and accounting. There should certainly be the same freedom for its use, but I should not

expect this to lead to its victory over other forms of privately issued money, the demand for which rested on its quantity being successfully regulated so as to keep its purchasing power constant.

The very same fact which at present makes gold more trusted than government-controlled paper money, namely that its total quantity cannot be manipulated at will in the service of political aims, would in the long run make it appear inferior to token money used by competing institutions whose business rested on successfully so regulating the quantity of their issues as to keep the value of the units approximately constant.
**

Good money can come only from self-interest, not from benevolence

We have always had bad money because private enterprise was not permitted to give us a better one. In a world governed by the pressure of organised interests, the important truth to keep in mind is that we cannot count on intelligence or understanding but only on sheer self-interest to give us the institutions we need. Blessed indeed will be the day when it will no longer be from the benevolence of the government that we expect good money but from the regard of the banks for their own interest.

> 'It is in this manner that we obtain from one another the far greater part of those good offices we stand in need of' -but unfortunately not yet a money that we can rely upon.

It was not 'capitalism' but government intervention which has been responsible for the recurrent crises of the past. [2]
Government has prevented enterprise from equipping itself

with the instruments that it required to protect itself against its efforts being misdirected by an unreliable money and that it would be both profitable for the supplier and beneficial to all others to develop. The recognition of this truth makes it clear that the reform proposed is not a minor technicality of finance but a crucial issue which may decide the fate of free civilisation.

What is proposed here seems to me the only discernible way of completing the market order and freeing it from its main defect and the cause of the chief reproaches directed against it.

Is competitive paper currency practicable?

We cannot, of course, hope for such a reform before the public understands what is at stake and what it has to gain. But those who think the whole proposal wholly impracticable and utopian should remember that 200 years ago in *The Wealth of Nations* Adam Smith wrote that

> 'to expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it'.

It took nearly 90 years from the publication of his work in 1776 until Great Britain became the first country to establish complete free trade in 1860. But the idea caught on rapidly; and if it had not been for the political reaction caused by the French Revolution and the Napoleonic Wars no doubt it would have taken effect much sooner. It was not until 1819 that an effective movement to educate the general public on these matters started and it was in the end due to the devoted efforts of a few men who dedicated themselves to spread the

message
by an organised Free Trade Movement that what Smith had called 'the insolent outrage of furious and disappointed monopolists' was overcome.[2,3]

I fear that since 'Keynesian' propaganda has filtered through to the masses, has made inflation respectable and provided agitators with arguments which the professional politicians are unable to refute, the only way to avoid being driven by continuing inflation into a controlled and directed economy, and therefore ultimately in order to save civilisation, will be to deprive governments of their power over the supply of money.!
**

'Free Money Movement'
What we now need is a Free Money Movement comparable to the Free Trade Movement of the 19th century, demonstrating not merely the harm caused by acute inflation, which could justifiably be argued to be avoidable even with present institutions, but the deeper effects of producing periods of stagnation that are indeed inherent in the present monetary arrangements.

The alarm about current inflation is, as I can observe as I write, only too quickly dispelled whenever the rate of inflation slows down only a little. I have not much doubt that, by the time these lines appear in print, there will be ample cause for a renewal of this alarm (unless, which would be even worse, the resumed inflation is concealed by price controls).

Probably even the new inflationary boom already initiated will again have collapsed. But it will need deeper insight into the superficially invisible effects of inflation to produce the result required to achieve the abolition of the harmful powers of government on the control of money. There is thus an immense educational task ahead before we can hope to free ourselves from the gravest threat to social peace and continued prosperity inherent in existing monetary institutions.

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It will be necessary that the problem and the urgent need of reform come to be widely understood. The issue is not one which, as may at first appear to the layman, concerns a minor technicality of the financial system 'which he has never quite understood. It refers to the one way in which we may still hope to stop the continuous progress of all government towards totalitarianism which already appears to many acute observers as inevitable. I wish I could advise that we proceed slowly. But the time may be short. What is now urgently required is not the construction of a new system but the prompt removal of all the legal obstacles which have for two thousand years blocked the way for an evolution which is bound to throw up beneficial results which we cannot now foresee.

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