Summary of Denationalization of Money by Hayek

By Heung-No Lee
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Inflation

- History is largely inflation engineered by government.
- The question is whether Professor Hayek's diagnosis—that state control of money has rarely supplied a dependable means of payment but has, in practice, been responsible for destabilising currencies and down the centuries for inflation—is correct or not. If it is correct, then tinkering with government monopoly control of money will not remove the defects and dangers.

Honest Money?

- P.24. Free trade in money. 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.
- P. 115. There is no better case for preventing the decrease of the quantity of money circulating in a region or sector of a larger community than there is for governmental measures to prevent a decrease of the money incomes of particular individuals or groups—even though such measures might temporarily relieve the hardships of the groups living there. It is even essential for honest government that nobody should have the power of relieving groups from the necessity of having to adapt themselves to unforeseen changes, because, if government can do so, it will be forced by political necessity to do so all the time.
- P. 116. Such areas in which one currency predominates would however not have sharp or fixed boundaries but would largely overlap, and their dividing lines would fluctuate. But once the principle were generally accepted in the economically leading countries, it would probably spread rapidly to wherever people could choose their institutions. No doubt there would remain enclaves under dictators who did not wish to let go their power over money—even after the absence of exchange control had become the mark of a civilized and honest country.

I. The Practical Proposal

- Free trade in money
- Proposal more practicable than utopian European currency
- Free trade in banking
- Preventing government from concealing depreciation

Proposal

- 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.

II. The Generalization of the Underlying Principle

- Competition in currency not discussed by economists
- Initial advantages of government monopoly in money

The Origin of the Government Prerogative of Making Money

- Government certificate of metal weight and purity
- The appearance of paper money
- Political and technical possibilities of controlling paper money
- Monopoly of money has buttressed government power

The Persistent Abuse of the Government Prerogative

- History is largely inflation engineered by government
- Early Middle Ages' deflation local or temporary
- Absolutisms suppressed merchants' attempt to create stable money

Mystique of legal tender

- The superstition deprived by spontaneous money
- Private money preferred
- Legal tender creates uncertainty
- Taxes and contracts

The Limited Experience with Parallel Currencies and Trade Coins

- Parallel currencies
- Trade coins

Putting Private Token Money into Circulation

- The private Swiss ‘ducat’
- Constant but not fixed value
- Control of value by competition

Competition between banks issuing different currencies

- Effects of competition
- ‘A thousand hounds’: the vigilant press
- Three questions

A Digression on the Definition of Money

- No clear distinction between money and non-money
- Pseudo-exactness, statistical measurement, and scientific truth
- Legal fictions and defective economic theory
- Meanings and definitions

The Possibility of Controlling the Value of a Competitive Currency

- Control by selling/buying currency and (short-term) lending
- Current issuing policy
- The crucial factor: demand for currency to hold
- Would competition disrupt the system?
- Would parasitic currencies prevent control of currency value?

Which Sort of Currency would the Public Select?

- Four uses of money
- (i) Cash purchases
- (ii) Holding reserves for future payments
- (iii) Standard of deferred payments
- (iv) A reliable unit of account

Which Value of Money?

- ‘A stable value of money’
- Balancing errors
- Criteria of choice
- Effectiveness for accounting again decisive
- Wholesale commodity prices as standard of value for currencies over international regions

The Usefulness of the Quantity Theory for Our Purposes

- The cash balance approach … and the velocity of circulation
- A note on ‘monetarism’
- Why indexation is not a substitute for a stable currency
- The historical evidence

The Desirable Behavior of the Supply of Currency

- The supply of currency, stable prices, and the equivalence of investment and saving
- ‘Neutral money’ fictitious
- Increased demand for liquidity

Free Banking

- A single national currency, not several competing currencies
- Demand deposits are like bank notes or cheques
- New controls over currencies; new banking practices
- Opposition to new system from established bankers … and from banking cranks
- The problem of a ‘dear’ (stable) money

No More General Inflation or Deflation?

- No such thing as oil-price cost-push inflation
- The problem of rigid prices and wages
- The error of the ‘beneficial mild inflation’
- Responsibility for unemployment would be traced back to trade unions
- Preventing general deflation

Monetary Policy neither desirable nor possible

- Government the major source of instability
- Monetary policy a cause of depressions
- Government cannot act in the general interest
- No more balance-of-payment problems
- The addictive drug of cheap money
- The abolition of central banks
- No fixing of rates of interest

A better discipline than fixed rates of exchange

- Remove protection of official currency from competition
- Better even than gold—the ‘wobbly anchor’
- Competition would provide better money than would government
- Government between voluntarily accepted and enforced paper money

Should there be separate currency areas?

- National currencies not inevitable or desirable
- Rigidity of wage-rates: raising national price structure is no solution
- Stable national price level could disrupt economic activity

The Effects on Government finance and expenditure

- Good national money impossible under democratic government dependent on special interests
- Government monopoly of money and government expenditure
- Government money and unbalanced budgets
- Government power over money facilitates centralization

Problem of Transition

- Preventing rapid depreciation of formerly exclusive currency
- Introduce new currencies at once, not gradually
- Commercial bank change in policy

Protection against the state

- Pressures for return to national monetary monopolies
- Recurring governmental control of currency and capital movements

The long-run prospects

- The possibility of a multiplicity of similar currencies
- The preservation of a standard of long-term debts even while currencies may lose their value
- New legal framework for banking

Conclusions

- Gold standard not the solution
- Good money can come only from self-interest, not from benevolence
- Is competitive paper currency practicable?
- ‘Free Money Movement’