4/19/17

WHY MONEY SHOULD BE PRIVATIZED

U.S. currency, bereft of its original attribute as a claim to specie, has become fiat money due to its protected legal-tender status.

For our present purpose, we narrowly define money as M1. M1 is currency and bank demand deposits or transaction deposits (money substitutes). For analyzing the effects of the money supply on the economy, a broader definition of money, such as M1 plus savings, money market shares, and Treasury deposits at the Fed, is needed.

Established monetary theory holds that increasing the money supply, unlike other goods, provides no net utility gain to an economy. The gains from such increases accrue to those who get to spend it, and, to a lesser extent, to those early in the chain of spending, before prices adjust, at the expense of those later in the chain who face higher prices. Similarly, the counterfeiter, as the first spender, captures these gains and more. Hence, fiat money produces benefits for the privileged few at the expense of the general public.

Ironically, privatizing money is of public benefit, unlike some cases of privatizing public land or resources that, in the past, may have unfairly monopolized what belonged to everyone, as in the case of railroad land grants. When money is privately owned, i.e., governed strictly by free markets with no legal-tender privilege, it takes the form of specie or a title to specie. It remains a commodity, physically limited in its potential for increase. The exception, cryptocurrency, has yet to gain acceptance among the general public.

The current U.S. fiat money system, stripped of its earlier specie guarantee, requires vigilant promotion abroad and subservience at home. While central bank management has inadvertently created the business cycle, the incentive to expand control over the global economy poses more serious concerns.

In 1969, Friedman proposed a 5% money supply increase rule. (Friedman, Milton, 1969, *The Optimum Quantity of Money and Other Essays*, Chicago, Aldine Publishing Company. pp. 47-8)[i]

Granted, the U.S. dollar, although fiat and legally irredeemable in specie, is yet valued retrogressively in its (increasingly tenuous) use as commodity money. If it were possible to maintain discipline equivalent to the market in its management, it could serve us well. Current policy fails to adhere to even a Friedman rule for money supply expansion.

Modern fiat monetary systems provide a costless means of supplying commodity-money substitutes, but ultimately, they come at a price. U.S. residents have suffered

from business cycle disruptions, spending-chain (Cantillon effect) losses, and a loss of capital formation, in which interest-rate suppression defeats the normal channeling of funds to the most remunerative projects. Suppression favors consumption over saving and enables deficit financing of foreign intervention, accompanied by resentment from a growing proportion of the world's population.

The financial press makes little mention of the windfall gains to the banking industry from money growth, even though more deposits mean more bank lending at interest.

How many Americans know that 3/4 of the cash outstanding of our currency is held overseas? How is that to be maintained?

Whether or not it is an underlying cause of U.S. regime-change policy, the defense of the fiat dollar correlates with U.S. and NATO pre-emptive invasions and interventions in sovereign nations, even when such actions violate international and constitutional law. The federal government has no international currency statutes to enforce its money monopoly, unlike domestically, where it does so against competing money. Saddam Hussein rejected the imposed petro-dollar; Gaddafi arranged to use a gold-backed, Africa-based currency; the princes of Saudi Arabia served at U.S. pleasure so long as they upheld the petro-dollar.

Regardless of global considerations, central banking, FDIC, and Treasury backstopping, built on government guarantees and privilege, are inimical to a privatized free market. Returning money to private ownership would make dollar certificates titles to a specie commodity. Financial institutions could issue 'dollar' notes, and bank deposits would be redeemable in specie on demand.

An orderly transition away from fiat money and government-engendered fractional- or zero-reserve banking would require the repeal of the 1933 Gold Reserve Act, which deprived holders of currency and depositors of their titles to specie. Removal of capital gains treatment for alternatives to money, such as gold, silver, and cryptocurrencies, and then the phased reversal of other statutory protections of fiat money, such as legal tender and copyright (protection from replicating dollars or 'counterfeiting'), would be required, as would the repeal of the Federal Reserve Act of 1913.

The statutes that protect the trademark 'dollar' * and prohibit competing currencies would need to be repealed. This would permit entry into competitive currency production to capture seigniorage. To avoid hyperinflation, competing currencies would need to be phased in so that specie redeemability could approach 100% incrementally; otherwise, Federal Reserve notes and demarcated accounts, reserves, and bank deposits would face an immediate loss of value.

As Rothbard knew all along (see: What Has Government Done to Our Money), and as Friedman ultimately acknowledged, one cannot ignore the opportunities for

predation by the state and its minions, supplied by central bank credit creation and fiat money production.

[*18 U.S. Code § 491]

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[i] By happenstance, Friedman, while killing time before a speech he delivered in 1971 at Columbia University, was available for about 30 minutes, as I recall, to the present writer for a one-on-one discussion in the lobby. In the conversation, he maintained that a steady, expected low level of price inflation should be of no concern. I quickly raised the question about 10% inflation, but not until I suggested 20% did he concede. As an adherent to Rothbardian monetary theory, I could only point out that if 20% would be of concern, then less than that should be of at least some concern. Of course, Friedman's optimism that monetary authorities could or would fine-tune the economy as he hoped was dashed by the late 1970's after acute stagflation, when the rate of price increase rose above 10%.