The Voluntaryist

Whole Number 63 *"If one takes care of the means, the end will take care of itself."* **August 1993**

A Voluntaryist Path to a Free-Market Money

By Kevin Dowd
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Most of us interested in monetary reform have long taken for granted that reform would only come about if we could first persuade the monetary authorities—the central bank, but more importantly, the government—to support it and carry it through. It is probably fair to say monetary reformers are virtually all agreed on this issue, despite the fact that they agree on very little else, and most seem to regard it as obvious that there is no real point even discussing it. One can hardly be surprised that it is accepted by those who support government interference in the monetary system, but it is also widely accepted by free market bankers as well. For those of us who support free banking there is a certain irony, to say the least, in advocating that the best system is an unregulated one, and simultaneously recommending measures by which the government can bring about that system. We do not believe in government intervention, but many of us feel we have to use it, if only as a means of getting rid of it. Yet there is an obvious problem playing this game—we need the government's own co-operation, and it is against its own interests to give it. Everyone might agree—and most in fact do—that inflation is clearly undesirable, but inflation persists because those who determine monetary policy have a vested interest in continuing to pursue inflationary policies. Inflation is useful to them because it imposes a hidden tax which can be levied without too much political flak. The discretionary monetary policy regime that creates inflation can be used for political ends, such as buying off important lobby groups (eg, mortgage holders, by reducing interest rates), or by trying to engineer pre-election booms to win elections, and so on. Even the monetary authorities themselves acknowledge that inflation is bad, and yet they continue to deny their own responsibility for it, and treat it as a problem over which they have no control. The problem, then, is that it is not in the government's interest to implement worthwhile monetary reform, so it is not surprising that monetary reformers have met with such conspicuous lack of success. Yet most of us feel obligated to continue plugging away at schemes for monetary reform because we can see nothing else to do, and there is always the hope that someday someone in the government might listen and put the broader social interest first.

It seems reasonable to ask whether there is an alternative. *Is it possible to reform the monetary system ourselves, with no support from government other than it abstain from sabotaging what we are doing?* Most people would instinctively respond that the answer is no, but it is not obvious why that is the case. The more one examines the issue the clearer it becomes, in fact, that that obvious answer is wrong. It *is* possible to reform the monetary system without government support, and this article sets out a technically feasible way to do it. The option thus exists, and monetary reformers would be unwise to ignore it, the more so as it has certain advantages over the traditional approach of investing all our resources into trying to persuade the government to 'do the right thing.' Instead of relying on a government to sponsor a reform in which it has a vested interest in opposing, reform would be implemented by private sector agents (ie, the commercial banks) who would themselves benefit from it. Rather than persuade the government to forego its own interest, monetary reformers need only persuade the bankers to pursue theirs and show them how to do it. The scheme still requires the government not to sabotage it, but there is a world of difference between the government *supporting* monetary reform, as the traditional approach requires, and it *not sabotaging* it, as required by the reform proposed here. One might of course still point out that the reform would only succeed to the extent that the government did not prevent it. Moments occasionally arise, as recently in eastern Europe, when governments lose their will to hold on to power, and we must be ready to exploit such an opportunity should it ever arise.

The Economics Behind the Proposal

It is perhaps best to begin by explaining the theory underlying the proposal. We start off in an economy where people use a particular unit of account, the dollar, for stating prices and other nominal values, and they carry out trades using media of exchange (eg, banknotes and checkable deposits) which are denominated in these dollars. Media of exchange are used by banks, but there is a central bank, the Federal Reserve, which has a monopoly of the supply over base money. One can think of base money as cash which is used by the public for certain hand-to-hand transactions and by the banks as the redemption medium they (usually) use when faced with requests to withdraw deposits. The central bank is under no legal obligation to maintain the value of the dollar against any real commodities, so the currency is an inconvertible one. The value of the dollar, and hence, the price level, are then determined in textbook fashion by factors such as the public's preferences between holding cash and bank deposits, the banks' reserve-holding behavior, and, most important of all, by the amount of base money the central bank creates. An increase in the supply of base money leads to an increase in the price level along the lines predicted by the standard Quantity Theory of Money, and the faster the rate of growth of base money, the higher the resulting inflation rate. The analysis thus far is very conventional.

We need to be clear about the roles of media exchange and the unit of account in this economy. Agents use media of exchange (eg, banknotes or deposits) to carry out trades among themselves, and though they might be issued by different institutions, all exchange media are denominated in the same unit of account, the dollar:

—Individuals use the same unit of account because there are certain economies from doing so. Using a common unit of account minimizes the costs of transmitting information between them—individuals don't have to 'translate' prices stated in pounds, say, into prices stated in dollars, individuals will more readily understand financial information provided by others, and so on (see also White [1984, 1989]). A common unit of account also eliminates exchange risk between two or more different units of account. If you use dollars and I use pounds, there will be many situations where we would have to take account of the risk that the exchange rate might change, but exchange rate risk disappears entirely when we both use the same unit of account. There are, therefore, certain economies of standardization, and we can think of those who use a particular unit of account as forming a network which provides benefits to members which increase with the size of the network itself—think of a telephone network here, where the value of a phone to a user depends on how many others have phones as well—and it is the fact that these network benefits show increasing returns to scale which explains why we normally only observe one widely used unit of account in an economy at any given time.

—To see why individuals typically use exchange media denominated in terms of the common unit of account, imagine that two agents have agreed on a unit-of-account price in dollars, all that is required is that they agree on an instrument of payment

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"We have not abolished slavery; we have nationalized it."

—Herbert Spencer

A Note To The Commissioner

In early 1993, over a hundred million Americans received the following message ("A Note from the Commissioner") with their 1992 federal income tax filing package.

Dear Taxpayer:

As the Commissioner of the Internal Revenue, I want to thank you on behalf of the government of the United States and every American citizen. Without your taxes, we could not provide essential services; we could not defend ourselves; we could not fund scientific and health care research. Thank you for paying your taxes.

You are among the millions of Americans who comply with the tax law voluntarily. As a taxpayer and as a customer of the Internal Revenue Service, you deserve excellence in the services we provide; you deserve to be treated fairly, courteously and with respect; and you deserve to know that the IRS will ensure that others pay their fair share.

To fulfill our responsibilities to you, we are making major changes in the way we conduct our business. Under our new philosophy of tax administration, known as Compliance 2000, we are reaching out to provide education and assistance to taxpayers who need our help. One program is dedicated to bringing non-filers back into the system. We will work with every American who wants to "get-right" with the government. At the same time we will direct our enforcement efforts toward those who willfully fail to report and pay the proper amount of tax. All must pay their fair share, just as you are doing.

We realize that the tax law is complex and sometimes frustrating. ...

Our goal is to transform the tax system by the end of the decade. ...As we improve our organizational structure, we also will do a better job of serving our customers, the taxpayers. We believe in accountability. Please let us know if you have any suggestions for ways to improve our service to you.

Thank you again for dedication to our country.

signed/Shirley D. Peterson

The following "Note to the Commissioner" was sent to us by a disgruntled subscriber.

Dear Ms. Peterson;

The past year, 1992, was a taxing year for every American. As you well know, the typical American family spent practically 40% of its income on federal, state and local taxes. Everywhere you turn there is a government agent on hand to collect money, and a government official, like yourself, to try to doubletalk us into believing that you are actually performing a vital service.

You imply that we could not survive without your assistance. Yet, the fact is quite the reverse: you people in government could not survive without us, the workers and the producers in society. Where would your sustenance come from if we didn't provide it? American government monopolizes or interferes in essential services because the large majority of people use them. These areas of life—like money, banking, schooling, communication, and protection services—are the lifeblood of society. Government stranglehold on them yields control over every person in the country. Essential services, if not provided by government, would be forthcoming. People do not walk barefoot because there are no government shoe factories.

You thank us for complying with the tax laws voluntarily, but in the next breath, write of directing your enforcement efforts against those who "fail to report and pay." Come on, Ms. Peterson! The only reason millions and millions of taxpayers send you their money 'voluntarily' is because you, Congress, and the Federal Marshall Service threaten them with imprisonment, penalties and fines, and confiscation of their property if they do not. You would surrender your wallet to a thief who brandished a gun, and threatened you for "your money or your life," but you wouldn't call it "voluntary."

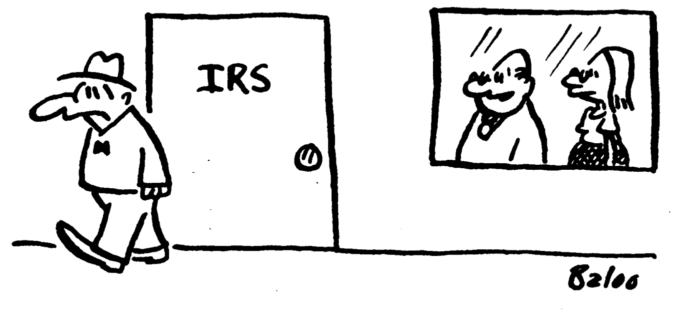
If you truly believe in accountability, you ought to accept responsibility for the crimes of the organization you head. No Mafia syndicate, no pirate band, no gang of criminals has ever acted more brazenly, and more openly than the thieving Internal Revenue Service. The only thing that distinguishes your institution from its brothers-in-spirit-in-crime is its degree of legitimacy—the fact that most Americans have come to accept its existence, like death, as inevitable.

There is no way you could possibly improve your service. Evil actions should be abandoned, not made more efficient. If you are serious about your dedication to the welfare of American society, I urge you to submit your resignation. There is no way to make your job compatible with the norms of honesty, morality, and integrity. Please think about this before you work another day on the job.

Sincerely,

A Seriously Concerned Taxpayer

(Editor's Note: A WALL STREET JOURNAL report (Feb. 3, 1993, A16) indicates that Ms. Peterson has left her post, and that in a speech to the New York Bar Association she warned: "If we don't change our system of collecting taxes, it will break down. Our traditional approach cannot sustain an acceptable level of compliance.") V



"Sometimes I think it would be more merciful just to *enslave* them."

Free Market Money

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(eg, a banknote, or a check). They also have to agree on a payment instrument if their exchange media are denominated in other units (eg, pounds), but in this case they also face certain other costs. They face additional calculation costs from having to work out how many units of exchange media are required to pay the $1 price, and, as earlier, there may also be the costs of exchange rate risk to contend with. Individuals will also face higher accounting costs—it will be harder to calculate how much exchange media they need to meet a given dollar budget, and so on—and the chances are they would effectively find themselves using two units of account, one to state prices, and the other to handle their money balances. Using exchange media denominated in units of account other than the commonly accepted one is clearly inefficient.

Now suppose that private individuals regard the dollar as unsatisfactory. For the reasons already mentioned, the monetary authorities pursue expansionary monetary policies which produce inflation and the financial instability that goes with it. What can private individuals do about it? One option would be to switch over to a new, more satisfactory unit of account, and use exchange media denominated in that instead (eg, they could switch to a superior foreign currency like the yen). There is, however, a major problem. Even if there are no legal restrictions against the use of a new unit of account, an individual may choose not to switch over to it unless he could expect a sufficient number of others in his 'trading network' to switch over as well. Even though he might appreciate that he would be better off if everyone switches over, he cannot be sure that others will actually make the switch, and switching may not be worthwhile for him if they don't. Imagine, for example, an individual in Salt Lake City who realizes that Americans would be better off using yen. Does this realization then imply that he should switch over to yen? The answer is clearly no. It would be rational if he expected others to as well, but he has no particular reason to expect them to, and for obvious reasons it would not (normally) be rational for him to switch if he expected other Americans to continue to use the US dollar. So what does our hypothetical American do? He decides that he will switch if enough others have already made the switch—switching becomes worthwhile because by then there is a big enough yen network in his area to compensate him for the loss of his US dollar network—but he decides not to switch otherwise. But others are just like him and therefore adopt the same decision, and no-one ever makes the switch. Even though they might all agree that they would all be better off using yen, each one adopts the strategy of 'you first,' and no-one ever moves. The existence of network factors and the absence of any way to coordinate a general switchover means that people are to a very considerable extent locked into the old currency even though they might all realize they would be better off if they abandoned it. Everyone can be stuck with a currency they all acknowledge as patently inferior.

Nonetheless it would be a mistake to draw the conclusion that nothing could be done to improve the currency if the Federal Reserve refuses to reform it. The trick is to introduce a new currency that is compatible with the existing dollar network. The problem with the yen was that there were costs involved translating values into dollars into values in yen, in agents getting used to handling yen-denominated values, and so on. The dollar network functioned as an entry barrier against yen because the yen was incompatible with it. What we need, then, is a new currency that is sufficiently similar to the existing dollar that it can 'access' its network, and thereby overcome the entry barrier that defeated the yen, but one sufficiently superior to the old dollar that it can out-compete it. *We do not need a totally new currency, but a different 'brand' of the one agents already use.* To qualify as a different 'brand' of the existing currency and be sure of being compatible with its network, the new one ought to satisfy two conditions that the yen does not. It must have a value (ie, a purchasing power) more or less equal to that of the old dollar when it is introduced, so that posted prices and other nominal values that initially referred to old dollars can be 'reinterpreted' to refer to the new currency as well. The yen or some other existing foreign currency would fail this condition. The other condition is that it must be familiar, and the key point is that it have a similar name. If Americans are already used to using units of account called dollars, then they are more likely to accept a new currency if it is similar, in name as well as value, to the dollar they already use. The psychological costs of switching over from one kind of dollar to another are presumably less than those of switching over from a dollar to a new currency that goes by some other name. If the old dollar is known as the 'Federal Reserve dollar,' the new one could be known as the 'Bank dollar,' or something similar. The new name needs to be close enough to the old one to minimize unfamiliarity on the part of the public, but it needs to be clearly distinguishable from the old one in order to compete successfully against it.

Imagine, then, that the commercial banks announced that they were going to introduce a new dollar that satisfied these conditions. Suppose too that this 'superior dollar' was to have a purchasing power tied to that of a 'broad' basket of goods and services, so that it keeps a stable real value. To make this tie operational, the banks would make a contract with their customers in which they offered to redeem their notes and deposits with amounts of redemption media valued in new dollars, where the new dollar had a specified legal value in terms of some commodity basket (ie, the new dollar was able to buy

Who We Are And Why We Are The Way We Are

It has occurred to me that an interesting topic would be to explore the background of some of our subscribers, and to discover what event or catalyst served as the impetus for their interest in voluntaryism. To this end, I would like to encourage readers to submit brief biographical data and short descriptions of how they became interested in the philosophy of voluntaryism.

Name: Al Bellerue
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My Metamorphoses: 1942-1950 Republican Know-nothing
1950-1960 Conservative
1960-64 Bircher & Anti-communist
1965 LeFevrian, Voluntaryist (Libertarian—Apolitical).
1965 to 1993 I remain Apolitical Libertarian—Voluntaryist

If you are interested in submitting information for this column, please send it to THE VOLUNTARYIST. Indicate, if you wish your name and address (or name only) published. V

"The safest way to double your money is to fold it twice and put it in your pocket."
—Auric Goldfinger's advice to James Bond

Take Care of Yourself!

By Dave Duffy

Recessions and Depressions visit people who are dependent on Government for their well-being. They are much less harsh on people who are self-reliant, such as many of the readers of this magazine.

Government is not the answer to our problems, no matter who is in the White House or in our state capitols. At its best, Government can protect us from foreign enemies and domestic crime. At its worst Government is a large bureaucracy that meddles into every little aspect of our lives, controlling prices, implementing regulations that hamper job-creating businesses, meddling in the private affairs of the citizen under the pretense of doing something good for society or for the environment.

Government does not generate wealth or any type of products that would benefit anyone. While private individuals try to create products and provide needed services to their fellow man, Government taxes everything it can think of to feed its unproductive bureaucracy and pay for unwise domestic schemes like price supports and unwise foreign schemes such as armed interventions.

Government wants you to become dependent upon it because that is their power base. Without the poor, the oppressed minorities, the floundering educational system, the drug problem, and the economic downturn, the Government would have little to do. Government likes all these and they give politicians seeking election something they can promise to fix. But, of course, Government will never fix anything. It never has and never will. It doesn't know how.

The only time anything ever gets fixed in this country is when people do it themselves. The only time the poor get out of poverty is when the individual does it himself; the Government, in fact, is in the "poor" business and needs the poor to remain that way so the bureaucrats who administer to the poor can keep their jobs.

And the only way the people in this country are going to survive this looming Depression, then crawl our way out of it, is if they do it themselves. The Clinton Government has already planned new taxes for businesses and the rich. Those taxes will simply put a lot of small businesses out of business and dry up the investment capital the rich normally invest in start-up businesses.

So depend upon Government to do about as much for you in the future as they have done for you in the past—nothing! Depend on yourself, not Government. You'll have much less to worry about, and you'll help the country as a whole because you won't be one of the voices calling for more Government control to solve problems Government never has and never will solve.

[Dave Duffy is Publisher/Editor of BACKWOODS HOME MAGAZINE, 1257 Siskiyou Blvd. #213, Ashland, OR 97520. This commentary is excerpted from the Jan/Feb 1993 issue.] V

a specific basket of goods). Let us also suppose for the moment that the central bank ignores this innovation and intends to continue its previous policies as if nothing had changed. We continue to assume that there are no legal restrictions against other currencies, so the courts will enforce contracts freely made by agents in whatever currencies they choose. Holders of exchange media would appreciate that they would be better off using the new dollar as their unit of account, so they would switch denominations when the new one was introduced. The old and new currencies would be close enough substitutes that the old one would have no installed network advantage over the new one, and yet they would be sufficiently different that agents would prefer to hold exchange media denominated in the new one. They would therefore ask their banks to change the unit of account in which their deposits were denominated, or, perhaps more likely, the banks would announce they would change all accounts automatically, unless otherwise notified. The same goes for bank loans and overdrafts. The banks would also issue their own hand-to-hand currencies denominated in the new dollar, and the public would switch over to these from Federal Reserve notes. We could think of the banks being ready to buy up Federal Reserve notes one-for-one against their new notes, and then 'selling' them to the Fed (eg, by using them to repay loans, and, if necessary, take out loans beforehand which they can use the Federal Reserve notes to repay). When they implement their reform, they could then present the Fed's own notes back to it to liquidate their debts. The Fed would have ended up buying up its own money, and no-one would accept it back again. The demand for media of exchange (or anything else) denominated in Federal Reserve dollars would thereafter be zero, and the only money left in circulation would be that denominated in the new dollar. The replacement of exchange media denominated in the old dollar with those denominated in the new one would also mean the elimination of the old dollar as a unit of account. A shop price tag of '$1' that would have meant one 'old dollar' before the reform would now mean one 'new dollar,' and so on. The only significant change would be a change in the unit of account which goes by that name.

The essence of the proposal is therefore straightforward: *a group of banks announce that they intend to launch a new version of the dollar. The new dollar would have the same value as the old at the time it was introduced, but would have a commodity-definition chosen to stabilize its value in terms of goods and services. The banks would then offer their customers deposits, notes and loans denominated in the new dollar, and their liabilities would be convertible into redemption media evaluated in terms of it.* The new dollar would be superior to the old one, but close enough to it to access its network, so everyone would switch over to it. Media of exchange denominated in the old one would therefore go out of circulation, and the old dollar would disappear as the unit of account. The new media of exchange would be issued competitively and all be convertible, and the value of the new dollar with which they were denominated would be tied to that of a basket of goods and services chosen to ensure that prices were reasonably stable. The government would have no role in the reform process other than that of keeping out of the way, and the present inflationary fiat currency would be replaced by a competitive and convertible one whose value would be secured against further inflation.

Implications of the Reform

A number of important issues arise when considering the reform. Since the old currency is inconvertible, agents in the private sector would anticipate that it would be worth nothing shortly after the reform, and the rational strategy for an individual operator before then would therefore be to go short on US-dollar-denominated assets which would mature after the reform was implemented (ie, he would aim to take out debts that can be repaid in worthless dollars after the new dollar had taken over). But other operators are also rational and would like to do the same, so the present market prices of debt instruments that promise repayments after the reform date would fall accordingly. The extent of the loss which creditors would suffer would therefore depend on the net present value of the payments whose real value was made zero by the reform, and, in the most extreme case, there would be a 100% capital loss on an instrument whose promised repayments all occurred after this date. At the other extreme are relatively short term debts which would mature before the reform, or rolling credit arrangements which have to be periodically renewed, but which come up for renewal before the reform is implemented. In each of these cases, the lender can protect himself by inserting contingency clauses to ensure that post-reform repayments are to be made in new dollars rather

> Americans had no over-all plan. They had something more important. They had personal freedom to plan their own affairs.
> —Henry Grady Weaver

than old ones. He then avoids the losses that come from being 'locked in' to receiving payments in old dollars that turn out later to be worthless. The problem with perpetutites and other relatively long-term contracts is that the lender would lose at the expense of the borrower because he did not anticipate when the contract was made that there would be a subsequent monetary reform that would drive the value of the old currency to zero. The only way to deal with this problem in practice would be to ensure that the new regime would produce monetary stability, and to give lenders some warning about the future monetary reform even though not all of them could profit by it.

The question then arises of how much advance notice agents should have of the reform. The last paragraph suggests that we would not want the notice to be too short, but the longer the notice we give, the longer the period of monetary instability we would have to endure before the reform were actually implemented. (We may also have to deal with an interim inflation driven by the anticipation of the reform's implementation, but that is discussed further below.) There is a tradeoff between giving agents insufficient notice, on the one hand, and having to bear excessive waiting costs, on the other. Another important factor to consider is the time required to overcome the public's present lack of familiarity with private banknotes. In most countries at the present time, legal restrictions imply that the only banknotes in circulation are those issued by the central bank. At an earlier stage of their history, the institutions that became central banks obtained privileges over the note issue which subsequently developed into the monopolies we have today, and the result in the US is that American banks are not allowed to issue banknotes denominated in US dollars. Assuming that there are no legal restrictions against the issue of liabilities denominated in other currencies, US banks would be able to issue banknotes denominated in their own dollars once the reform were implemented, but they would need time to prepare the public to receive them. Apart from the obvious option of advertising, the banks might launch or expand issues of close substitutes for banknotes (eg, travellers' checks) with the objective of making the public familiar with 'note-like' currency issued by the major commercial banks in order to ease the transition to banknotes when the new currency was launched.

There is also the question of who bears the losses as the old monetary base loses its value. If we continue to assume that the public sector simply ignores the reform process, then there is no obvious reason why the private sector cannot simply shift the losses to the public sector by taking an appropriate short position (ie, by borrowing from the public sector). Knowing that the existing stock of base money will become worthless, the private sector borrows from the public sector an amount sufficient to match the stock of base money denominated in old dollars when the reform takes effect, at which time they present the base money back to the issuer to liquidate their debts. The central bank or some other public sector body would have bought back the official currency (eg, by handing still-valuable assets for it), and that currency would then become worthless since the public would refuse to accept it back again. Perhaps the easiest way to implement the operation would be for the banks to borrow from the public sector an amount to cover the existing monetary base and then announce that they were willing to buy back central bank notes in exchange for the new ones they were issuing. The public would hand them in to the banks, and the banks would hand them in as repayment of their debts to the central bank or the government which would then have to take the loss. The private sector would have successfully thrown the monetary hot potato into the lap of the unwitting authorities.

But the quantity of base money is not the only hot potato to be thrown around, and probably not the most important one either. The point of taking a short position in old dollars is not to return base money to the issuer as such, but to pass the loss to the public sector, or, if one prefers, to make a profit at its expense. If agents in the private sector are rational, however, they would wish not to just make a profit at the expense of the public sector but to make the maximum profits. The optimal strategy from their point of view is therefore to maximize their indebtedness to the public sector for the time when the reform is implemented, with those debts to be denominated in old dollars. We can think of them borrowing as much as they can from the public sector with the intention of repaying after the reform in the old dollars which by then would have become worthless. Assuming that the public sector—the central bank and the government—was genuinely oblivious to what was going on, the public sector would then take a massive hit when the reform came. The government would presumably want to rebuild its financial position by raising tax rates afterwards, but the central bank would not normally have that option and would have to write down its net worth accordingly. If its losses were large enough, its net worth could well become negative, and the central bank would be effectively bankrupt. The government would then have to decide whether it wished to bail out the central bank to keep it going, or whether it would allow it to be liquidated so that its remaining assets could be divided among its creditors.

The Public Sector Response

But one might wonder whether the public sector would remain entirely asleep while the private sector prepared its *coup*. While the public sector might ignore the reform process in its infancy, a point might come when it began to respond to the changes that the reform process would bring about. How it responds is critical. One possible response is of course a pre-emptive attack to stop the reform process dead in its tracks. The government could pass a law to make the reform process illegal (eg, it could make it treason), or else it could try to kill the process by announcing that it would pass legislation to stop it if it had to, and hope that the threat alone would suffice to discourage private agents from pushing the reform process any further. If the government responded with a successful pre-emptive attack, the whole reform process would of course be aborted, but we cannot be certain that the government *would* respond in this way, and we need to consider what would happen if it did not. Assuming that it allowed the reform process to continue, the other way in which the public sector could respond to it is by attempting to keep down its exposure to losses when the reform was implemented (ie, by limiting the credit it grants the private sector). To the extent it does so, it adopts a policy of throwing back at least some of the hot potatoes that come its way instead of passively allowing the private sector to dump it with the lot. Such a policy has a very significant impact on the game between the private and public sectors. Apart from keeping down the public sector's likely losses when the reform is implemented, this policy also implies that the private sector might not be able to offload the existing quantity of base money on it, and this possibility has profound implications which we need to examine carefully.

Once private sector agents are no longer confident of being able to offload all the existing stock of base money onto their oblivious counterparts in the public sector, their only option left is to offload it on each other. A typical agent tries to get rid of his currency holdings by passing them on to others so that they would take the loss when those holdings become worthless, but of course everyone else tries to do the same. There would be no problem if they could be confident of being able to offload the currency they held onto the public sector when they needed to—they could then continue to hold it safely until the time came to get rid of it—but in the absence of such confidence they would realize that some of them might suffer losses by holding the currency when it lost its value. Ideally, a typical agent would aim to continue holding base money until just before the reform was implemented when he would plan to dump a considerable proportion, if not all his holdings, onto others who would then take the loss. But others would plan to do just the same, and the result would be that the currency would lose much of its value, and, in some circumstances, perhaps even all of it, at some time (t_1) *before* the reform were actually implemented. But being rational, agents would anticipate the inflation at (t_1), and plan to get rid of their holdings at some earlier time (t_2). Their attempts to do so would then create an inflation at (t_2), but agents would of course anticipate that as well and bring further forward the time they plan to economize on their holdings. Continuing in this way, we can see the announcement now of a reform to be implemented at some future time (t_0) would lead agents to economize on their real cash balances as soon as the announcement was made and the results would be an *immediate* jump in the price level. Real balances start falling and prices start rising as soon as the announcement is made, and it is only the transactional and other benefits provided by the monetary base in the interim period before the reform that prevent an instant hyperinflation and the destruction of the value of the currency the moment the reform is announced. To the extent that these benefits discourage people from immediately dumping all their holdings of monetary base, however, we would instead expect to see a jump in real balances and prices at the time of the announcement followed by falling real balances and rising prices throughout the period up to the implementation, with real balances getting 'close' to zero and prices rising to extremely high levels just before the reform was due to be carried out. The problem, then, is the following: *Assuming it to be credible, the announcement of the reform sets off a speculative inflation driven by the anticipation that the existing stock of base money would become worthless. The price level could then rise to a very high level by the time the reform was actually implemented.* We might thus get the perverse result that the mere anticipation of the replacement of the present inflationary currency by one that is inflation-proof sets off an inflation that could be very much much worse than the one we already have!

It is clearly imperative that the banks find some way around this problem if their own reform is to be worthwhile. One way to do that would be to introduce the reform with no public notice. The speculative inflation just mentioned could then be avoided, but there would be certain drawbacks. Lenders would have no time to cover themselves by inserting contingency clauses into contracts to ensure that future repayments were made in the new dollars, and providing no notice at all maximizes the problems stemming from the redistributions discussed earlier when creditors are caught short and repaid in worthless dollars through no fault of their own. There is also the problem that the public would presumably be unprepared to respond to the reform in the most appropriate way. People might be confused over which currency would win out, and therefore not know which to accept and which to reject, private currency might still be unfamiliar, and so on. There would therefore be a number of problems stemming from public confusion which could be alleviated to some extent at least, had they been given some notice and the banks used the interim period to prepare them adequately (eg, by advertising). It is possible, too, that the banks themselves would find it difficult to manage the reform if it were launched without the opportunity to have wide-ranging public discussions—they might have difficulties from having not briefed their staff properly, and so on. The alternative is to announce the reform in advance, but not to announce the date when it would be implemented. Some lenders would have some opportunity to revise their contracts before it was too late, the banks could engage in an advertising campaign to prepare the public, they could introduce currency substitutes so that their post-reform banknotes would be more familiar to the public, the reform could be discussed more openly, staff could be properly briefed, and so on. The drawback of course, is that a notice period would allow a speculative inflation to take hold if the public were so inclined, and there is no way to predict how severe this problem might be. Perhaps the best approach from the bankers' point of view is to retain discretion about the date when the reform was to be implemented, and they could then introduce it very quickly if a speculative inflation looked as though it might become a problem.

"Blaming politicians is something like condemning hammers for causing profanity."
—BETTER HOMES AND GARDENS
May 1991, p. 204

Statement of Purpose

Voluntaryists are advocates of non-political strategies to achieve a free society. We reject electoral politics, in theory and in practice, as incompatible with libertarian principles. Governments must cloak their actions in an aura of moral legitimacy in order to sustain their power, and political methods invariably strengthen that legitimacy. Voluntaryists seek instead to delegitimize the State through education, and we advocate withdrawal of the cooperation and tacit consent on which State power ultimately depends.

Possible Objections

One can imagine a number of objections to the proposal. One obvious response is to ask why anyone would 'trust' the private banks to protect the currency in the way the proposal envisages. The answer is that the proposal does not envisage the public trusting the banks as such, but trusting the legal system to enforce the contracts that banks make with their customers. The commodity definition of the unit of account is part of the legal contract a bank makes with its customers, and should they need to, members of the public would have recourse to the courts to force the banks to honor their contracts. The only trust required is that members of the public trust the courts to enforce contracts and the banks realize that it is in their own interest to honor them. The situation would be much like that which used to prevail when banks were allowed to issue their own notes under the gold standard. The commitment to redeem notes against a fixed amount of gold was a binding contract, and the threat of legal sanctions was typically sufficient to make banks honor it. What mattered was not so much that noteholders personally trusted the directors of the banks that issued notes, but they trusted the legal system to hold them to their contracts. To the extent that there is a problem of trust, the problem is therefore one of trust in the legal system, and the real danger is not so much that private agents might try to flout the law—there, are after all, measures to deal with this sort of problem—but that governments might later tamper with contracts ex post facto by altering the law and preventing contracts being enforced. The obvious examples here are the legal tender laws of the 1860s and 1870s and Roosevelt's measures in the early 1930s to alter the gold content of the dollar, both of which effectively amounted to the violation of contracts that private agents had entered into in good faith, and there are many other examples from other countries. The same problem occurs with any other type of contract as well, of course, and any alternative scheme to maintain the value of the currency—that the government or the central bank should protect it, for example—runs into exactly the same difficulty. That the government might later tamper with the contract is no reason why we should reject the particular contract suggested here in favor of some alternative, such as a law to bind the central bank, or worse still, to sit back and do nothing.

One might also ask why people would accept the new currency offered by the banks. The answer is simply that they would be better off with it. It is true that currency holders would have to discriminate between the old and new dollars, and such discrimination presumably involves recognition costs, costs of sorting out media of exchange denominated in the two dollars, and so on, but one might reply that they would have to make such judgments anyway once the new dollar was introduced, and the obvious strategy for them would then be to accept the currency that was demonstrably superior (ie, the new one). One might also add that the problem of discriminating between 'good' and 'bad' media of exchange is one that they already face every day—they have to discriminate between 'good' and 'bad' checks, for instance—and so they are already used to it. It is however much easier to discriminate among good and bad currencies (or banknotes, if one prefers) than it is to discriminate between good and bad checks—the latter requires that we have information about both the bank and about the person on whose bank account the check is drawn, but the former only requires information about the bank of issue, and that information is in any case usually much easier to obtain (eg, it is more public)—so the fact that the public already manages reasonably well to discriminate between different checks is prima facie evidence that they could do the same between different brand-name dollars. The claim that the public would accept the bankers' currency is also supported by other evidence. Amongst this evidence is the willingness of the public—well-documented by Timberlake (1984)—to use privately issued currency as a substitute for inadequate 'official' currency. The fact that this 'script money' was never officially encouraged—and, indeed, was often illegal—indicates that its use cannot be ascribed to government support or coercion in its favor, but could on the contrary be due only to its superiority over inadequate 'official' currencies. Evidence that the public does discriminate if it is worth their while is also provided by their behavior under historical systems where the price ratio between different currencies was fixed and the public would discriminate between overvalued and undervalued ones. Such behavior occurred when coins were clipped or when a bimetallic ratio imposed a legal price ratio between two different currencies which differed from the market price ratio between them. In both cases, people would scrutinize the coins that came their way and make a point of keeping the 'good' (ie, unclipped or undervalued) ones and passing on the 'bad' (clipped or overvalued) ones. The reasons they used to hold on to the good coins and pass on the bad ones are exactly the same reasons why we might expect them to hold currency denominated in the good dollar and pass on that denominated in the bad one.

Summary: The Attractions of the Proposal

For those still skeptical of the proposal, it might perhaps be best to end by summarizing its main attractions:

1. It requires little or no government intervention to be implemented successfully—all it requires is that the government merely keep out of the way. At least in principle, there is no need to elicit government support before the reform is implemented and we need only concern ourselves with later attempts by government to sabotage it. While no reform route is likely to succeed if the government is sufficiently determined to prevent it, and most any reform is possible if the government is sufficiently determined to back it, there is between these two extremes a range in which the government is relatively lukewarm towards reform, and will neither implement reform itself nor prevent others doing so. The reform will succeed in this range when attempts at more traditional government-sponsored reforms continue to go nowhere.

2. The reform can be implemented at relatively low cost to the banks. The main costs are the research and development costs of coming up with a new commodity definition of the unit of account, and the transactions and negotiation costs of implementing it.

3. Pursuing this reform angle in no way prevents monetary reformers from continuing with their traditional approach of trying to persuade the authorities to 'do the right thing'. They can continue to lobby governments just as they always have done. Indeed, since we don't know which strategy will succeed, if either—appealing to government, or the approach outlined here—and the approaches are not mutually exclusive, there is an argument for diversifying your monetary reform portfolio and pursuing both routes simultaneously. If government (unexpectedly) decides to implement the necessary monetary reforms, then the proposal here (presumably) becomes redundant. If appealing to government fails, as it probably will, we can always turn to the bankers with this proposal, and we may have better luck with them.

4. The proposal appeals to the self-interest of those whom we want to implement it. One of the more difficult problems one faces when appealing to governments to sort out monetary problems is that they themselves are often the principal beneficiaries from those problems (which, of course, explains why they often create them in the first place). They therefore block reforms that are clearly socially desirable, but against their own self-interest. Unlike the government, the commercial bankers have no vested interest in perpetuating unstable monetary conditions, and would in fact clearly benefit from the establishment of monetary stability. It might therefore make sense to try to persuade them to reform the monetary system instead.

> *Without political laws wise men would live the same.*

5. The proposal involves little downside risk. The only risk is that it would provoke the monetary authorities to intervene against it, but such intervention is not necessarily inevitable and is not without certain (mostly political) costs from their point of view. Even if the authorities did intervene against it, the attempt to implement it would at least have put the monetary and banking reform issues clearly on the political agenda, and it may still be possible to defeat the intervention. And, if worse came to worst, and the authorities successfully intervened against it, it is not immediately obvious that we would be that much worse off than we currently are. The possibility that the reform might get through the political hurdles is a good argument for pushing it.

6. Reform avoids the problem inherent in traditional liberal approaches which advocate the objective of getting the government out of the monetary system, but which make uneasy compromises about the government's interim involvement as we go from 'here' to 'there'. Proposals about the government's involvement are always shaky since they are typically open to exactly the same kinds of critique that free-market economists so often make about interventionists regimes (eg, that the authorities don't have the knowledge or incentive they would need, and so on). Yet, at the same time, even the most radical of these economists often feels obliged to recommend some kind of interim involvement to ease the transition. This proposal has the advantage of avoiding these difficult issues—the private sector simply implements the reform, period. For those of us who worry about these things, it is reassuring to know that we can cast the government out of the market place without invoking its help to do it—we can use the free market to generate a free-market money.

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[Editor's Note: Besides writing THE STATE AND THE MONETARY SYSTEM, Kevin Dowd has recently edited THE EXPERIENCE OF FREE BANKING. An ardent advocate of free banking, Dowd concluded in his first book that "there is nothing fundamentally different about money to justify the peculiar kind of intervention that central banking represents. Free banking is simply the application of free trade to the business of issuing money, and it is desirable for much the same reasons that free trade in anything else is usually desirable, and for other good reasons beside." In his second book, Dowd reviews the historical record, and argues that "no free banking system ever abandoned free convertibility without explicit government intervention forcing it to do so."

Whether or not Dowd's suggestions for monetary reform will work is not important. What is important is that we need not resort to politics in order to pursue the goal of free banking. Let's get the profit motive and entrepreneurial spirit working at creating free market money.] V

Abolish the Family?

By Bryce J. Christensen

The fear that the "nuclear" family is on the way out is not the hysterical reaction of a few supporters of President Bush as they face four years of Clinton & Clinton. It is a genuine concern of anyone who understands the history of statist designs. As the mixed economy increasingly favors socialism over bourgeois property relations, the family loses its structure and autonomy.

Since Plato, utopians have viewed the state as an agency empowering an enlightened elite to create the ideal society. Individual freedom counts for little, but traditional family autonomy counts for even less, since the family is an obstacle to social engineering. The state can easily deal with individuals, but the self-reliant family poses a more difficult challenge.

The assault has changed little over time. In Plato's REPUBLIC, Socrates wants to foster complete identification with the state, uncompromised by any attachments to spouse or home. His plan requires free love and raising children in anonymous groups: "no parent is to know his own child, nor any child his parent."

Similar proposals include Tommaso Campanella's CITY OF THE SUN (1623), Abbe Morelly's CODE DE LA NATURE (1755), Dom Leger-Marie Deschamps' LE VRAI SYSTEME (1761), Edward Bellamy's LOOKING BACKWARD (1888), William Morris's NEWS FROM NOWHERE (1891), H.G. Wells' MODERN UTOPIA (1905), Charlotte Perkinds Gilman's MOVING THE MOUNTAIN (1911), and B.F. Skinner's WALDEN TWO (1948).

All evince a hostility to the family, and almost always want to take children out of the hands of amateurs (parents) and give them to state-credentialed specialists. Mothers in Campanella's utopia, for example, turn their two-year-old children over to state-appointed educators.

In Gilman's MOVING THE MOUNTAIN, certified government experts insure that all children receive "proper nourishment, and clothing, and environment—from birth." Government officials permit no women "to care for their children without proof of capacity." Skinner depicts a society in which groups, not parents, care for children, because they provide greater opportunities for applying science.

All want to weaken marriage, and some wish to abolish it. When we have taken away marital love, remarks Campanella's narrator, "there remains only love for the state." Plans to make wives economically dependent on the state instead of their husbands also appear in Morelly, Bellamy, Morris, Wells, Gilman, and Skinner.

Modern politics has brought these dreams out of literature and into legislatures, as statists work to undermine all non-governmental authority—commercial, artistic, ecclesiastical, scholarly, and familial.

Modern activists urge state licensing of parents, allegedly to prevent child abuse. Claudia Pap Mangel, in FAMILY LAW QUARTERLY, argues that parent licensing makes more sense than ad hoc judicial intervention in cases of "potential neglect." Courts are evincing a new willingness to intervene in the home in cases of alleged marital rape, thereby abandoning the legal tradition which assumed the married couple to represent a single legal entity.

G.K. Chesterton wrote that "the trend toward divorce" is part "of that modern change which would make the state infinitely superior to the family." Some people equate easy divorce with freedom, but as ties to spouses have grown weaker, bonds to tax collectors have grown stronger.

The welfare state has played no small part in weakening the family. The growth of single parent households is the best evidence. As they increase, the state finds ever more clients for its redistributive and therapeutic services, while imposing heavier burdens on intact families. The welfare state tends to displace or impoverish the household economy. Eventually, it creates the crisis which statists would resolve through yet more government.

The dreams of these utopian statists are being realized through incremental steps. But ordered liberty requires the family, and cannot exist in its absence for very long. Therefore, those who would rigorously defend liberty cannot overlook the designs of contemporary utopians, whose tune has changed little since Plato's REPUBLIC, even if played on an Arkansas saxophone.

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