THE MICROPOLITICS OF FREE MARKET MONEY: A PROPOSAL

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Libertarian Alliance

FOR LIFE, LIBERTY AND PROPERTY

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INTRODUCTION: "THE FIRST RULE FOR WINNING THE LIBERTARIAN ARGUMENT IS THAT YOU MUST FIRST HAVE IT"[1]

This paper is not primarily intended as a contribution to economic theory. It is instead intended to steer the debate on free banking away from statements of loyalty to the "line": that orthodoxy of political views which is often incoherent and always an affront to individual reason. This is accomplished by concentrating upon the process of argument.

In "A Credibility Problem" (Part I), there is a critical evaluation of the depth of understanding by free banking's supporters of their own position, and a hard evaluation of the likely effectiveness of these arguments. Then in "How To Do It" (Part II) micropolitics are applied to the free banking issue.

PART I: A CREDIBILITY PROBLEM

To expect the introduction of legal private currency - that is to say not state owned, not state regulated, and the use of which will not result in prosecutions on the grounds of issuing counterfeit notes, fraud nor 'economic sabotage' - is to dream.

Most people divorce their dreams from reality. In the Conservative Party's youth wings, home to many who "dream with their eyes open",[2] a majority does not as yet support the privatisation of money.[3] Given the tendency in these sections of the Tory Party to "vote the slate" and "walk the line", heedless of the anguished bleatings for moderation from Conservative Central Office,[4] the fact that the "comrades" are not four-square behind the extirpation of state *dirigisme* is perhaps an indication of how unpractical currency liberation appears to be.[5] Perhaps it is also a problem of definition: how many people could explain the benefits of currency demonopolisation? Of these how many would the enlightened comrade entrust with his savings? I leave the reader to make up his or her mind, but for my part I know no one personally who can simultaneously convince me of the urgent need for privatization, assure me that its introduction is remotely likely, persuade me that it won't involve considerable disruption when introduced, and sell to me the proposition that I am better off using this currency without qualms about 'funny money' or 'junk bonds'. I haven't even begun to consider the technical operation of such a currency, which is where I consider that Hayek has left a host of questions unanswered.[6] In short there is a credibility problem.

This is a matter that I have tested before writing this paper, by asking acquaintances of mine who are not intimately familiar with the works of people who write for the Institute of Economic Affairs, the Adam Smith Institute or the Libertarian Alliance.

The test was carried out by asking the respondent what he or she thinks of the privatisation of money. The response that comes to mind most readily but is not always articulated (we do live in a civil society) is: "It's insane!"

After a period of time devoted to demonstrating the possibility that currency denationalisation is not necessarily insane, the immediate reply is: "It couldn't work."

This is an understandable objection because it reflects a distinction between what Ayn Rand called "an error of knowledge" and "moral failure".[7] Some technical arguments exist, and I propose to evaluate some of them in the course of this paper, but it would be a gross overstatement of the public's awareness of market economics to assume that these arguments are widely disseminated, assimilated, or even that they are conclusive. At this stage, after some explanation that the topic has been researched by Nobel prizewinners[8] and that some historical studies have offered grounds for accepting the principle that private money could exist,[9] in possibly atypical circumstances, the victim of my experiment may recoil at the notion of one of his or her standards for gauging reality being shattered. The response may then become: "It's unnatural!"

By now emotional objections will have come into play; privatisation of the Bank of England is at least credible but the abolition of legal tender restrictions is - in appearance at any rate - the end of civilisation as we know it.

Having reassured the listener of the seriousness of my case and having suggested that civilisation might not end because the monarch's head is not on every bank note[10] the problem turns to the consequences of such radical reform: "It isn't safe!"

This response is often considered awkward because anyone with the faintest understanding of economics and banking especially, will feel inclined to agree ...

This problem is therefore of crucial importance: are private currencies less secure than 'junk bonds' as well as non- inflationary? Those who answer glibly "No" to the former and "Yes" to the latter are probably not the sort of people that I will take private scrip from.

Scepticism about privatising currency is not merely understandable, in keeping with the view that the 'masses don't know where their true interests lie', but is rather a healthy indication that people are wary of *panaceae*, immiment miracles and 'leave it all to the market: everyone's a winner'. Those who propounded the decimal calendar, lunar colonies before 1985 and the revival of British Lawn Tennis due imminently - since 1936 - are today on a par with those who promise the abolition of inflation and monetary stability.[11]

The credibility problem is compounded by the additional correlation of forces supporting or opposing change. The basic list of opponents to change is more powerful than for any privatisation to date. The list of supporters of currency privatisation is the flimsiest for any privatisation to date.The opponents come in four categories: interest groups in favour of less choice in currency exchanges than exists at present (i.e. Socialists, certain sections of bureaucracy); interest groups in favour of the status quo (i.e. the Bank of England, H.M. Treasury); some financial institutions that would benefit in a marketplace, issuing currency, but with more to lose (in terms of market share to new operators and in faster clearing of credit) than seems prudent to stake on change (i.e. some banks and building societies, particularly the larger ones); those potential users of private currencies who would prefer to keep 'safe' state currency because it's the known quantity and because it is 'guaranteed' (i.e. the entire population of the United Kingdom).

THE ANTI-PROGRESSIVE FORCES

Those whose interests lie with greater state control are of little concern to this study: its purpose is not to convert Socialists, nor bureaucrats. This study is more interested in the reasons why money privatisation is not in prospect in the UK, what the weaknesses are in the argument for free currencies, and whether or how the enterprise might succeed.

The supporters of currency demonopolisation are virtually all intellectuals peddling market economics like some latter day Gospel. In such circles to express doubts about the inevitable virtue of private money is heresy, one is supposed to have faith, either in the perfect simplicity of the Laws of Equilibria in Economics, or else in the Catallaxy of Unintended Consequences,[12] as if prices ever stood still for a product that wasn't totally unavailable, or as if Minogue's Wurlitzer Baboons could conjure up the Wedding March.[13]

The most important reversal in the normal advocates of privatisation is that of H.M. Treasury. Unlike virtually every other conceivable privatisation, the demonopolisation of state money would not reduce the Treasury's expenditure and increase revenue. On the contrary, whereas privatisation of industries, utilities, means of transport and communication and even of the monarchy would abolish subsidies and bring in money in the form of share applications and corporate taxation, money privatisation would remove a hidden tax (inflation) from the public sector, force considerable restraint upon currency emission (including Treasury bills) and remove virtually all power of the State to inspect and control the flow of 'hot' money. Compared to this prospect, European integration is a minor demarcation squabble.

Banks cannot be assumed to favour private currency emission, with no entry restrictions,[14] given the easy pickings to be made by taking several days to process cheques. A new competitor could emerge with an instantly convertible currency for clients only and make significant inroads into the market share of established banks.

It would be optimistic to assume less than hostility by financial institutions to privatisation until the first private currency appeared. Thereafter they would all follow a leader, with considerable energy if the share shop is a precedent in this matter.[15]

The key point in favour of a new currency must be its convertibility; it must be pegged to tangible goods or services in order to overcome anxiety about its 'real' value - as should cause the collapse of the Single Currency in the Delors plan.[16] For if a currency is not imposed, as would have to be the case with the Euro-rouble (as opposed to the 'Hard ECU'), then market confidence will have to be earned by the issuers of private currencies. If a currency can be exchanged over a counter for a *guaranteed* quantity of specified goods and services, with cheques being almost instantly processed, then the currency which offers the smallest delay in clearing cheques and the lowest handling charges will gain market share at the expense of more pedestrian tender.

IGNORANCE IS STRENGTH: THE MYTHOLOGY OF STATE MONEY

In convertibility and the time lag caused by cartels in clearing credit, we find the most underestimated benefits of private currencies. The claims of an end to monetary inflation,[17] of which I personally doubt the 'evidence',[18] are widely propounded; they lack serious appeal when the causes of price movement are not well understood and when the plethora of distortions in the marketplace are such that prices bear no relation to production costs, supply schedules, demand schedules nor purchasing power.

A fresh approach to the benefits of free currency is to focus onto the convertibility of such currencies and the virtually instant clearing of credit. We find in this observation the embryo of a mechanism for the establishment of private currency emitters; enterprises with the technology to clear cheques instantly, with a high degree of liquidity, stable turnover in times of economic volatility and state of the art stock management of the commodities which would be converted. I shall pursue this analysis further later in this paper. Having established the likely cool response of the banks to the notion of competing currencies, to the point where outright hostility cannot be discounted, I now turn to private individuals.

The mythology of State money ("people's history") has it that before the Bank of England issued pounds sterling, Saxon kings and the more disreputable Plantagenets like John Lackland (1199-1216) minted dubious coinage. Since the State invented real money, so the myth goes, we've had price stability until the 1930's when galloping 'inflation' almost destroyed international capital and we were saved by the command economy of the New Deal and national planning, nationalisation of the commanding heights, etc.

This mythology is of concern on several grounds. It is plausible enough to anyone who is semi-educated in history and economics, i.e. the norm for comprehensive school standards or, as Dr. Dennis O'Keeffe would put it, the "moronicized" underclass. It is in complete accord with Marxist mythology, and therefore gives credence to Marxist fantasies about history; it is reminiscent of Stalinist or Ceaucescist dogmas with bogus attributions of inventions to "good communists". Adam Smith 'invented' national planning, or so I was told by a dissident Roumanian, formerly a chemistry professor in Bucharest, and I was "wasting my time" reading Adam Smith, as he was at the forefront of modern Communist thinking. Donald Dewar MP,[19] who went to St Andrews University at the same time as Forsyth, Fallon, Dunn, Butler, Pirie, Mason *et al.*[20] and therefore clearly missed his chance at enlightenment, has also been known to make statements about Adam Smith's views, which confirm English impressions that Lenin was a Scotsman. Smith believed in state planning of the nation's infrastructure, according to Dewar, who conveniently ignores every significant advance in economic theory proposed by Adam Smith in *The Wealth of Nations*.

The 'people's history' does not end in 1929, nor is it without a moral: the solution it so copy German and Japanese societies with tripartite corporatism (the *new* Germany and Japan?) as opposed to their failed attempts to support capitalism (in the 1930s and '40s!). Then we must adopt the Euro-rouble, no doubt pegged to that other federalist currency the Yugoslav dinar.[21] Such is consumer awareness of the merits of statism versus capitalism.

These confused notions about the history and the nature of money are easily understood if one studies Arthur Seldon's account of the "New Interpretation of Capitalist History" and "Money, Inflation and Unemployment". These two passages in *The New Economics*,[22] present an explanation of the socialist account of capitalism and money, and are an excellent guide for anyone wishing to study the matter in depth.

Monetarism is no help either. Paradoxically, it is the most market orientated approach to restricting inflation, yet it produces demands by those who are otherwise paternalists to limit the state's control over state currency supply. The only benefit of monetarism that I can see is that it helps establish a link between State incompetence and inflation, usually as a consequence of botched up attempts to limit state sector expenditure.[23]

The mythology of State control of the currency, in 'the interests of all' (whoever *he* is) offers ample scope for fears that the introduction of free banking would fail. The evidence of money market fluctuations, where a run on a currency can be triggered by the faintest of doubts about the "I Promise to Pay The Bearer On Demand" clause, or any of its national variants, is compelling. The fear that the dealers might decide that private currencies A and B are 'junk bonds' while C is gold-dust is justifiable cause for a potential user to shy away from all private currencies because he won't know from the outset which is money, and which is dud. The glib answer is to say that one ought to spread one's risk as if one were buying equities. But who in their right mind wants their money to change in value between leaving home and entering a baker's shop on the off- chance that one's equity won't have depeciated in value to the point that it will no longer be sufficient to buy a loaf of bread? What problem is solved by the introduction of such risks? The short answer to these questions is given by the likely consequence of introducing several private, competing currencies at once: a vicious circle of suspicion, leading to currency devaluation, leading to further and this time justified suspicion etc. By such a 'panacea' for inflation, I can see no more likely consequence than a flight of capital to a country where legal tender restrictions are enforced, and a crisis in investment confidence at home. It might even result in the adoption of a foreign state currency, one that might even have been previously regarded as less sound then sterling.[24] A profound contribution to the advancement of free market mechanisms!

Even if private currencies offered no grounds for doubts as to their solvency, even if they offered the immediate prospect of 0% inflation, I wouldn't expect their immediate introduction to be a success. The psychological, one might even say emotional, attachment to state money is that of a heroin addict to his fix, or of a welfare dependent to subsidy.

The cost, in depreciation of the purchasing power of a state currency has been between 70 and 80% between 1950 and 1975 or less than 3% per annum.[25] Many users of state currency would find such a price cheap when taken in the context of bank charges on current accounts and the facility of leaving choice to the state. Keeping track of currency rates requires effort, it is contrary to 'cradle to grave' moronicism. Inflation and devaluation are the perceived costs, just as queues are in a free-the-point-of-delivery National Health Service. The pound sterling, more than any Beveridgite creation, is the ultimate prop of the nanny state.

Without the prop of monopoly money, i.e. state money, consumers would be free/forced to choose. There could be no putting off decisions, excuses that "I'm not responsible for my actions, freedom is an illusion" and other such talk.

FREE CURRENCY: "WE'RE RIGHT BEHIND YOU!"

At this point I plead guity, I would continue to use state currency for quite some time after being offered the use of a private one. Who am I to tell others to put their money where my mouth is, when I'm not confident enough to lead the way by example?

The 'fatal conceit' that causes monetarists to dream of 0% inflation, economic growth, and the end of history is a model of empiricist and pragmatic rectitude when compared with the lofty theorems of the money-privatizers.

The problem of inertia is threefold. Firstly, inflation isn't accepted as a problem of such great proportions as to be beyond the capacity of the State to cope with. This is part of the ethos to the effect that the State is quasi-omnipotent and that anything it can't do can't be done. Secondly, the evidence to suggest any improvement by moving towards a market scenario is at best vague.[26] Finally, there is no mechanism for arriving at a situation of competing currencies from the present system that doesn't involve much wishful thinking about the morality of State executives.

It is therefore clear that the truly formidable list of opponents, actual or potential, for the denationalisation of money, in tandem with what are the primarily market awareness problems listed in the previous paragraph offer a bleak prospect for reform.

"WHEN IT IS NOT NECESSARY TO CHANGE, IT IS NECESSARY NOT TO CHANGE"[27]

To conclude on my reflections about the obstacles to freedom of currency, I find the following compelling hindrances:

(1) Institutional beneficiaries from the current situation with no prospect of benefits to be derived from change.

(2) Institutions with the power to initiate a market in currencies but with safer privileges in the status quo than in the initial turbulence of an unleashed market.

(3) The loss of stability brought about by denationalisation of money includes: permanently abolishing exchange and credit controls, ending useful hidden taxation through inflation (although private issuers could reap those benefits), the active and unceasing involvement of every individual economic agent in a capitalist system that cannot be 'blanked out'.[28] State social security as an ethos cannot co-exist with the 'total market'.

Terrifying prospects indeed for someone weaned on a 'cradle to grave' life as a vegetable. Freedom is a dangerous and intoxicating drug: faint hearts beware!

PART TWO: HOW TO DO IT

Private currencies are not going spontaneously to appear because a high street bank resents Bank of England "guidance".[29] Nor are such currencies likely to emerge as scrip issued by wealthy individuals: "1.21 Rothschilds to 1 Goldsmith" is sadly not on the agenda.[30]

The bottom line when considering individual emission of currency is to answer the following types of question. Would the reader of this piece accept currency issued by Donald Trump? By Robert Maxwell? By Paul McCartney? By the author of this paper? Perhaps the reader would, but I trust that some reservations would be forthcoming about the solvency of such specie, expressed in the form of a discount on the stated amount of the denomination.[31]

What conceivable advantage is there in abolishing state currencies with such alternatives on offer?

THE PUTNEY DEBATES: BEYOND THE FRINGE[32]

My pessimism about the prospects for money privatisation reached nadir on Friday 19th April 1991, at that month's "Putney Debate". Simon McIlwaine[32] lead a discussion on private currencies and concluded with the suggestion that this was a more sustainable issue than was commonly thought at the time. If the privatisation of money has made any headway since then, I plead ignorance. What was most depressing about the whole affair after the presentation of the initial paper and the opening shots of the discussion was the complete lack of any proposal as to how the multitude of serious objections to competing private currencies might be overcome. "It'll be alright on the night" sums up the dominant attitude, with absolute faith that the genius of Dr. Madsen Pirie at the Adam Smith Institute would set great minds at work on this problem, a mere trifle.[34]

Such optimism, whilst touching with regards to blind faith in the inevitable triumph of "the movement", is not a productive emotion. My personal regard for the ASI, and even Madsen Pirie, is not unbounded. As evidence, I offer two pieces of information: the 'Community Charge' debacle, which needs no explaining, and the full list of publications available from the ASI in May 1991 on the subject of private currencies.[35]

The ASI's current position is hardly the basis for taking on the Treasury, the Bank of England, the Royal Mint, the clearing banks, the Confederation of British Industry, the Labour Party, the Royal Family and most of the population of the United Kingdom, to say nothing of harmonizing Eurocrats.

In short, the Adam Smith Institute has no procedure for accomplishing the liberation of currency emission.

CONDITIONS FOR REFORM

What is required for a programme of demonopolising money is a practical objective which justifies its inception, the identification of an interest group with sufficient benefits to be gained from private money as will convince it to finance the research and subsequent campaign for its adoption. In ASI language, this is the micropolitics of money deregulation. Finally, a viable system for adoption must be found. The following conditions will have to be met:

(1) The demonstration that state money is a catastrophe.

(2) The exposure of interest groups which favour the status quo as monopolists - if they are irreformable.

(3) The provision of equivalent benefits to those interest groups which are either neutral or look favourably at change.

(4) The mobilisation of a crucial interest group in favour of change.

(5) A clear and concise set of instructions for reform.

(6) Widespread communication of the progressive nature of these changes and their empathy with new technology. The notion that such advances would make the Soviet Federation of European Socialist Republics a less Orwellian prospect ought not to be neglected.

By the end of the Putney Debate for April 1991 I was convinced that this particular cause can be, and therefore shall be victorious.

I now believe that there is a mechanism whereby private currency could be effectively introduced without causing the immediate collapse of state currencies, thereby reassuring those who fear for the end of civilisation. Such currencies would develop as convertible and alongside existing backward (state) money. The pound sterling will wither away, and the Ecu, and the rest of them, unless they are set loose from state control ... permanently.

"GOOD MONEY COSTS LESS WHEN IT'S ..."

The agencies which have the potential to experiment with the introduction of private currency are the mass-retailers: super or hypermarkets. These large stores offer a large variety of products, have extremely high turnover of stocks, are the most secure enterprises during times of economic crisis and are developing an embryonic financial sector.[36]

The Co-op has a bank, most stores have charge cards, some will offer customers cash for cheques and checkout till technology is ready for private currency. If the hard Ecu[37] were legal tender tomorrow morning, the checkout tills would be able to handle it in a matter of weeks, if not days. A store's own currency could be integrated with virtually no structural changes to their current activities.

My personal preference is for a Gold Exchange Standard[38] rather than competing currencies with no asset related value, at least as an interim measure while the truly free market models are set up. Hayek, however, has redefined the notion of objective values to currency with the proposed 'Standard' which would be linked to a basket of commodities.[39] As a trans-national currency unit, it seems unnecessarily sophisticated, given the present tendency of transnational firms to trade in commodities at present: oil, gold, uncut gems, copper etc. On a microeconomic scale, this idea has awesome potential.

Hayek's purpose in proposing a basket of commodities is to achieve stability in the currency by spreading the risk. The analogy may appear obscure, but it is a case of "not all one's eggs in one basket". By contrast the discovery of new gold deposits would send the price of existing stocks falling, as happened after the discovery of Latin American gold in the 16th century, the 1849 Californian gold rush etc.[40]

MONEY FOR OLD ROPE, VEGETABLES, PETROL, HYGIENIC TISSUE ...

A basket of commodities is better, the greater its deversity of content. Although a salmonella scare would knock the value of eggs, people are going to eat something else instead, so one could therefore include a specific volume and quality of the one hundred most popular items sold throughout the store chain. It could even be money for old rope, thereby turning the old adage on its head.

At this point let's have a disclaimer: the stores described below don't exist to the best of my knowledge, and any resemblance with any store, or chain of stores, existant or out of business, is purely coincidental. In this hypothetical example, the famous store Engels & Spooner plc wishes to sell E & S charge cards, on which they can charge outrageous rates of interest to their regular customers, whilst speeding up checkout tills and increasing market share.

The big problems are fraud, fierce competition from S J Lansbury's plc and the Lew Jacob Partnership, and the restictions on credit emission. The problem of fraud has reached a new stalemate, whereby shops can now check cards rapidly for theft, undesirable status (e.g. broke) etc. This is done by using a machine that puts the store in contact with the various credit card companies and verifies the *bona fide* of the customer. The process is rapid and its widespread use must lead to greater confidence in plastic money. Already, existing card holders can use cash checkout tills, whereas 'outsider' cards need to use the longer, and slower credit card and cheque payers' queues.

Under ministerial orders announced in November 1990 by the Conservative government, it is to be legal for traders to discriminate in price between cash users and credit users, it is also legal for traders to accept some cards and not others.[41]

The first legal principle that needs to be established is whether preferential prices can be charged from one charge card to another, and whether a discount can be offered for card holders over cash users. It is entirely possible that existing laws could be interpreted in this way at present. If so, the door is wide open for the next step: a "sales gimmick".

If the the Bank of England can't stop Lansbury's from offering discounts for charge cards users over cash customers, then it is difficult to see how the development of this idea, based on Phonecard units, can be opposed under existing law.

Already, one can obtain tokens which in cumulation, or singly, may be used to purchase goods or services - the 'Air Miles' concept was based on just such an idea.[42] If Lansbury's offers its customers a free card which can store units of value called 'credit tokens' with units that are convertible, at a fixed rate, into goods and services available at Lansbury's, then the take up rate could be enormous. The rest is market, and peer, pressure.

Staff could be paid bonuses in these currencies: they may already be receiving discount vouchers.[43] Staff could opt to be paid - in part - in Lansbury dollars. A company such as Luncheon Vouchers plc might take the idea a step further: inflation proof social security.

In Tim Evans' paper for the Adam Smith Institute, *A Friend in Need*, the creation of a private world of personal insurance and security was expounded. The Friendly Societies were held up as the agencies for voluntary, personal welfare provision.[44]

PROFITS BEFORE PEOPLE: HOW TO PROMOTE PERSONAL WELFARE SCHEMES

The basic problem with the friendly societies is, as Evans rightly points out, the battery of regulations which strangles their capacity for coping with the size of the personal welfare market envisaged by libertarians: the entire population.

The mass retail chains however service over three quarters of the United Kingdom population - about 42 million people.[45] Their problem is not regulation, it doesn't yet exist, nor is it market access. What is lacking for them is the sales pitch to convince customers to buy a lifestyle.

When supermarkets offer car insurance, accident insurance, employment insurance, and health insurance (who knows better what their clients eat?), they will be taking large sums of money and paying out large sums of money. An inflation proof currency is quite simply, the answer to most reasonable people's fears about retirement for instance. The natural resilience of supermarkets to recession is well documented: confidence in their viability is good, certainly far better than confidence in even well established investment trusts.[46]

So Lansbury's has the customer base to try out what is, in effect, a private and convertible currency. It ought to be inflation proof:

prices fluctuating only because of VAT rate changes and the sudden variation of stocks. This latter is something supermarkets are already competent at coping with, and the dividends for keeping a stable 'credit token rate' are such that good stock management is further encouraged.

Many shoppers use several supermarkets, but this is no problem. As the range of services increases, the 'Link' phenomenon is likely to occur; Engels & Spooner's currency will be taken at Lansbury's and perhaps even by the Lew Jacob Partnership ... at a price![47]

One 'unintended consequence' of all this is to offer personal welfare which is paid in convertible currency, better still pegged to commodities which tend to be of day-to-day relevance to welfare claimants. I don't expect to see the day when an old age pensioner blames the price of gold for loss of purchasing power.

Against the security of a market provided welfare, State welfare looks bad.

If one compares a currency which contains about one hundred commodities, some of which are substitutes for others, even a massive distortion in the market price of one commodity need not cause more than a passing and minor movement in the basket price because other prices will tend to compensate. This is the equation regarding a private currency payment of a claim for employment insurance, or any other benefit. But state benefit claimants are paid in state cash, with formulae linked to a notional Retail Prices Index which is not a representative sample of consumer spending and worse still, is subject to political whim.[49]

There is no safety with political welfare managers: Socialists cut benefits in the 1970s and Tories raised them, froze them, and raised them again, at rates that bore little similarity to the prevailing inflation rates.[49] In short, there is no confidence in the ability, nor the will, of the Welfare State to pay out a benefit with similar purchasing power in 1992 as it will have in 2042.[50]

In fact there is an assumption of erosion in purchasing power which would soon be confirmed by the widening gap between sterling prices and prices for charge card users.

The Co-op could probably launch a private currency scheme of this kind under existing legislation, with smart lawyers and imaginative wording: "Honest! They're only vouchers!"

There is more. Supermarkets could have cash machines, "voucher" or "token" credit books (cheque books in plain English) using the store's own currency as tender. Barclays Bank offers foreign currency current acounts, so why not Lansbury Dollar accounts (N.B. 75% market share)? The banks could act as clearing houses for the various currencies employed, thereby providing an alternative benefit to the three day clearing of state backed credit.[51]

Looking back at those first reactions again:

(1) It is sane.

(2) It works.

(3) It's logical.

(4) It's safer than state currency with regard to purchasing power.

That is some improvement on a zero credibility rating.

THE WITHERING AWAY OF THE WELFARE STATE

The interest group has been identified which could issue free currencies. The large, high turnover retailers offering mostly non-durable goods, but with the expanding potential of a financial services sector.

The users have been identified, customers of the supermarkets who represent about 75% of all households in the UK.

The benefits to the producers include the development of personal credit/insurance sectors far beyond anything currently envisaged - even in the USA, the stabilisation of prices, the stimulation of liquidity in the retail sector, a hedge against inflation, and - more crudely - a sales gimmick. Ultimately, it represents a possible step towards lifestyle retailers: everything from cradle to grave under one roof, but with freedom of choice between competing providers.[52]

The disadvantaged interests are the high street banks, until they support the scheme by acting as brokers for the various currencies, in effect by turning against the state currency monopoly.

The Bank of England faces redundancy in this scenario, unless it can wrest its independence from the government. The widening gap between the purchasing power of "funny money" - sterling - and convertible money, such as an 'Engels & Spooner Penny' would offer a potent bargaining tool for the Bank of England: "freedom or death" in a dramatic but real sense.

All of this has consequences for state expenditure. The government would immediately lose some, and one suspects rather quickly, would lose much of its power to tax through devaluation at rates of between 4% and 27% per annum.[53] That value, stolen from the currency users by the excessive demands of the public sector, i.e. Health and Social Security, would have to be funded by increased taxation or by reforming the welfare state. The embryonic personal welfare system outlined above provides a 'get out clause' for government, in a similar fashion to Tim Evans' *A Friend in Need* scenario.

Worse still for state benefit claimants, they may have to wait three days if their benefits are paid through sterling accounts, but supermarkets would offer their benefits in instantly convertible currency: more purchasing power and quicker access, I shall leave comparisons of cost to others. Clearly, middle-class interests would be better served clamouring for an exit from state welfare, than they would be begging for more money to be fleeced from themselves.

A DAM BUSTER

The process of change is vigorous, it is supported by a self- sustaining mechanism of ever increasing benefits for greater market power, and ever escalating costs for the propping up of the state monopoly.

The token credit is the pebble sized hole in the dike of the dirigiste state. Unlike the grand designs of the bank deregulators, the scenario that I have outlined could occur by accident. The trigger could be a sales gimmick at Engels & Spooner, or it might be a prolonged bank strike.[54]

I would use such currencies as emerged. 'In God We Trust', but not in the Chief Cashier at the Bank of England's promises.[56]

NOTES

1. Brian Micklethwait, *How To Win The Libertarian Argument*, Tactical Notes No. 8, Libertarian Alliance, London, 1990.
2. A definition of a visionary attributed to T. E. Lawrence.
3. Timothy Evans, a postgraduate student at the London School of Economics has produced statistical evidence on this and other measures of libertarian thinking in the Conservative Party. His research includes the statistical breakdown between Conservative Party members at student or youth level, and the 'senior' membership as a whole. This research is part of a doctoral thesis on the New Right in the Conservative Party's youth branches, unpublished at the time of writing.
4. *Ibid.* Mark Dingwall's hustings speech.
5. *Ibid.* The survey of senior members showed that there was a considerable degree of confusion as to what was meant by the "privatization of money".
6. 1974 Nobel Economics Prizewinner Friedrich von Hayek's most famous paper on the subject is *Denationalisation of Money*, first published by the Institute of Economic Affairs in 1976. I have included the third edition of this in the Bibliography that follows. See especially p. 95 and p. 133 for examples of the gaps that are left

open. It is perhaps not Hayek's job to give us a step by step guide as to how to arrive at free banking, but many people probably assume that the program has been written and need only be switched on. Recent publications have come some way towards improving this position: Kevin Dowd, "Option Clauses and the Stability of a Laissez Faire Monetary System", *Journal of Financial Services Research*, December 1988; *The State and the Monetary System*, Philip Allan and St. Martin's Press, Hemel Hempstead and New York, 1989; George A. Selgin, *The Theory of Free Banking: Money Supply Under Competitive Note Issue*, Rowman and Littlefield, Totowa, NJ, 1988; L. H. White, *Free Banking in Britain: Theory, Experience and Debate, 1800-1845*, Cambridge University Press, New York and Cambridge, 1984. A model example of the misconceptions that exist on the subject of free banking in Scotland can be found by comparing Iain Smedley's paper (see note 9) with A. N. Wilson, "The Great Tartan Theme Park", *Evening Standard*, 31 January 1992, p. 11. Wilson's article speaks of Sir Walter Scott's defence of a *single* Scottish currency, whereas the issue was the continuation of currency competition or the establishment of a banking monopoly.

7. "Moral failure" as opposed to "error of knowledge" is an error brought about by "bad faith". It is an unwillingness to face reasoned arguments and facts. I suggest that the failure of the free banking argument to take hold on the scale that, say, freedom of the press has is due to the lack of availability of the facts, not their suppression. Those people who oppose free banking are generally wrong in "good faith".

8. Milton Friedman and F. A. Hayek.

9. See especially Iain Smedley's excellent "Competitive Note Issue in Scotland, 1727-1845", *Journal of Accounting, Business, and Financial History*, Routledge and Kegan Paul, due to be published in November 1992. See also K. Schuler, "The World History of Free Banking: An Overview", in Kevin Dowd ed., *The Experience of Free Banking*, forthcoming, see bibliography.

10. It was disappointing to read the outcome of a poll in Australia (early 1991) about whose head ought to appear on AUS$ notes. A cartoon dog character polled impressively in early figures, but sadly the *status quo* prevailed. A great opportunity was missed for debunking one of statism's most powerful myths: that the presence of a sovereign is a mystical validation of money.

11. The decimal calendar was introduced during the course of the French Revolution, alongside more useful forms of decimalisation, i.e. money, metres, litres and grammes. The year was given ten months, with all the lunacy that that involves.

    Lunar colonies on the Moon were predicted by NASA in about 1970: they ought to have begun by 1985. See James P. Hogan, *Boom and Slump in Space: What The American Space Effort Has Been And What It Could Have Been*, Economic Notes No. 29, Libertarian Alliance, London, 1990.

    The imminent revival of British Lawn Tennis is a frequent event. It occurs every July that an English tennis player wins a first round match at Wimbledon, or else loses in five sets to Mats Wilander.

    Promises of an 'end to inflation' are similarly utopian. Even the impressive "Inflation before and after Keynes" chart, which hangs in the London office of the Institute of Economic Affairs, shows that annual variations of up to 10% in prices were frequent, before the advent of socialist economics during the Great War. These variations appear to have been cyclical, or else were the product of such catastrophes as droughts, pestilence or war. See "A Short History of Inflation", *The Economist*, 22nd February 1992, p. 88.

12. 'Catallaxy' is explained on page 2 of David Graham and Peter Clarke (no relation), *The New Enlightenment, The Rebirth of Liberalism*, Macmillan, London, 1986.

13. For an understanding of Kenneth Minogue, baboons, and a giant Wurlitzer, see Graham and Clarke, p.2, *op. cit.*

14. See Smedley, *op. cit.*

15. The following businesses now offer a "share shop" service: Abbey National, Bank of Scotland, Barclays, Lloyds Bank, Midland, National Westminster Bank, Norwich and Peterborough Building Society, and Sharelink, The first shareshops in modern times were set up after "Big Bang" in 1986. The October 1987 Stock Exchange crash put them out of business. Norman Lamont's Budget Statement of 1991 announced that the sale of part of the Government's stake in British Telecommunications plc, would be made through competing networks of shareshops. The above listed banks and building societies are obvious potential issuers of private currencies, or at least, clearing points for "credit tokens".

16. The most recent case of Monetary Union has been an economic mistake in its application. The German Mark merger was carried out at a level for 'Ostmarks' that was far higher than the market rate: 1 DM for 1 OM, instead of 1 DM for 14 OMs. Most of the beneficiaries must either have worked for the German Finance Ministry (using inside information) or else were well connected black marketeers. If the German government can cave in to pressure from East Germans, what would happen if an Ecu was being negotiated by Italians, Greeks, and Irish?

17. There are countless Conservative student publications, conference motions etc. which preach this. FCS publications and conference motions in 1986 are particularly relevant: see especially FCS 1986 Annual Conference documents. See also Timothy Evans and Antoine Clarke, *A Conservative Manifesto For Scotland*, Political Notes No. 42, Libertarian Alliance, London, 1990. *Mea Culpa!* See Bibliography.

18. See previous note. As one who doubts the validity of the "health statistics" used by health fascists to demonstrate the existence of "passive smoking", I cannot accept that studies of past cases of free banking are sufficient proof that demonopolisation in 1992 would achieve zero inflation.

19. Donald Dewar is the MP for Glasgow Garscadden constituency. He made his remarks on TV and in the Scottish press in 1989, to coincide with the bicentenary of Adam Smith's death.

20. Michael Forsyth is the MP for Stirling. Michael Fallon is the MP for Darlington, Bob Dunn is the MP for Dartford, Dr Eamonn Butler, Dr Madsen Pirie and Douglas Mason are Director, President, and Domestic Affairs Advisor respectively at the Adam Smith Institute.

21. I wrote this bit before June 1991, so for the purposes of this paper the fighting is a coincidence, the causes of which I do *not* attribute to an unsound monetary policy.

22. Arthur Seldon, *The New Economics*, Study Guide No. 2, Libertarian Alliance, London, 1987. See especially pages 6 and 12.

23. Nigel Lawson's infamous "blip" theory, which discredited the most competent of recent Chancellors of the Exchequer. This demonstrates the good work which can be done in promoting a *real* free market by the well-intentioned disasters of monetarism.

24. An illustration would be if a Euro-rouble were introduced which didn't include the Greek Drachma (not in the European Exchange Rate Mechanism [ERM]). This Euro-rouble might well fail, private (black market) currencies be attempted, and the Drachma finally becoming adopted by custom.

25. Source: *UN Statistical Year Book 1978*.

26. I would welcome any credible figures. I can find nothing more accurate than hypothetical projections of a partisan nature.

27. Lucius Cary, Viscount Falkland, in *A Discourse on the Infallibility of the Church of Rome*, 1660.

28. The expression 'blank out' is taken from Ayn Rand, especially Part 3, Chapter VII, "This is John Galt speaking", in *Atlas Shrugged*. All of Rand's best books are currently unavailable in the UK. See also note 38.

29. The sort of "guidance" which has been questioned was the apparent desire by the Bank of England to see a change of leadership at the Midland Bank during 1990/91. The departure of the Chief Executive at Midland looked suspiciously like the result of a nod and wink from Threadneedle Street.

30. See Isaac Asimov, *Foundation and Empire*, Grafton Paperbacks, 1962, p. 60. In this science fiction novel there is a passing reference to currency, which is sounder than the Imperial 'credits', because it is "backed by my estates, which are more extensive than the Emperor's own". In the nearest example that I have found in recent times to this one, I am told that during a bank strike in Ireland, cheques could not be cleared. So pubs acted as clearing houses for cheques, which were transferred by signing the back. Each cheque signatory might have a different credit rating: if a well-known millionaire was the issuer of the cheque, it would hold its value, whereas a notorious cheque 'bouncer' might face a large discount in the tradeable value of his cheques.

31. A good explanation of such a discount in value for a state currency compared with a private one can be found in Robert A. Heinlein's superb *The Moon Is A Harsh Mistress*, New English Library, London, 1969.

    This was written in May 1991, before death and exposure overtook Maxwell.

32. See Douglas Hayward, "Beyond the Fringe", *New Statesman and Society*, 21 July 1989.

33. See Bibliography. The paper he gave at this meeting was largely in substance the content of the LA paper.

34. I am quoting almost verbatim!

35. There is a history of early nineteenth century free banking in New Hampshire, USA and a study of a report on gold bullion on 1810 (with only passing interest to privatisers of money). See Bibliography.

36. In the USA, supermarkets are offering financial services to an increasing degree, thereby cashing in on a 'one stop' shopping concept.

37. The hard ECU would be a currency emitted by the European Community, backed by Community promises, and competing with existing EEC member states' currencies. An examination of the

debate over competing European currencies is a good illustration of how closed the minds of political 'commentators' are to market mechanisms.

38. John Galt's explanation of gold's "objective value" is so flawed, (*Atlas Shrugged*, part 2, ch. II, 'The Utopia of Greed'), that it is almost conclusive in demonstrating the absurdity of a Gold Exchange Standard. It would no doubt horrify the author, Ayn Rand, that I *feel* safer with gold, rather than some grocer's concoction. This is because monetary fluctuations are often irrational, although the private currencies based on a basket of commodities are several orders of magnitude superior to state currencies in this respect. To Ayn Rand's immense credit, however, is her questioning of accepted accounts of nineteenth century capitalism. Her opening pages in *Capitalism: The Unknown Ideal* (see Bibliography) are essential reading.
39. In the third edition of *Denationalisation of Money - The Argument Refined*, see Bibliography, there is no mention of a 'Standard'. But section XIII clearly refers to commodity based currencies.
40. In 1493, the stock of gold and silver in Europe has been estimated at £33,400,000. By 1636, over £250,000,000 of bullion from the New World had entered Europe.
41. The orders were introduced in November 1990 following the report of the Monopolies and Mergers Commission, *Credit Card Services*, Reference CM 718.
42. 'Air Miles' were a sales gimmick whereby tokens could be saved up towards the cost of purchasing an airline ticket.
43. A black market already exists with some supermarket chains' tokens. One chain offers staff discount vouchers for 10%. These are occasionally sold to friends etc. This is no different in essence from black market currency dealings in Socialist economies.
44. See Bibliography.
45. My figures based on information provided anonymously by a supermarket chain's Information Officer.
46. Figures released as I write show that Boots, now virtually a supermarket chain, rather than a pharmacist, has increased its profits for the half-year to November 1991, in contrast to most other companies during this period.
47. The 'Link' system works by allowing users of building society accounts to use a cash card on machines operated by rival societies. However, a transaction charge may be levied at machines operated by building societies, if the card account holder with the Halifax - for instance - employs an Abbey National machine.
48. The RPI is not compatible as a measure of inflation between different countries: for instance, mortgage rates are included in UK figures but not in French figures. There is also an obvious discrepancy between mortgages in various parts of the UK: I have no figures to verify this, but house prices in Bradford and London are so widely different that the proportion of income spent on housing is likely to be different in both towns.

    As an example of the 'pot luck' element of Social Security payments, it was announced that a peak inflation figure was good news for pensioners when it occurred in September 1990, because the pensions for the 1991/1992 fiscal year would be increased by the rate of Retail Prices Index infation for September 1990. Had inflation stood at 20% the month before (August 1990), would this have been announced as a tragedy because inflation peaked 'too soon'?
49. The Retail Prices Index figure released in October 1990 showed an increase of 10.9% for the year, whereas the average figure for 1990/91 was below 9%. Increases in pensions were pegged to the October figure. In other years, pensions have been frozen with inflation at over 15%.
50. I have tested this opinion on two occasions, once in a doorstep canvass in Kingston-upon-Thames, the other time in a telephone survey in Camden. The question asked was: "Do you believe that State pensions will have the same purchasing power when you retire?". The sample was overwhelmingly young, under 35. The results suggested that virtually no one who will retire after 2015 (if retirement is still at 60) expected to rely on a State pension for more than a small proportion of their income. The research is unpublished, but there are occasional opinion poll surveys, which should be checked for age groupings.
51. See note 30. If Irish public houses can act as clearing houses for bank cheques, it is difficult to conceive why banks couldn't clear coupons, especially given their current interest in becoming 'share shops'.
52. The direction in which this is heading is 'Lifestyle Agencies' whose marketing would cover a similar scope to that of the advertisers in F. Pohl and C. M. Kornbluth's paranoid science fiction novel *The Space Merchants*.
53. See note 25.
54. See notes 30 and 51.
55. "In God We Trust" is the motto on a One Dollar Bill. I am indebted to Professor Michael Novak for his explanation, given in speech to the Radical Society, that we would give credit to God (if He existed), but no lesser being can be totally trusted.

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