THE SINGLE GLOBAL CURRENCY VERSUS PRIVATE MONEY

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ABSTRACT

The paper presents and analyzes the views of F. A. von Hayek on the issue of mutually competing private currencies and the possibility of abolishing the state monopoly on the issuance of money. The economists discuss whether the dollar or the euro has a less or greater chance of survival in a situation of financial and economic turbulence. BRICS countries, such as Brazil, Russia, India, China and South Africa, are questioning the future of the dollar as the main global currency. There are also proposals to create a single global currency. The IMF proposes the creation of a global bank to manage a single world currency. Contrary to these views, F. A. Hayek, the Nobel Prize winner for Economics, created the concept of so-called private money. Hayek's conception is based on the statement that money supply can be better ensured by private issuers. Hayek believes that the existence of the generally accepted government monopoly on issuing money is not needed at all and even that it does not bring any benefits. He assumes that it would be possible to establish the institutions - banks of issue in various parts of the world, which would be entitled to issue mutually competing money. Money issued by various banks would have different denominations, and their relative value to other currencies could move freely. The bank of issue is interested to maintain a stable price level in terms of its currency relative to a certain basket of commodities. Hayek assumes that from several currencies that would be issued by private banks people always choose a better currency than the state currently provides. Hayek was against the creation of the single currency within the EU. He considered that the single currency would not be better than the individual national currencies. He suggested using the individual national currencies freely without restrictions and releasing banking business in all EU Member States. The existing monetary and financial institutions could achieve such discipline and responsibility that would ensure to issue reliable and stable money. Each country would issue only the amount of money that would ensure its stability. The governments could therefore not abuse the currency issuance to cover deficits and to solve other problems.

Keywords: *global currency, global bank, F. A. Hayek, private money*

INTRODUCTION

In recent years, various interest groups that influence important economic, financial, and monetary decisions have become the subject of many discussions. The economists discuss whether the dollar or the euro has a less or greater chance of survival in a situation of financial and economic turbulence or how the Chinese Yuan and the ambitious Russian Rouble will affect the world trade. The representatives of the BRICS countries, such as Brazil, Russia, India, China and South Africa, are questioning the future of the dollar as the main world currency. Even the future of the euro is questioned by many economists.

There are proposals to create a single world currency that has its supporters who believe that the world currency would mean the end of the currency crises and also the end of the exchange rates. The idea of creating a single world currency was enforced in the 40s of the 20th century by J. M. Keynes under the name “bancor”. According to Keynes, the states would acquire bancors by buying or selling gold. He said the system would eliminate the threats of inflation and deflation and ensure the stability of the monetary system.

Nowadays, we can hardly imagine the functioning of the economy without the existence of the central bank. Contrary to these views, F. A. Hayek created the concept of the so-called of private money, thus rejected the model of central banking and the issuance of money by the state.

THE CONCEPTION OF PRIVATE MONEY ACCORDING TO F. A. HAYEK

Hayek's proposal for denationalisation of money was first published in 1976 [1] and later revised and expanded in 1978 [2] and 1990 [3]. He stated that "governments should be deprived of their monopoly on money issue" [1]. Denationalization of money is both evolutionary and technically the simplest system to implement. It requires only the approval of a single law that cancels the legal tender, along with some supporting provisions to protect emerging currencies. The aim is to achieve full monetary freedom by denationalisation of money in a free banking system.

Hayek's conception is based on the claim that money is not different from other commodities. It would be better supplied by competition between private issuers because the private interest is the most effective motive to achieve the best results. Hayek believes that the governments have failed, must fail and continue to fail to supply money. This deficiency can be removed by competing for private money and the abolition of the government monopoly on issuing money. Hayek believes that it is quite possible that the existence of the contemporary generally accepted and almost undeniable government monopoly on issuing money is not necessary and it does not bring any benefits at all.

History of money includes long series of inflations which are usually caused and driven by the government. According to Hayek, one of the arguments against the abolition of state monopoly on money is a concept of so-called "legal tender". If the government has the monopoly on money and this monopoly is used for the introduction of the single currency, it should also have the power to say that all money must be legal tender. Negative effects in the monetary system should be eliminated by allowing private entities to issue their own money that would compete with the money issued by the state.

Hayek assumes that it would be possible to establish institutions ("banks of issue") in various parts of the world which would have the right to issue competing notes. He further assumes that the name or denomination that the banks choose for their issue will be protected, like a brand name or trade mark against unauthorised use and that there will be the same protection against forgery as against that of any other document.

Money issued by various banks would have a different denomination and their relative value to other currencies may fluctuate freely. If there are different competitive currencies, people will notice, whether their value is kept stable. Naturally, they will choose the currency which is the most stable and least vulnerable to inflation. Except the fact that the relative value of the individual currencies can be changed, the money of different banks may vary in a degree of acceptability among various groups of people, liquidity and so on.

A wish of the public to have a currency of a particular bank is, therefore, an important factor that determines its value. At the same time, the issuing bank is interested to maintain a stable price level in its currency units with respect to a specific basket of commodities. In order to guarantee the stable value of its money, it can issue only as much money as the public is willing to hold and accept. It shall not increase the amount of a given currency because this would cause a rise in the price level of commodities in units of issued currency. The bank should also not permit a drop in the supply of its currency below the level what the public wishes to hold, to avoid having to cut spending which would cause a decrease in commodity prices in the given currency.

Important information for the issuing banks would be the exchange rate of a given bank against other currencies. The banks would respond to the need of decreasing or increasing the amount of their money in circulation either through lending or selling their currency. The quick and immediate operations with the immediate effects would be implemented by buying or selling currencies on the stock market. The operations with the long-term effects would be realized by the changes in lending policy.

Hayek points out that a stable value of money can be secured only by the suitable regulation of the amount of money in circulation. The amount of money in circulation depends in turn on the wishes of the public to keep money of a given bank and not on the demand for loans. The irresponsible increase of the money in circulation could cause that reverse flow of money to the bank will be faster than the public demand to hold money. The banks would issue money covered by assets protecting their stability and the competition would prevent the issuing of an excessive amount of money.

When analysing the problem of what currency the public would select, Hayek assumes that people always select from a number of competing private currencies a better currency than the state currently provides [5].

A decisive factor that would determine a general preference of a currency with the stable value is the fact that only the stable currency can realistically calculate and compare the prices, costs and profits. This affects the long-term choice of people to choose between alternative currencies. The inputs and outputs of the production can be objectively valued and compared only through the currency that is stable in the long- term.

The main advantage of the abolition of the government monopoly on issuing money lies in the fact that in terms of competing issuers, entities who have an immediate economic interest to affect the amount of money in order to be most advantageous for users, take the responsibility for the amount of money, its value and stability.

Hayek was aware that proposals for a free issuing of private competing currencies encounter resistance from politicians, governments, banks as well as many economists - theorists and practitioners. Implementation of such a radical new monetary system requires far-reaching political and institutional changes. The reforms proposed by Hayek in this respect are complementary: the monetary system, which he suggests (private competing currencies) can be realized only under the conditions of reducing government interventions in the economy. At the same time, government intervention in the economy can be reduced by abolishing the state monopoly on issuing money. A strong opposition to the abolition of the state monopoly on issuing money can be expected on the part of bankers accustomed to the routine mechanism of banking, central banks and many leaders from the banking who are not be able to imagine how could work the monetary system of private competing currencies and therefore these idea will be described as impossible and impracticable.

Despite such a strong opposition to private money, Hayek does not give up and argue passionately in favour of the abolition of state monopoly on money and in favour of private competing currencies. He proposes to abolish the state monopoly in this area also because the governments have consistently abused their position during the entire history and thereby significantly disrupted the automatic functioning of the market mechanism.

The introduction of concurrent competing currencies would give people an alternative, while it would not mean necessary any change in their normal use of money. Experience would show them how to improve their situation by moving to other kinds of money. According to Hayek, introducing competing currencies and abolishing the state monopoly on money must be done at once and not gradually. For the successful implementation of this proposal, it is necessary to create free competition between issuing banks and the full freedom of movement of all currencies and capital abroad. People would trust the new money only if they believe that it was completely exempt from any state control. Only if the private banks are under the strict control of competition, it could be expected to keep a stable value of their money [3].

Hayek believes that the competition will create new, previously unknown possibilities in the monetary area [4]. As soon as the new monetary system would be established, the competition eliminates unsuccessful enterprises, only a few widely used currencies will remain in the free system. In some major regions of the world, one or two currencies would have a dominant position, but these regions would have no precisely defined limits of their use. Naturally, if the money issued by the state was recognized and stable, people would likely continue to favour just this state money. But the pressure of competing for private currencies would contribute to stabilize the price level and would keep the inflationary pressures under control.

RESULTS AND DISCUSSION

Hayek was against the creation of the single currency within the EU. He believed that the single currency would not be better than the individual national currencies. He suggested using the national currencies freely without restrictions and releasing banking business in all EU Member States.

The existing monetary and financial institutions could achieve such discipline and responsibility that would ensure to issue reliable and stable money. Each country would issue only the amount of money that would ensure its stability. The governments could therefore not abuse the currency issuance to cover deficits and to solve other problems. This would bring such discipline and responsibility to the existing monetary and financial institutions to ensure issuing reliable and stable money. Each country would issue as much money that would ensure its stability.

According to Hayek, “the introduction of the new European currency would ultimately have an effect on more deeply entrenching the source and root of all evil coming from the government monopoly on the issue money” [5]. He strongly sympathised with a desire to complete the economic unification of Europe by releasing the flow of money across countries. He strongly doubted whether this would be achieved by creating the new European currency regulated by some supranational authority.

Hayek was of the opinion that it was highly unlikely that the single currency would be managed better than currently managed individual national currencies. And unless it is better managed, the single international currency will be in many ways worse than the individual national currencies. The countries with a more developed money markets will be exposed to many prejudices that affect the decisions of other countries. The objective of the supranational authority should therefore be to protect the EU Member States from the harmful measures of other countries.

The problems currently faced by the EU and the Eurozone are confronted with the views of F. A. Hayek and are the subject for further deeper scientific discussion and exchange of ideas between economists and politicians [3], [6].

CONCLUSION

F. A. Hayek [1] summarized his views of how the monetary system should work to 10 points:

1. The state monopoly on money must be abolished to prevent the formation of repeated inflation and deflation.
2. The abolition of the state monopoly on money will gradually alleviate and prevent cyclically recurring economic crises and high unemployment.
3. The monopoly on money allowed the government a significant increase in government spending, the emergence of a public finance deficit and the ability to repay this deficit.
4. Abolition of the monopoly on money would make it impossible for the government to restrict the international movement of money, capital and people, thereby creating the conditions for trade for all who are exposed to oppression.
5. The following four problems - inflation, instability, incompetence and inefficient government spending, and economic nationalism, have a common origin and a common treatment: replacing the state monopoly on money by the competition in currency supplied by private issuers, who will regulate the quantity of issued money in order to maintain the value and stability of money as well as the public trust. This system can be called “private money”.
6. Money does not have to be created by governmental provisions as legal tender. Like language, morality, law, money can arise spontaneously. People preferred such private money to state money, but governments usually abolished it.
7. If there is a government monopoly on money, the gold standard is the only acceptable stable system, despite all its imperfections. However, it is much better to abolish completely the state monopoly on money.
8. In a world that is dominated by various organized interest groups, one cannot rely on goodwill, intelligence and understanding, but only on own economic interest. In this respect, the wisdom of Adam Smith is still valid and unquestionable.
9. The proposal to abolish the state monopoly on money does not constitute a minor technical measure in the area of finance, but it is a radical key reform that can decide the fate of free civilization.
10. The urgency of introducing competition in currency needs to be explained to the public by a Free Money Movement that should be comparable to the Free Trade Movement of the 19th century.

F. A. Hayek is the author of many revolutionary ideas and original economic theories. Historical experience shows that this type of personality is needed in every area of life and every scientific discipline.

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