

As mentioned above, Jesus challenges the wealthy young ruler to give away his possessions in order to obtain eternal life. He radicalises this with the statement that it is easier for a camel to pass through the eye of a needle than for a rich man to enter the kingdom of God, although he does add in response to the listening crowd's astonished enquiry: "*The things which are impossible with men are possible with God*" (Luke 18:27). St. Paul cuts to the heart of the matter in the first letter to the Corinthians:

But I say this brethren, the time is short: it remaineth, that both they that have wives be as though they had none; and they that weep, as though they wept not; and they that rejoice, as though they rejoiced not; and they that buy, as though they possessed not; and they that use this world, as not abusing it: for the fashion of this world passeth away (1 Corinthians 7:29-31).

It is thus a question of not setting one's heart on earthly matters – including wealth, which can exert a hypnotic attraction and is thus one of the greatest temptations. "That now, I say, upon which you set your heart and put your trust is properly your God," as Luther writes in his Large Catechism to the First Commandment.

Countless wealthy individuals have understood this and taken it to heart as the goal they have set themselves. They have established foundations, opened art collections to the public, founded or refloated companies, safeguarded jobs, patronised artists and cultural creators and benefited the common weal in a multitude of ways. Wealth is a blessing when it is not an end in itself. No one can be forced to put it to good use, however, and it is just as likely that such beneficial ends will ultimately be served at a later date. And it is in the interests of no one – least of all the needy – when wealth is thought of exclusively as a temptation and destroyed through crude confiscation.

(Translation: Richard Hall)

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The Evils of State Interventionism in Monetary and Financial Problems

Many people accept the (right) idea according to which state interventionism is creating obstacles to economic activity and to the development of individual welfare. The main reason for such negative outcomes of state interventionism comes from the fact that public decisions are taken by people who are irresponsible, i.e. who do not bear directly and personally the consequences of their decisions. Another important reason for such a state of affairs has been very well stressed by Friedrich Hayek according to which the centralisation of decisions implies a loss of information in comparison with a situation in which decisions are made by those who are concerned (and responsible) and who are steadily creating new information.

However, even people who more or less accept such ideas are also inclined to say that the state has a particularly important role to play in monetary and financial affairs under the pretext that these problems are "collective" problems which concern all citizens and cannot be left to the free will of individuals, which would create a risk of monetary and financial disorder. Personally I am rather inclined to think spontaneously that it is precisely because monetary and financial problems are important for all individuals that they must not be monopolised by the (irresponsible) men of the state, as is the case also, for instance, for education or health. But let us consider more precisely the reasons which could justify that the state not be involved with monetary and financial problems.

Let us first make this general remark: It is strange that people are not aware of an important lesson of history, namely that never, in the whole history of mankind over centuries, has there been as much inflation and monetary instability as in modern times in which public central banks have been created and have been given a monopoly in money creation. This ought to be an important warning, but people go on thinking, for instance, that "money creation is an attribute of national sovereignty" (so that those who want to create a European nation-state considered that it implied creating a European currency and a European central bank).

The recent monetary and financial crisis also provides an example of misconceptions about these problems. It has been widely admitted that this crisis was an illustration of the fundamental instability of capitalism and financial markets, for instance because greedy bankers took too many risks – at the expense of the general population – in order to get more profits. And, as a consequence, it is also widely admitted that public authorities must intervene to regulate financial activities and to cope with the corresponding economic instability.

Now, before developing what we consider as a correct approach to these problems, let us clarify a useful distinction. In fact we mentioned – as it is frequently done – "monetary and financial problems" as if monetary and financial activities were necessarily linked together. But monetary problems concern the creation and circulation of money, whereas financial problems concern the creation, the transformation, the transfer and the use of savings. Now savings are that part of real (and not monetary) resources which are not consumed in the present period, but reinvested in order to obtain more resources in the future. Thus, savings do exist in a barter economy (in which, by definition, money does not exist). Unhappily, in modern times a link is created between money and savings because there is a simultaneous creation of money and credits. But these credits – as it has been very correctly stressed by the "Austrian theory of the business cycle" – are illusory savings since they do not correspond to voluntary savings. Thus, we will first focus on the purely monetary problems before considering both monetary and financial problems and their possible links.

1. Money creation

In order to evaluate the working of monetary systems and the role which money creation may have, it is necessary to determine a criterion of evaluation. To put it simply, it seems obvious to say that a good monetary system is a system which supplies people with a "good" currency. But what is a good currency? A good currency is necessarily a currency which supplies the services one may desire when holding money. Now, people hold money because they thus have a purchasing power available to make the transactions they may desire in a world of uncertainty. Money can be defined as a "generalised purchasing power," i.e. a good which can be exchanged against anything, at any time and with anyone. As no currency may be able to play such a role perfectly, it may be sufficient to give a relative definition and to say that a currency is the better the closer it is to a "generalised purchasing power."

This implies that inflation is necessarily bad. In fact, inflation is defined as an increase in the monetary price of commodities, i.e. the price of commodities in terms of money. But it would be more significant to define inflation as the decrease of the price of money in terms of commodities, i.e. as a decrease in the purchasing power of money. As a currency is the better the better it maintains its purchasing power over time, it is logically correct to say that inflation is a threat to the very nature of money and, as such, it is necessarily harmful. In fact, it is as absurd to say that inflation is desirable as it would be to say that it is desirable to have a square wheel.

Why does inflation exist? To explain it, it is sufficient to use the general theory of prices. We do know that the relative price between two goods changes according to the change in their relative scarcity (or, what is the same, in the relative abundance of both goods), which, in turn, is explained by the changes in supply and demand. Applying this general (and correct) theory to the case of money, it is obvious that inflation occurs if the quantity of money increases relative to the quantity of commodities. Assuming that the demand for money and the demand for commodities are relatively stable, we can express this simply by saying that inflation occurs because the rate of growth in the quantity of money is higher than the rate of growth of commodities.

There is another aspect of this problem which is worth mentioning, namely that deflation is desirable. This ought to be obvious since deflation means a decrease in the money price of commodities, i.e. an increase in the purchasing power of money. Let us assume, for instance, that there is a constant quantity of money in the world (or in a country). The prices of products will decrease whenever there are improvements in productivity. The decrease in prices is the higher the higher are these improvements. But, on the average, there is a general decrease in money prices and, therefore, an increase in the purchasing power of money.

Individuals obviously care about the real value of their cash balances, i.e. their purchasing power. Now, it is important to recall that people always get the amount of real cash balances which they desire just by selling or purchasing monetary balances against other goods, which causes prices to move. One calls *real cash balance effect* this process by which individuals get their desired amount of real cash balances via the mere interplay of supply and demand for money against other goods in the market, without the intervention of some monetary authority. This effect ought to constitute the core of monetary theory and it is to be regretted that it is completely unknown by the great majority of those who have an interest in money and monetary policy. And it is the more unfortunate that it has a very remarkable implication. In fact, as we have already stressed, what is desired by individuals is holding a certain amount of real cash balances and not of nominal cash balances. Now, monetary policy consists of creating nominal cash balances and the more one creates money (nominal cash balances), the less people hold real cash balances.¹ Therefore, one can say that *the best way to create (real) cash balances is not creating (nominal) cash balances*. If the real cash balance effect was well understood by everyone all over the world, there would not be any justification for an expansionary monetary policy and no inflation. Unhappily, we are very far from such a situation. As there is never any justification for creating money, the ideas according to which monetary policy is a necessary responsibil-

1. It is the more so that people escape from money in the case of inflation, as one can most easily observe in cases of hyper-inflation in which money-holders may finally decide not to use money any more and to find real substitutes.

ity of the state and according to which a country must have a central bank in charge of money creation are not justified.

Thus, from this point of view, it is obvious that money creation cannot stimulate an economy, quite the contrary. In fact, as it is damaging the quality of money, and as it may therefore induce individuals to decide to escape from money, it makes economic activities less efficient. Therefore, it is not surprising that one has often observed an inverse relation between inflation and economic growth. This has been particularly stressed by Milton Friedman in a celebrated article² in which he was efficiently critical of the Phillips curve. The Phillips curve has been very fashionable during several decades from the sixties and one may consider it as some supplement to the Keynesian theory. As is well known, according to a version of this curve, there would be an inverse relation between the inflation rate and the unemployment rate, so that it could be possible to decrease unemployment by implementing an inflationary monetary policy. Thus, whereas the Keynesian theory had given legitimacy to the use of a budget policy in the case of a so-called unemployment equilibrium, the Phillips curve gave an additional legitimacy to monetary policy, already considered as efficient by the Keynesian theory in the case of a "normal" situation.³ Now, it may not be useless to recall that this curve has not been deducted from a rigorous economic analysis, but was the mere outcome of apparent statistical regularities and this is the reason why it is not surprising that it finally appeared as being unfounded.

If the Phillips curve seems to exist in the short run, it is because monetary policy is creating illusions: If the inflation rate increases, wage-earners are not immediately aware of this phenomenon and they do not ask for a compensating increase in their nominal wages. Thus, there is a decrease in real wages and in the cost of labour, which induces employers to increase employment. But illusions obviously vanish little by little and wage-earners, becoming more and more aware of inflation,

2. Milton Friedman, "The Role of Monetary Policy," *The American Economic Review*, Vol. 58, No. 1, 1968, pp. 1-17.

3. According to the Keynesian theory, a "normal" situation is one in which there is neither inelasticity of investment to interest rates, nor a liquidity trap. If not, monetary policy is not efficient and one has to use only fiscal policy.

ask for increases in their nominal wages. In order to maintain an artificial level of employment, monetary authorities must introduce an ever-accelerating expansion of the quantity of money so that they can continuously create new illusions, which means that they are fooling citizens. It may even happen that inflation rates become extremely high and begin to destroy the normal working of an economy. We thus find here an illustration of the fact that economic policy quite frequently consists in sending wrong signals to markets, thus destroying the very foundations of economic calculus.

Therefore, it is very strange that so many people accept or are even in favour of inflation. Thus, when the European Central Bank was created, it was decided that it had to aim for a stable level of prices. But it is now considered that the rate of inflation must not be higher than 2% and even that the ECB should aim at getting such an inflation rate! A rate of inflation of 2% may appear as low in comparison with what has been experienced in the past (or is still experienced in some countries), but it is however significant, since it means that money-holders have a negative real interest rate of 2. In fact people fear deflation because they are confused between deflation and depression. They quite often quote the case of the Great Depression of the thirties during which there was both deflation and economic depression. In fact this happened because there was a very rapid and unforeseen change in the monetary policy of the U.S. with a very important decrease in the quantity of money. Thus, producers were trapped between decreasing selling prices and stable wages previously decided by contract. The depression was not caused by deflation, but by the fact this deflation had not been forecast. It would be completely different in a world with a steady and foreseeable rate of deflation.

Now, one may stress that, although inflation is deteriorating the purchasing power of money it may have other consequences which could be desirable and over-compensate the negative effect on the value of money. We now consider these possible other effects of money creation.

2. Monetary policy and finance

In fact, money creation has not only the purely monetary consequence we just mentioned, namely the loss in the pur-

chasing power of money. In our time, monetary creation is necessarily linked to a distribution of credits and this is the reason why monetary and financial problems which, in principle, are different one from the other are developing in parallel in the modern world. It may be that those who are pleading for an expansionary monetary policy are in fact implicitly considering the counterpart of money creation, namely the distribution of credits. It may also be that these same people – who have been educated according to Keynesian principles – believe that such a distribution of credit implies an increase in total demand and, therefore, in production and incomes (which is wrong). Anyhow, the simultaneous creation of money and of credits is nothing but an accounting process in the balance sheets of banks: The credits granted by a bank increase its assets and they simultaneously increase its liabilities by an equal amount, corresponding to the increase in deposits. All economic agents in an economy are not borrowers and those who borrow get their credits at different dates. Those who are the first ones to borrow get a gain in purchasing power in comparison with others, since they can spend the money thus obtained before the increase in prices. This gain decreases over time, in parallel with the increase in prices. On the other hand, inasmuch as money creation implies a decrease in interest rates, some people also get a benefit for this reason. This is saying that money creation has distribution effects which cannot be justified since they are completely arbitrary.

This link between money creation and interest rates has important implications, which have been particularly stressed in the "Austrian theory of the business cycle." According to it, cyclical fluctuations have a monetary origin and the interest rate does play a crucial role in the process. The equilibrium interest rate is the one which makes the supply of loanable funds by consumers compatible with the demand for loanable funds by investors. If, for instance, consumers decide to consume less and to save more, the greater amount of savings available will decrease the interest rate, which will induce investors to borrow more funds to invest and the equilibrium between the supply and the demand for loanable funds will be restored. But another process may occur: in fact, monetary creation nec-

essarily implies, as a counterpart, a distribution of credits and a decrease in the interest rate.

Now, the artificial distribution of credits of monetary origin lets people believe that there are more savings available in the economy than is really the case (this process being reinforced by the fact that the decrease in interest rates induces a decrease in the propensity to save). The decrease in the interest rate induces investors to borrow in order to invest more. Therefore factors of production are shifted from the production of consumer goods to the production of investment goods. But this sharing between consumption and investment does not correspond to the one which is really desired by consumers-savers between consumption and savings. There are too many investment goods produced and not enough consumption goods. Such a disequilibrium cannot last for long. The producers of investment goods (including housing) have to face a lack of sales and a crisis occurs. And if monetary authorities put an end, as it is desirable, to the expansionary monetary policy, the rising of interest rates makes even more obvious the errors of the past. One must come back to structures of production which are more consistent with the real needs of economic agents. This is in fact the role of the crisis. It implies stopping or even destroying the activities which had been artificially developed beforehand and coming back to productive structures and price structures more in line with what individuals desire.

Obviously, this adjustment process is particularly costly for some producers and wage-earners, but it has to be implemented sooner or later. Unhappily one cannot rebuild the past and delete past errors. One has to accept the consequences of what had been decided. If a government, fed with Keynesian principles, is introducing so-called "recovery policies," i.e. public budget deficits and/or expansionary monetary policies, it prevents or delays the necessary adjustments. The monetary and financial crisis which began in 2007-2008 is a perfect illustration of the Austrian theory of the business cycle and of the erroneous economic policies which have been implemented since under the pretext of allowing a recovery. Far from being a consequence of the instability of capitalism and financial markets – as is usually claimed – this crisis has been a consequence of a destabilising monetary policy in the US, in Europe,

the UK and in some other countries, i.e. a consequence of state interventionism in monetary affairs.⁴

Although it seems perfectly clear that the recent financial crisis has been caused by the destabilising monetary policies implemented in most of the main countries of the world (along with some other interventionist policies), it is important to look beyond this phenomenon. In fact, the crisis has been partly a consequence of a deeper problem which could be called a lack of capitalism. In most so-called capitalist countries, an excess of taxation (and also of regulations) has put a brake on the accumulation of capital. The modern world is characterised by a situation of low savings, especially of equity capital (except in some emergent countries such as China in which individuals have to take care of all the uncertainties of life by saving). As potential investors cannot easily find the amount of voluntary savings which they need, governments are inclined to create money in order to increase credits, but, as we know, these credits are purely illusory.

Meanwhile the shift in modern times from an economy of equity capital to an economy of credit (particularly credits of monetary origin) has transformed societies from being capitalist to some sort of fake capitalism. In a real capitalist society, banks are owned by capitalists who dare not take too many risks because, as owners of the banks, they are responsible and they do not want to go bankrupt. From this point of view it is characteristic that, in the XVIII century and part of the XIX century, equity capital was a very high proportion of bank balance sheets (even 80 % in some cases). In our time, equity capital is low and dispersed among a very great number of owners who cannot be responsible for managing the banks they own shares of. The management of banks is in the hands of managers who are not capitalists but wage-earners. As such, they do not mind too much about possible failures and they are induced to take too many risks. But this is not a consequence of normal behaviour of capitalists, quite the contrary it is the result of a

4. We have analysed in detail this crisis in our book, *Revenir au capitalisme pour éviter les crises* (Paris: Odile Jacob, 2010); Italian translation: *Ritornare al Capitalismo per evitare le crisi* (Soveria Mannelli, CZ: Rubbettino, 2011). We stress that not only destabilising monetary policies, but also some other interventionist policies have played a role in the development of this crisis.

lack of capitalism. Thus, we meet here a striking illustration of the vicious circle of state interventionism: it creates what is called "perverse effects" (which are, in fact, the normal outcome of interventionism). But to cure these negative effects, the state does not reduce interventionism, but, on the contrary, introduces new interventionist policies. Thus the destruction of capital and capitalism by state interventionism induces a creation of money and credit by monetary authorities, which creates economic instability, which the state pretends to cure by spending more and introducing new financial regulations.

In the case of several European countries, one should in fact distinguish two different kinds of problem. In fact, the world monetary and financial crisis which began in 2007-2008 has come on top of a long run situation characterised by a low rate of growth and a high rate of unemployment. This situation – which is sometimes called "Eurosclerosis" – can be explained, according to us, by an excessive amount of taxation and regulations.⁵

Now, we have just seen that an expansionary monetary policy was unable to help in solving a crisis. But it is obviously also unable to help reversing long run stagnation. To solve a problem one must know its causes. If a crisis originated in an excess of monetary creation, as it has been the case in the beginning of the XXI century, it is obvious that one will not find an efficient remedy by again using an expansionary monetary policy. If the long run stagnation is due to an excess of taxation and regulations, one will not solve the problem by creating money. To be sure, one may create illusions in the short run, as it has been so well demonstrated by the criticism of the Phillips curve, but one cannot fool everyone all the time. Unhappily there is a great risk of instability, because governments are always looking for short-run results. In fact, their horizon is necessarily short run – it is the one of the next election – and they need to persuade voters that they are solving their problems. The consequence is a great instability in the decisions of economic and monetary policies, which implies a great instability in economic variables.

Milton Friedman focused on the information error brought

5. One may find a precise justification of this statement in our book, *La tyrannie fiscale* (Paris: Odile Jacob, 2014); Italian translation: *La tirannia fiscale* (Macerata: Liberilibri, 2008).

about by monetary policy as regards the assessment of real wages. Austrian economists rather focus on information errors concerning the interest rate or, more precisely, the choices between present consumption and future consumption. But these approaches are not incompatible. Monetary policy is at the origin of evaluation errors as regards real wages as well as interest rates. Therefore, the Friedmanian analysis of short run illusions in its criticism of the Phillips curve is perfectly compatible with the Austrian criticism of illusions in the rate of interest (the rate of interest being the price of time, it is very harmful to manipulate its value).

The manipulation of the exchange rate also has the same harmful effects as the manipulation of interest rates and the quantity of money. We recently had a significant example of such a manipulation with the policy of the Swiss central bank which wanted to avoid an appreciation of the Swiss franc against the euro. It was certainly induced to do so because of the usual Keynesian prejudice according to which an undervalued currency makes it possible to stimulate exports and to increase prosperity (which is, in fact, totally wrong). But when the central bank was obliged in 2014 to abandon this unrealistic policy, it created a shock, since people could not forecast this change and adjust to it. This is one more example of the fact that monetary authorities are mainly able to create (short-run) illusions and, thus, to destroy the normal working of economic activity.

Being unable or unwilling to recognise their own errors, public authorities pretend to be in charge of economic stability and prosperity. As we already stressed, they decide expansionary monetary policies and fiscal policies without caring about the real causes of an economic crisis or of long-run stagnation. But they also reinforce regulations, specially in the field of finance, thus meeting the wishes of public opinion which has been continuously educated with the idea that economic problems have been caused by the bad working of markets. Let me, at this point, quote a significant anecdote: I was told by a trader that he had participated in a meeting of traders with a representative of the European Union. As someone objected to a regulation which was to be introduced by the EU Commission, the representative said: "You may be right, but I

don't care about your objection, because my problem is to give an answer to a public opinion which wants more regulation of financial activities." Once more, real capitalists would be in a better position to decide which are the best rules to be followed in order to avoid too many risks and financial instability. As no one can be perfectly informed, they might make errors sometimes, but what is important with a free society is that people learn from their errors. In contrast, the politicians and bureaucrats who decide about new regulations only have the pretence of knowledge. And they have neither the opportunity nor the incentive to learn from their errors. There is, thus, a risk of always increasing perverse effects and increased regulations which diminish the efficiency of financial activities.

3. Can we avoid monetary and financial instability?

It is unlikely that central banks will be able to avoid unstable monetary policies and periods of relatively high inflation rates under the present institutional arrangements. But this does not necessarily mean that inflation and monetary instability will be the same in all countries. Under a flexible exchange rate system, monetary policies of different countries are independent one from the other, so that there is always the possibility for any central bank to decide a stable and restrictive monetary policy.

However, there are two sorts of reasons to believe that an extreme diversification of monetary situations in the world is not very likely. In fact, when looking at the past records of inflation, the parallel evolution of inflation in countries with flexible exchange rates is striking. It may mean that there are contagion effects and that central bankers are more or less following the policies which seem fashionable at any time. For instance, presently, it is considered that monetary policies should be relatively inflationary: Central banks such as the Fed, the ECB or the Japanese central bank favour avoiding what they call "deflation" - which is in fact a low inflation rate - and to succeed in creating some inflation. Contrary to what happens in private markets where competition induces producers to do better than others, central banks seem rather to do about the same as others. This can be explained by the fact that there is no real competition between them, since each benefits

from a monopoly power in its country (or group of countries in the case of the euro). They may mainly aim at complying with the wants of public opinion. In turn, public opinion in different countries is determined by the dominant ideas which are about the same all over the world and which are presently in favour of some inflation. Moreover the influence of international public forums such as the IMF or the G20 contributes to this homogenisation of ideas and policies. Thus, recently, Mrs Lagarde, general director of the IMF, made the statement that growth could be very negatively influenced by too low an inflation rate! She also added that this low inflation rate increases the burden of the public debt! It means in fact that, according to her, it would be justified for governments to steal from creditors by decreasing the real value of debt, thanks to inflation. Such a statement is morally unacceptable and it should be considered as one more reason for suppressing the IMF.

In addition to this problem of contagion in policies or ideas, there is one reason to believe that a country cannot easily be completely protected from world instability, even under flexible exchange rates. In order to make the reasoning simpler, let us assume that there are two countries in the world, A and B. There is money creation in A and not in B. With flexible exchange rates, currency B will appreciate against currency A and it is true that country B will not import the inflation of A. But, as far as there is an international mobility of financial assets, there will be a tendency for *real* interest rates to converge all over the world. Monetary creation in A determines an over-distribution of credits all over the world and distortions in production structures and in price structures. Therefore, a country cannot isolate itself from external influences (except by creating harmful obstacles to international capital flows). This is exactly what we could see during the recent world financial crisis: In spite of the fact that flexible exchange rates were prevailing, the excess of money creation in the U.S. spilled over in the world (and, in fact, was exacerbated by similar monetary policies in other countries).

One may hope that monetary rules will be imposed on central banks in order to limit money creation. These rules must be defined in a coherent and efficient way, but they must also be associated with sanctions. From this point of view one can

imagine a lot of solutions: imposing fines on monetary authorities which do not follow the rules, firing the governor of a central bank who would have not reached the prescribed targets or even – as it has been proposed – to diminish his (nominal) salary in proportion to the inflation rate or of the rate of monetary creation.

However, there may not be a more constraining (and therefore efficient) rule than the one which consists in meeting the competition of others. Even if the competition between private money producers was not accepted, it could be possible to increase the degree of competition in existing monetary systems. To such an end, it would be necessary to suppress legal tender laws, i.e. to allow citizens of a country (or those of a monetary area such as the eurozone) to hold and to use the currencies they prefer. This would also imply the freedom to pay one's taxes in the currency one chooses, in order to avoid that the national currency (or the currency of the monetary area) could keep a privileged position protected from any competition.

As we have seen, monetary policy – if ever it exists – should have only one target: allowing the currency to be as good as possible, which means maintaining its purchasing power as much as possible. And as we have also seen, the ideal decision would consist in not producing additional nominal cash balances, which just means not applying any monetary policy. It is obvious that such a change in the habits of thought and action would probably not be easily accepted. But it ought to be the reference point of any thought.

Now, even if one is convinced by such a target, some necessary steps have to be taken to reach it or, at least, to come closer to it. From this point of view the independence of the central bank is not sufficient. But there are many ways to control it and to prevent monetary authorities from abusing their freedom of action. Traditionally being obliged to maintain the convertibility of the currency in terms of an external asset – for instance gold – is deemed playing this role. But one has also seen in history that public monetary authorities can easily get rid of such a constraint. Such is the real meaning of a devaluation. Things were completely different in the monetary systems of the XVIII and XIX centuries during which the gold convertibility guarantees were not given by a public authority,

but by private banks. In such a case, a convertibility guarantee was a contractual engagement between a capitalist banker and his customers and, in such a private and therefore civilized world, a contract had to be respected. The incentive to decide an expansion of the quantity of money is thus efficiently constrained. This certainly means that the most important thing does not consist in knowing whether one should go back to a gold standard or not, but consists in defining an institutional context in which the convertibility guarantee be respected.

Therefore, we have to go beyond a mere debate within the present institutional arrangements. There is in fact a surprising paradox in monetary theory: People debate about the best monetary policy, although the best solution would be not to have any monetary policy. It was the case in a pure gold standard (i.e. without central banks). It would be the case in the future if ever public monetary monopolies were to disappear and competition was reintroduced in monetary activities. Are the new "internet currencies" a way to such a new non-inflationary world?

Going back to private and competing systems of production of money would be the most efficient solution to make it possible for individuals to hold a sound currency. There are, in fact, two possibilities in order to establish a currency with stable or even increasing purchasing power. The first one is the one we already mentioned, namely the existence of a convertibility guarantee in terms of some goods (gold, silver, a raw material or even a basket of assets), in a private competitive system, i.e. a system in which the issuer of the currency is responsible and, therefore, motivated to maintain the guarantee. The other possibility consists of creating a fiat currency but offering a credible promise that the total amount of money to be created should not be greater than a given quantity. Such is the case with the bitcoin: People hold bitcoins inasmuch as they are confident that the system will be able to prevent any additional issue of bitcoins beyond the maximum amount which has been announced. Therefore, if ever the demand for bitcoins increases, while the supply is stable, the purchasing power of this currency increases.

Now, let us imagine, as an extreme situation, very far from the one which we presently know, that private currencies had

efficiently competed with present monopolist and public currencies so that these latter ones would have even disappeared. Would there be an inflation threat? Probably not, since this shift in the use of currencies would have been caused by the fact that, generally speaking, people do not like currencies with a decreasing purchasing power. As we already said, the good quality of these currencies would be maintained either because they benefit from credible convertibility guarantees or because people are convinced that the total amount of cash balances cannot be increased in a discretionary way. In such a case, these various currencies would certainly have different rates of change in their purchasing power, but it can be assumed that, generally speaking, they would be deflationary rather than inflationary. Moreover, the definition of a rate of inflation (or deflation) might be different for each of these currencies, since they may be used for very different uses, so that the definition and measure of the same index of prices for all of them would be impossible.

As there would no more be local, national or regional monopolies, the various areas of circulation of these currencies would be overlapping and the definition, for instance, of a national rate of inflation (or deflation) would be meaningless. But the most important feature of this possible future new world would be that money creation – if any – would no more imply a simultaneous creation of artificial credit. Therefore, interest rates would be determined by the supply and demand of voluntary savings. And, as there is no reason for the demand and supply of savings to change in important and unpredictable ways, there would be no more instability of interest rates and, therefore, no more business cycles of monetary origin. Thus, it is not only the threat of inflation that would be suppressed, but the threat of economic instability. Such a monetary world is highly desirable. Unhappily, we also know that it is difficult to imagine that monetary authorities will easily abandon their monopolies, except if ever there could be a great pressure of public opinion in favour of currency competition. We are far from such a situation, but one never knows what can happen and, at any rate, we must consider it as our duty to analyse and to spread the ideas we consider as correct and the only ones which are able to offer a considerable improvement in the monetary and economic environment of all people around the world.

Ralph Schmitz-Dräger

Freedom: Creation of the Future by Non-Politicians

1. Freedom

For most people, in particular in the Western world, freedom is probably the most important asset. Not only for societies as a whole, but also for each individual freedom includes personal, social, economic, cultural, religious, political freedom as well as legal equality. "It is the individual – and not the state – who should make most decisions. This maximum political freedom can only be maintained when citizens contribute and take responsibility themselves."¹

It is to be noted that we are human beings and like all the other living creatures the majority of mankind tends to be egotistical. However, unlike animals human beings are able to not only act by instinct, but to make use of their intellect. Intelligence allows analyzing complex topics and acting in differentiated ways. Thus, besides acting egotistically, human beings are in the position to develop and implement ideas for the community and their future.

Democracy as a form of government on the one hand and market economy as the basis for economic and social development on the other hand, probably best counter human selfishness. Of course, varied forms of democracy and market economy exist. Democracy allows every citizen to become actively involved in society and government. Freedom to act and

1. Paul Widmer, *Das Magazin*, No. 36, 2014.