Adamsmith.org

George Selgin on free banking

Written by Dr Eamonn Butler

George Selgin is a senior fellow at the Cato Institute, an associate editor at Econ Journal Watch, and a professor of economics at the University of Georgia, and he has written many books on the subject of money and prices. He is one of the modern Free Banking School, which draws its inspiration from Hayek's ideas on the denationalisation of money and choice in currency. Yesterday, he gave an afternoon talk to the Adam Smith Institute, on the subject of 'the anachronism of state-controlled money' and why a free market approach to banking and currency would produce greater financial and economic stability. (Could it bring *less*than we've had recently?)

He explained that government monopoly in currency went back to ancient times, when rulers regarded it s a useful way of raising money, particularly in times of national emergency. That ancient origin might by why remarkably few economists – including the great Adam Smith – even noticed that money was a monopoly. Tudor monarchs, of course, jealously guarded their rights to create monopolies in everything from salt to candles. But the rising middle class resented these privileges, and in 1601, crown monopolies were largely revoked. With the accession of the Stuarts, however, they made a return, and Charles I went as far as auctioning them off. Eventually, in 1640, Parliament revoked the monopolies again – but they overlooked the monopoly over the coinage, and over paper currency. They forgot the first, says Selgin, because it was ancient and ingrained; and they forgot the second because paper currency was still in its infancy.

By the nineteenth century, economists had more understanding of how monopolies damage the public interest, and a few of them objected to this anachronistic hangover. But the great Stanley Jeavons dismissed the idea of competition, citing (erroneously) Gresham's Law, that bad money would drive out the good. For a hundred years, there was little further debate – the monetary authorities were by no means efficient at their job, but they mostly avoided complete disasters, so there seemed little reason to change things. Until, that is, the raging inflations of the 1960s and 1970s caused Hayek to propose that the state monopoly over the production of money should instead by opened up to competition. And today, that idea – and the idea of returning to some commodity currency that cannot be debased by politicians – is gaining strength.