Human Events
POWERFUL CONSERVATIVE VOICES

A Freer Monetary System Would Lead to Better Money

Jesse Hathaway

April 30, 2015

Since its invention in 2008, Bitcoin, a digital currency system, has slowly gained acceptance in online circles. But Bitcoin is only part of a potential future where a freer economy leads to increased economic growth and more consumer choice.

As one of the more popularly known decentralized digital currencies, Bitcoin is accepted as payment for real-world goods and services by companies such as Dell, DISH Network, Microsoft, Papa John's Pizza, and Overstock.com.

Exchanging otherwise unused spare processing cycles to verify and record other users' payments in the shared public ledger, called a "blockchain," for newly created Bitcoins and processing "fees," payment processing work is spread across the universe of Bitcoin users.

Although Bitcoin solved several problems that plagued past digital currencies, it may not be the endpoint of currency innovation, as private companies and banks begin to question why currency must be issued by a central authority such as the U.S. Federal Reserve.

In Massachusetts, 400 businesses accept "BerkShares," a local physical currency redeemable for goods and services. Local banks have agreed, without government compulsion, to trade dollars for BerkShares, and businesses may give change for purchases made in dollars with BerkShares.

Some Philadelphia community markets deal in "Equal Dollars," another local physical currency system. Equal Dollars are traded for goods and services, both in-person and via an online trading post. This alternative currency is designed to reward volunteerism, giving users 25 Equal Dollars in exchange for time spent on volunteer work.

Similar alternative currencies have been successfully adopted in the United Kingdom, Hong Kong, and other countries. In Hong Kong, private currencies such as the Hong Kong and Shanghai Banking Corporation Limited's banknotes are actually more popular than government-issued currencies.

Allowing alternative currencies to arise and evolve in the United States could be a boon for the nation's economy. In a policy paper for the Cato Institute, West Texas A&M University assistant professor of economics Thomas L. Hogan says the Federal Reserve's money monopoly is holding the economy back.

"Legislation clarifying the rights of private banks to issue currency could help clear the path toward a return to private money," Hogan wrote.

Hogan says there are strong economic incentives for a freer money market. "Considering that banks issuing private notes in Hong Kong, Northern Ireland, and Scotland earn hundreds of millions of dollars annually, it appears U.S. banks may be missing an opportunity to earn billions of dollars in annual profits," Hogan wrote.

The creation of alternative currencies is currently hamstrung by concerns over potential government interference. "Congress needs to guarantee the feasibility of private money for the benefit of consumers in the United States and around the world by clarifying the legal status of private banknotes" and "prohibiting the Fed, Treasury, and Justice Department from taking action against private money producers," Hogan said.

Removing the barriers to entry in the money market would increase the amount of currency experimentation and result in continual improvement of currencies. Allowing consumers to conduct transactions freely and voluntarily using their favored currency would permit the cream-of-the-crop cash to "rise to the top," as consumers would increasingly adopt the currencies with the characteristics they want most. Safety and reliability are among the most obvious of these, and although the U.S. dollar is widely considered to be safe, the Fed's currency manipulation makes the dollar anything but reliable.

Breaking government monopolies and allowing the free market to do its work are good ideas—and you can take that to the bank.