

Monetary Freedom, Monetary Magic

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What is needed for us to have real monetary freedom? Do we have to repeal legal tender laws? Abolish the central bank? Introduce a gold standard? Denationalize money à la Hayek? Or perhaps to introduce some other major policy change?

Not really. We just have to use some magic, some monetary magic.

Making the problem disappear

We don't need to repeal legal tender law, abolish the central bank, introduce a gold standard or denationalize money à la Hayek. We simply need to discover new and rediscover old ways of getting around the problem. Rather than working hard at trying to solve the problem, we can make it disappear. Just like magic.

Let me explain by providing an analogy. Let's say you want to take your kids to this great park in your city. In the middle of the park there's a restaurant that only serves poor junk food at absolutely unaffordable prices, and this place has been granted a license by the local government. As expected, your kids soon become hungry. What do you do? You could complain to the owner of the restaurant. You could try to gather up a crowd big enough to ask the owner to improve the food and lower the prices. You could try to petition the government to grant more licenses and hope more restaurants will open. But all of this takes time and your kids are hungry. So you will probably leave the park and simply grab a bite at another place. And the next time you want to visit the park, you will probably bring some food for a picnic. You simply get around the problem by taking your business somewhere else.

I believe we have been trying for too long to do the hard things. We have been working hard to introduce this or that major policy change, mainly through abstract reasoning, while forgetting the simple and practical ways. And the impact of the current monetary monopolies have been blown out of proportion by this excessive focus on it and the very fact that most people don't see clearly how limited it really is, thus making it even harder for ourselves.

But what exactly is the problem?

If we seek to make something disappear we need to be fully aware of what it is we want to disappear. We need to know the enemy, so to speak.

First of all, there's really nothing wrong about legal tender *per se*. It used to simply be the right of the government to stipulate that it wants to have taxes paid in its preferred money. The government stipulated that X was the unit-of-account and that Y and Z was legal means-of-

payment for the taxes, as well as for other financial transactions with the government. The government didn't claim any monopoly on the unit-of-account or the means-of-payment. Coins from other countries and notes issued by privately held banks circulated freely.

Later on the government claimed that its own issued money had to be accepted by everyone in the country at par. But coins from other countries and notes issued by privately held banks still could circulate freely, even though Gresham's Law¹ might have had a larger impact under such circumstances.

Further on the government created a central bank with a monopoly on note issuing. People hoarded valuable precious metal coins - Gresham's Law again - the mint was closed to the public and it started to produce token coins. This monopoly has ever since been grossly abused and resulted in the highly unstable fiat currencies of today.

Nevertheless, and I apologize for quoting myself²,

the essence of the problem with fiat currencies isn't the legal tender laws. Neither is the fact that the mint isn't open to the public the essence of the problem. *The monopolization of note issuing seems to be the essence of the problem.* Break that monopoly and the rest of the problems will vanish. (i) Gresham's law would reverse so that precious metal coins could enter into circulation again, (ii) there would be demand to open the mint to the public or import precious metal coins, (iii) people would consider using alternative unit-of-accounts, like precious metals, and (iv) the legal tender laws could more easily and naturally be circumvented by private contracts.

The significance of the monopoly on note issuing has despite this been grossly overstated. Granted, it's the main contributor to the problem of fiat currencies. But breaking the monopoly on note issuing isn't really necessary either in order to use your monetary freedom, only in the case you want to get rid of fiat currencies. These are not identical things.

This is how to use your monetary freedom.

Three steps from monetary freedom

I think there are three simple steps you should try to follow in order to utilize the monetary freedom you actually have and thereby avoiding a lot of the problems the government monopoly creates. You can do just one or two of them, and perhaps do so today already, but you should at least consider doing all three. Here they are:

1. Selecting unit-of-account for transactions

When preparing a general offer to potential clients you can select the unit-of-account freely. There is no law stipulating that you have to use the unit-of-account preferred by the government, i.e. normally the national currency. Thus you don't have to use US\$ if you live in the US or RMB if you live in China. You could use whatever unit-of-account you find proper.

You should of course consider what the opposite party of the transaction might think about your selected unit-of-account. And if it's a contract between that you need to negotiate, this is even more obvious.

There has been as many unit-of-accounts throughout history as there is pebbles on my beach, so don't let your imagination stop you. I know people that work with various 'Local Exchange Trading Systems³ that use everything from abstract measures of time to a dozen of eggs. "[T]he design of good money leads inevitably to many moneys", as Michael Linton⁴ wisely put it. I know a medical doctor that quotes his services in ounces of gold, and for very good reasons⁵.

The important thing is that you can and should select a unit-of-account freely, disregarding the currency monopoly and focus on what your trade needs.

2. Selecting unit-of-account for accounting

We don't perform accounting in order to satisfy the tax man. Accounting is far more important than that. Income-and-outlay and profit-and-loss calculations are fundamental tools for directing the actions of any person, privately or in business. And there cannot be any advanced society at all without proper accounting.

Because of the demands of the tax man, you need to perform accounting using the unit-of-account preferred by the government, i.e. once again normally the national currency. But this need not stop you from doing accounting using other unit-of-accounts as well. This is no stranger than keeping the accounts of a company based in several countries and that hence need to keep the books in unit-of-accounts preferred by several governments, i.e. several national currencies.

Naturally, you could keep your books in the national currency and the unit-of-account you have chosen for quoting prices in your business. If you are working with several alternative unit-of-accounts in your business, I believe you should try to keep it to one alternative unit-of-accounts for accounting purposes. Hence, you might need exchange rates between these various unit-of-accounts, but that's generally no problem.

Moreover, you can freely choose to keep your book using sound accounting principles⁶, instead of the mish-mash of completely unsound accounting principles that the tax man normally requires for filing taxes.

Once again, I know a medical doctor that quotes his services in ounces of gold and he keeps his books in gold ounces and also at least two national currencies since he is doing business in two countries. And there are several accounting freeware (example⁷) that can handle multiple currencies, including gold or any other unit-of-account of your choice.

3. Selecting means-of-payment

Selecting a means-of-payment could be a pretty simple thing. Even fiat currencies suffice as long as there are proper exchange rates with the unit-of-account in question.

There is a major problem with fiat currencies that is important to be aware of. Settling a debt in fiat currencies doesn't extinguish the debt, since a fiat currency itself is debt on the balance sheet of the central bank at hand. Using fiat currencies insures that debt is perpetuated, and this is at the core of most of the economic problems of today, particularly in the West.

One way for the individual to get around this is through various systems of clearing. There are various clearing, barter and trading systems around that handle this in a smart way (as mentioned above). Although the purchase is registered as a short-term debt, it is very soon

extinguished by a corresponding claim by other players inside the system. It works much like any accounts payable, i.e. a short-term debt, that is extinguished as soon as the bill is paid. There is debt, but it is self-extinguishing and not perpetual as in the case with fiat.

There are many great and ambitious people that have created businesses of such clearing and many others that operate on a not-for-profit basis. Unfortunately, there are few systems that are very widespread beyond the local trade or have that ambition, so there is still much work to do in this area for entrepreneurs. But with modern means of communication, this has the potential to become more widely used; at least I'd like to think so.

Monetary freedom in our time

When filing for taxes, we have to use the government monopolized unit-of-account and means-of-payment. But otherwise, we can use any unit-of-account we want for transactions and accounting and use any means-of-payment we want, or even better, rely on clearing.

So instead of trying to change the system, you should start taking the liberties you actually have and help develop them. You will gain, everyone will gain.

Simply quote your services in the unit-of-account of your choice. Simply do the accounting in the unit-of-account of your choice. Simply rely on mutual clearing as far as possible or else use the most convenient means-of-payment. The monetary monopoly will simply disappear, just like magic. Monetary magic.

¹ http://en.wikipedia.org/wiki/Gresham%27s_law

² <http://www.safehaven.com/article/17977/fiat-currencies-is-legal-tender-the-problem>

³ http://en.wikipedia.org/wiki/Local_Exchange_Trading_Systems

⁴ http://en.wikipedia.org/wiki/Michael_Linton

⁵ <http://www.lewrockwell.com/orig5/johnsson5.1.1.html>

⁶ <http://www.safehaven.com/article/12854/the-global-financial-crisis-101>

⁷ <http://www.gnucash.org/>