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Breaking the Monopoly on Money

by Richard W. Rahn

THE FEDERAL GOVERNMENT SHOULDN'T BLOCK DIGITAL FUNDS

If mankind can figure out how to give everyone instant communication and all the world's knowledge via the smartphone, why are we not smart enough to figure out equally convenient, quick, low-cost and secure ways of paying for goods and services to everyone on the planet? Actually, we are.

At the moment, the Swedes and Danes are engaging in a concerted effort to phase out cash — that is, paper currency and coin. The Monetary Authority of Singapore has just announced that by working with a number of banks and blockchain tech firms, they have just completed the first phase of "tokenizing" a Singaporean dollar through an Ethereum blockchain that is largely anonymous but can be used to transfer value instantaneously like paper currency (unlike checks, credit and debit cards, and standard electronic transfers).

The idea of money has been around for several thousand years, along with precious metal coins to serve as money. The question has remained as to whether governments, private parties or both should create money. When the weight of a gold or silver coin determined its value, it mattered little to the user who struck the coin. After the invention of paper money by the Chinese, "over-issuance" (producing more paper value than the real value of the metal in the vault) became much easier than shaving the coin — the manifestation of which we know as inflation. Zimbabwe holds the record for paper inflation by having produced a 100 trillion Zimbabwe dollar note.

The move to electronic money and money transfers (as contrasted with the physical movement of checks and other paper monies) has made it even easier to create infinite amounts of money with little or no backing in the form of real assets. Digital money or cryptocurrency refers to non-physical money not created by a central bank.

Governments and banks do not like paper currencies or paper checks. They are costly to handle and move about. They are easily stolen and it is very hard to keep track of ownership (which is big problem for legitimate law enforcement, and also for regimes that do not respect financial privacy and wish to spy on their citizens). Money is also dirty — in that it can transmit disease (covered with germs going from one person's dirty pocket to another's). Paper money is also costly to produce — with more and more anti-counterfeit features being required — micro-information threads and watermarks in the "paper."

Getting rid of paper money sounds like a great idea, but many people cannot obtain debit or credit cards (in part because of anti-money laundering regulations), and people like the anonymity of paper money — for good and bad reasons. There are times most people don't want others, including government busybodies, to know how they spend their money.

At the same time that the government of Singapore is trying to get ahead of (or at least team up with) the innovators around the world — like the founders of Bitcoin or Ethereum, who are competing to come up with superior money — there are those politicians in the United States and elsewhere trying to thwart progress. Sen. Charles Grassley, Iowa Republican, along with Sens. Dianne Feinstein, California Democrat, John Cornyn. Texas Republican, and Sheldon Whitehouse, Rhode Island Democrat, have introduced a bill to stop digital currencies from crossing the U.S. border without being reported (proving that neither political party has a monopoly on those who cannot think beyond Stage I). Their goal is to stop the vague crime of money laundering, tax evasion and, of course, terrorist finance. Are government officials going to electronically intrude into all of our smart phones and electronic devices looking for atoms that might represent money, when they can't find thousands of tons of drugs crossing the border?

Some of the smartest people in the world are developing cryptocurrencies, precisely to get around government monopoly money with all of its inefficiencies, intrusiveness and destructiveness. Black or shadow markets arise in response to government regulations and controls and, in particular, those that are economically damaging and with little public support. When the world was on the gold standard, there was no a black market in money. The higher the rate of inflation, the greater the regulation and the cost of money transference, the bigger the black market. Venezuela today is Exhibit I.

There is no reason governments should monopolize the issuance of money (gold, paper currency or a cryptocurrency) any more than they should monopolize the production of paper clips. The Federal Reserve was supposed to protect the value of the currency — which is now worth a little more than 4 percent of what it was a century ago when the Federal Reserve was created. The great shame is that when governments steal from everyone, no one goes to jail. The good news is that real, privately issued, global currency competition is alive and well, whether governments like it or not.

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http://www.washingtontimes.com/news/2017/jun/19/digital-funds-methods-blocked-by-government/