



Denationalisation of Money

Friedrich A. Hayek

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The government monopoly of money must be abolished to stop the recurring bouts of acute inflation and deflation that have become accentuated during the last seventy years. Abolition is also the cure for the more deep-seated disease of the recurring waves of depression and unemployment attributed to 'capitalism'. The monopoly of money by government has relieved it of the need to keep its expenditure within its revenue and has thus precipitated the spectacular increase in government expenditure over the last forty years. Abolition of the monopoly of money would make it increasingly impossible for government to restruct the international movement of men, money and capital that safeguard the ability of dissidents to escape oppression. These four defects - inflation, instability, undisciplined state expenditure, economic nationalism - have a common origin and a common cure: the replacement of the government monopoly of money by competition in currency supplied by private issuers who, to preserve public confidence, will limit the quantity of their paper issue and thus maintain its value. This is the 'denationalisation of money'. Money does not have to be 'created' legal tender by government: like law, language and morals it can emerge spontaneously. Such 'private' money has often been preferred to government money, but government has usually soon suppressed it. So long as money is managed by government, a gold standard, despite its imperfections, is the only tolerable safe system: but it is better to take money completely out of the control of government. In a world governed by pressures of organised interests, we cannot count on benevolence, intelligence or understanding but only on sheer self-interest to give us the institutions we want. The insight and wisdom of Adam Smith stand today. The proposal is not a minor technicality of finance but a crucial reform that may decide the fate of free civilisation. The urgency of competition in currency requires to be demonstrated to the public by a Free Money Movement, comparable to the Free Trade Movement of the nineteenth century. In the third edition of his classic, Professor Hayek argues that the problem of recurrent inflation is due to government monopoly provision of money, competition being the solution.

Denationalisation of Money Details

Date : Published December 19th 1990 by Institute of Economic Affairs (first published October 1976)

ISBN : 9780255362399

Author : Friedrich A. Hayek

Format : Paperback 136 pages

Genre : Economics, Nonfiction, Philosophy, Social Science

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From Reader Review Denationalisation of Money for online ebook

victor f says

Despite Hayek's "keynesphobia", very interesting through the prism of this new cryptoeconomy!

Michael says

Good thoughts. What can I say. Economics isn't really light reading.

Kevin says

"It has so long been treated as a self-evident proposition that the supply of money cannot be left to competition, that probably few people could explain why," says Hayek. The Denationalization of Money is a classic monetary treatise which argues for the superiority of a competitive, private of the monetary system (specifically the monetary supply, issuance, exchange, etc.) over monopolized issuance by governments.

Fundamentally, it would appear that Hayek is arguing that the government monopoly of money is unnecessary, and that in a competitive arena, the primacy rules-based monetary supply over a discretionary one would eventually become apparent. This argument should be eerily familiar to any student of Austrian economics or blockchain enthusiast living in 2018.

For Hayek money is best thought of as a relative adjective rather than a noun. If we empirically observe goods within a marketplace, we learn that there is no clear distinction between money and non-money. There is only a spectrum of objects (or assets) with various degrees of liquidity - where relative value fluctuates independently of each other asset. Price is relative.

In the text, Hayek identifies four core 'uses', or attributes of money:

The first is cash purchases or the ability to spend a given token on a consumption good. With great foresight, Hayek argues that "electronic cash registers would probably be developed rapidly to show instantaneously the equivalent of any price in any currency desired, [and] also connect through the computer with banks so that firms would immediately be credited with the equivalent in the currency in which they kept their accounts. We can see this in today's world through mobile payment wallets with built-in centralized exchange mechanisms, like ShapeShift (or more recently, through atomic swap mechanisms and decentralized exchange protocols like 0x).

The second attribute of 'money' is the ability for users to hold reserves for future payments. There are physical components here centered around durability (i.e. will my piece of paper withstand being dipped in water, or more generally the waves of time). There are also intersubjective, faith based concepts like "will people accept this money in the future?", will it hold its value, etc. Here it would seem the common wage earner would prefer a stablecoin (as described later in the review).

The third defined attribute is as a standard of deferred payments, meaning, "do I want to use this money for

lending or borrowing". In the digital era, we may see projects like the Dharma Protocol come into play here.

The fourth and final described attribute is as a reliable unit of account. It is here that common monetary concepts like fungibility, divisibility, measurability, etc. come into play.

Translating to post-21 terms, Hayek believes that the winning currency in a competitive market would be one generally expected to preserve its purchasing power approximately constant would be in continuous demand so long as the people were free to use it (aka the Stablecoin Argument). With the success of the stablecoin dependent on keeping the value of the token constant, one could 'trust' the cryptocurrency developers to achieve this better than any monopolist who runs no risk by depreciating its money. The issuing institution (developer) could achieve this by regulating the quantity of its issue (ala distributed consensus algorithm). Strictly speaking, however, there is no such thing as a 'perfectly stable value of money' - a conclusion which is also reached by Noah Yusaf Harari in the now widely-read *Sapiens*.

It is a 'legal fiction' that there is one clearly defined thing called 'money' which can sharply be distinguished from other things, argues Hayek, and this assumption has led to misleading conclusions in macroeconomic theory (i.e. - the Quantity Theory of Money). According to Hayek, this 'money illusion' only arose because it was useless for individuals of a particular monetary zone to worry about it so long as they could not do anything about it.

In Hayek's view, "Once people have a choice, they will become very much aware of the different changes of the value of the different currencies accessible to them. It would become common knowledge that money needs to be watched, and would be regarded as a praiseworthy action, rather than an unpatriotic act that a particular currency was suspect."

In my view, given basic human nature, it seems obvious that good national money is impossible under a democratic government dependent on the voting cartels of special interests.

Hayek concludes the essay with a number of short-and-long term paths forward toward a competitive monetary base. He concludes that a 'Free Money Movement' that is comparable to the 'Free Trade Movement' of the 19th century will eventually emerge.

In my opinion, this movement, if it were to emerge, will be more similar to the 'Free and Open Source (FOSS) Software' movement of the late 90's and early 00's - in which free market competitors in the OS arena (namely Linux) emerged to topple the dominant, and primacy of the Windows OS (which was similarly bolstered by an aforementioned 'legal illusion').

This essay is a most read for any cryptoenthusiast (and may be regarded as core lore along with the works of Szabo, Nakamoto, Buterin, etc.)

David says

Some excellent points, helped clarify my own thinking on the matter.

Lucas Miguel says

"Nunca teremos uma moeda decente antes de tirarmos o monopólio do governo de emitir dinheiro".

O livro traz desde uma contextualização do dinheiro, quando ele foi usado e para qual objetivo, até como fazer uso dele sem que haja um banco central ou uma mente superior (governo) por trás disso. Não dispensando os exemplos de países antigos que adotaram moedas paralelos e exemplos atuais como a fronteira dos Estados Unidos-México.

Obs: Milton Friedman que é adepto das mesmas ideias econômica do autor, será contra a política monetária proposta por Hayek, que expressa em algumas páginas a sua decepção com o companheiro, que dedica seu final de vida a estudar algo que não domina e nem dominará.

Florian Ebeling says

Hayek explains a plan for competitive provision of money.

José Joaquín Fernández says

"There is no answer in the available literature to the question why a government monopoly of the provision of money is universally regarded as indispensable" p.27 "It has the defects of all monopolies" p.28

Denis Vasilev says

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Esteban says

La reflexión histórica y ontológica sobre el dinero de von Hayek es puramente instrumental a la antipolítica monetaria de su utopía. No comparto sus premisas ni sus valoraciones morales, y creo que tiene una comprensión deliberadamente distorsionada de la historia del dinero, pero le doy tres estrellas por una cuestión estética: son raros los autores de derecha que se atreven a plantear algo tan diabólico e insolente.

Giovani Facchini says

When reading Hayek ideas from forties to the eighties, we are able to realize its evolution and maturity. Denationalisation of Money fix an important error in Hayek's thought (from 1960 - The Constitution of Liberty) when he still believed that Government should own the monopoly of money. Maybe what governments did on sixties and seventies, destroying money power across the globe, opened his eyes to this

important problem.

This work paves the way to start shifting control of money from government back to individuals giving them the power to choose what money they want to use (Gold, Dollar, Silver, Bitcoin or whatever they like). This paper shows many of the issues related to government monopoly and how to overcome them.

Many of possible impacts and points of view (government, banks, companies, lenders, borrowers) are explored through a process on how to do the change. Very interesting work.

TarasProkopyuk says

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Matt Bianco says

The book is good, helps one to understand how you could have multiple currencies competing within the same place. I'm not sure how or why Hayek makes the leap that those currencies could be fiat currencies, otherwise it is a good book.
