

at least four new monetary units, and possibly three times as many if the Scottish banks and the former building societies wanted a piece of the action. Shopping with concurrent currencies would mean going to the supermarket and finding four different price tags on every packet of Weetabix, giving the price in Nat West ducats, Midland talents, Barclays florins and Lloyds crowns. To put it bluntly, it would be a hell of a nuisance. The only alternative would be for every shop to choose only one currency in which to price its goods and accept payment, and that would be just as bad. If I was paid my salary in Nat West ducats, one shopping trip might mean exchanging ducats for Midland talents to buy a shirt at Marks and Spencer's, then Barclays florins to buy a book at W. H. Smith's, then Lloyds crowns to buy a bottle of shaving lotion at Boots. It always costs money to exchange one currency for another, and by the time the banks had finished charging commission, they would have taken me to the cleaners. Concurrent currencies would have no great advantages over the CCS, but they would involve the major disadvantage of abandoning monetary standardisation.

Supporters of concurrent currencies have argued that existing state currencies already circulate concurrently in some places. Examples include border areas, international tourist resorts, airports, and very small states such as Luxembourg and Singapore which are surrounded by much larger countries and also serve as financial centres. (The idea of concurrent currencies occurred to Hayek while he was living in Salzburg, an Austrian city within five miles of the German border, where most shops and other businesses accept Deutschmarks as well as schillings.) In these areas it is standard practice for shops to use electronic tills which can cope with several currencies at once. Concurrent state currencies are also found in many of the liberated countries of Eastern Europe, where the local currencies have been weakened so much by inflation that millions of people use Deutschmarks or US dollars instead. However, these are all exceptions to the rule. The inconvenience of concurrent currencies is tolerated in border areas and small states because they make up such a small part of the total area of the world; they are simply transitional zones where currency regions happen to overlap. In countries with weak currencies, the use of foreign money is usually a temporary measure resorted to out of desperation. The same thing happened in Israel in the 1980s, when the annual rate of inflation exceeded 100% for six years and the US dollar was widely used as a substitute currency. In 1985 the government issued a new shekel worth 1,000 old shekels, and inflation was reduced to a more tolerable level, with the result that people stopped using dollars. In Eastern Europe it is likely that foreign money will also go out of circulation in due course, when sounder money is issued locally. Whenever two or more currencies circulate side by side, you always

have to exchange one for another sooner or later, and that means transaction costs. Electronic aids to calculation may reduce transaction costs, but they can never reduce them to zero, and when there is only one currency, transaction costs are exactly zero.

One other existing example of concurrent currencies deserves a mention. Local Exchange Trading Systems (known as LETS schemes for short) have been set up in over a hundred places in Britain since the first one was launched in Norwich about ten years ago. Participants in these schemes put their names on a register and agree to exchange goods and services by barter, paying for them with cheques written in a local monetary unit of their own, which is used by the organiser to record members' debits and credits. In the long run, some organisers hope to replace sterling with their own currency for 50% of local transactions. LETS schemes are a good way of getting people accustomed to the idea that money does not necessarily have to be issued by the state, but they are unlikely to be as successful as their supporters hope, if only because most of the people taking part are environmentalists and New Age mystics. This suggests that it takes a considerable degree of ideological commitment to get a scheme off the ground, and it also means that the range of products available is rather limited. LETS money is all right if you want aromatherapy, astrological consultations, spiritual healing, dog-grooming or organic coffins, but it is no good for buying the more mundane things in life, like a week's supply of groceries at Tesco, a train ticket to Manchester, or a pint of Strongbow at the local pub. For the great majority of everyday purposes, sterling will probably remain unchallenged.

A final argument put forward by supporters of concurrent currencies is that standardisation could be achieved if all the banks agreed to use the same basket of commodities as their guideline, so that their currencies were so nearly identical in value that it made no difference. That is true, but in that case it would be just as easy for the banks to form a cartel and agree to inflate their currencies together, which would be in their interests, since they could earn more profits by lending more. Of course, sooner or later it would be in the interests of at least one bank to break the cartel and attract more customers by stabilising its currency, but in that case all the banks' currencies would no longer be worth the same. If monetary standardisation is desirable, the CCS is the best way to achieve it.

MONETARY UNIONS PAST AND PRESENT

When it comes to monetary reform, libertarians should not be thinking in terms of multiplying the number of currencies in circulation in Britain, but reducing the number of currencies in circulation in the world, in order to facilitate free trade and travel. The idea of an international monetary union is much older than the

Treaties of Rome and Maastricht, and it does not necessarily mean surrendering national sovereignty or entrenching the monetary system which causes inflation and recessions. It is true that these would be the inevitable consequences of a union based on fiat money, as proposed by the federalists, because it would require a single central bank with a federal superstate to supervise it. However, a union could be based on a commodity standard instead, and in fact unions of this type have existed in the past.

The world's first international monetary union was set up by the independent states of Germany before political unification. In 1837 the South German states of Bavaria, Wurttemberg, Frankfurt, Baden, Hesse and Nassau signed the Munich Convention, under which they agreed to standardise the weight and fineness of the silver gulden, the coin which they all used as their unit of account, and make every state's coins legal tender in all the other states. In 1838, under the Dresden Convention, the scheme was extended to all the main German states except Austria. The silver thaler, which served as the unit of account in the North German states, including Prussia, was also standardised, and the ratio between the weights of the coins was fixed at $1\frac{3}{4}$ gulden to the thaler, so that 28 thalers or 49 gulden could be minted from one Prussian pound of bullion. The Vienna Convention of 1857 introduced the metric system for weighing silver and brought Austria into the union for the first time. A new metric pound of 500g. replaced the old Prussian pound of 467.71g., and the weight of the thaler was reduced by 0.22% so that exactly 30 of them could be struck from a pound of metal. The weight of the South German gulden was reduced in proportion, and the Austrian gulden (or florin) was brought into the system at a ratio of $1\frac{1}{2}$ gulden to the thaler. Austria's participation did not last long, however; it withdrew from the union in 1866, after the Austro-Prussian war. Five years later, when the German Empire was founded, the whole system was swept away to make way for a gold standard with a new currency unit, the Reichsmark.

Two other monetary unions were later set up by nations which have remained independent to this day. By the 1860s, France, Belgium, Switzerland and Italy were all using currencies almost identical in value, and in 1865 they agreed to form the Latin Monetary Union. This involved standardising the weight and fineness of the French, Belgian and Swiss francs and the lira so that gold and silver coins from all four nations could circulate at par throughout the union. In 1867 the union was joined by Greece and Rumania, and the drachma and the leu were standardised at par with the other currencies. At first the union was on a bimetallic standard, but France and Belgium unilaterally stopped coining silver in 1876, and the whole union officially adopted a gold standard two years later.

The other example of international co-operation was the Scandinavian Monetary Union. When Germany went onto the gold standard, Norway, Sweden and Denmark decided to do the same because of their trading links with Germany. In 1872 they agreed to form a monetary union and mint a new gold krone which would be legal tender in all three countries, replacing their existing silver standards. Sweden and Denmark implemented the decision in 1873, and Norway joined the union two years later.

In 1867 the world actually came close to achieving a monetary union of near-global extent. France wanted to extend the Latin Monetary Union, so the French government called the world's first International Monetary Conference, which was held in Paris and attended by representatives of twenty of the most advanced countries in the world. The conference proposed a universal gold standard instead of bimetallism, and suggested that the British Empire and the USA should form a monetary union with the Latin Union countries by reducing the weight of the sovereign by 0.88% and that of the gold dollar by 3.5%, which would make them worth exactly 25 and 5 francs respectively. Sadly, the scheme was not adopted because of conservatism on the part of the British and American governments; it would have been a great boon to mankind if it had gone ahead.

The purpose of this excursion through economic history is not to propose the monetary unions of the 19th Century as exact models for emulation today, but simply to make readers aware of what was achieved in the past and what could be achieved again through international co-operation. The gold and silver standards of the past were wobbly anchors, as Hayek put it; a composite commodity standard consisting of fifty basic foodstuffs and industrial raw materials would give us a much more stable currency. However, what was done with single commodity standards could just as easily be done with the CCS. Monetary union is a popular idea today. For example, last year the *Daily Mail* published a letter from a man who has just returned from a motoring holiday on the Continent, in which he had travelled from Germany through Austria into Italy and had to use Deutschemarks, schillings and lire in the space of one day's driving. Naturally, he found this a great inconvenience, and his opinion is widely shared. It is ironical to think that in Victorian times he could have travelled from Brussels to Athens via Paris, Berne and Rome and spent the same currency all the way.

If the CCS was first adopted in an economically advanced but relatively small country — say, Finland or Malaysia, for example — it would probably be slow to catch on elsewhere. Here in Britain, however, we are lucky enough to have one of the world's top three financial centres as our capital city. If the pound was put on the CCS, and it worked, it would be a strong incen-

tive for other countries to reform their currencies on the same lines and link them to the pound by adopting the same basket of commodities as the standard. This would not necessarily mean that other countries would have to start using pounds themselves; they might prefer to keep a local name for the sake of tradition. For example, there might be ten Danish CCS kroner to the pound, or 200 Portuguese CCS escudos. The name of the unit would not matter if each country's banknotes came to be accepted in all the other countries which were on the same standard, just as in the Latin Monetary Union it did not matter whether the silver coin in your pocket was a franc, a lira or a drachma, because they were all worth the same. What applied to notes would, of course, also apply to cheques, Switch cards or any other payment devices. Complete privatisation of money in Britain would, of course, mean free banking as well as the CCS, but other countries, initially at least, could go onto the CCS while retaining central banking. In the Latin Monetary Union, France, Belgium and Rumania had central banking, Switzerland had free banking, and Italy and Greece had partly free systems with two or more banks of issue. In the Scandinavian Monetary Union, Denmark and Norway had central banking while Sweden had free banking. Not every country in the world would necessarily adopt the same monetary standard as Britain; some of the larger countries might see the merits of the CCS but prefer to choose their own basket of commodities. It is conceivable that in the long run the world might end up with four standards — London, Frankfurt, New York and Tokyo. This would not be quite as convenient as a worldwide monetary union, but it would still be a lot better than the present system of nearly two hundred different fiat currencies.

PATHS TO PRIVATISATION

Some libertarians recognise the advantages of the CCS over concurrent currencies, but believe that it could evolve spontaneously from concurrent currencies in a free market, just as standard discs and operating systems for computers have evolved in a free market. Their preferred path to privatisation would be to abolish the pound sterling, close down the Bank of England, and then stand back and wait for private enterprise to fill the gap. They maintain that if the public preferred commodity-backed currencies to irredeemable ones, the irredeemable currencies would gradually disappear from circulation, and if the public wanted all commodity-backed currencies to be based on the same standard, the non-standard currencies would also disappear. This may be true, but I would suggest that it is a needlessly long and tortuous route to our goal. When we privatised the electricity industry, we did not demolish all the state-owned power stations and wait for private enterprise to build new ones; we took what we already had and privatised it intact; and we should

privatise money the same way. My preferred path to privatisation would involve three stages: (a) put the pound sterling on the CCS; (b) allow all the banks to issue redeemable notes denominated in sterling; and (c) privatise the Bank of England. That way, we would start standardised, finish standardised, and remain standardised throughout, with no need for a chaotic phase in between. After privatisation had been completed, banks would be free to issue new irredeemable currencies instead of sterling if they chose, but I strongly suspect that there would be no demand for them.

If privatisation was divided into three stages, as I propose, it would probably be easier than it seems. Bank of England notes still have the words "I promise to pay the bearer on demand the sum of £X" printed on them, even though they have been meaningless since 1931, when Britain abandoned the gold standard. If the public knew that they were actually going to mean something for the first time in over sixty years, the CCS could prove very popular. The next step would involve a multiplication of the number of kinds of banknote south of the border, but there would be no obvious change in Scotland, where three private banks still print their own notes, even though since 1845 they have been satellites of the Bank of England rather than truly free banks of issue. (Scottish notes also circulate widely in the border counties of England, such as Cumberland, where I grew up.) Any Englishman who had been to Scotland would soon get used to the new system. Once the Bank of England had become just one bank of issue among several, it would seem logical to privatise it, and then we would have achieved our aim.

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