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Summary of Comments

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The Choice of a Monetary Standard

Panel Discussion

Cato Institute's 13th Annual Monetary Conference

Cato Institute
Washington, D.C.
May 25, 1995

- Money exists because it reduces transactions cost. People use as money that entity that economizes best on the use of other real resources in gathering information about relative prices and in conducting transactions. [Alchian (1977) and Brunner and Meltzer(1971)]

- Because money enhances efficiency, standards of living can be higher if the quality of money is higher. The quality of a nation's money depends on the nation's monetary regime.

- Many monetary regimes are possible. There have been several during the 20th century. The U.S. is ending the century with a regime very different from the one that prevailed when the century began. This panel is exploring possible monetary regimes for the 21st century.

- Our topic, "The Choice of a Monetary Standard," implies (1) that the optimum monetary regime will include a monetary standard, and (2) that the optimum monetary standard can be chosen. That is too narrow, in my view.

    - We should, at least, not arbitrarily rule out the possibility that the optimum monetary regime will ***not*** include a monetary standard.

    - The notion that the best regime or the best standard can be ***chosen*** implies a great-man theory. It implies that public-spirited, wise economists should design the best possible scheme and then persuade politicians to implement it. An alternative view is that the best regime and best standard (if a standard is useful) should be allowed to be evolve from free competition in the market.

- Most of us readily agree that the results obtained from the free play of market forces are superior to those obtained from central planning and most governmental regulation. The history of this century provides ample supporting evidence. Why not learn from experiences in the 20th century as we think about future monetary regimes?

- Today, potential competition among alternative monies is influenced in the U.S. by laws, regulations, and court decisions. Laws and regulations might be changed in ways that would allow more effective competition. Here are some examples:

    - Federal law (Title 31, Section 5103) states that "United States coins and currency (including Federal reserve notes ...) are legal tender for all debts, public charges, taxes, and dues. Foreign gold and silver coins are not legal tender for debts." This law might be altered so that, at least for obligations other than taxes, contracts written in terms of foreign or alternative domestic monetary units, including specie, could compete with dollars.

- Legislation requiring enforcement of "specific performance" by the courts would increase the opportunity for competition in monies. Currently, if a contract is stated in terms of a money or unit other than the U.S. dollar, courts will not require performance in the stated unit, but will require a "dollar equivalent" to be paid.

- Travelers checks already function as a privately-issued currency. If issued by a non-bank, no reserves are mandated, but if issued by a (large) bank, the issuer must maintain a 10% reserve in currency or in deposits at a Federal Reserve Bank. Since those reserves earn no interest, travelers checks issued by a bank are not competitive. Competition in the provision of travelers checks would be enhanced if that reserve requirement were eliminated.

- Stored-value cards (smart cards) embody a private currency that is a liability of the card issuer. In a sense, they are a new, electronic form of travelers checks. If commercial banks do not have to meet reserve requirements on such liabilities they will be better able to compete with non-bank issuers of this new form of money.

- Some non-banks offer check-writing or other transfer privileges on credit balances or investment-account balances. These are not reservable. If reserve requirements on transactions deposit liabilities of commercial banks were eliminated, banks could compete more freely against these alternative monies.

- Since January 1, 1990, U.S. commercial banks have been permitted to offer deposits denominated in foreign currencies. Removing the reserve requirements on such deposits would increase the opportunity for those monies to compete.

- In my remarks so far, my approach has been that of a gardener rather than an architect. I have suggested ways of removing obstacles to free competition among monies, so that those that best serve the needs of commerce can be free to grow and blossom. I have not sought to draw blueprints for a particular monetary regime. I have not assumed that the U.S. dollar should be the medium of exchange or even the unit of account.

    - My suggestions are in the spirit of Hayek (1978) who argued that "the governmental currency monopoly" ought to be replaced, saying "We have never had the control of money in the hands of agencies whose *sole* and *exclusive* interest was to give the public what currency it liked best among several kinds offered, and which at the same time staked their existence on fulfilling the expectations they had created."

- Let me now assume that, for whatever reason, the U.S. dollar remains the premier unit of account. There are at least three approaches to stabilizing its value, all of which have shortcomings.

    - One possibility is to return to a regime in which the dollar is tied to the intrinsic value of some other entity -- in other words, return to a single commodity unit such as gold or a multi-commodity basket of precious metals or other goods.

    - Another possibility is to tie the dollar to a basket of other national currencies.

    - A third possibility is to continue the current monetary regime that does not rely on a monetary standard -- in other words, the dollar is not defined in terms of specific goods or foreign currencies.

        - One open question is, what techniques can establish a credible commitment to stabilize the value of a dollar that is ***not*** tied to some other entity?

        - Another open question is, how can monetary policy be conducted in such a regime? Monetary policy attempts to equate the nominal amount of money supplied with the predicted amount demanded so that the currency's value is stabilized. But if payments can be made using new vehicles, such as stored value cards, new methods will be required to estimate the demands for those new types of transactions balances and to control the nominal supplies of such balances.

        - A fairly recent hypothesis is that we currently are in a regime of competing national currencies; global foreign exchange markets impose a discipline on the monetary authorities of each of a few major countries.

            -- Is this a valid conjecture?

            -- Do global financial markets effectively and symmetrically set boundaries to the inflation rates of the major national currencies?

            -- How might such a regime be enhanced?

- In conclusion, two possible regimes are as follows:

  - Have a monetary standard. We might (1) return to a previous standard, such as specie, with which we have some experience or (2) adopt some new, unproven standard, perhaps even minutes of MCI long-distance time, minutes of cable TV time, or frequent flier miles.

  - Have no monetary standard. We might (1) use only competing national currencies or (2) use only non-national (private) currency units or (3) use both national and non-national currency units if it is possible for the two types to co-exist.

References

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