A Modest Proposal for a Private International Monetary System

By George W. Trivoli, Arlington/Texas*

I. Present International Monetary Situation

There have been numerous proposals for international monetary reform, new forms of international money, and foreign exchange systems. The present status of the international monetary system has been characterized as chaotic with most major currencies floating in one form or another. Yet, we now have the worst possible system that has none of the traditional benefits of a fixed exchange rate system, such as prevailed under the gold coin standard of the eighteenth and nineteenth centuries. Nor have we gained any of the true benefits of a free fluctuating exchange rate system.

The present system — characterized as "dirty" float — contains most of the problems of the old fixed system. The problems stem mainly from uncertainties of continual exchange rate instability caused by central bankers attempting to peg a foreign exchange rate for their nation's currency either higher or lower than the market equilibrium.

II. Hayek's Competitive Money Proposal

There has been a perennial search for a new international money that is universally acceptable but has some protection from direct governmental intervention. Professor Fredrich A. *Hayek,* Nobel Laureate in Economics in 1974, in his recent works devoted to competitive world currencies, has put forth a novel idea of allowing free competitive note issue[1].

This idea was discussed in an open forum during the 1976 Mont Pelerin Society meeting in St. Andrews, Scotland. The advantages of a

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* Associate Professor and Director Center for Business Services, University of Texas at Arlington.

[1] F. A. *Hayek,* "Choice in Currency: A Way to Stop Inflation", London: The Institute of Economic Affairs, 1976.

private competitive note issue would, of course, be enormous. Mainly it would allow private note issue, say, by the large international banks, which would initially circulate along with the official national monies.

This situation would not be unlike the so-called free banking era in American history during the nineteenth century. Although this era has been characterized as chaotic by most accounts, there were some islands of extremely sound currencies, as for instance under the Suffolk Bank Reserve System operating in New England during 1825 to 1857[2].

Hayek maintains that the sound privately issued monies would prevail over the continually debased official government currencies if they were allowed to circulate freely. Moreover, competitive monies would tend to restrict note over-issue by constantly driving the inflated currencies to a discount relative to the other money units. All this seems to be supportable by both theoretical and empirical evidence[3].

The major criticisms levied at Hayek's competitive money proposal fall into two categories: (1) general acceptability; and (2) lack of a central coordinating entity, i. e., central bank. Regarding general acceptability, *Hayek* readily agrees that it may take years before the privately issued notes would gain wide acceptability, but he feels that as governments continually debase the official monies, the process will accelerate.

However, there are great practical barriers to overcome in gaining general acceptability of the privately issued notes. Moreover, there are the problems of banks relearning the business of note issue; the high probability of counterfeiting, which would make people very leery of accepting the new notes; and the simple fact that banks and businesses tend to be moving away from use of currency in any case.

Regarding the second criticism of the lack of a central coordinating entity, there is no reason to assume that private central reserve clearinghouses would not emerge, as was the case of the Suffolk System[4]. Moreover, the existing central banks, such as the U.S. Federal Reserve Bank, could still carry on most of their central reserve functions, but now including private monies along with the official monies.

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[2] D. R. *Whitney,* The Suffolk Bank, Cambridge, Mass.: Riverside Press, 1878.

[3] See: Thomas R. *Saving*, "Competitive Money Production and Price Level Determining", Southern Economic Journal, Vol. 43, No. 2, Oct. 1976, pp 987 - 994; and Benjamin *Klein,* "The Competitive Supply of Money", Journal of Money, Credit and Banking, Nov. 1974, pp. 423 - 453.

[4] Op. cit., *Whitney,* p. 53.

III. A Modest Proposal for a Private International Money

The proposal set forth in this study is for a modification of the present existing major international credit cards, such as *American Express, Carte Blanc,* and *Bank Americard* into actual money units. The existing widely used and internationally accepted credit cards can be readily transformed into competing international monies. Each money card would have its own unit of value based — as are all currencies — on its relative purchasing power vis-a-vis all other credit card monies.

The major credit card companies, which already carry on many functions of multinational banks, would be transformed into completely independent money issuing entities. Individuals, businesses, or governments using their monies would have to maintain accounts with these entities much as card holders do with present credit card companies.

Under the new system the card holders (money holders) would maintain deposits with however many money card companies they desire, receiving interest credit on funds held in the account, say, over thirty days. If at the end of the month the money card holder overspent (borrowed) his account, he would show a debit balance in his account. This debit balance would start costing the customer interest, say, after thirty days if not offset by a future deposit.

All transactions could take place in the new money cards much as items are charged with present credit cards. The technology is already in existence for store registers to handle credit cards directly, making charges to the customer's account with his respective card company.

Presumably, coins could still exist for small purchases and use in vending machines. The coins could either be those issued by governments, the private card companies, or even the vending machine companies. Their value would be determined by the relative exchange rate with various major money cards. It would seem the vending machine companies would be the most interested in joining together to issue special coins for use in their machines. They would police their use or misuse in terms of counterfeiting and be most interested in maintaining their relative purchasing power.

The individual money card companies would have as their major assets loans to customers, investments presumably in short-term earning assets, deposits with other money card companies for clearing purposes, and gold or other suitable valuable commodities commonly accepted for their relatively stable value. The major liabilities of money card companies are, of course, the deposits of their card holders.

If one money card company engages in over-expansion of credit by either issuing too many cards and/or extending too much credit to its card holders, the value of its card would tend to be discounted relative to the competing money cards. Hence, stores may display a sign in their windows indicating the various money cards accepted and the relative discounts from par of various money cards. A customer paying for merchandise would know that the price of an item was, say, ten percent higher if he pays using money card "Z" as opposed to money cards "A", "B", or "C".

The next problem is that of gaining governments' acceptance of such a system of private competitive money cards in which the major segment of the money supply is privately issued. Under the present system the largest segment of the money supply already is composed of private money — demand deposits. Of course, these demand deposits are denominated in the official government currency — say in U.S. dollars.

A subsidiary problem related to competing money card monies is that everyone who has a money card must qualify for a card with a private card issuer. What happens to a poor person who can't qualify either because of lack of adequate credit information or lack of employment?

Both problems — lack of government currency and possible inaccessibility of money cards to a small segment of society — can be easily handled by an official government "social services" card which would simply replace the present social security card, such as used in the United States.

IV. Governments' Money — Social Services Card

The government money, say "dollars", would be in the form of a social services card (SS card) issued to everyone just as the present social security cards used in the United States.

These social services cards would now be similar to the privately issued money cards, i. e., accepted as money by all registers in stores. The government would maintain accounts for all users of SS card just as the private money card companies, showing credits accumulated in the form of social security benefits, retirement benefits, food stamp credits, etc. SS card holders could use the government money just as private card holders use their money cards. Hence, all members of the society would have access to the new international money card system no matter what their individual economic status.

It seems most SS card holders who did not otherwise possess one, may try to qualify for one of the private money cards to broaden their economic horizons. Another, perhaps more powerful incentive would be the possible depreciation of the government's money (SS card) vis-a-vis the private monies. The welfare recipients, therefore, would see the government's inflationary policies immediately by a continual discounting of the SS card by stores. This depreciation in the value of the government money would not directly affect the private monies, except to the extent that the private money card firms accepted SS card credit in substantial amounts.

The inflation, therefore, would not be generalized as under the present system of only one official monetary unit but would tend to be localized in the SS card (government money) value. This would serve as a check upon government deficit spending to pay for various welfare benefits to qualifying SS card holders.

In general, a summary of benefits from the proposed international money card system is listed below:

1. The rudiments of the system are already in general international use making acceptability almost automatic (present internationally used credit cards and technology for so-called checkless banking).

2. Eliminates direct need for government official note issue, or interference with foreign exchange.

3. Tend to reduce transactions' costs existing under present system of foreign exchange transfer and fluctuations. Governments will be able to interfere only in value of SS cards, private transactions can completely avoid use of these cards.

4. May tend to reduce petty theft (gas station, grocery store robberies) since there will be no currency other than coins. The major form of theft will be in stolen cards (easily policed by programming registers to void stolen cards used in transactions); and/or computer theft (harder to police, but not impossible).

5. The major benefits would accrue in returning money to private hands and providing individuals some degree of protection from continual

debasement of official government monies through continual inflation (deficit spending financed by bank credit expansion of official money).

Much research needs to be conducted to fully examine the benefits and costs of the proposed international money card system proposed here. This system maintains all the inherent benefits of the competitive money system proposed by Hayek while avoiding a number of serious practical pitfalls of the Hayek "free banking" system. Moreover, the proposed international money card system is perfectly within present technological capabilities. More importantly, the new system fits the apparent trends to (1) greater use of credit cards in lieu of currency and demand deposits by the public and (2) the desire of the banking system to move towards some form of checkless banking system.

Zusammenfassung

Ein maßvoller Vorschlag für ein privatwirtschaftliches internationales Währungssystem

In den letzten Jahren haben Überlegungen viel Interesse gefunden, die sich mit der Möglichkeit, der Praktikabilität und auch der Notwendigkeit eines in sich konkurrierenden privatwirtschaftlichen Währungssystems beschäftigen, das von Beeinflussung durch die Regierung verhältnismäßig freibleiben sollte. Die praktischen Voraussetzungen, um gegenwärtig ein weltweites System konkurrierender privatwirtschaftlicher Währungen einzurichten, sind inzwischen dank der großen Vorteile der elektronischen Überweisungstechnik hervorragend.

Der vom Autor dargestellte Vorschlag zielt auf ein internationales, privatwirtschaftliches und in sich konkurrierendes Währungssystem, das sich auf den Gebrauch der gegenwärtig üblichen Kreditkarten stützt. Es dürfte möglich sein, die gegenwärtigen Kreditkarten (wie *Carte Blanche, Visa* und *American Express*) leicht in unabhängige, miteinander konkurrierende Geldeinheiten umzuwandeln. Diese Kreditkarten würden wie Papiergeld zirkulieren und die offizielle Regierungswährung würde nicht länger das Monopol als einzige Geldrechnungseinheit innehaben.

Für die Verteilung öffentlicher Sozialleistungen wird eine „Sozialkarte" vorgeschlagen. Diese Karte wäre das einzige Regierungsgeld auf diesem Gebiet und würde unmittelbar mit privaten Geldkarten konkurrieren. Dieser Umstand würde der Regierung begrenzen, die Währung durch Budgetdefizite zu inflationieren.

Summary

A Modest Proposal for a Private International Monetary System

Much interest has been generated in recent years regarding the feasibility, practicability, and, indeed, necessity of development of a private competitive money system, relatively free of central government interference. The practical means of actually achieving a world system of competitive private monies has become even more eminent with the great advantages in electronic funds transfer.

The proposal set forth by the author is for an international private competitive money system based upon the use of the presently existing credit cards. It would be possible to simply convert the present international credit cards such as *Carte Blanche, Visa,* and *American Express* into independent competing money units. This credit / debit card would "circulate" just as paper curency, but the official government money would no longer have a monopoly as the only unit of monetary account.

A novel "Social Services" card is suggested as the vehicle for distribution of government welfare benefits. This card would be the only government monies, and would compete directly with the private money cards. This would tend to place a limit on the central government's ability to inflate the currency in order to pay for budget deficits.

Résumé

Une proposition mesurée de système monétaire international privé

Au cours des dernières années, des considérations ont retenu l'attention qui s'intéressaient à la possibilité, à la praticabilité et aussi au besoin d'un système monétaire privé parallèle, qui demeurerait relativement à l'abri de l'influence des pouvoirs publics. Grâce aux avantages énormes de la technique électronique de transfert, les conditions pratiques d'institution d'un système universel de monnaies privées se faisant concurrence sont aujourd'hui exceptionnelles.

La proposition développée par l'auteur vise à créer un système monétaire international privé compétiteur qui utiliserait les cartes de crédit classiques. Il devrait être possible de convertir aisément les cartes de crédit actuelles (telles que *Carte Blanche, Visa* et *American Express*) en unités monétaires indépendantes, mais en concurrence entre elles. Ces cartes de crédit circuleraient comme du papier-monaie, la monnaie publique officielle perdant son monopole d'unité monétaire unique.

La distribution des allocations sociales s'effectuerait sur base d'une « carte sociale ». Dans ce secteur, cette carte constituerait la seule monnaie publique en compétition directe avec les cartes de crédit privées. Cette innovation limiterait les possibilités des gouvernements d'accélérer l'inflation en compensant les déséquilibres monétaires par des déficits budgétaires.