A Laissez-Faire Approach to Monetary Stability

Robert L. Greenfield
Leland B. Yeager

T. Hakan Ak - 41009738
Outline

• Introduction
• Systems Compared And Questions Illuminated
• The Black-Fama-Hall System
• Advantages
• Avoiding Macroeconomic Difficulties
• Responses of Quantities of Media of Exchange
• Operationality and Determinacy
• Evaluation
Introduction

• The idea is to define the unit of account physically, in terms of many commodities, and not in terms of any medium of exchange whose value regulation of its quantity or on its redeemability.
Systems Compared...

• Laissez faire, in the sense that government plays no money-issuing role
• A multi-commodity standard, to keep the price level more stable
• Separate the unit of account and the medium exchange
The Black-Fama-Hall (BFH) System

- No longer would there be any such thing as money → no price inflation, depression, stagflation...

- How would prices be quoted, contracts expressed, and financial records kept? 
There would be a defined unit of value. People make payments by transferring other property (a bicycle priced at 100 value units). Fund shares could take the physical form of coins and circulating paper.
BFH System (2)

People make payments by transferring other property (a bicycle priced at 100 value units).
Advantages

- A stable unit for pricing, invoicing, accounting, ...
- Government would come under financial discipline
- Innovation in finance and the payments system
- The medium of exchange would not redeemable in any particular base money
Avoiding Macroeconomic Difficulties

- The unit of account no longer has its value dependent on the quantity of the medium of exchange.

- Price level stability and the avoidance of monetary disequilibrium.
Responses of Quantities of Media of Exchange

- Interest rates play a role in the equilibrium
- The volume of media of exchange is demand-determined in a BFH economy
- The medium of exchange has a flexible price
- The total quantity of the medium of exchange tends to adjust to accommodate the demand for it
Operationality and Determinacy

- commodity-bundle definition of the unit of account . . . leaves the individual prices of the items in the bundle free to respond to supply and demand changes
Operationality and Determinacy

Bicycle

Banana

Cherry

Apple
## Evaluation

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cashlessness</td>
<td>Operationality, Is Bundle Worth redemption workable?</td>
</tr>
<tr>
<td>“Government is the only agency which can take a useful commodity like paper, slap some ink on it, and make it totally worthless.” Ludwig Von Mises</td>
<td></td>
</tr>
<tr>
<td>An alternative system / offers many advantages</td>
<td>Desirability / Benefits of base money underappreciated</td>
</tr>
<tr>
<td>Illuminates some characteristics of our existing and recent systems.</td>
<td>Circularity problem</td>
</tr>
</tbody>
</table>
Thank You