

[Free marketeers should reject the government's monopoly on money](#) [1]

Written by [Sam Bowman](#) [2] | Tuesday 28 September 2010



I usually like what John Redwood has to say, but I have to disagree with his [recent post](#) [3] on the Bank of England. I don't object to his specific points, but I think he cannot see the forest from the trees. The fact that a man like Mr Redwood, who appreciates the power of the market, is advocating policies that enshrine the Bank of England's monopoly over the money supply goes to show just little we have learned from the financial crisis. The elephant in the room of the present economic situation is the Bank of England's monopoly on the money supply, and this is what free marketeers should be discussing to avoid a repeat run of the last few years.

As a thought experiment, imagine a world where the government runs the wheat industry: With government-run wheat fields, all private growth of wheat banned, and people legally obliged to buy government-grown wheat for their baking needs. In this world, the bakery industry is almost entirely deregulated: Spivish bakers flog you loaves of bread by the slice and bake cakes with an enormously complex set of ingredients. They sell bread subscriptions to people without long-term collateral and make enormous profits that seem absurd considering the fact that butchers are making much less.

One day, there is a bread crisis. There are queues out the door of the local bakery, and the country is gripped by a baguette shortage and rancid loaves of sliced pan. But however flashy and excessive the bakers might have been during the bread boom, it would be absurd to blame them for the crisis ? the government would be the immediate prime suspect in the investigation into the great bread crisis, and rightly so. This is obviously an immensely simplified analogy that ignores most elements of the business cycle, but it highlights the fact that many free marketeers have ignored the government's monopoly on the money supply as a distorting influence on the economy.

Government is uniquely insulated from the pressures of the market by its monopoly on the use of force to prevent competition, and so it is uniquely able to perpetuate errors that would otherwise be driven out of the market. But, in our real world, how many people have identified the government's monopoly over the money supply as the central factor in causing the current crisis? Apart from Austrian economists like Steve Horwitz, Jesús Huerta de Soto and Anthony J. Evans, very few. I see posts like Mr Redwood's as being akin to calls in the alternative world for the government to increase or modify its wheat production, rather than for it to get out of the wheat business altogether ? he might be right, but he's missing the bigger picture.

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[1] <http://www.adamsmith.org/blog/economics/free-marketeters-should-reject-the-governments-monopoly-on-money>

[2] <http://www.adamsmith.org/taxonomy/term/5809>

[3] <http://www.johnredwoodsdiary.com/?p=6949>

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