

[A positive agenda for financial reform](#) [1]

Written by [Sam Bowman](#) [2] | Friday 27 April 2012

Detlev Schlichter is on [excellent form today](#) [3], outlining a way out of the crisis and towards monetary sanity:

Step 1: Privatize the central bank.

Do not even introduce a gold standard. Just transfer ownership of the central bank officially to the banks that have an account with the central bank. This is the first step for the state to exit the sphere of money. The central bank is no longer a public institution run by bureaucrats and politicians but an entirely private undertaking. It is owned and operated by the banks.

The central bank administers bank reserves and provides certain clearing functions. The banks need this, for now at least. Shutting the central bank down is not that easy. But its most pernicious aspect is that it is a policy tool. This would end abruptly with its privatization.

Step 2: The state revokes with immediate effect ALL laws and policies that relate specifically to banking and money.

From this moment on, banks are capitalist enterprises just like any other normal business. There is no lender of last resort (at least not one run by the state), there is no inflation target or other official monetary policy for which the banks function as conduits, which under the present system puts them in the strange position of being profit-seeking enterprises and policy-transmission mechanisms simultaneously. But equally, there is no backstop for the banks from the state any longer. No guarantees, no deposit insurance or taxpayer bailouts. If a deposit insurance institution exists, it is handed over to the banks, similar to the central bank. Again, the state has exited the business of regulating, supervising, licensing, subsidizing and backstopping the banking industry.

Entry into the field of banking is now free. You do not need a license. You do not need an account with the now privately owned central bank (although without such an account clearing with other banks might be difficult). There are no legal tender laws anymore, so if anybody has any bright new ideas about money (Liberty Dollars, bitcoin) they are most welcome to try them. The consumer alone will decide over success and failure.

Monetary policy has ended. Bernanke testimonies on TV will be replaced with reruns of old Simpson episodes. Senators and congressmen will have to find new soapboxes from which to propound their personal economic theories.

Step 3: The state's gold hoard is handed over to the banks.

What? A gift to the bankers? ? I do not consider this a gift to the banks but more a return of property to the bank depositors. The bank depositors are the ones that should benefit from this transfer most.

The present monetary system could only have come about because it was once based on gold.

Deposit banking spread at a time when banks still promised to repay deposits or banknotes in specie, and when all banks were thus required to hold (some) gold reserves ? reserves that no political entity could create at will. Only slowly and gradually was the gold backing removed and replaced with various implicit or explicit state guarantees, all of which are now practically failing.

This is all sensible, practical stuff. As Detlev notes, this would stabilize the banking system by imposing the discipline of the market onto it, and go a good way towards ending the cycle of boom and bust that money and credit expansions drive. And, by removing the printing press from the government's arsenal, it would raise the cost of government borrowing. This is a feature, not a bug: a government forced to borrow at higher rates will have no choice but to live within its means, as private firms and households do.

[blog comments powered by Disqus](#) ^[5]

Source URL: <http://www.adamsmith.org/blog/money-banking/a-positive-agenda-for-financial-reform>

Links:

[1] <http://www.adamsmith.org/blog/money-banking/a-positive-agenda-for-financial-reform>

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

[3] <http://papermoneycollapse.com/2012/04/the-separation-of-money-and-state/>

[4] http://disqus.com/?ref_noscript

[5] <http://disqus.com>