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Monetary Reform – The Case for Button-Pushing

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Abstract: In this paper I present a monetary reform plan that seeks to achieve a sound monetary system. I suggest the following three criteria of a good reform: it must be ethical, it must be based on sound economic theory and it must leave room for evolutionary processes. Based on these criteria and applying them to the monetary system, I argue for an immediate cancellation of all government intervention into the monetary realm.

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1 Introduction

In a previous paper (Bagus, 2008), I presented the proposals for monetary reform offered by the Austrian economists Ludwig Mises, Murray N. Rothbard, Jesús Huerta de Soto and Hans Sennholz. Their aim is a more stable monetary system that permits monetary freedom. Without questioning the aim, I set out to criticize the way that those outstanding economists proposed to get to their aim. In fact, Mises, Rothbard, Huerta de Soto and Sennholz offer plans of monetary reform that entail numerous state interventions into the economy, inconsistencies, arbitrariness, and tactical ambiguities. Their proposals contradict their own ethical and political principles, only partially resulting in monetary reform. All of these problems seem to stem from the authors' attempt to preserve the status quo and to avoid alleged chaos, their reliance on a problematic economic theory of deflation, or the attempt to gain acceptability by avoiding a deflation and its supposedly disastrous effects. In this paper, I will offer a monetary reform plan that does not entail the setbacks of the criticized plans.

I will proceed as follows. First, I will suggest the criteria a good reform must fulfill. Second, I will develop a reform based on those criteria and that can be called a "button-pushing" reform as it immediately abolishes all government interventions into the monetary sphere. Third, I will name the probable consequence such a reform will entail. Fourth, I will describe the advantage that can be derived from such a reform, mainly that it is in concordance with the criteria a good social reform must have. Fifth, I try to anticipate the most important objection that could be raised against such a proposal, concluding with a summary of the main results.

2 Requirements of a reform

After having critized the plans for monetary reform by Mises, Rothbard, Huerta de Soto and Sennholz for being too interventionists, too less laissez-faire, having too much fear of deflation, I will make a proposal for monetary reform that is in line with Huerta de Soto's theory of the compatibility of the three approximations towards the reality of human action.[1] The three approximations are, first, the development of

[1] See Huerta de Soto (2004, 105-109).

a formal ethical theory. Second, there is the study of economic theory and third the study of the "conjectural history," i.e. the interpretation of evolutionary processes and its results. According to Huerta de Soto these three levels of study are complementary and mutually enriching. Their careful and separated study is necessary. I would like to apply this approach to the concept of social reform. Social reforms should be in line with these three levels.

First, and most importantly, reforms should be ethical. This explains itself. A reform that is unjust, cannot be regarded as a good reform as every unjust action is something to be prevented. For example, the reform in itself should not imply violations of property rights nor willingly sanctify property rights violations ex post.[2]

Second, reforms should rely on a consistent, true, and value-free economic theory. Justifying this second criterion is also easy. Since if a reform is not based on a correct theory, the results and the costs incurred by the reform are different from those the proponents of the reform thought they would be. Therefore, the proponents do not actually know what results and costs they propose. They will aim at ends that they would not pursue if they would possess a correct theory. For instance, a monetary reform should not be based on a theory that claims the money supply must be adjusted to money demand in order to allow for an increase in production.

Third, there is the study of historic evolutionary processes. Of course, this cannot be applied one to one on a reform as a reform aims at the future and not at the past. However, one can demand that the reform makes possible and implies itself a spontaneous evolutionary process only determining the general abstract rules instead of imposing from above particular results. In other words, the reform should leave room for evolutionary processes to run their course, i. e. the reform should leave its exact results up to an dynamic entrepreneurial process.[3] This is very important to make use of innate entrepreneurial creativity of human beings. They know best how to solve their problems, coming up, if they are let to, with solutions that the proponents or planners of the reform would not have thought of. For example, it should not be determined a priori which kind of money is to be used and produced.

[2] Of course, we are relying here on an ethical theory that protects property rights.

[3] This criterion seems to be implied in the first requirement of being an ethical theory. However, there might exist ethical reform alternatives that leave different amounts of room for evolutionary processes.

If all three points are fulfilled, one can be sure that the reform is worth considering. However, if the reform fails on one of the three levels one might want to look at it in detail adjusting or discarding it. Therefore, in the following, I will develop a proposal for monetary reform in line with the three approximations.

The proposal is as simple as it is thorough. It consists of immediately abstaining from government intervention into the monetary realm. This is the strategy which was implicitly endorsed by Rothbard:

> Following the classical liberal Leonard Read, who advocated immediate and total abolition of price-wage controls after World War II, we might refer to this as the "button-pushing" criterion… The libertarian, then, should be a person who would push a button, if it existed, for the instantaneous abolition of all invasions of liberty… (1998, 259).

Everyone who subscribes to the idea of Rothbard to abolish government interventions immediately cannot at the same time subscribe to monetary reform not doing this and involving government actions. This person would always first propose a button-pushing reform in monetary affairs and at most as a second best option or compromise propose another reform in political negotiations.

3 Measures

So what would the "button-pushing" strategy mean for the monetary realm in the U.S.? First, and most importantly, all restriction for private money production must be removed in order to allow for free money competition. Then everyone is allowed to produce money. Legal tender laws, i. e. laws that determine that settlements of debts in the privileged currency must be accepted even though the contract was set in another currency, must be removed. Also all laws that imply restrictions of the buying, selling, loaning, borrowing, importing and exporting of competing monies are to be removed. Further, it must be possible to pay taxes in any currency at the prevailing market rates between the currencies. Moreover, the government institution Federal Deposit Insurance Corporation (FDIC) is to be abolished, because it gives an advantage to deposits in dollar paper money.

Second, the central bank, in the case of the United States, the Federal Reserve System is a quasi-governmental institution. It was created by the state with the 1913 Federal Reserve Act and was given the nationalized gold. Its board and chairman is appointed by the President and approved by the Senate. It holds the monopoly to issue federal reserve notes with the U.S. Treasury printing them. All this is to be removed.

Third, the gold that was nationalized and is held by the central bank is to be given back to the population. Who can prove that he was robbed or is an heir of such a person will get his property back. The gold that is not reclaimed in this way can be used as compensation and restitution for government interventions in the past. Former taxpayers, conscripted and expropriated citizens, can get restitution in gold in proportion to the harm they suffered.[4] That would imply that older people would tend to receive a higher part of the gold, because they tend to have been taxed more in the past. Further, interest will be considered in determining their compensation.[5]

Fourth, monetary and especially bank contracts must be enforced. If banks have committed fraud in issuing more titles to money than they have money proper or that have obfuscated "the difference between genuine (that is, 100 percent-covered) money titles and imperfectly redeemable IOUs,"[6] they should be held responsible.

[4] Of course, this group includes only people that can prove that they have been net taxpayers and net expropriated people and have not earned the amounts taxed in virtue of some governmental privilege. In this sense, the distribution of the nationalized gold to state victims is not arbitrary but forms part of a restitutional process for government invasions of private property.

[5] Guido Hülsmann arguing for a libertarian monetary reform states that the unreclaimed property of the central bank should go to its users (1998, 115). The gold and foreign exchanges would go to the workers in the vault. In contrast, Hoppe claims that civil servants should not get public property, because they are not tax payers but tax receivers. (2001, 135-136). From a libertarian perspective it would be indeed strange that in a desocialization process President Bush would receive (parts of) the White House, limousine and Air Force One, all of which he uses. Or that Ben Bernanke receives any share of the unreclaimed gold in Fort Knox that he is using to back the state fiat currency. All employers of the central bank are to an extent part of a quasi-governmental institution and are collaborating in the financing of the government's activities. The same is true to a smaller extent though, for the bank owners and bank employers. (See Block, 2004 and 2006, for a theory of a libertarian punishment of statists and a libertarian Nuremberg Trial.) One could make the case that lower rank collaborators could homestead the buildings or printing press they are using. But it seems to be that these collaborators have a smaller claim on the nationalized gold and the foreign exchanges than tax payers. For a libertarian analysis of criminal possession, restitution and the burden of proof see Rothbard (1998, esp. Chaps. 9-11).

[6] Hülsmann (2003, 411). IOUs are certificates that banks issue in favor of a creditor who ususally receives interest from the bank.

4 (Probable) Consequences of the reform

With competition in the monetary production, private money producers will emerge and start competing with each other. Commodities like gold or silver in turn historically have a high cost of the material (of gold or silver) in comparison to their monetary value, due to their scarcity in relation to their industrial or luxury usages. The premium that the monetary value has on the material value is for gold and silver much smaller than for existing paper money. Therefore, it is more risky to accept paper money in daily exchanges, because its market value can drop considerably if people start abandoning it.

Thus, people would start using other monies than the fiat paper currency in their transactions. It will probably not be an instantaneous process and it is not so that entrepreneurs will stop quoting prices. Rather they will quote their prices in something else other than the fiat paper currency or in several media of exchange. Entrepreneurs will look at other entrepreneurs and chose the commodity or money they regard as most appropriate. At the same time, the most perspicacious (farsighted) entrepreneurs will pick up the business of money production, picking commodities of a high saleability. Other people will notice that some people are buying those commodities in order to resell them. As these commodities are easy to sell, people will imitate the innovators. As more people use those commodities, their saleability rises and it becomes ever more attractive to use them. In a self-enforcing process new monies arise.[7] One cannot know how fast and smooth this process will be. However, there is also no reason why it could not be fast and smooth.[8] Probably in the beginning, when the new money producers are just starting their production, people might start using foreign exchange. Yet, there already exists producers of gold and silver currencies[9] that might expand their business immediately when the restrictions on monetary competition are removed.[10] Furthermore, in the long run the foreign paper money is likely

[7] See Menger (1892, online: http://www.mises.org/web/2692) for the origin of money.

[8] R. A. Redford (1945) describes how in a prisoners of war camp in World War II cigarettes immiediately evolved as the general accepted medium of exchange.

[9] For example: http://www.e-gold.com/ or http://www.goldmoney.com/ .

[10] Note also that due to the denationalization of the central bank gold, most people will possess at least a small gold stock, which gives gold the headstart to emerge as one of the future monies. (According

to be driven out of the market by commodity money because, as pointed out before, commodity monies are less risky. It is important to notice that during the process of the evolution of new monies there is inflation (i.e. increase in the money supply) and deflation (i.e. decrease in the money supply) going on at the same time. This always happens when people start changing from one medium of exchange to another. The old money is abandoned, its supply shrinks and its material is used in other lines of production. At the same time new money emerges with an increasing supply. The German hyperinflation in 1923 serves as an example of this process.[11] While the hyperinflated paper money was abandoned and demonetized, i.e. not accepted as a medium of exchange anymore, new currencies backed by foreign exchange or gold emerged spontaneously.

As the monopoly to print federal reserve notes is removed, we face two possible alternatives. The first alternative is that people accept notes in daily exchange that are printed after the end of the monopoly. If this is the case, entrepreneurs would start printing fed notes freely, resulting in a hyperinflation and quick abandoning of the paper money.[12] The other possibility is that people only accept the old pre-reform notes. This seems to be more probable than the first alternative, especially when courts decide about contracts entered into before the reform. Why would a creditor that made a contract in the old fed notes accept the notes that a debtor just printed to repay the debt? The contract was set in terms of the old monopolized federal reserve notes. Why would someone accept a note that can be printed at no cost by everyone? Courts would probably decide in favor of creditors. If no new fed notes are accepted, the amount of fed notes would be fixed.[13] In this case, it is not hard to predict that

to wikipedia there are currently 147.000.000 ounces of gold in Fort Knox. That means on average half an ounce for every citizen of the U.S.)

[11] See Stucken (1953, 31-60, esp. 49).

[12] See for this scenario Hoppe (1994, 59). Walter Block (1991, 93-104) makes the case for a private counterfeiter under a fiat money regime. For good critiques of his view see Robert Murphy (2006) and Matteusz Machaj (2007). However, the whole scenario becomes different with the button-pushing reform. There the government monopoly is abolished, and people would be free to accept or no, old or new bank notes (printed after the monoply was abolished). Producers of new notes, pretending them to be old ones, would be considered counterfeiters.

[13] Probably the new owners (tax payers or homesteaders) of the old federal reserve printing press will try to print new notes and try to make people accept them. Yet, without the prestige of the state, the legal tender laws, etc. probably no one would accept these notes either. The antique federal reserve printing press becomes like every other printing press.

a price deflation would occur. It is probable that with the abolition of the Federal Reserve System and the FDIC bank runs would occur immediately. The confidence on which the system depends will be shaken. Some people might even call for runs on certain banks, an action that will be legal. Also, banks that committed fraud in obfuscating the distinction between money titles and IOUs or that issued more money titles than they have money, will be sued.[14] This also increases the possibility of a decrease in confidence and increases the likelihood of bank runs. As one bank run or bank failure undermines the confidence in other banks, all fractional reserve banks are likely to collapse in a domino effect. Even if there are no immediate bank runs, the system is very likely to eventually collapse. When the next recession, or political crisis looms, confidence will fall and a credit contraction will likewise occur. If people for some other reason want to have more cash, likewise a severe credit contraction ensues. This credit contraction in turn can lead to business bankruptcies, bad loans for banks and even less confidence in the fractional reserve banks, eventually leading to purging bank runs. The whole fractional reserve banking system will go bankrupt as they loose their cash and are sued for fraud. Their assets will be turned over to their creditors and depositors.[15]

[14] The exact legal status of fractional reserve banking is a historical contingency and must be decided case by case. It is not necessarily fraud, since people might voluntarily agree to an IOU with a redemption promise. See Hülsmann (2003, 402). Huerta de Soto (2006, 156) names seven possible legal classifications of a bank-deposit contract with a fractional reserve, one of them implying fraud. Beside the question of fraud there are two additional considerations. First, banks obtain a "de facto monopoly" (Hülsmann 2003, 415). One might consider the creation of new money through this privilege as a kind of "stealing." Second, there is the question of collaboration. In a libertarian Nuremberg trial banks would probably be sued for exploiting their monopoly and for financing the criminal activities of the state. It would of course be an extremely difficult exercise to find the main responsibles.

[15] Mateusz Machaj argues that, maybe, not all assets should be turned over to the depositors or creditors. The outstanding loans to private companies could simply be canceled or renegotiated, because capitalist entrepreneurs were in a bad position in a system that privileged banks. They had to borrow money from them in order to survive in the competition. Banks made contracts that are very beneficial to them and that were signed thanks to their privilege. When a price deflation occurs, they would have difficulties to repay their debts. Depositors do not only gain through the increase in purchasing power, but also by taking over the production facilities that were created by stolen money. Hence, debt should be renegotiated decentrally or cancelled. While this is an interesting argument, I do not agree with it. It is ethically just that the assets of bankrupt banks are turned over to their creditors and defrauded depositors. Also, debts must be repaid. If they cannot be repaid, there will be a change in the ownership from the former owners to the creditors. This poses no economic or ethical problems. No one was forced to cooperate with a privileged banking system.

5 Advantages of the reform

Let us first turn to the ethical, economic and evolutionary advantages of the proposed reform. First, the reform is ethical. It is in accordance with the libertarian non-aggression axiom.[16] It itself abstains from violations of property rights; it tries to compensate for past property right violations as much as possible and it enforces property rights.[17] It is a libertarian "button-pushing" reform.

Second, the reform does not want to avoid deflation, because there is a sound theory of deflation underlying it. It merely lets the free market run its course as a natural reaction to the government interventions into the monetary realms and does not aim at preventing monetary or price deflation. It recognizes that deflation purges efficiently and quickly malinvestments that were committed in a inflationary boom period. It is built upon a theory of entrepreneurship that shows that the reform is dynamically efficient in the economic sense that it does not inhibit the entrepreneurial function.[18]

Third, it does not inhibit the entrepreneurial function and the reform leaves room for evolutionary developments. And this is an important addition to the ethical requirement. Only considering ethics, one might argue that it would be a restoration of property rights to introduce a gold standard, 100 per cent or not. However, the money that would evolve out of voluntary decisions of market participants might be very different from gold and silver, now. Therefore, it is important that a gold or silver standard is not imposed from above. Also in different regions people might prefer different monies. In a dynamic, decentralized, competitive process the best money will be chosen by market participants. It is even likely that there might be several monies used in everyday life. For example, silver might be used for small purchases

[16] For a natural rights approach to libertarian ethics see Rothbard (1998). Note also that the proposed reform in contrast to other reforms is argumentatively justifiable. One cannot even coherently argue for other monetary reforms that imply a violation of property rights. This is so, because every argumentation in favor of reforms that imply violations of property rights or amnesty for past violations of property, imply a contradiction. The attempt to engage with someone and convince him in an argumentation (of a reform) implies the abstention of violence and requires the acknowledgment of property rights. Hence, one cannot consistently argue in favor for a reform that violated property rights.

[17] See Hoppe (2006, 305-338).

[18] For the concept of dynamic efficiency see Huerta de Soto (2003, 231-254).

and gold for larger ones. There is also room for innovations in monetary substitutes like credit cards, etc.

In addition to the evolutionary, economical and ethical advantages there exist some minor additional advantages of the proposed reform. First, there are some practical advantages. The reform itself is fast and uncomplicated. The managing or planning costs of the reform are very limited. Second, there is a unique opportunity to reduce the welfare state. The government bonds held by the central bank and bankrupt fractional reserve banks can be defaulted which reduces the national debt burden. Also the financing of the welfare state by inflation will become impossible. Another interesting feature of the reform is that the denationalized gold will primarily go the older and retired persons. That allows for reduced tensions that the abolition of a public pension system could cause.

Fourth, there will be public pressure to make the economy more flexible and reduce state interventions. For example, during the reform there will be a price deflation which could result in pressure from the involuntarily unemployed to break union power and abolish minimum wage laws.

Fifth, one has to put emphasis on the results of the reform. There will be a totally free monetary system, with competing moneys whose success results from the choices of economic agents. The inflationary redistribution that entails a fiat paper money system backed by a central bank immediately ends when the reform is put into practice. Also recurring business cycles induced by the credit expansion of fractional banks are put to an end. The implied misallocation of resources and impoverishment of the population ends with it. A stable, sound monetary system can develop as fast as is possible with freely interacting individuals.

Sixth, it is very difficult to reverse this reform. It does not leave in place state institutions or laws in the monetary sphere, and it does allow for a dynamic system. Moreover, people will not have the impression that the government provided them with their newly emerged system, because they experience that government is not necessary to provide for a monetary system or reform. Actually, there is not a single case of monetary reform managed by the government that changed the trend toward a fiat paper money system controlled by a central bank. For instance, the German monetary reforms in 1924 and 1948 were conducted by the government (Stucken, 1953). Instead of permitting the already emerging alternative media of exchange to compete, the government stayed involved in the monetary system. Even though Germany got back to the gold standard in 1924, this was only for a short intermediate time. By introducing a foreign exchange control the German government efectively introduced a fiat paper money standard in 1931 again. The monetary break-down after World War II could have been used for a thorough monetary reform. However, the monetary reform from 1948 just changed the name of the currency and the institutional framework. Even though the Bank Deutscher Länder engaged in restrictive monetary policy in the beginning (Erhardt, 1968, 34), the new D-Mark was also just another fiat paper money currency.

Furthermore, the collapse of the old monetary system is also an educational advantage in showing that the former monetary system was inherently unstable and bankrupt. Rothbard´s hope that the failure of the governmental monetary system provides insurance against its reemergence might become true with a thorough reform. As Rothbard stated in one of his earlier more radical works on the subject:

> And if, as we contend, banks are inherently bankrupt and "runs" simply reveal that bankruptcy, it is beneficial for the economy for the banking system to be reformed, once and for all, by a thorough purge of the fractional-reserve banking system. Such a purge would bring home forcefully to the public the dangers of fractional-reserve banking, and, more than any academic theorizing, insure against such banking evils in the future (2000, 21).

6 Objections to the "button-pushing" plan

Let us deal with some of the objections that come to mind regarding the aforementioned plan. The first objections one would raise is the political impossibility of such a plan. This objection must of course be taken seriously.[19] The political elite, banks and

[19] Historically, there actually have been reforms entailing monetary and subsequently price deflation. That shows that the proposed reform is not in principle impossible. These reforms happened after wars, though, periods of great unrest. It happened in Great Britain after the Napoleonic Wars and WWI and in the German monetary reforms after the hyperinflation in the 1920s and after WWII in 1948. Also in the Netherland in 1946 deflation was employed in monetary reform. This induces

other individuals profiting from the current system will oppose the reform. Maybe also frightened voters unable to grasp the economic importance of and their benefits from the reform would object to the plan with politicians picking up their concerns.[20] However, it is in principle not impossible to convince the majority of voters or the population that they would benefit from a plan that is just and consistent.

More importantly, the political practicability is irrelevant when searching for an optimal reform plan. Often plans that are politically less practical present the best solutions. In turn, what is most politically popular is normally the worst solution. Adding as a fourth criteria the popularity of a reform would mean adding a criterion that does not necessarily and very probably contradicts the other three (ethical, economical, evolutionary) criteria. Also it must be understood that by offering a monetary reform, I am not opposing any other monetary reform. In fact, every reform that moves in the direction away from state intervention in the monetary system is a step in the right direction. And this step should be endorsed under the condition that it is made clear, that the step is only a step and not an ideal monetary reform.

One could further argue that another criterion for a good reform should be that it is stable. One might fear that after the reform there would occur social unrest that is likely to reverse the reform. People would say: "That did not work." While this might be considered a complementary argument, the most important criteria is that it is ethical, economically sound and leaves room for the entrepreneurial process. They are primarily important. Furthermore, the proposed reform is necessarily just and based on sound economic reasoning. In contrast, there is not necessarily social unrest. It is possible that there will be no strong social unrest for two reasons. First, in order to introduce the reform one would have to convince people of it in the first

Hamilton (1952, 330) to say about the role of monetary deflation in monetary reform: "Deflation through writing down bank deposits and destroying currency, in effect, crying down money, has been the commonest type of monetary reform in recent years [Footnote about monetary reform in Germany and the Netherland omitted] and is likely to continue in medieval fashion, alternately with inflation of paper currency and bank deposits in a distinctly modern and sometimes violent fashion."

[20] See on this problem William Hutt (1971). He points out that the competition of economists in gaining political influence and swimming with the political tide leads them to make compromises in theories. As a consequence the argumental basis and the prestige of economists as experts weakens. Paradoxically their influence might decline. He argues (1971, 22), that the economist should propose both the ideal and expedient policies and make explicit what he is dealing with. In this paper, I am proposing an ideal reform leaving it to others to come up with expedient reforms.

place. Therefore, they would know its consequences. Second, there are many winners from the reform who would embrace it. The losers are mainly the government, the banks and the welfare-warfare complex. Why should there not be social unrest when the losers of the actual system become aware that they are under an unjust system and exploited? Why should there not be social unrest if an unjust reform is carried out? In the change from the D-Mark to the Euro, Germans had to calculate in a different medium of exchange over night. With the button-pushing reform the transition would be smoother and people would gradually learn to perform economic calculations in terms of other media of exchange.

Moreover, historically button-pushing reforms have become stable and successful after initially being confronted with short lived reistance. Ludwig Erhard pushed at the button on price controls after WWII, in 1948 eliminating over night all price controlls in Western Germany and initiating the economic recovery of Germany. Erhard introduced the market economy in a day even though there was opposition by contemporaries arguing that one should make a gradual refrom. The majority of people thought that the reform could not be successful as it seemed to be too radical. Even though there was a strong opposition and a general strike, Erhardt held on to the reform (1964, 18-48).[21] A similar button-pushing reform happened in the 1990 in former communist Eastern European countries when price controls were abolished.[22] As Daniel Gros and Alfred Steinherr (2004, 107) in their analysis of the transition of former communist countries point out "...the revovery was stronger in countries that had liberalized most thoroughly..." The authors also point to the dangers of slow reforms (2004, 127):

> Our first result is that experience has shown that slow reforms meant, in many cases, just that: slow reforms and no willingness to progress faster after the ground work had been done. The tortoises did not overtake the hares.

Another set of questions is can a major "turmoil" be prevented at all, and can the existing system ever be stable. Economic theory tells us that a fractional reserve banking

[21] See Erhardt (1964, pp.18-38) for the details of the reform.

[22] There is a parallel of the former socialist countries in Eastern Europe and our case of monetary reform, because we are faced in the Western World with socialism in the monetary sphere. (See for the socialism in the monetary sphere Huerta de Soto, 2006, pp. 647-675)

system headed by a central bank leads to recurrent boom and bust cycles. That is not a stable system either. This system can easily end in hyperinflation and Rothbard predicts its crash: "...we have to realize that the banking system is headed for a mighty crash in any case" (Rothbard 1995, 11). That means that the current system causes social unrest as well, which will likely get much worse as credit expansion and economic cycles increase.

Another objection might be that the monetary system collapses. That is true. Yet, the system collapses because it is unsound and people voluntarily change towards other monies. The collapse of the German monetary system in 1923 occured, because people began to abandon the old inflated currency. Instead of letting people discover new monies that seemed to be appropriate, a process that was already under way[23], German authorities introduced another state money. Would one argue that if a fraudulent firm collapses and a sound one takes its place that this would be somehow bad and a new fraudulent firm should be installed? Of course, many individuals that were hurt by or benefitted from the fraudulent firm will experience (substantial) changes in their life. However, there is no necessary "disruption" of economic activity. As the fraudulent gas trader Enron went bankrupt, stakeholders were hurt. However, houses did not go cold due to a shut down of gas. Gas was still being produced, traded and distribuited as was in the interest of agents involved in the bankruptcy. The same will happen when the monetary fiat paper system collapses. Stakeholders in the state´s monetary system will be hurt, but their goods and services that are demanded by economic agents will still be supplied, money included.

Furthermore, to speak of "disruption" would already involve an ethical statement. There will be a redirection of economic activity. Namely, the structure of production that was distortet by continous inflation will be readapted. Further, more activity will be spent to come up with monetary innovations or barter ideas that make life simpler.

One might also argue that button-pushing reforms do not work as institutions need time to develop. However, how long will this time be? Would the development of institutions not be the fastest if there is a button-pushing reform. Moreover, this argument contrasts with the ethical criterion and leads to questionable conclusions. Against an immediate abolition of slavery one might argue that slaves do not possess

[23] See Stucken (1953, 49).

institutions to live successfully in liberty; therefore, slavery could only step by step be abolished in order to give the slave opportunities to develop institutions. Probably the slaves would not accept such a reasoning, as they wanted to develop their capacities to live free as fast as possible. The same can be said about the monetary system. Free monetary institutions can be developed faster, if monetary interventions are abolished immediately.

Another objection might be that there is a huge redistribution of wealth. Of course, every reform has its winners and losers, as has every change in the economy and continuation of government intervention for that matter. It is arbitrary to say that a certain amount of redistribution is too big. It is also hard to see, that if individuals who anticipate the abolition of government interventions and position themselves to profit from it, would earn unfair gains during the reform. The important question is if the changes that occur and turn people into winners and losers are based on decisions of voluntary interacting individuals or not. Of course, there will be a huge readjustment of the structure of production due to the redistribution of wealth. There will also be many bankruptcies. But by which standard can one say that there would be too much of a readjustment or too many bankruptcies? By which standard could one say that they are bad? One objective standard to judge this is property rights. And property rights are restored by this reform. Always when government interventions are abolished there are disruptions in the economy, small ones if agricultural subsidies are abolished, greater ones if slavery is abolished.

The last objection that is considered here is the affirmation that the proposed reform could only be undertaken on a world wide scale, because otherwise there would be huge foreign exchange fluctuations disrupting international trade. However, this is not necessarily the case. While the old currency might lose in value quickly, the new monies will not necessarily fluctuate more against foreign exchanges than the old one. They will probably increase in value, showing the competitive advantage of the new monies regarding paper money. Actually, there is a first mover advantage for those countries who apply the reform first (Hülsmann 1998, 113). This is so, because the first movers will get the new monies at lower prices, before their purchasing power increases as other countries apply a similar reform. Those countries are similar to the entrepreneurs who are more farsighted than others in choosing a medium of exchange.

7 Conclusion

Most plans for monetary reform have been interventionist and unethical and they impose results. This is partly so, because of a problematic underlying economic theory regarding deflation. Sometimes the reform plans are in apparent contradiction to other writings of the very same author. An ethical, dynamical reform based on value free economic analysis consists in the immediate abstention of state intervention into monetary affairs ("button-pushing"). This plan would very likely imply the deflation of the old money and the purge of the banking system, i.e. those consequences that other reforms tried to avoid. Even though this plan is far away from getting only near to a political approval it is important to show its advantages. It can serve as a standard for comparison.

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