To everyone's confusion, the dollar fluctuates widely and nobody knows whether we face inflation or deflation. Here, a dark-horse proposal for ending monetary instability.

Do you want to be paid in Rockefellers? In Wristons? Or how about a Hayek?

The stability of the dollar, once an academic subject, now enters into the day-to-day calculations of almost every business person and investor. Is inflation returning? Is the exchange rate going up, down or sideways? What to do about the resulting headaches? Go back to Bretton Woods? Install a gold standard? Bring in a single world currency?

The most unorthodox proposal is one that will, at first glance, seem far-fetched to most: End government monopolies on currency issuance and let competing private currencies circulate freely. Bizarre as it may sound, the proposal is gaining intellectual acceptance. The renowned monetarist Milton Friedman is showing interest. It is a favorite proposal of the great thinker and believer in market power Friedrich A. Hayek.

Prediction: Privatized money, alias "competing currencies" or "free banking," is an idea that you will be hearing much more about in the years ahead. Below, Peter Brimelow explains and examines the subject.

By Peter Brimelow

THE FEDERAL RESERVE SYSTEM will be 75 years old in December. A small but growing band of academic economists proposes a special sort of birthday celebration: The Fed, they say, should be abolished.

Abolished? The sole bulwark we have against runaway inflation and fiscal irresponsibility?

Most people can't imagine life without a currency-issuing central bank, although in fact the Fed is younger than one of its most relentless critics, Nobel laureate Milton Friedman, still going strong at 76 and hard at work at California's Hoover Institution.

The Fed allegedly manages the country's money supply in order to prevent such economic disturbances as inflation, deflation and depression. But it is a matter of record that, since the Fed arrived, economic disturbances have been more severe than previously—notably the Great Depression of 1929-33 and the Great Inflation of the Seventies. In the process, the purchasing power of the dollar has almost completely eroded (*see chart, pp. 244-45*). Even now, inflation is still gnawing away at around 4% a year, compared with a mere 3.3% when President Richard Nixon first imposed wage and price controls in 1971.

Central banking distresses some. They argue that, far from preventing these disturbances, central banking may exacerbate them. The Fed has been accused of being too tight in the 1930s and too loose in the 1970s and of innumerable lesser errors. After bitter debate, most economists have come to accept at least a part of this critique.

For years, Milton Friedman has advocated doing away with some of the Fed's flexibility by forcing it to expand the money supply only at a fixed annual rate approximating the long-run growth of the economy. The Fed's new critics, however, go further. They think the government should be out of the money business altogether. They argue that money could and should be provided competitively by the private sector—just like baked beans, business magazines or

There have been several historical episodes of "free banking," with banks able to issue currency according to their own estimation of the state of their gold and other reserves. Above, a private banknote from Scotland, where free banking apparently worked smoothly for 128 years. U.S. experience in the 19th century was more controversial, but it did produce some handsome paper. Examples are on the following pages.

Courtesy of the Museum of the American Numismatic Association; J. Roy Pennell Jr. donation; photo by Mike Burch