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# A Laissez-Faire Approach to Monetary Stability

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# Outline

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- The Black-Fama-Hall System
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# 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

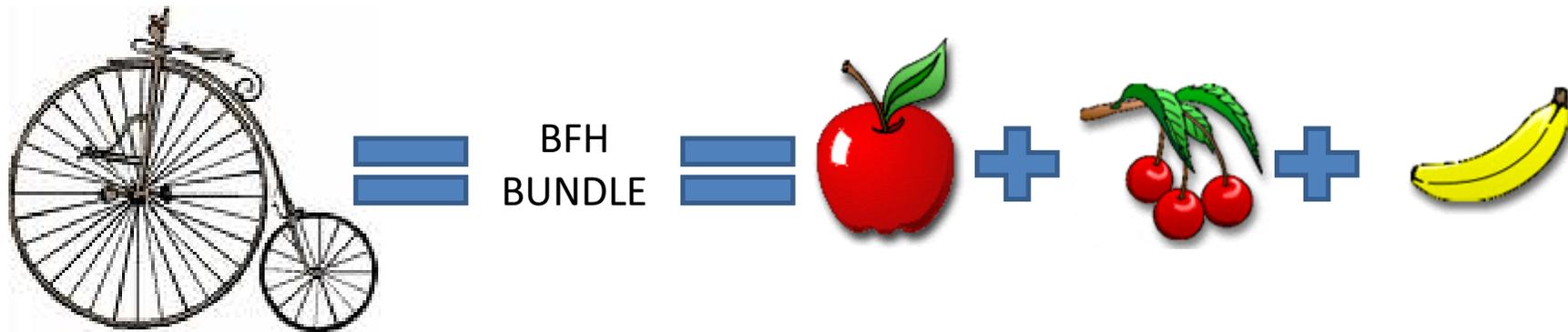
# The Black-Fama-Hall (BFH) System(1)

- 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.

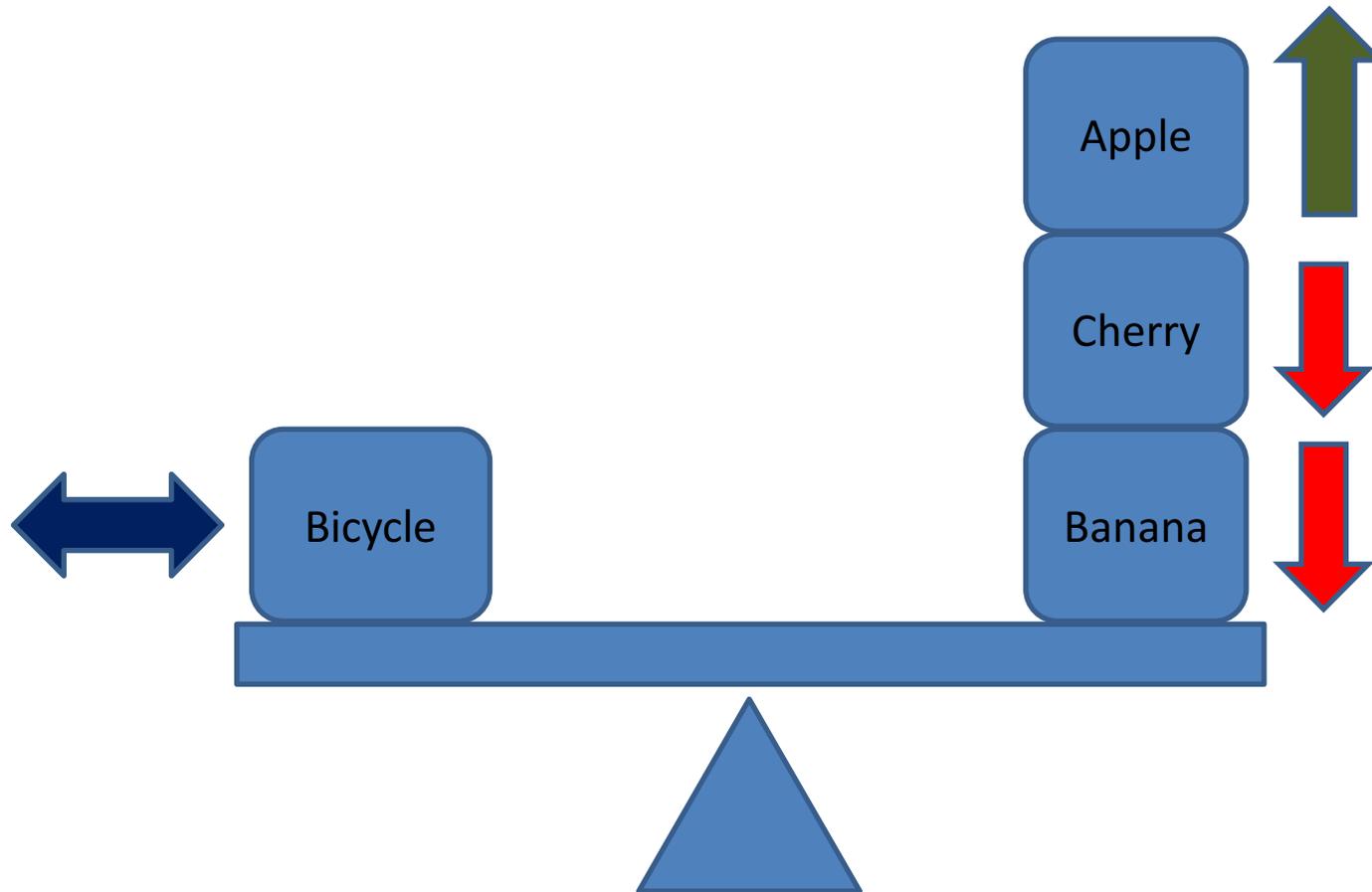
# Responses of Quantities of Media of Exchange

- 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



# Evaluation

<u>Strengths</u>	<u>Weaknesses</u>
Cashlessness  "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	Operationality ,  Is Bundle Worth redemption workable?
An alternative system / offers many advantages	Desirability / Benefits of base money underappreciated
Illuminates some characteristics of our existing and recent systems.	Circularity problem

Thank You