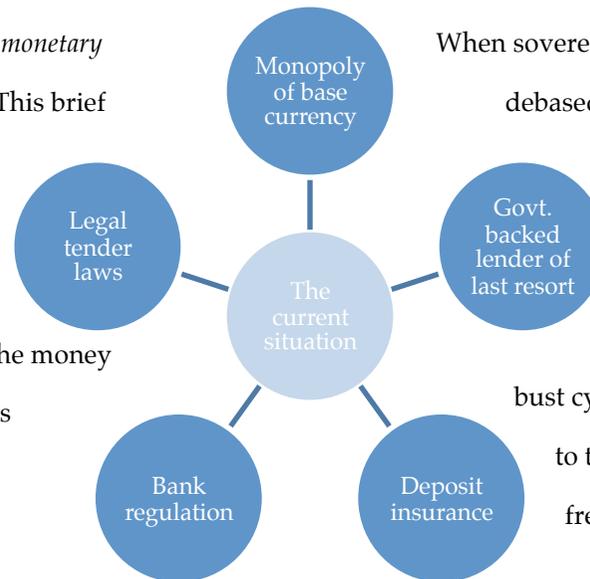


2 days, 2 weeks, 2 months: A proposal for sound money

The current banking system has failed, and “it is the *monetary regime*, not *monetary policy*, that must be modified”¹. This brief paper fuses previous plans for a transition to sound money, and provides a clear 3-step proposal.²

The financial crisis is an inevitable consequence of the politicised management and monopolisation of the money supply. As the diagram shows the current situation is characterized by a number of barriers that stifle competition and prevent banks from being forced to satisfy the needs of their customers.



When sovereigns controlled the money supply they routinely debased the currency. When politicians controlled the money supply they monetised their debts. Even in the age of independence, excess credit creation combined with socialised safety nets for the bankers have led to unprecedented over leveraging and a boom-bust cycle. It is time to go back to the start, and trust money to the only institution capable of maintaining its worth: free-markets and open competition.

¹ Buchanan, James and Geoffrey Brennan, 1981. *Monopoly in Money and Inflation*, Institute of Economic Affairs, Hobart Paper No. 88, p.65

² This proposal is the work of Kevin Dowd, 2009 “Lessons from the Financial Crisis: A Libertarian Perspective”, Libertarian Alliance, Economics Notes No. 111; and Richard Salsman, 1990, *Breaking the Banks*, American Institute for Economic Research.

Over 2 days

Ensure all operating banks are solvent

1. Deposit insurance is removed – banks will not be able to rely on government support to gain the public's confidence
2. The Bank of England closes its discount window
3. Any company can freely enter the UK banking industry
4. Banks will be able to merge and consolidate as desired
5. Bankruptcy proceedings will be undertaken on all insolvent banks
 - a. Suspend withdrawals to prevent a run
 - b. Ensure deposits up to £50,000 are ring fenced
 - c. Write down bank's assets
 - d. Perform a debt-for-equity swap on remaining deposits
 - e. Re open with an exemption on capital gains tax

Over 2 weeks

Monitor the emergence of free banking

6. Permanently freeze the current monetary base
7. Allow private banks to issue their own notes (similar to commercial paper)
8. Mandate that banks allow depositors to opt into 100% reserve accounts free of charge
9. Mandate that banks offering fractional-reserve accounts make public key informationⁱ
10. Government sells all gold reserves and allows banks to issue notes backed by gold (or any other commodity)
11. Government rescinds all taxes on the use of gold as a medium of exchange
12. Repeal legal tender laws so people can choose which currencies to accept as payment

Over 2 months

The end of central banking

13. The Bank of England ceases its open-market operations and no longer finances government debt
14. The Bank of England is privatised (it may well remain as a central clearing house)

"Well, three hundred years ago nobody would have believed that government would ever give up its control over religion, so perhaps in three hundred years we can see that government will be prepared to give up its control over money"ⁱⁱ

ⁱ These might include: (i) reserve rates; (ii) asset classes being used to back deposits; (iii) compensation offered in the event of a suspension of payment; but could be decided by an appointed panel

ⁱⁱ Anonymous, see Friedrich A. Hayek, "A Free-Market Monetary System" a lecture delivered at the Gold and Monetary Conference, New Orleans, November 10, 1977, published in *Journal of Libertarian Studies*, Volume 3, Number 1