

NOTA IN MARGINE

A NOTE ON F. VON HAYEK'S "THE DENATIONALIZATION OF MONEY: AN ANALYSIS OF THE THEORY AND PRACTICE OF CONCURRENT CURRENCIES" 2ND EDITION, 1977

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This book discusses critically the right of government to print money and points out the advantages of private banking to do it.

Von Hayek's approach is completely out of today reality; it is the outcome of an ivory tower economist with an extreme commitment to the ideology of a completely *deregulated "free market"*. I would like to stress the fragrant contradiction between the rigorous concepts of *free market* and *complete deregulation* for there cannot exist market without society, and there is no society without a *transparent and accountable institutional power*.

Since the mid-1990s, the world is witnessing the catastrophic consequences of the blind deregulation introduced by Thatcher in Great Britain and Reagan in the United States. From extreme and often suffocating regulations, as those introduced in the communist and most Third World countries, the majority of nowadays nations changed to full unaccountable deregulation. This latter opened the doors for the corrupted practices of many corporations. Societies and their institutionalized political powers renounced to the responsibility of caring for the public interest.

The fact that in any organized society there should be an *appropriate institutional regulation* to support efficiency, equity and social welfare, is completely ignored in the battle of regulation versus deregulation. Particularly, there is a need for unambiguous laws for the punishment of illicit economic violations such as inside trading, accounting fraud and the reporting of inflated profits to increase the stock market price, all of them highly correlated with the abusive use of corporate funds for Corporate Executive Officers (CEOs)'s personal benefit. From 2001, these types of corruptions are becoming public and reveal tragic consequences for the welfare of the workers and middle class employees as well as all those people that entrusted their savings and pension funds to the stock markets of the world. These tragic socioeconomic consequences are completely ignored by von Hayek in his book on the Denationalization of Money.

A very well known fraudulent scandal is that of ENRON Corporation accused of accounting fraud to hide debts for about 24 billion dollars with the complicity of

Arthur Andersen auditing firm. Other cases in point are WORLDCOM, XEROX, the giant pharmaceutical MERCK Corporation, VIVENDI, ORCHESTREAM HOLDINGS, the fraudulent gold-mine hoax of BRE-X in Canada and several others.

These fraudulent scandals are inevitable consequences of the irresponsible deregulation *a la Thatcher et a la Reagan* and similar results should also be expected from private banks should they be entrusted with the privilege of money emission.

In von Hayek's book, those banks that will have an inefficient performance will be penalized by going bankrupt, being this the only consequence discussed. The social cost and economic chaos of the bankruptcies to be borne by society are completely ignored.

It is frequent among mainstream economists to make use of a distorted economic logic or create "appealing" slogans, like "rational expectation", "tatonnement process" and "invisible hand" to maintain their adherence to the ruling paradigm. For example, in the case of the invisible hand, there is no doubt that the *visible hand* has been at work before. To justify Great Britain's protectionist policy to develop her shipping industry, Adam Smith in his *Wealth of Nations* (1776, Bk.IV, ch.II, also in Dagum, 1986, p.867) wrote: "it will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry... The [British] Act of Navigation, therefore, very properly endeavours to give sailors and shipping of Great Britain the monopoly of the trade of their own country, in some cases, by absolute prohibitions, and in others by heavy burdens upon the shipping of foreign countries...".

Concerning rational expectation, its followers uncritically supported a policy of total exclusion of the state in the market place, including total deregulation. However, if a multinational corporation was going bankrupt, those economists accepted a public bail-out under the grounds that a corporation "becomes concerned not only with profit, but with the social welfare of its workers and employees". It seems that when facing bankruptcy, multinational corporations suddenly discover their forgotten "social vocation".

It would be amusing if not for its loss of sight that in 2001, before the widespread corruption became public knowledge, in the Federal Reserve Bank of Philadelphia Working paper 01-1 entitled "An exploration of the effects of pessimism and doubt on asset returns" its author ignores the corruption and fraud of several multinational corporations and their respective auditing firms to blame the common household investors, that have being robbed of they savings, for exhibiting irrational behavior, hence, contributing to the financial crisis of the world. In effect, he states that, "*Allowing for irrationality in consumers' economic expectations can help explain asset pricing anomalies*". Its author claims to have tested "the effect of irrational expectations-pessimism and doubt-on the risk-free-rate puzzle and the equity-premium puzzle, both of which arise in asset-pricing models with rational expectations".

In von Hayek's book' he "foresees" that in the end, the more efficient bank will survive for the "betterment" of societies. To me, this leads again to the monopoly of money emission, but this time by private banks not a public institution. It would end with a private bank monopoly of a public good, operating in a "free market" without an appropriate regulation, i.e., an appropriate supervision and monitoring of banking and other financial institutions.

On the contrary, I strongly support the presence of appropriate institutional regulations able to enforce accountability, to stimulate the efficiency of the market performance of banks and other financial corporations as well as multinational and national corporations, and to be concerned about the public interest.

Von Hayek doesn't save criticism to Keynes and his General Theory. However, his critiques, as well as to those coming from many neoclassical economists, are "categorical mistakes" for Keynes' General Theory is full of *policy implications* appropriate for Great Britain (treated as a closed economy) during the 1930 great depression.

Professor Hayek writes (as quoted by Professor A.M. Petroni in his Introduction to the Italian translation of von Hayek's *Denationalization of Money*, p.VII) that "Lo scienziato dell'economia non dovrebbe occuparsi delle necessità politiche correnti. Il suo compito dovrebbe essere, come io non cesserò di ripetere, quello di rendere politicamente possibile ciò che oggi è politicamente impossibile. Decidere cosa fare al momento è compito del politico, non dell'economista, il quale deve continuare a dire che persistere nella direzione scelta dai politici condurrà al disastro." This statement reveals an extreme ideological position, completely ignoring the role of economists. I strongly believe that economists, qua social scientists, have the responsibility to *explain the economic reality, the undergoing economic processes, given time evolving technological and institutional structures*. The economic processes correspond to the mode of action and interaction between economic agents, organized subsets of them and of the political decision makers. The technological and institutional structures determine the modes and relations of production, therefore, the relative economic efficiency of the process of production and the relative social equity in the functional and personal distribution of income and wealth (Dagum, 1986, 1989, 1995).

Economist have also the responsibility for action in the sense of determining target structures, if the existing ones no longer serve well society, and advancing strategies to pass from the observed to the target structures within a finite time interval.

If Professor Hayek would be living today (August 2002), I wonder what would he have to say about completely deregulated "free market" on the light of the actual scandals and fraud of many corporation managers that almost with total immunity confiscated hundred of billions of dollars of household assets around the world.

I would like to end my comments, emphasizing again that there is no market without society and there is not society without institutional power. It is precisely this power that needs to be regulated for the enhancement of economic efficiency, social equity and welfare, freedom of the people, by the people and for the people. We must oppose oppressive regulation as well as irresponsible deregulation. Stimulated by the financial 'globalization' and the proliferation of off shores banks, oppressive regulation as well as irresponsible deregulation led to an insatiable desire for profits and the corruption of unfitted managers, politicians and members of the justice system.

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