

What do people want from a currency?

I find many people still want to talk about crypto currencies. There is a line of thought amongst entrepreneurs and radicals that wants a crypto currency to emerge that is free of the controls of governments and Central Banks, reflecting their distrust of these organisations. There are two main lines of criticism of national monopoly official currencies. The first is the way most of the countries backing these currencies allows or even encourages some inflation, reducing their real value over time. The second is the way national monopoly currencies give the authorities greater controls over people's money and their way of life.

It is true that most Central Banks aim for a gentle devaluation of their money by around 2% per annum, as they think a little inflation helps growth and economic change. Sometimes they lose control and end up with considerably higher rates of inflation. Individuals in a free country which allows its citizens to buy and own real assets and other national currencies can protect themselves against an undesirable inflation in their national money by owning inflation proofed assets like local currency index linked debt or by holding other currencies less exposed to inflation. Inflation linked bonds, property and shares have some inflation beating characteristics. The so called crypto currencies have so far not proved to be a low risk way of protecting yourself against inflation in your national currency. There has been extreme price volatility, producing either an excess return well above the inflation erosion of your base currency, or days of large price falls reminding you that in the wrong one of these vehicles you could lose the lot.

It is true people can design crypto currencies with clever ways of restricting supply of them. All the time there is an increasing number of people willing to believe in their properties, this can create substantial upward pressure on their value. However, there is also a central paradox. To create the magic ingredient of pressure for the price to rise requires tough restrictions on the issue of new crypto currency. This means such a currency will struggle to be liquid enough and universal enough to meet the test of effective money that is freely and widely accepted in payment. National currencies are very flexible in response to demand for more money for legitimate uses. The very flexibility that allows too much money to chase too few goods, leading to inflation, is also a crucial feature to allow money to expand as economic activity expands to permit growth and business success. Judging the right amount of money, as Central Banks have to do, is a difficult task to get right.

Some of the advocates of crypto currencies I have listened to are even more concerned about the way commercial banks holding our deposits in national monopoly currencies are increasingly the regulated creatures of the state allowing the state to exert substantial control over our finances. The answer to this is not to create a new non government currency which allows people to break the tax and financial laws. The main reason states are so suspicious of crypto currencies is they fear they can and will be used by drug traffickers, terrorist organisations, large scale tax evaders who want a

currency that is not reported to the authorities and which allows them to do as they wish without trace. Some people used to like bearer bonds, gold bars and other stores of value that avoided direct reporting to tax authorities, but gradually governments brought these under regulatory control. Anyway people often found they had to use the normal banking system and monopoly currencies at the end of the process when they wished to spend their wealth.

The case for crypto currencies has to be made for reasons other than the dislike of tax that a national authority seeks to impose. If there are too many taxes or they are at too high a rate there has to be democratic pressure to change, or the person who objects strongly has to move to a lower tax jurisdiction to live and work permanently.