Which money is more reliable?

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White, Lawrence H.: Better Money: Gold, fiat, or Bitcoin? Cambridge University Press. Cambridge, UK, 2023, xi+236 o ISBN: 978-1-009-32745-9

It is not characteristic of works on monetary macroeconomics that they raise "big" questions, but rather that they address relatively narrow "smaller" problems, because they do not go beyond the institutional framework. I am not saying this with a critical edge, because such works have a clear economic policy benefit. However, in dealing with monetary policy in the "here and now", it is relatively easy to lose sight of the fact that the bigger questions are not necessarily ignored because they have already been answered. For example, *Gregory Mankiw*, a widely known and respected Harvard economics professor, did not have a good answer in 2007 as to why a central bank was needed. As he wrote in a blog post at the time (Mankiw 2007),

"We economists have rigorous and fundamental theory to explain why we have environmental regulation (externalities) and to explain why we have antitrust laws (market power), but there is no consensus about what market failure calls for the existence of a central bank."

Lawrence White, whose monograph *Better Money* was published this year, would probably reply that there is still no consensus on this, but the question is not what that market failure is, but which of the feasible monetary institutional solutions is better. This is why it is important to compare the institutional framework of *fiat* money with the gold standard, known in various forms from economic history, and the possible standard based on Bitcoin (a fixed supply of private digital money).

The reader who is familiar with the author's work will not be surprised by this question. White – who, by his own admission (p. 4), was influenced by Hayek's (1976/1990) pamphlet advocating free competition between national currencies rather than a single currency – has always belonged to the school of thought that does not believe that the monopolization of the monetary base by central banks is necessary from an efficiency point of view. Better money can come not only from better monetary policy, but perhaps also from not giving any bank the privilege of issuing base money (Selgin and White 1994). It was in this spirit that the author wrote a textbook on monetary economics in 1999 (White 1999), and this new work is in many ways a continuation of that work.

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In addition to the five-page Introduction, White's work consists of six chapters of 30-40 pages. The first reviews the history of money, looking at money as an organic institution in the Carl Menger tradition and arguing against the theory of money as a state-created institution. Chapter 2 provides a graphical model and explanation of the gold standard system, focusing on the process by which the gold standard stabilises the price level – the reciprocal of gold's purchasing power – over the long run, despite shocks to gold holdings and flows. Chapter 3 refutes the bad arguments against the gold standard and corrects the bad arguments for it, so in total 12 bad arguments are dealt with in detail. Chapter 4 discusses the basic mechanisms of the *fiat* money system. The peculiarity of this system is that it converts the risk of government default on the gold standard into an inflationary risk that is not specific to the gold standard, and this is not only its criticism but also the explanation for its emergence. Chapter 5 focuses on Bitcoin, more specifically on how the monetisation of a cryptocurrency is consistent with theories about the origins of money and why this is important for understanding Bitcoin's high price volatility. It also reviews the "cypherpunk" dialogue that led to Bitcoin, in which, as some references and citations (pp. 157-159) show, the author played a significant role. Chapter 6 discusses the advantages of the Bitcoin standard and the gold standard compared to each other. Bitcoin's biggest disadvantage is its greater price volatility compared to gold, a disadvantage that would not disappear even if Bitcoin were more widely used as a medium of exchange. The disadvantage of gold is the less developed payment infrastructure. The author is not optimistic about either gold or Bitcoin becoming money, but the tide can turn relatively quickly in economic policy, and once the tailwinds of the paper money system are gone, it will be good to know the alternatives.

The author interprets the three monetary institutional systems in the title – gold, paper money and Bitcoin – in a somewhat more general way than their specific historical appearances, which is particularly worth emphasising in the case of the gold standard. By the gold standard, White means a monetary system in which "a defined mass of gold coin or bullion is the *unit of account* in which prices are posted and accounts kept, and gold coins or bullion are the *medium of redemption* that ordinary currency and bank accounts promise to pay" (p. 39, emphasis in original). This therefore includes the classical phase of the historically known gold standard up to 1914, but more. White makes it clear that he considers a gold standard system without central banks to be ideal, and that the model can describe the operation of any other commodity standard.

White's work has three features that are unusual in the genre and make it an exciting read for readers with a basic economic literacy and an interest in financial topics. One is the comparative approach (Djankov et al. 2003). White presents the three types of institutional system in order to compare them. He does not, therefore, fall into the nirvana fallacy (Demsetz 1969) of comparing the real with the non-existent perfect.

A good example is the discussion of two important arguments against the gold standard. One is the cost of maintaining a gold standard – that the extraction of large amounts of monetary gold takes up productive resources – and the other is the high volatility of the gold price, which, critics say, would drag on the price level in the same way under a gold standard. Both arguments fall into the nirvana fallacy, because they compare the gold money system to a perfect paper money system and ignore the facts. And the fact is that we have accumulated more gold since the gold standard was abolished than we did during the gold standard. We do this as a hedge against the much higher inflation that is typical of paper money systems, and it is precisely because of this increased gold hoarding that the gold price becomes more volatile. That is, compared to real paper money systems, both gold accumulation and gold price volatility are lower in the gold standard system.

Another remarkable feature of the work is that it tries to be accessible, which is almost impossible when dealing with monetary issues, and the author does not succeed, but that does not mean that it is bad for the work. The gold-standard model, for example, could have been a mathematical dynamic model, the facts could have been presented according to statistical formalisms, but there is no need for them: some stylised facts and supply-demand diagrams are convincing enough, and so formalism does not distract us from the economic message, which is not always easy to follow.

The intention to be accessible to the general public is also reflected in the fact that the author is not averse to dealing with arguments – even on blogs or Twitter – that are not formulated to the professional standard expected of an academic work on economics. So the author not only discusses the issues with his insider colleagues, but also answers questions of interest to the wider public. It is interesting that many of these unsophisticated arguments come from economists in academia, but White is also uncommonly patient in his responses to the arrogant remarks (pp. 98-101) and thoughtless rants (pp. 175-178) that are common on Twitter. The mystery about the professional opinions on the gold standard is why so many bad arguments against the gold standard are made by well-known economists, while the arguments in favour of the gold standard are more represented by lesser-known names. The author's explanation, apart from rational ignorance, is that the social engineering attitude shared by many professionals does not fit with the "shackles" of the gold standard, and that central banks, the most important funders of monetary economics research, bias the "career incentives" (p. 99) of economists working on such topics towards the status quo.

The fact that the author is targeting a wider audience than usual is also evident from the fact that he does not skirt over the basic issues: What is money? Why value paper money at all if it is not "backed" by any commodity? Why value Bitcoin, which not only isn't, but has never been? Why is the supply of gold not fixed and why is Bitcoin fixed? Why is it not necessarily wasteful to use energy to "mine" the latter? The great virtue of the work is that it can provide clear answers to these questions, and therefore parts of it can be useful in education.

The third sympathetic feature of the work is the author's knowledge of the history of economic thought. Not only do the names of the greats, Hume, Cassel, Friedman, Barro, Bordo, Eichengreen, Sargent, appear frequently, but also names that sound less familiar in mainstream monetary theory, such as Friedrich Hayek, Ludwig von

Mises, Murray Rothbard, Ronald Coase, and also 'crypto gurus' such as 'Nick' Szabo and, naturally, 'Satoshi Nakamoto', whose ideas the author is also familiar with.

The author is thus much more pessimistic than usual about the performance of the paper money system, and much less pessimistic about the performance of the gold and Bitcoin standards, but he does not dogmatically defend either. He also deals at length with the bad arguments *against* the gold standard, perhaps the most important of which is the (bad) argument that it can only work well with 100 per cent reserves. And although he refutes the exaggerated claims against Bitcoin, such as that it is just a Ponzi scheme or an asset with zero fundamental value, he is not particularly optimistic about Bitcoin either. His main objection is that the large price fluctuations due to fixed supply prevent it from becoming a commonly accepted medium of exchange at some point, and without such an expectation it will indeed depreciate.

The six chapters can be read separately, but they are not six completely separate studies. It also follows from the comparative approach mentioned above that reading the whole work will reveal the whole argument, and the reader may even come to conclusions that the author does not explicitly state.

For my part, one of these conclusions is the importance of trust, which is not surprising given that it is a work about money. It is well known: trust is a prerequisite for all market transactions. However, many times, when the author talks about trust, or quotes others who do, he is actually talking about institutional trust, trust in the monetary system, which, as we know from the economics of trust (Győrffy 2018:51-62), are not the same thing. In our case, however, confidence in the monetary system seems to be equivalent to expectations about the purchasing power of money. This intricate relationship between multiple kinds of trust and expectations is not clarified by the author.

It is also a question of trust, but one that remains without an explicit answer, why a promise to redeem banknotes or banknotes for gold or Bitcoin would be more credible than a promise to maintain inflation – or any other – target in a paper money system. The implicit answer is that the first two promises do not necessarily have to be made by a monopoly – a central bank – and so competition between banks penalises non-payment.

An interesting lesson is that the monetary economics profession supports the existing paper money standard, and this support is incomprehensible only in the light of the theoretical models and practical trappings of the operation of the three standards. The fact that the debate goes beyond the technicalities is perhaps also due to the fact that, as the gold and Bitcoin standards are constraints on fiscal policy, their support is also a statement of public finance, and the classical fiscal creed, coherent with the gold standard, has been taken up by few since the Keynesian revolution (Buchanan – Wagner 2000/1977). Theoretically, however, even with this, there is such a low level of monetary policy quality that results in worse money than does no monetary policy at all.

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