Proposal to Build Hayek: A Commercial Bank Issuing our own Currency

Initial Design: Friedrich Hayek's Vision of Competing Private Banks Issuing Constant Value Currencies Backed by Raw Material Commodities

Background

In 1973 and 1976 economist Friedrich Hayek released versions of his paper titled "The Denationalisation of Money" where he argues the case for private banks to issue their own currencies and ultimately end the monopoly that governments have had over monetary policy for most of history.

Instead of governments monopolising the currency market, Hayek believes better money will come from private institutions issuing their own currencies with their chief aim being to keep their currency value stable against a basket of raw material commodity prices. Private Banks competing for deposits are incentivised to ensure currency integrity as opposed to government monopolies who don't face the negative consequences that a loss of business brings. History is largely inflation engineered by government causing devaluation of national currencies.

Proposed Solution

Create a censorship resistant bank issuing our own currency/ies with the principal aim of keeping the currency value stable against a basket of commodities. As the aggregate prices of the commodity basket rises or falls, our bank will regulate the currency in circulation to counteract the price changes.

Regulating the currency in circulation is done by buying or selling our currency against other currencies as well as expanding or contract lending activities.

Issuing Policy

The basis of daily decisions on lending policy and currency exchanges would have to be the result of a constant calculation by a computer into which the latest commodity prices and rates of exchange would be constantly fed as it arrived. The character of calculation can be illustrated by table 1 underneath.

The essential number is the guide number at the lower right-hand corner, resulting from the quantities of the different commodities being so chosen that at the base date their aggregate price in Hayeks (our currency) was 1000. This figure tells our teams what to do. A 1000.5 (as it is currently) figure on the screen would tell us to contract or tighten controls. We'll do this by restricting loans by increasing interest rates or being more selective who we loan to and selling other currencies more readily. Conversely a 998 figure on the screen would tell us to relax and expand our currency supply.

To keep a large and growing amount of Hayeks in circulation we need to win the public's trust to hold our currency. We achieve this by keeping its value constant against a commodity reserve. There may not be great demand to borrow Hayeks, so its use case will be a store of value and after time a unit of account. If we increase the Hayek supply too much, we will find a currency flow back to our bank faster than the public demand to hold it.

Table 1: Currency Stabilisation Scheme.

	Quantity tons	**Currency mainly traded**	**Price in that currency**	**Rate of exchange**	**Price in own currency**
Oil	1	$	46.99	1.474	69.26
Cotton	1	$	26.85	1.474	39.57
Aluminium	1	$	87.25	1.474	128.60
Corn	1	$	115.00	1.474	169.51
Beef	1	$	100.67	1.474	148.39
Pork Bellies	1	$	33.56	1.474	49.46
Soybeans	1	$	50.34	1.474	74.19
Crude Palm Oil	1	$	83.89	1.474	123.66
9	1	$	53.69	1.474	79.14
10	1	$	80.54	1.474	118.71
				Total	**1000.50**
	*Prices aren't accurate		If price < 1000 we need to expand to reduce our value	If price in Hayek's is >1000 we need to tighten to protect our value.	Options to expand or restrict loans and buy and sell our currency in exchange for others on open market.

The Case for our Currency

Currently in DEFI there are limited tokenised real-world commodities – gold, silver and oil are about the only ones. I believe a currency that is kept stable against a basket of real-world commodities could be an attractive store hold of wealth that is directly relevant to non-crypto natives and businesses who through their everyday purchases are affected by commodity prices. The advantage of backing our currency against commodities instead of a Consumer price index (CPI) is that commodity prices are more accepted over wide regions. Cost of living differs more from place to place.