

A new issue of the Cato Journal examines alternatives to central banking

Finding a Path to Free-Market Money

When the Federal Reserve was created in 1913, its powers were strictly limited and the United States was still on the gold standard. Today the Fed has virtually unlimited power and the dollar is a pure fiat money.

The Spring/Summer 2015 issue of the *Cato Journal* examines the case for alternatives to central banking and the reforms needed to move toward free-market money. “A limited constitutional government calls for a rules-based, free-market monetary system,” writes James A. Dorn, Cato’s vice president for monetary studies, “not the topsy-turvy fiat dollar that now exists under central banking.” The distinguished authors in this volume examine the role of gold in a market-based monetary system, the advent of the bitcoin revolution, and the obstacles to fundamental reform, among many other topics.

Axel Leijonhufvud, an emeritus professor of economics at UCLA, begins by noting that, for decades, stability in a market economy has been all but ignored in macroeconomics, while income distribution has been similarly neglected in monetary economics. “The crisis of recent years tells us in no uncertain terms that we have to pay more attention to these two topics,” he writes. “Changes in financial regulation and in the conduct of monetary policy have not only played a very significant role in generating the financial crisis but have also been important in bringing about a large shift in the distribution of income over the last two or three decades.”

James Grant, the founder and editor of *Grant’s Interest Rate Observer*, argues that the need for sound money is both urgent and obvious. “Yet we must pause to consider that there is nothing either obvious or urgent about the idea of sound money to the people who own so much of the other

kind,” he added. “The asset-holding portion of the community has hugely profited by zero-percent funding costs and the levitation of stock, bond, and real estate prices.” Grant went on to offer a modest agenda for achieving a few reasonable reforms in the short term. “I will count us victorious when the name of the chairman of the Federal Reserve Board is just as obscure as that of the head of the Weight and Measures Division of the Department of Commerce,” he concluded.

Other contributors to this issue include George Selgin on “Law, Legislation, and the Gold Standard,” Lawrence H. White on “The Market for Cryptocurrencies,” Bennett T. McCallum on “The Bitcoin Revolution,” Kevin Dowd and Martin Hutchinson on “Bitcoin Will Bite the Dust,” Judy Shelton on “Building an Orderly and Ethical International Monetary System,” and Norbert J. Michel on “A Roadmap to Monetary Policy Reforms.”

As early as 1988, Nobel laureate James M. Buchanan underscored the fundamental problem with the Fed at an international monetary conference in Lugano, Switzerland. “What we have now is a monetary authority that essentially has a monopoly on the issue of fiat money, with no guidelines to amount to anything; an

authority that never would have been legislatively approved, that never would have been constitutionally approved, on any kind of rational calculus.”

Buchanan later added that there is “a moral obligation to think that we can improve things.” That is precisely the spirit of this volume of the *Cato Journal*, as well as the Institute’s newly established Center for Monetary and Financial Alternatives. ■

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