Cato's 29th Annual Monetary Conference

The Problems with a Pure Fiat Regime

"The only adequate guarantee for the uniform and stable value of a paper currency is its convertibility into specie," James Madison wrote in 1831. Based on this principle, the father of the Constitution sought to ensure that the political class would not attempt to use the central bank as an instrument of fiscal policy. At the Cato Institute's 29th Annual Monetary Conference, experts came together to examine the current monetary regime, question the role of government in the monetary order, and restore the spirit that animated the founding generation.

The conference, "Monetary Reform in the Wake of Crisis," was directed by Cato vice president for academic affairs James A. Dorn. In discussing the global fiat money system, scholars focused on how we got here and why the status quo needs to be replaced by a rules-based system in which the dollar is redefined in terms of specie.

In his keynote address, Rep. Ron Paul (R-TX), chairman of the House Subcommittee on Domestic Monetary Policy, attacked the present discretionary regime, arguing instead for currency competition and ultimately a return to the gold standard. The current monetary system is "little more than a deception," he said—adding that it's "like a drug. You get some benefits if you keep using it." But when the drug is taken away, you have to go through withdrawal. Ultimately, continuing to expand the Fed's balance sheet risks killing the patient—which, in this case, "is the worldwide economy."

Jeffrey Lacker, president of the Federal Reserve Bank of Richmond, discussed in greater detail the perils of delegating fiscal authority to central banks, emphasizing that "some measure of antagonism is an understandable consequence of the Fed's own credit policy initiatives." "While it might sound extreme, I believe that a regime in which the Fed is restricted to hold only U.S. Treasury securities purchased on the open market is worthy of consideration," he said.

Kevin Dowd, author of *Money and the Market* and a Cato adjunct scholar, warned that unless the present financial system—which is highly leveraged and based on fiat money—is ended, we can expect "monetary chaos" that includes high inflation and a loss of freedom. He noted that the Fed "has no exit strategy to safely deflate the bond market"—to which he responded with concrete steps that would help transition the country to a more viable free banking model.

Other speakers included Robert Zoellick, president of the World Bank; Allan H. Meltzer of Carnegie Mellon University; Benn Steil, coauthor of *Money, Markets, and Sovereignty*; Lawrence H. White of George Mason University; and Gerald P. O'Driscoll, Jr., senior fellow at the Cato Institute (see page 8).

In his closing address, John Allison gave a rousing talk about the importance of sound money in a free society. As former chairman and CEO of BB&T, Allison offered "a different perspective," speaking from four decades of experience in an industry that "definitely reports to regulators." The reason the Federal Reserve has hampered the market system, he said, is that its experts are guilty of what F. A. Hayek called "the fatal conceit." "I don't care how smart you are," Allison said, "you cannot integrate the economic activity of 7 billion people." ■

The papers presented at the conference will be included in an upcoming issue of the *Cato Journal*. Video and audio of the conference is available at www.cato.org.

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1. JEFFREY M. LACKER (at podium), president of the Federal Reserve Bank of Richmond, held that the central bank's balance sheet should be limited to U.S. Treasurys. Other panelists included ROGER GARRISON (left) and GEORGE SELGIN. 2. JUDY SHELTON, author of *Money Meltdown*, argued for a new global monetary structure. 3. Cato's ALAN REYNOLDS listened as JAMES GRANT, editor of *Grant's Interest Rate Observer*, addressed the dysfunction of financial regulation.