A new history of the Supreme Court's monetary decisions

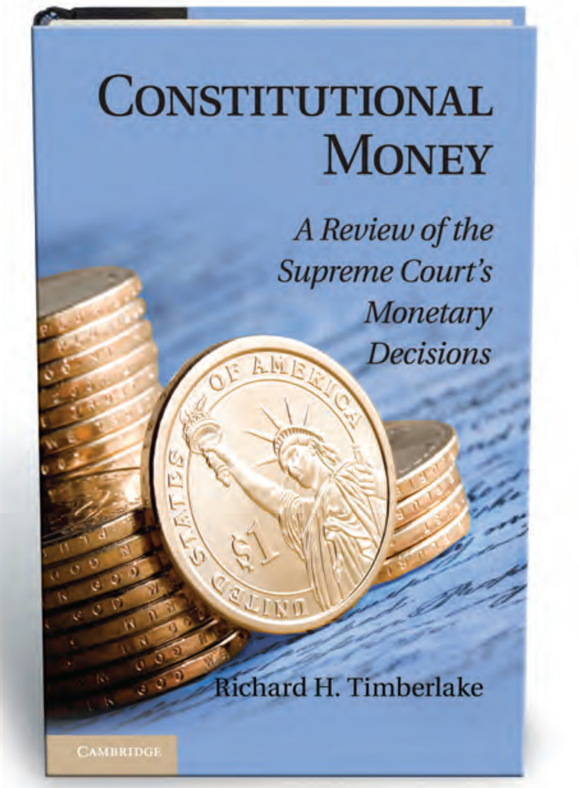
The Devolution of the Dollar

For more than 100 years, from roughly 1800 to 1912, the purchasing power value of the dollar under the gold-and-silver standard was essentially constant. With the creation of the Federal Reserve and its discretionary policies of the last century, however, the dollar's value has declined by more than 95 percent.

"That comparison is difficult to ignore," leading economic historian Richard H. Timberlake writes. In fact, "it amounts to a 50 percent decline in the value of the money-unit every generation." In his new book, *Constitutional Money: A Review of the Supreme Court's Monetary Decisions* (Cambridge University Press, 2013), Timberlake, emeritus professor of economics at the University of Georgia and an adjunct scholar of the Cato Institute, delves into the legal and historical events that underpin today's monetary framework.

Timberlake organizes his analysis around the nine Supreme Court cases that markedly affected the U.S. monetary system, focusing not only on the Court's evolving interpretations of the Constitution, but also on the operations of both the gold standard and the Fed. By grounding these court cases within the context of the government's monetary policies over time, he is able to explain how the Federal Reserve System "has interacted with the later Court decisions to undermine the Framer's monetary constitution." In doing so, he illustrates why this system has promoted continuous inflation and ongoing public uncertainty about the future value of money.

"Prior to the Civil War," Timberlake writes, "no one ever imagined that anything other than gold or silver could be constitutional money. The precious metals were the limited dietary nutrients of the monetary system." Through a series of misguided decisions, the Supreme Court paved the way for fiat money to displace gold—and for central banks to undermine market-based monetary arrangements. The rest, as they say, is history.



"Federal Reserve policies in the twenty-first century have exhibited the complete power over the monetary system that the decisions of the tragically mis-argued legal tender cases sanctioned," he writes. In fact, the system now in place operates without any effective congressional oversight or control. With no exclusive rule to promote price level stability, the Fed's monetary omnipotence is guided by little more than a vague "smorgasbord" of policy goals, according to Timberlake—"in spite of the fact that it cannot produce a toothpick."

The answer to the current regime, he suggests, is to counter the all-powerful banks of the present day with a rules-based system that limits human discretion. This would allow for a framework, Timberlake notes, that "would feature thousands of people and hundreds of institutions spontaneously making millions of decisions for its operation in an unbounded system of markets."

The constraints that accompany a gold standard, for instance, would radiate out into many areas of public policy. They would discourage wars. They would confine fiscal extravagance. "Most to the point," Timberlake writes, they would "provide a constrained—and thus constitutional—monetary system." However, Timberlake is careful to note that a transition forward requires genuine resolve.

"For its re-vitalization, a gold standard must have a serious consensus, a general commitment to its discipline, a public *ethos*, and a practical program for its workings," he concludes. *Constitutional Money* marks an important step toward realizing those preconditions. ■

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Continued from page 8

political, and legal institutions impact the performance of economies. This literature and its methodology are penetrating the elite schools and journals to a greater extent than has been the case for public choice analysis, paving the way for greater integration of public choice into mainstream economics.

Economic analysis is equally applicable to market and political decisionmaking. It indicates that there is both market failure and government failure. It is long past time that this realism be incorporated into mainstream economics. George Stigler once remarked that a person who considers only market failure is like the judge of a singing contest who immediately declares the second contestant the winner after hearing the performance of the first. This is precisely what happens when mainstream economics treats government as a corrective device and continues to exclude public choice analysis. It is time for the profession to consider the second singer. ■