EDITOR'S NOTE

The articles in this issue of the *Cato Journal* were first presented at the Cato Institute's 24th Annual Monetary Conference—**Federal Reserve Policy in the Face of Crises**—on November 16, 2006. At that conference, we heard the sad news that Nobel laureate economist Milton Friedman had passed away earlier that day. Milton was a friend and mentor to many of us at the conference and, during the moment of silence in his honor, one could sense the magnitude of loss of this great champion of liberty. We dedicate this *Cato Journal* to Milton Friedman, and we are honored that he has allowed Cato to create the Milton Friedman Prize for Advancing Liberty, which was initiated in 2002 and is awarded every two years to an individual who has made a significant contribution to advancing human freedom.

One of Milton's closest friends, and coauthor of *A Monetary History of the United States*, Anna J. Schwartz writes in her memorial to Milton, "An ardent defender of freedom for individuals to live their lives as they choose." The world will remember Milton for his stance against tyranny as well as for his technical economics. Robert Barro provides a retrospective on Friedman's life and works, especially on monetary policy.

The other articles in this volume address the following issues:

- How should the Fed respond to growing global imbalances and a falling dollar?
- Is global competition sufficient to discipline central banks?
- Did the Greenspan Fed err by providing too much liquidity in the face of crises and then overshooting in withdrawing that liquidity?
- How will the growing unfunded liabilities of Social Security and Medicare affect monetary policy?
- Should the Fed adopt inflation targeting?

Those questions bring us back to the fundamental issue of rules versus discretion in a world of pure fiat money. If inflation targeting is chosen over a discretionary regime, what should the target be? As Bennett T. McCallum has shown, a nominal final demand rule is consistent with long-run price stability. Targeting a specific price index, meanwhile, could move monetary policy in the wrong direction in response to supply-side shocks. And, as Lawrence H. White points out, we should not forget that "For much of monetary history, inflation targeting was unnecessary. There was no need to worry about constraining the central bank's inflationary proclivities because no central bank existed." Adherence to the convertibility principle, as Benn Steil notes, was sufficient to prevent persistent inflation; something the Fed has been unable to do under a discretionary government fiat money regime.

Other articles deal with the benefits and risks of financial globalization, its impact on Fed policy, whether and how the Fed should respond to various crises, the link between fiscal and monetary policy, and the role of monetary policy. As Friedman taught, the international price system works best when monetary stability prevails. Governments that abuse their currencies not only attenuate the property rights people have in a stable value of money but disrupt free-market exchanges and threaten personal freedom as protectionism and planning subvert economic freedom.

—J. A. Dorn