Editor's Note

This special issue of the *Cato Journal* stems from the Cato Institute's 29th Annual Monetary Conference—**Monetary Reform in the Wake of Crisis**—held in Washington, D.C., November 16, 2011. At no time since the founding of the Federal Reserve nearly a century ago has it been more important to reconsider the role of monetary policy in a free society. In particular, as F. A. Hayek noted, "All those who wish to stop the drift toward increasing government control should concentrate their effort on monetary policy."

The financial crisis that began at the end of 2007 has greatly expanded the Fed's discretion, resulting in two rounds of quantitative easing, the allocation of credit, the distortion of interest rates, and the politicization of monetary policy—which has become a tool of fiscal policy. Keeping rates low to help finance government debt and to incentivize risk-taking is misguided and imprudent. Pretending that money creation can permanently lower unemployment and increase economic growth is dangerous. The stagflation of the 1970s should have been a lesson that full employment is best left to markets, not to central bankers.

Yet, the Fed has a dual mandate—to achieve price stability and maximum employment. In addition, it is expected to keep interest rates low. That is asking too much. One consequence of the Fed's policies has been to increase the size and scope of the federal government, not to increase real economic growth.

The central issue addressed in this volume is how to make the transition from the current regime of discretionary government fiat money to sound money or what Richard H. Timberlake calls "constitutional money." In particular, what types of monetary reform would help prevent future crises, limit government power, increase the range of choices open to individuals, and safeguard the long-run value of money?

The first step toward fundamental reform would be to think about the kinds of rules that could best generate money of stable value—without an interventionist central bank. In thinking about alternative rules, one should keep in mind the admonition of James Madison that "the only adequate guarantee for the uniform and stable value of a paper currency is its convertibility into specie." Lawrence H. White, Judy Shelton, and others in this volume make a strong case for gold.

In the meantime, more competition—both among currencies and among dealer/brokers—would benefit consumers. Moreover, understanding what Jeffrey M. Lacker, president of the Federal Reserve Bank of Richmond, calls "the interventionist impulse" of central banks is imperative if monetary reform is to move in the direction of greater freedom.

In that respect, Allan H. Meltzer, the foremost historian of Fed policy, argues that the Fed consistently ignores "longer-term consequences" while focusing on "short-run events." Likewise, Benn Steil of the Council on Foreign Relations, points to the flaws in trying to fine-tune the economy via aggregate demand management and "the perils of delegating fiscal authority to central banks."

Congressman Ron Paul favors denationalizing currencies and free banking. His views are gaining momentum and are supported by a growing body of scholarly research. Robert B. Zoellick, president of the World Bank, thinks "gold should be used as an indicator, as an information tool"—that is, as "a check on the checkers." Madison would surely agree, but would go further.

In the concluding article, Gerald P. O'Driscoll Jr., a Cato senior fellow, reminds us that liberalism went hand in hand with a convertible currency under the classical gold standard. Returning to a private monetary system based on the principle of freedom, as John Allison, former chairman and CEO of BB&T, so elegantly states, would help restore personal responsibility and self-esteem—goals not considered in the Fed's stochastic dynamic general equilibrium models.

—J. A. Dorn