

# WHY MONETARY FREEDOM MATTERS

*Ron Paul*

I've thought about and have written about the Federal Reserve for a long time. I became fascinated with the monetary issue in the 1960s, having come across the Austrian economists, especially Hayek and Mises, and I was very impressed with August 15, 1971, because the predictions made in the 1960s came about. As a matter of fact, Henry Hazlitt made that prediction in 1944 when the Bretton Woods system was set up. He said it wouldn't work and it would fall apart—and it did—so that was a strong confirmation.

But even after all these years of studying and reading and trying to figure out the monetary system, I have come to the conclusion that the Federal Reserve is unconstitutional—and we don't need it (Paul 2009). So with that approach I have worked hard in Congress for sound money.

## A False Trust in Fiat Money

I have always operated under the assumption that the pure fiat money system that replaced Bretton Woods in 1971 would not be a good system; it would be much worse. It's been rather impressive that it has lasted this long. But I think the handwriting is on the wall. I think that the dollar reserve standard, which the world has embraced for 40 years, is coming to an end. I don't think there is any

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admission of this yet. Many policymakers believe they can patch up the pure fiat money system, but I believe the dollar reserve standard has ushered in probably the world's biggest financial bubble in all of history. The total weight of the world's financial system relies on a false trust in the paper dollar, namely, that the U.S. dollar will be able to rescue everybody.

So far this undertaking hasn't really destroyed the confidence in the dollar. I think one reason is that when you look at the dollar in comparison to other currencies, people are still buying dollars and loaning money to us at very low rates. However, our competition—primarily the euro and the yen—are not necessarily very strong themselves.

The important point, however, is that when it comes to the question of purchasing power, which is the ultimate test of a currency, I don't think we are doing very well. Consumer prices are going up by nearly 4 percent, according to the CPI measure of inflation. But if you use the old CPI, they are going up more like 8 percent. And if you compare cost of living increases for certain individuals versus others, it's much more painful. So if you're on Social Security, for example, your standard of living has been falling, even though there will be a small increase for inflation this year.

## Lax Congressional Oversight of the Fed

The Federal Reserve is an institution that was created by Congress, and Congress has been totally derelict in its duties as far as oversight of the Federal Reserve, and I've argued this case along with many liberal Democrats over the years. In the past, there were some populists like Wright Patman and Henry B. González from Texas, as well Henry Reuss who thought that there should be more supervision of the Federal Reserve. Their conclusions were different than mine because they didn't particularly argue for constitutional money and commodity money, but they argued that Congress should have more authority and that the Fed shouldn't act in secrecy. Yet, for nearly a century, the Fed essentially has been able to act on its own.

I'm convinced that in these last few years we've made tremendous progress. Essentially, since the collapse of the financial markets in 2008, we've gotten a lot more attention on the Fed. In 2010, we had a partial audit passed in Congress. We're getting

more information—lawsuits have helped us get more information—and this to me is very beneficial. The audit bill was supported by approximately half of the Democrats and every single Republican signed onto the bill. So there is a little bit of effort, but on the Hill I would say that there is not a whole lot of enthusiasm for what I've been talking about, and there's a lot of political grandstanding.

### Popular Pressure for Monetary Reform

Where I get more enthusiastic is what's happening in the country. The young people I talk to on college campuses think this is a big issue and they link accommodative monetary policy to excess government spending. As a matter of fact, the first time I came across the enthusiasm on a college campus was in 2007. I was speaking at the University of Michigan right after we had a debate in Michigan on financial affairs, and it was there that some of the young students started shouting, "End the Fed! End the Fed!" They pulled out Federal Reserve Notes and started burning them.

There is something very interesting going on, and we literally can get thousands of people out on a college campus—and they know and understand and care about the Federal Reserve System. I think that is what has to happen and then there eventually will be changes in Congress.

### The Fed and Big Government

The reason I believe that there is tremendous resistance to fundamental monetary reform is because the Federal Reserve is, as I call it, a facilitator. The Fed really facilitates big government. It facilitates the desires of politicians. There is a gentlemen's agreement between the two parties to continue with the status quo. There is not much difference between the two parties. Their rhetoric is different; sometimes one will emphasize overseas military spending and the other wants to emphasize endless entitlements, but they more or less have been very complementary and have gone along with the Federal Reserve facilitating spending and the idea that deficits don't matter. We've had too many conservatives over the years who claim they were fiscal conservatives but then say, "Well, deficits really don't matter. All we have to do is tinker with the tax code and it will generate more revenues and solve all our problems." But deficits do

matter, and they matter a whole lot right now because this whole idea of central banking has been the instigator. It has facilitated the spending and papered over the debt.

Trust in the paper dollar (fiat money) has been a great temporary benefit to the United States, as the key reserve currency. But under this system, the dollar's long-run value is illusionary. The biggest problem we face in the world today financially is our huge debt, not a lack of revenues from the government. If we ever got serious about this, we have to cut *spending*—and that's where the resistance is. I don't think there is any serious talk on the Hill. I don't think a "super committee" is anywhere close.

There's no reason to fully trust everything our government tells us. Policymakers use the fear tactic to frighten people by saying, "The whole world is going to collapse unless we bail out the big banks and the big corporations." The endless fear-mongering is scaring Congress into spending money. Now if you didn't have a Federal Reserve, the spending spree would come to a halt. If you weren't able to monetize debt, interest rates would go up, and Congress would say, "We have to watch it. We're taking too much out of the economy." This policy has been a grand deception. In the short run we tend to do better, but not in the long run. We end up with a nation deeply in debt.

## The Danger of Inflation

There is no willingness to admit the truth and decide to change things, and Congress is not in any position to rein in the Fed. Some people claim, "We need to change the mandate of the Fed." The mandate is that the Fed is supposed to target full employment, but it's failing there. It's also supposed to achieve stable prices, but it's failing there. So why does anyone trust the Fed? Deep down, the Fed's real goal is to inflate away the massive U.S. government debt.

Paul Krugman happens to have views quite different than mine. He doesn't worry about increasing the money supply; he doesn't worry about inflation. He says that can't happen in a weak economy. Well it seems to me that he doesn't remember the U.S. stagflation of the 1970s, when we simultaneously had high unemployment and high inflation. The Keynesians were dumbfounded. They said, "What's going on here; this is not supposed to happen."

## What Can We Do?

So what should we do about all this? Well my big picture of what we should do is bigger than just the Federal Reserve. We as a people ought to ask the question “What should the role of government be, and does the Constitution have any meaning?” We have to decide whether the rule of law is worth something, and then we as a people have to decide what the role of government should be.

The Constitution was written to restrain the federal government. Article 1, Section 8, tells us what the government is supposed to be able to do. Certainly we should have a strong national defense. But it also said something very strong about the monetary issue: only gold and silver could be legal tender. That clause has never been repealed—there is no authority for a central bank. So just following the Constitution would get us back to a much better position.

The main purpose of government for me is the *protection of liberty*. I see the Federal Reserve as the facilitator and the threat to that liberty and to the enhancement of big government. The longer the bubble lasts, the worse the suffering will be. What can we do?

As far back as the Gold Commission (1982), I’ve made the case for gold. Even in my dissenting opinion, however, I took the position that I wouldn’t close the Federal Reserve down in one day. The Fed will close itself down eventually when it destroys the value of the dollar. But I don’t want that to happen, either closing it down in one day or waiting for a collapse of the whole system. My idea is similar to what F. A. Hayek (1976, 1978) had talked about. Why don’t we denationalize money, legalize competition, allow free markets to work, and allow free-market banking to work?

I think we should legalize competition in currencies, which means that first we recognize the Constitution and repeal the legal tender laws. But I don’t think you can tax money in order to have a competing currency. So what we should do is take the taxes off silver and gold, and even allow private mints to issue gold. An individual not too long ago did that: he issued some coinage, he was arrested, he was charged with counterfeiting as well as terrorism, and had all his gold and silver stolen. It wasn’t like he was doing it in secret, like somebody would if you were counterfeiting. He was doing it openly, yet the government does not want competition. This is to me the most important step that we could make.

I have a bill that actually legalizes competition.<sup>1</sup> We also would have to address the subject of fractional reserve banking—I think what we have put up with in fractional reserve banking and the pyramiding of debt is atrocious, but there is a disagreement in libertarian circles about exactly what you do with fractional reserve banking in a free market—but that is a small argument compared to whether or not we should have competition in currencies and allow something else to circulate. Currencies circulate all the time around the world, so it wouldn't be a big problem.

I believe that in a short period of time we will be forced into making these decisions. Others are thinking about it, but some of them would like to internationalize something different than the dollar reserve standard. They would like to have another fiat currency and a pretend alliance with gold—and they want to move control over a new global currency into the IMF and the World Bank. I think that would be a disaster.

## Conclusion

I think that what we need to do is just restore the principle of liberty, defend our Constitution, and recognize that the government's legitimate function is to safeguard property rights and freedom of contract, so that markets can expand. The monetary issue would not be that major if we allowed some competition to come in, but we have a long way to go on that.

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<sup>1</sup>“Free Competition in Currency Act of 2011” (H.R. 1098).