My Kingdom For a Coherent Monetary Policy (Paul Ryan Edition)

by Pejman Yousefzadeh on May 16, 2011

I like Paul Ryan. Really, I do. I think that he is smart, serious, and genuinely committed to crafting and implementing effective fiscal and economic policies. I think that he believes that ideas genuinely do have consequences. I think that he put himself out on the line by presenting a budget plan that might endanger his future political prospects, and that he did so because he believes that the fiscal and economic crisis of the moment requires having public servants risk losing their jobs in the course of offering policy proposals to right our economic ship. As Ryan said today in the speech he gave to the Economic Club of Chicago, we all know that there is a fiscal crisis looming. Nothing about that crisis should take anyone by surprise; not a bit of it ought to be mysterious to anyone paying attention. What then should we think of politicians who, knowing that the crisis is looming, do nothing to prevent it?

Ryan is determined to face the challenge of conquering our fiscal challenges, and bringing about *strong* economic growth–as opposed to the tepid growth we have been having to make do with. That's why I count myself as a fan of his, and that's why I went to see his Economic Club speech today. For the most part, I like what he said. But I'll tell you one thing I *didn't* like; his attempts to bash quantitative easing, and monetary expansion–instances of which are found throughout his speech.

Both in his prepared comments, and during extemporaneous moments, Ryan praised the economic theories popularized by the University of Chicago. Does he know then that in all likelihood, Milton Friedman–the very admirable archetype of the Chicago School economist–would have likely supported quantitative easing had he been alive? Does he know that University of Chicago economists like Robert Lucas–himself a Nobel Prize winner–were supporting quantitative easing back in December, 2008? To be sure, the University of Chicago community does not march in lockstep regarding this issue; here is Gary Becker–who was at the Economic Club event–declaiming against QE2 (I knew that eventually, I would disagree with Becker about *something*), but a profession of respect for Chicago School economics should not lead to so easy a dismissal of quantitative easing.

As Lucas points out, quantitative easing gives policymakers a host of tools not available via Keynesian fiscal stimulus:

> There are many ways to stimulate spending, and many of these methods are now under serious consideration. How could it be otherwise? But monetary policy as Mr. Bernanke implements it has been the most helpful counter-recession action taken to date, in my opinion, and it will continue to have many advantages in future months. It is fast and flexible. There is no other way that so much cash could have been put into the system as fast as this $600 billion was, and if necessary it can be taken out just as quickly. The cash comes in the form of loans. It entails no new government enterprises, no government equity positions in private enterprises, no price fixing or other controls on the operation of individual businesses, and no government role in the allocation of capital across different activities. These seem to me important virtues.

To be sure, inflationary concerns are legitimate ones, but the inflationary concerns that we face are in the *long* term. In the short to medium term, inflation shouldn't keep us up at night, especially given the fact that the economy is not rocketing along sufficiently to make inflation a concern. To the extent that monetary policy and quantitative easing contribute to inflation–they really don't, but let's pretend for a moment–money injected into the economy via quantitative easing can quickly be taken out of the economy, as Lucas mentions in the excerpt quoted above. We ought to be concerned with how overly expansive spending may lead to inflation down the line, but just because we ought to be concerned with inflation prompted by fiscal policy does not mean that we ought to be concerned with inflation prompted by monetary policy.

Of course, when it comes to Ryan's position on monetary policy, it seems clear that it is meant to co-opt the Ron Paulite "End the Fed!"/"Audit the Fed!"/"End the Dual Mandate!" crowd. Which is a shame, really; Ron Paul is genuinely awful on the issue of monetary policy. As Megan McArdle related to Dave Weigel:

> Republicans stashed him in this job because they don't want him making more important decisions . . . He cares passionately about monetary policy, which most Republicans don't care about. But when you look at his speeches, he doesn't understand anything about monetary policy. He might actually understand it less than the average member of Congress. My personal opinion is that he wastes all of his time on the House Financial Services Committee ranting crazily.

A fair cop, when you consider the following:

> Paul-phobia is almost as old as Paul-mania, especially among libertarians. The anti-Paul case consists of one simple argument—he sounds crazy—and one complex argument, which is that he's distracted libertarians and Tea Partiers by focusing their ire on the easily demonized Fed. Both of those factors were epitomized in February 2010, when he confronted Ben Bernanke with the allegation that the Fed "facilitated a $5.5 billion loan to Saddam Hussein and he then bought weapons from our military industrial complex" in the 1980s. Paul would later explain what he meant, but Bernanke used the moment to dress him down.
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> "Well, Congressman," said Bernanke, "these specific allegations you've made I think are absolutely bizarre, and I have absolutely no knowledge of anything remotely like what you just described." That incident and incidents like it make the Paul skeptics cringe about what he'll do next.

It's understandable, of course, that Ron Paul drives even would-be admirers to damn with faint praise:

> "I don't think he's often the best messenger for the things he believes in," said Mark Calabria, director of financial regulation studies at the Cato Institute and a six-year veteran of the Senate Banking Committee. "I give the guy credit for bringing the Fed under the spotlight, but the real credit probably goes to the Fed for making enough mistakes to make us interested in them. Does Paul approach this in a way that helps his own cause? That's not a guarantee, necessarily. He needs to avoid going down the path to conspiracy theories and keep the focus on economics."

I get that Ron Paul and the Paulites are loud and insistent when it comes to monetary policy. As McArdle notes, Ron Paul cares a lot about monetary policy, and most Republicans care very little about it. But that doesn't mean that Republicans like Paul Ryan ought to cede the field to Ron Paul and his followers when it comes to the issue of monetary policy, especially when doing so could lead to some really bad policy outcomes.