

Ron Paul Mainstreams Radical Monetary Economics

Brian Doherty | February 11, 2011

An example of what could turn out to be a major intellectual benefit of Ron Paul getting his chairmanship of the House Financial Services Committee's subcommittee on monetary policy: mainstream press--*Slate* here--actually giving play to his obscure ideas on monetary economics. While not endorsing them--and even jabbing at them slightly, but much more slightly than I would have expected--giving many tens of thousands or more people a chance to hear and consider them.

Bits and pieces from the long article:

His monetary policy quest has been quixotic. The closest Paul came to getting the gold standard reconsidered—let alone reinstated—came in 1981. At the beginning of the Reagan administration, Paul sat on a commission appointed to debate whether the United States might benefit from returning to commodity-backed money. Reagan had a "slight bias toward gold and its disciplines," Treasury Secretary Donald Regan told reporters at the time. But in a final report, released March 31, 1982, the panel rejected the idea.

Despite the rejection, the next day's papers described Paul as jubilant. "For the first time in 50 years they seriously considered it," he said, releasing a dissent. "I do think that in due time, possibly even in this decade, there will be another serious discussion of gold as a monetary standard. I still do believe that gold is *the* money."

That serious discussion never really happened, though not for a lack of trying on Paul's part. "I think for 20 years or so, they just wished I would go away," Paul explains, referring to the Fed officials he repeatedly took to task on the Hill. "They thought I was a nuisance."...for the most part, he and his ideas became something of a sideshow—he became seen as a crank, a radical, so far outside the mainstream he could be safely ignored.

That changed in 2008, when he ran for president again. This time, the run brought him cult-icon status. The very phrase "end the Fed"—the title of his most recent book—comes from his campaign. In it, he describes visiting a University of Michigan campus after an October 2007 Republican primary debate. To his surprise, when he "mentioned monetary policy, the kids started cheering. Then a small group chanted, 'End the Fed! End the Fed!' The whole crowd took up the call. Many held up burning dollar bills, as if to say to the central bank, you have done enough damage to the American people."....

Talk of a return to a gold (or silver) standard for the dollar has moved from the fringe toward the mainstream, if not into it. A dozen state legislators have

proposed locally instating gold standards or, at least, commodity payment systems....

The severity of the recession prompted the Fed to take truly extraordinary measures to stabilize the banking sector during the credit crunch—measures that even Fed officials admit might not have been totally legal. It accepted more than \$1 trillion in junk-rated assets as collateral, something it never had never done before the crisis. And it was not just Goldman Sachs and Lehman Bros. availing themselves of the Fed's largesse—it was Caterpillar and the Korean Development Bank....

But Paul's adversary is not only the Federal Reserve. It is also mainstream monetary economics itself....His beef is not with how central bankers do their jobs; it's with central banking itself.

And the only substantive critique:

Indeed, many economists point to evidence that banking crises and recessions were much, much more severe leading up to the Great Depression and the advent of modern monetary policymaking. They also note that the Fed's extraordinary monetary policy in 2008 and 2009 did stabilize the banking sector, boost GDP, and keep up employment.

An alternate view on whether the Fed has in fact smoothed out economic booms and busts.

And author Annie Lowrey is honest on how threatening Paul is to the Fed status quo:

Paul might be steadfast in his beliefs, but he has few plans to impose them on an unsuspecting America. He is, in fact, honest about what would happen if his fondest wishes came true. "If tomorrow we closed the Fed and started using a gold standard, it would be so chaotic nobody would know what to do," he says. "There are interim positions, such as allowing competition in currencies." But, he admits, "People aren't ready for that. It's complicated—it is very complicated."

Rather than returning America to the banking system of the 1890s, then, Paul has adopted a somewhat more modest mission: Keeping alive the current conversation about the Fed. It's a conversation that some economists and think tank scholars say can't hurt. "We have not seen a lot of hearings on monetary policy from the monetary policy subcommittee," notes Mark Calabria, the director of financial regulation studies at the Cato Institute. "To a certain extent, a lot of members of Congress don't want to bother with the topic. The way I see it, Paul will attempt a public-information campaign. It is not going to be the end of the world for the Fed."

My *Reason* features on these matters: the unexpected rise of Ron Paul during the 2008 campaign, and the unexpected rise of anti-Fed fervor.