



Money and Government, Freedom and Prosperity: The Federal Dollar Hangs in the Balance

By: Quinn Nii - December 6, 2013

“Was the Fed a good idea?”

That was the theme of the Cato Institute’s 31st annual monetary conference, which brought together financial scholars and policy makers to consider the record of the Federal Reserve since its establishment in 1913.

The focus of this year’s theme was highlighted by Jerry Gordon, former President of the Federal Reserve Bank of Cleveland.

“The central bank has now been dominated by people that believe inflation occurs as a result of too-low unemployment rate, and is not a risk as unemployment is above some threshold,” Gordon said. “The monetary policymakers will not give greater weight to inflation until too many mommies and daddies are working, earning a paycheck and supporting their families.”

Keynote speaker Charles Plosser, President and CEO of the Philadelphia Fed, discussed the limits that are should be placed on the Fed to ensure accountability. According to Plosser, there are four key, necessary limits:

1. Limiting the Fed’s monetary policy to a narrow mandate with price stability as the primary objective.
2. Limiting the types of assets the Fed can hold on its balance sheet.
3. Limiting the Fed’s discretion in policymaking by requiring a systematic, rule-based approach.
4. Limit the boundaries of its lender of last resort function.

The gold standard was also discussed at the conference. Lewis Lehrman, Chairman of the Lehrman Institute and one of the key members of President Ronald Reagan’s US Gold Commission, argued for a return to the gold standard, calling our time “an unparalleled era of financial disorder.”

In opposition to the gold standard, George Mason University economics professor Lawrence White argued that our current system is superior.

“I find that most automatic and least managed kinds of gold-based system with free banking can be expected to outperform a gold standard with central banking and to outperform the fiat in monetary systems that currently prevail,” White said.

The conference would not have been complete without discussion about our current economic situation. The financial crisis and Great Recession greatly increased the power of the Federal Reserve. Government has expanded dramatically under both Presidents Bush and Obama. One conference participant addressed this problem.

“Politicians and judges have devalued the Constitution’s founding principles-federalism, separation of powers, limited government, and individual liberty,” he said.

Steve Forbes of *Forbes* magazine stated, “The only way to increase prosperity is through innovation and productivity. Attempts to manipulate the value of money invariably fail.”