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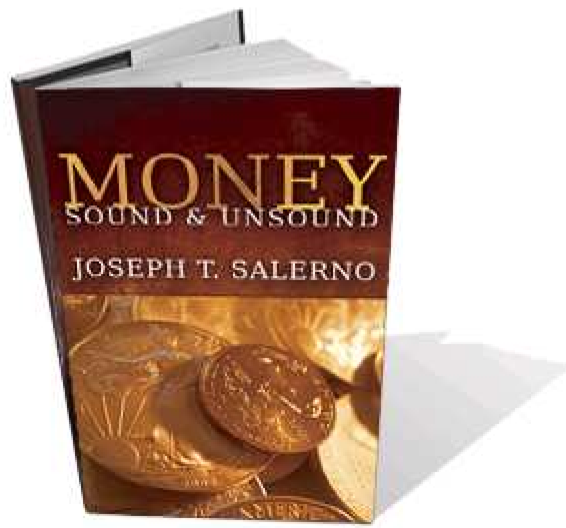
# The Current Crisis: *Money, Sound and Unsound*

**Mises Daily:** Thursday, December 09, 2010 by John P. Cochran




The current crisis has economists, from mainstream defenders of central banking, such as Alan Blinder, to the leading interpreter of Austrian business-cycle theory, Roger Garrison, calling for a reexamination of the role of central banks and money in the economy. Blinder states, "The nature and scope of the Federal Reserve's authority and the structure of its decision making are now 'on the table' to an extent that has not been seen since 1935, and the Fed's vaunted independence is under some attack."[1] Blinder essentially, with a wave of a hand, defends the concept of a central bank, asserting that "it is not just uncontroversial, but probably banal, to assert that the central bank is and should be the country's only lender of last resort and its sole — and independent — monetary policy authority."[2]

However, as Garrison eloquently argues,

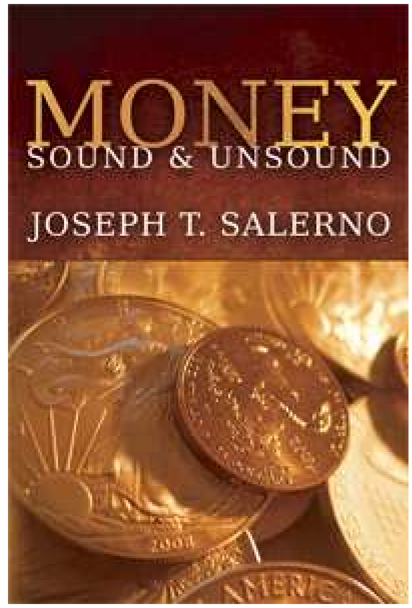
> Both theory and evidence would seem to suggest that economic stability lies in the direction of monetary decentralization.
>
> The decentralization of money, as proposed by Hayek and explored by Selgin and White has an increasingly strong claim on our attention.[3] Concerns with political feasibility should be separated from the more fundamental reconsideration of a market-based money supply. In the light of our continuing experience with a bubble-prone central bank, we might well anticipate that a comparative-institutions analysis would favor a market solution to our money and credit problems. At the very least, a better understanding of the workings of a decentralized monetary system would help identify the perils and pitfalls of continued centralization.[4]

I have made a similar argument in a forthcoming paper,[5]

> A lesson that should be learned is that money and credit creation is ultimately a major destructive power which misdirects production and falsifies calculation even in a period of relatively stable prices. An economy with a complex financial system like the present banking system, which in turn depends on the government monopoly of the supply of money, will be prone to cycles and crisis even with the best of management. Without a foundation of sound money, cycles are inevitable and destructive not only of short-term economic well being but potentially destructive of long-term of freedom and prosperity if the crisis is used as an excuse to bring back the dead hand of collectivist policies. In the midst of the current crisis, it is more urgent than ever that we follow Hayek in his proposal for drastic monetary reform. He was driven "into proposing the denationalization of money" and a return to a market-determined money.[6]

Some in mainstream journalism are recognizing the threat to return to prosperity posed by current monetary institutions that, in addition to the above-mentioned problems, facilitate budgetary malfeasance by unrestrained political leaders. Some journalists are now advocates for more drastic monetary reform. In the Thursday, May 27, *Wall Street Journal*, Judy Shelton's op-ed is titled "The Recovery Starts with Sound Money." She argues that "the transition to a firmer monetary footing to support entrepreneurial capitalism could be initiated by linking major global-reserve currencies to gold and silver — commodities long associated with monetary functions. It would logically begin with the dollar." And "by linking the dollar to gold, Americans would establish a vital beachhead for sound money and provide a model that other nations could emulate."

While a "beachhead for sound money" would be an improvement over current monetary arrangements, reform, if it is to succeed in freeing us from the threats to our economy and liberty embedded in a government monopoly of the control of the money supply, should be based not only on an understanding of the importance of sound money but also on a strong theoretical understanding that clearly delineates sound from unsound money.[7] Hence, the timing could not be better for the Mises Institute's release of *Money, Sound and Unsound* by Joe Salerno, today's leading monetary scholar in the tradition of Mises and Rothbard.




The tome covers nearly 30 years of important contributions by Professor Salerno, defining and defending sound money from its critics and pseudo friends. The volume is a must have for anyone — whether scholar, pundit, policy wonk, or educated layman — who truly wants to understand our current crisis and participate in a meaningful way in a program for a return to sound money.

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***Notes***

[1] Blinder, Alan S. "How Central Should the Central Bank Be?" *Journal of Economics Literature*, 2010, 48:1, p. 123. See my review of Blinder's 1998 book, *Central Banking in Theory and Practice.*

[2] Ibid. p. 132.

[3] See Hayek (1976) *Choice in Currency*. London: Institute of Economic Affairs. And Selgin, G. A., and White, L. H. (1994) "How Would the Invisible Hand Handle Money?" *Journal of Economic Literature* 32 (4): pp. 1718–49. — John P. Cochran

[4] Garrison, Roger W. "Interest-Rate Targeting During the Great Moderation." *Cato Journal*, vol. 29, no. 1 (Winter) 2009, pp. 187–200.

[5] Cochran, John P. (2010 Forthcoming). "Capital in Disequilibrium: Understanding the "Great Recession' and Potential for Recovery." *The Quarterly Journal of Austrian Economics*, vol. 13, no. 3.

[6] Pizano, *Conservations with Great Economists: Friedrich A. Hayek, John Hicks, Nicholas Kaldor, Leonid V. Kantorovich, Joan Robinson, Paul A. Samuelson, Jan Tinbergen.* Jorge Pinto Books Inc., 2009) p. 10.

[7] See Cochran, John P. (2004). "Capital, Monetary Calculation, and the Trade Cycle: The Importance of Sound Money." *The Quarterly Journal of Austrian Economics,* vol. 7, no. 1, 17-25.

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