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Fed Chair Is In For A Big Surprise From Cryptocurrency

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Federal Reserve Chair Jerome Powell spoke out against the economic dangers of a "gold standard" U.S. Dollar policy in his testimony before Congress Wednesday.

Powell's remarks came after President Donald Trump's recent nomination of an apparent "gold bug," Judy Shelton to the Federal Reserve Board of Governors.

In a 2018 paper published by the Cato Institute, entitled, "The Case for a New International Monetary System," Judy Shelton wrote:

"If the appeal of cryptocurrencies is their capacity to provide a common currency, and to maintain a uniform value for every issued unit, we need only consult historical experience to ascertain that these same qualities were achieved through the classical international gold standard without sacrificing the sovereignty of individual nations."

Defending U.S. Monetary Sovereignty from the IMF

Shelton is primarily concerned in this paper with IMF regulatory power threatening the U.S. and other nations' monetary sovereignty. Her solution is a return to the gold standard that existed before the Nixon Shock. That was the 1971 executive order that closed the gold window and brought the Bretton-Woods monetary system to an end:

"To the contrary: gold standard rules permit nations to participate voluntarily by operating in accordance with the discipline of gold convertibility of their own currencies."

New Fed Nominee Is Positively Bullish on Crypto

But Shelton seems to do more in this paper than merely advocate for a gold-backed dollar. In the 2018 paper, she is positively bullish on cryptocurrencies:

"A modern version of this approach—one that permits the issuance of virtual currencies in tandem with government-issued currencies, adapting legal tender laws to permit healthy currency competition—should be put forward."

Fed Chair Warns Against Gold Standard

In his testimony before Congress Wednesday, Jerome Powell noted the Federal Reserve's twin mandates of maximizing employment and stabilizing prices. He pointed out that stabilizing the dollar price of gold instead would leave no room to influence employment and prices:

“There have been plenty of times in fairly recent history where the price of gold has sent a signal that would be quite negative for either of those goals.”

That’s exactly what gold standard supporters would like to see out of monetary policy. They view prices as information about the relative demand and scarcity of various goods. And they see the market as essentially a massive computer that organizes this information and signals it to participants via prices. That’s how prices function as a scientific rationing mechanism to mediate the never-ending problem of scarce means to achieve unlimited wants. Fed monetary policy interferes with these signals.

The result is an economy in which information spreads more slowly than it would without the Fed’s iron hold over the monetary system. This causes misallocations of resources. It leaves people working in jobs that don’t create value for the economy. Employment is one metric of economic health, but it doesn’t show how productive an economy really is. If the Fed created enough money to keep everyone employed digging holes and filling them back up again, there would be full employment, but it would not make us richer. That’s why the economy crashes at regular intervals.

Cryptocurrency Will Break The Fed’s Hold

Besides, cryptocurrency’s spectacular disruptions of fiat monetary hegemony make Powell’s concerns a moot point. Bitcoin alone has a market capitalization that’s 7.5% of the value of the U.S. Dollar’s adjusted monetary base as of June 2019. Bitcoin’s market share of the crypto industry just reached 64%

So the market cap of the entire crypto industry is 11.7% of the value of the adjusted monetary base of the U.S. Dollar. This industry is only ten years old. Once it reaches scale, the Dollar will be too small a share of the currency market to exert influence over employment or stabilize prices in favor of the banking cabal as it has since 1913.