Time to Go Back to That 70s Show

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Unless you are living under a rock, you know by now that current times are nowhere near economic stability. In fact, there has not been such "stability" (regardless of what politicians and central bankers say) since the ending of the Bretton Woods agreement in 1971. What did ending the Bretton Woods agreement mean to the world? Since I am no expert on the topic, I suggest reading this article by the CATO Institute. According to historical data and using the year 1913 as the base year, we find out that the total rise in prices is roughly 2920 percent ($1 in 1913 needs $29.20 today to buy the same). From 1913 to 1971, the index grew by 400 percent or 4 points, meaning prices multiplied by 4 in 58 years. Now, comparing from 1971 to 2019 we see that the index rose 21.73 points or 2173 percent in a similar year span. It is almost a 6-time difference.

Many Keynesian economists (and some "free-marketer" monetarists) argue that it is thanks to inflation -as Austrian thinkers, we refer to inflation as the increase in monetary supply, but for easier-reading-and-writing purposes, the general conception of inflation is the general rise in prices will be used- that wages grow with it. But is this true? In 1971, according to the SSA, the average wage index was $6,497.08, while in 2019 it was $54,099.99, a 732.68 percent increase. Yes, wages grow, but 3 times less than prices do, which turns into much lower purchasing power. According to the same data from the SSA, the average wage in 1951 was $2,799.16, which means wages grew 132.11 percent from that year until 1971. How much did prices grow? 55.77 percent, meaning workers acquired more than 2 times more purchasing power, a big difference compared to what happened after abandoning the imperfect sound money system we had. The average inflation rate during that time was 2.24 percent, while from 1971 until 2019 it was 3.91 percent.

This itself should serve as enough proof to go back to a commodity-backed system, but more facts can be brought up to make the argument even more solid. According to Fed data, median home prices have risen from $25,800 in the last quarter before leaving Bretton Woods to $327,100 in 2019, a 1167.83 percent increase (1561.63 percent until 2022), with growth in wages sitting far behind. Cars cost an average of $2,700 in 1971, and we got the news that the average price now sits at around $47,000, or 1640.74 percent, and again, wages far behind prices. It is not only the rise in prices that matters. US federal debt was 35 percent of the GDP in 1971 and never went above 90 percent with the WWII (including post-war) exception, and since 1950 it never surpassed 74 percent, again being an exception and following a downtrend until 1971. Debt has been above 100 percent for 8 years and will continue to do so for at least a few more since it's sitting at almost 125 percent currently. This table shows perfectly the trend before and after 1971.

Now the economic and historical case has been made, we need to focus on the philosophical case. There are four main points for libertarians to be against a central bank or any similar institution and not in favor of sound money. First, ever since 1971, central banking gained tremendous power, and with it, so did the government. We know that economic power will always be abused. We are opposed to the government having more power than it should, so we cannot be in favor of a central bank. Second, the central bank sets interest rates, which is a form of central planning, and we believe it only brings misery, and therefore we favor market-driven rates, which instead bring prosperity and growth since they follow a non-artificial, imposed rate, and today is proof of it. Third, we know thanks to Murray Rothbard's perfect explanation in his classic, *America's Great Depression*, that printing money and expanding artificial credit to enterprises leads to what is known as the business cycle theory, which always ends up in recessions as we have seen in the past. And fourth, we believe in a free market, and most of the economic interventions are used to bail out banks, which was seen in 2008. This goes against the principle of free competition in a non-regulated market.

Academic papers can -and will soon- be written on the topic, but this overall, non-technical and easy-to-understand analysis and these arguments will serve as a good basis to be against the current power-abusing, out-of-control system we live in and favor a commodity-based one. It will be with commodity-backed money that we will have a true free-market economy and we will prosper. Until then, we will continue to go downhill and we will see prices rise 3 times, or even faster than wages do, making us poorer and more dependent on the government every day.