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The Case For Monetary Freedom

The Cato Institute has just come out with their Spring/Summer 2012 [edition](#) on *Monetary Reform in the Wake of Crisis*. It is the published version of their [29th Annual Monetary Conference](#) which addressed the fundamental issue of how to prevent another global financial crisis without merely tinkering on the edges of the government fiat money regime.

The first step is to rethink the role of government and central banks in the existing system, and then consider alternatives — such as the gold standard — that would substitute rules for discretion, increase choice in currency, and allow markets to determine the optimal quantity of money. After nearly a century of U.S. central banking, it's time to reconsider whether the Federal Reserve's monopoly status, discretion, and growing regulatory powers are more a source of crisis than a cure.

Always relevant and informative, this issue has two particular noteworthy addresses — the first by Dr. Ron Paul and the second by James Grant of [Grant's Interest Rate Observer](#).

Ron Paul is the Chairman of the House Financial Services Subcommittee on Domestic Monetary Policy and in 2009 he introduced the [Free Competition in Currency Act](#). This article is based on his Keynote Address at the Cato Institute's 29th Annual Monetary Conference, November 16, 2011, in Washington, D.C. In stark contrast to the Paul Krugman, [Bill Still](#), and [Ellen Brown](#) inflationistas, Paul's keynote address, "[Why Monetary Freedom Matters](#)," passionately makes the case for denationalizing money and repealing legal tender laws as the only remedy to restore a functioning and free market monetary system:

I took the position that I wouldn't close the Federal Reserve down in one day. The Fed will close itself down eventually when it destroys the value of the dollar. But I don't want that to happen, either closing it down in one day or waiting for a collapse of the whole system. My idea is similar to what F. A. Hayek (1976, 1978) had talked about. Why don't we denationalize money, legalize competition, allow free markets to work, and allow free-

market banking to work? I think we should legalize competition in currencies, which means that first we recognize the Constitution and repeal the legal tender laws.

I have a bill that actually legalizes competition. We also would have to address the subject of fractional reserve banking—I think what we have put up with in fractional reserve banking and the pyramiding of debt is atrocious, but there is a disagreement in libertarian circles about exactly what you do with fractional reserve banking in a free market—but that is a small argument compared to whether or not we should have competition in currencies and allow something else to circulate.

Then, in “[Banking Dysfunction](#),” James Grant systematically exposes both the fallacy and folly of capital adequacy reserves and examines the misdirected regulatory thrust:

Let us be clear: on Wall Street, there was never a capitalist Eden. There was, however, an era of capitalist clarity in which the owners of the banks and investment banks not only reaped the profits but also bore the losses. Insolvency, in the case of a nationally chartered bank, meant a capital call for the stockholders, the proceeds earmarked for the depositors and other senior creditors. It was, after all, the investors’ bank, not the taxpayers’.

What’s truly and importantly new in banking is the definition of cash. When cash was gold, or notes convertible into gold, the basis of credit was gold. There could be only so much credit because there was only so much gold. Today, cash is paper, and paper is the basis of credit. There can be a titanic volume of credit because of paper there is no end.

In a separate Cato paper this month on “[Competition in Currency: The Potential for Private Money](#),” Thomas Hogan writes that, “the lack of participants in the private banknote market appears to be due to the uncertain legal status of private note issue and the rigorous prosecution of currency-related crimes.”