



Cato opens center to challenge Fed

By [Joseph Lawler](#)

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Calling the [Federal Reserve](#) too powerful and undisciplined, the [Cato Institute](#) is promoting a new research center that its president says will fundamentally challenge the central bank and its monetary policy.

“We think there’s risk in power, it tends to corrupt,” said Cato President John Allison, who was the CEO of the BB&T Corp. banking company before joining the libertarian think tank in 2012. Speaking to reporters, Allison said Cato’s Center for Monetary & Financial Alternatives, which opened Tuesday, would offer “checks and balances, even if just intellectual,” for the Fed, which is the independent central bank of the U.S.

The Center for Monetary & Financial Alternatives, boasting two Nobel Prize-winning economists among its academic advisers, will aim to shape the debate around Fed policy in the short run while influencing the academic debate about monetary policy and the existence of the Fed in the long run. It will be directed by former University of Georgia monetary economist and historian George Selgin, who gave up his academic tenure to join Cato.

Cato scholars will weigh in on the topics confronting monetary policy makers, such as how the Fed should move back toward normal monetary policy after amassing a \$4.5 trillion balance sheet while trying to boost the economy in the wake of the 2008 financial crisis.

They also will work in their capacity as a libertarian think tank to affect legislative efforts relating to the Fed, such as a recent effort by House Republicans to require Fed officials such as Chairwoman Janet Yellen to compare their monetary decisions to those that would have followed from a simple monetary policy rule.

James Dorn, Cato’s vice president for monetary policy, said, “it’s important to get people like [Kevin] Brady and Jeb Hensarling involved,” referring to the GOP chairmen of the Joint Economic Committee and the House Financial Services Committee. Brady and Hensarling, both Texans, have explored reforms to Fed policy in their committees.

Over time, however, Cato hopes to challenge the premise and basic workings of the Fed. Noting that a preponderance of monetary economists are employed by the Fed and that most academics are influenced by its culture, Selgin said the center would aim to get mainstream economists to

consider alternatives to the central bank. “We need to really take seriously the idea of ending the Fed,” Selgin said.

Nevertheless, the Cato scholars cautioned that they are not committed to radical change. Mark Calabria, the think tank’s director of financial regulation, said they would not let “the perfect become the enemy of the good” and would seek second- or third-best solutions to the underlying problem, which they see as the Fed’s discretionary power to set the price of money while also regulating the banking system.

That means considering alternatives such as a gold standard, free banking and cryptocurrencies, the Cato members said Tuesday. Selgin added that monetary policy rules that predictably set the value of the dollar are “reasonable compromises” short of his preference of ending the Fed.

Cato’s establishment of a center dedicated to monetary policy highlights the growing importance of the issue as the Fed nears its seventh year of setting short-term interest rates near zero and engaging in unconventional monetary policies such as quantitative easing. The [Brookings Institution](#), a centrist think tank, previously launched a center for monetary and fiscal policy in late 2013, and shortly afterward added former Fed Chairman Ben Bernanke as a fellow.