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Libertarian Think Tank is Spoiling for a Fight with the Fed

By Ben Leubsdorf
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The **Cato Institute** has some bones to pick with the **Federal Reserve**.

The Washington libertarian think tank this week will launch a new **Center for Monetary and Financial Alternatives**. Its goal: challenge the central bank's policies and explore alternative ways to manage the U.S. money supply, including but not limited to a return to the gold standard.

"I think we can do better than the Federal Reserve," said **George Selgin**, the center's director and a former economics professor at the **University of Georgia**. "We should be exploring how to do better. We should be exploring alternatives that could do better, instead of dismissing that entire inquiry as something that should be only of interest to people on the fringe."

The new center is the latest manifestation of growing public and academic attention on the Fed and central banking after the 2008 financial crisis. Another Washington think tank, the **Brookings Institution**, last December launched the **Hutchins Center on Fiscal and Monetary Policy**, where former Fed Chairman **Ben Bernanke** is a distinguished fellow in residence.

(*Journal* contributor **David Wessel** is the director of the Hutchins Center, and former *Journal* editor **George Melloan** is on the new Cato center's executive advisory council.)

The Fed's extraordinary actions in recent years – helping rescue large financial firms, pinning interest rates at zero for nearly six years and counting, three rounds of bond-buying aimed at stimulating economic recovery – remain controversial.

Critics have variously accused the Fed of bailing out fat-cat Wall Street bankers, harming Americans who rely on interest from their savings, distorting the flows of the free market, failing to generate sustainable economic growth and flirting with out-of-control inflation and a debased currency. Defenders say the Fed's policies prevented the crisis from escalating into a financial catastrophe, helped stabilize the financial system and helped nurture a fitful recovery, and they note inflation remains low and the dollar strong.

Criticism of the Fed, Mr. Selgin acknowledged, has come not just from serious economists but also conspiracy theorists with outlandish and often-distasteful ideas.

"One of my goals, as the director of the center, is to be in charge of damage control. That consists of making sure our work isn't tainted by this kind of amateur stuff," Mr. Selgin said. "We need to keep ourselves pure in terms of our writing being as scholarly as it can be. If we do that, we can make a strong case against holding the Federal Reserve to be the best of all possible monetary systems."

The center boasts some heavy hitters in the economics world. Its academic advisers include two Nobel laureates, **New York University**'s **Thomas J. Sargent** and **Chapman University**'s **Vernon L. Smith**, as well as **Stanford University** economist **John B. Taylor** and others.

Two former Fed policy makers are involved: former **St. Louis Fed** President **William Poole** will be a senior fellow, and former **Cleveland Fed** President **Jerry Jordan** will be an adjunct scholar.

The think tank has raised about $9 million from "a number of independent contributors" for the center, enough to fund it for five years, Cato Institute President **John Allison** said. The center will eventually have about 10 full-time personnel, he said.

Mr. Allison said the center's work will be wide-ranging, covering both monetary and regulatory policy. "We think there will be market alternatives to government fiat currency, and we want to contribute intellectually to that process," he said.

One overarching goal will to challenge the Fed's reputation and record, not just in recent years but going back to its founding in 1913, he said.

"The Fed has amazingly good credibility based on its amazingly weak performance," Mr. Allison said. "We want to challenge that credibility."

The Fed declined to comment on the new center.