

EDITOR'S NOTE

The articles in this issue of the *Cato Journal* addressing **Asset Bubbles and Monetary Policy** were first presented at the Cato Institute's 28th Annual Monetary Conference, November 18, 2010. I thank the authors for their cooperation in bringing this issue to fruition.

The 2008 financial crisis has put the spotlight on problems with a pure fiat money regime and a U.S. central bank whose vast discretionary power is distorting interest rates and misallocating credit. The lack of any type of monetary rule to reduce uncertainty and anchor the future value of the dollar, together with massive U.S. debt and interventions in the housing market, pose serious challenges to growth and prosperity, as well as to economic freedom.

Informational problems make it difficult for any central bank to target asset prices or even to identify them early on, but the so-called knowledge problem also means that central bankers cannot know the optimal quantity of money, which is best left to emergent market processes such as the classical gold standard under which the quantity of money spontaneously adjusts to the demand for money. The end of any link to gold after President Nixon closed the gold window in 1971, plus the absence of any monetary rule, means the dollar is afloat in a sea of uncertainty.

Misguided monetary policy, regulatory policy, and housing/credit policy deserve careful scrutiny. The articles in this volume do so by focusing on several questions:

- Can/should the Fed prevent asset bubbles?
- What are the limits of monetary policy and financial regulation?
- What have we learned from the housing/credit bubble?
- How would alternative monetary regimes—including a gold standard with free banking—deal with asset bubbles?

The most elementary question, however, is how to constrain the growing discretionary power of central banks and to make the transition to what Jerry Jordan calls “honest money.”

In addition to the articles dealing with asset bubbles and monetary policy, we are fortunate to be able to republish Milton Friedman's classic 1971 feasibility study for the Chicago Mercantile Exchange, which provided a blueprint for the creation of a futures market in foreign currency. Leo Melamed, then chairman of the Chicago Merc, commissioned that study and has written an introductory note commemorating the 40th anniversary of Friedman's paper.

With the celebration Friedman's 100th birthday in 2012, it seems fitting to include in this issue an article by Wake Forest University economist and historian J. Daniel Hammond comparing the views of Friedman and Samuelson on the business cycle.

This special issue should further our understanding of the importance of monetary stability for global prosperity and the smooth operation of a free market economy.

—J. A. Dorn