Editor's Note

When the Federal Reserve was created in 1913, its powers were strictly limited and the United States was still on the gold standard. Today the Fed has virtually unlimited power and the dollar is a pure fiat money.

A limited constitutional government calls for a rules-based, free-market monetary system, not the topsy-turvy fiat dollar that now exists under central banking. This issue of the *Cato Journal* will examine the case for alternatives to central banking and the reforms needed to move toward free-market money.

Discretionary central banking, like any sort of central planning, is not a panacea. Concentrating monetary power in the hands of a few individuals within a government bureaucracy, even if those individuals are well intentioned and brilliant, does not guarantee sound money. The world's most important central bank, the Federal Reserve, is not bound by any strict sort of rules, although Congress requires that it achieve maximum employment and price stability.

The failure of the Fed to prevent the Great Recession of 2009, or the Great Depression of the 1930s, or the stagflation of the late 1970s and early 1980s, raises the question, can we do better? To address that question, the Cato Institute held its 32nd Annual Monetary Conference on November 6, 2014, with the title: "Alternatives to Central Banking: Toward Free-Market Money." The papers from that conference appear in this issue of the *Cato Journal* along with articles by Peter Bernholz on the recent depegging of the Swiss franc and by Tyler Watts and Lukas Snyder on the resource costs of fiat versus commodity money.

In questioning the status quo and widening the scope of debate over monetary reform, the fundamental issue is to contrast a monetary regime that is self-regulating, spontaneous, and independent of government meddling versus one that is centralized, discretionary, politicized, and has a monopoly on fiat money. Free-market money within a trusted network of private contracts differs fundamentally from an inconvertible fiat money supplied by a discretionary central bank that has the power to create money out of thin air and to regulate banks and nonbank financial institutions.

There are many types of monetary regimes and many monetary rules. The classical gold standard was a rules-based monetary system, in which the supply of money was determined by market demand—not by central bankers—versus today's pure discretionary government fiat money regime.

Cyber-currencies, like bitcoin, offer the possibility of a private non-commodity monetary base and the potential to realize F. A. Hayek's vision of competitive free-market currencies. Ongoing experimentation and technological advances may pave the way for the end of central banking—or at least the emergence of parallel currencies.

The distinguished authors in this volume examine the constitutional basis for alternatives to central banking, the role of gold in a market-based monetary system, the obstacles to fundamental reform and how they might be overcome, and the advent of cryptocurrencies and the bitcoin revolution.

In making the case for monetary reform and thinking about rules versus discretion in the conduct of monetary policy, it is important to take a constitutional perspective. As early as 1988, economics Nobel laureate James M. Buchanan argued, at an international monetary conference hosted by the Progress Foundation in Lugano, Switzerland: "The dollar has absolutely no basis in any commodity base, no convertibility. What we have now is a monetary authority [the Fed] that essentially has a monopoly on the issue of fiat money, with no guidelines to amount to anything; an authority that never would have been legislatively approved, that never would have been constitutionally approved, on any kind of rational calculus."

There is no doubt that Congress has ultimate responsibility for securing sound money. Thus, a national monetary commission along the lines proposed by Rep. Kevin Brady (R-TX) would be a good first step.

In 1980, just after Ronald Reagan's election, Buchanan recommended that a presidential commission be established to discuss the Fed's legitimacy. There was some support within the Reagan camp, but Arthur Burns, a former chairman of the Federal Reserve Board, nixed it. As Buchanan explained at the Lugano conference, Burns "would not have anything to do with any proposal that would challenge the authority of the central banking structure."

Buchanan's aim was "to get a dialogue going . . . about the basic fundamental rules of the game, the constitutional structure." There is, he said, "a moral obligation to think that we can improve things." That is the spirit of this volume and Cato's newly established Center for Monetary and Financial Alternatives.

—J. A. Dorn

Reference

Buchanan, J. M. (1988) "Comment by Dr. Buchanan." *Economic Education Bulletin* 28 (6): 32–35.