

# Sound Money, Freedom, and Prosperity

Prepared by J. A. Dorn  
Senior Fellow, Cato Institute  
Washington, DC, April 25, 2015

00:30

## A Bad Central Bank (1)



05:50

## A Bad Central Bank (2)



07:10

## Money and Prices

- "Inflation is always and everywhere a monetary phenomenon."

—Milton Friedman (1963)

08:11

## Hong Kong 1920



08:27

## Hong Kong Today



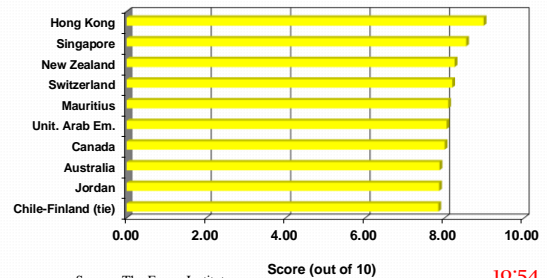
10:00

## Hong Kong's Stable Dollar



10:40

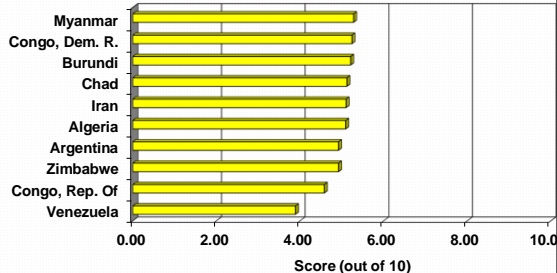
## Overall Economic Freedom Index and the Top 10 (EFW Report 2014)



Source: The Fraser Institute.

10:54

## Overall Economic Freedom Index and the Bottom Ten (EFW Report 2014)



Source: The Fraser Institute.

11:36

## U.S. Unemployed Workers in 1930s



11:55

## Bad U.S. Monetary Policy Caused the Great Depression

- “The [1929] recession was an ordinary business cycle. We had repeated recessions over hundreds of years, but what converted [this one] into a major depression was bad monetary policy.”

—Milton Friedman (Oct. 1, 2000, PBS)

14:05

## Ben Bernanke Agrees

“I would like to say to Milton and Anna: Regarding the Great Depression. You’re right, we did it. We’re very sorry. But thanks to you, we won’t do it again.”

—Ben Bernanke (Nov. 8, 2002)  
Chairman, Federal Reserve System

15:05

## A Monetary Constitution

“Congress shall have Power To coin Money [and] regulate the Value thereof.”

—Art. 1, Sec. 8

15:10

## What Monetary Policy Can and Can't Do

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## What the Fed Can Do

- Create base money (C+R) out of thin air
- Prevent liquidity crises (LLR)
- Affect the level and growth rate of nominal variables
- Influence expectations about future inflation and nominal interest rates

29:25

## What the Fed Can't Do

- Target real variables to permanently reduce the rate of unemployment or increase economic growth
- Determine real interest rates
- Fine-tune the economy
- Make accurate macroeconomic forecasts

34:05

## The Fed's Risky Policy and the Case for Constitutional Money

1. Fed Policy in a Pure Fiat Money World
2. Impact on U.S. and Global Economy
3. Exit Problem
4. Alternatives to Pure Discretionary Government Fiat Money
5. The Case for a Centennial Monetary Commission

41:30

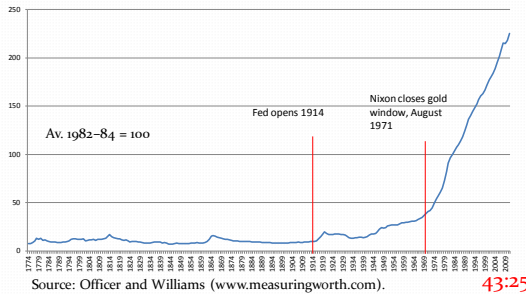
## Unconventional Monetary Policy and Asset Bubbles

- “A risk of remaining at the zero lower bound too long is that a significant asset market bubble will develop.”
- “A gradual normalization would help to mitigate this risk.”

—James Bullard  
President and CEO, FRB-St. Louis  
April 15, 2015

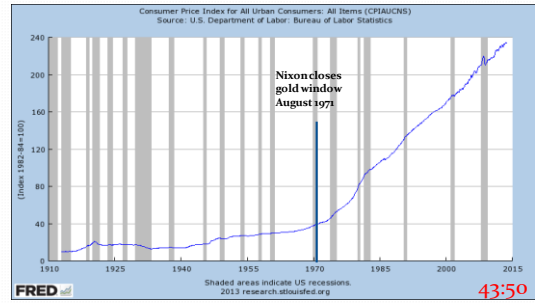
42:20

## U.S. Consumer Price Index, 1774–2011



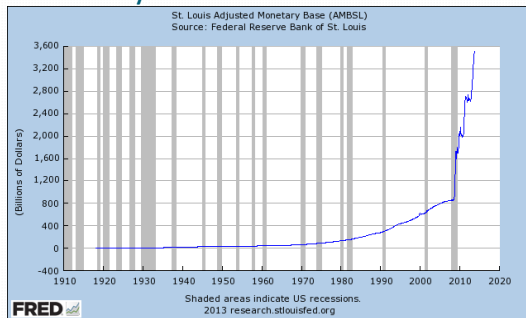
43:25

## No Price-Level Anchor under Pure Fiat Money



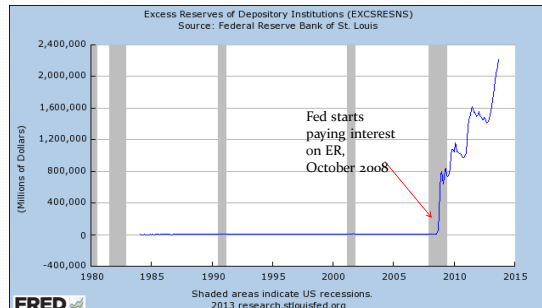
43:59

## Monetary Base



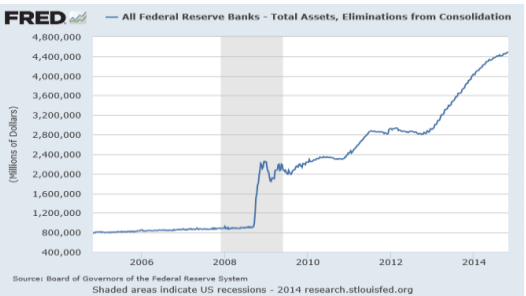
44:25

## Excess Reserves



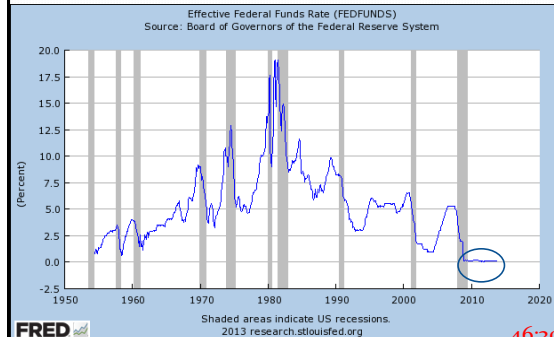
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## Growth of Fed Balance Sheet



45:30

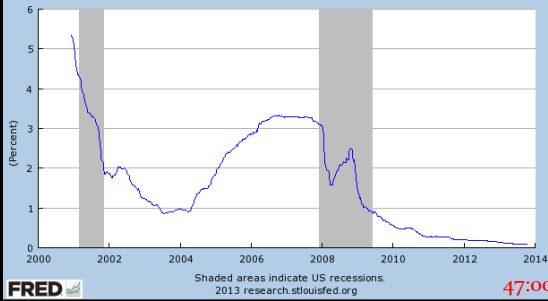
## Fed Funds Rate



46:30

## Interest on Savings

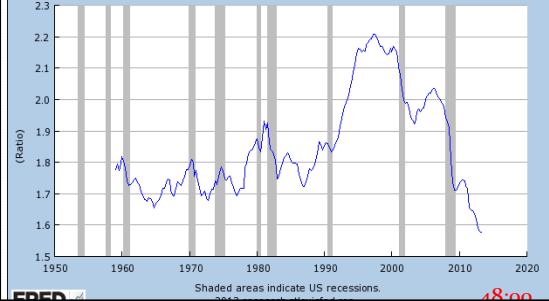
1-Year CD: National Rate of Banks (BNK1YRW156N)  
Source: Bankrate, Inc.



47:00

## M2 Velocity

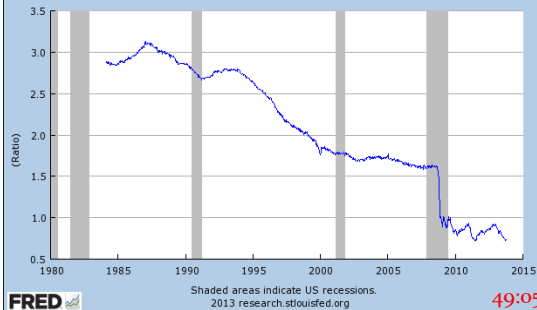
Velocity of M2 Money Stock (M2V)  
Source: Federal Reserve Bank of St. Louis



48:00

## M1 Money Multiplier

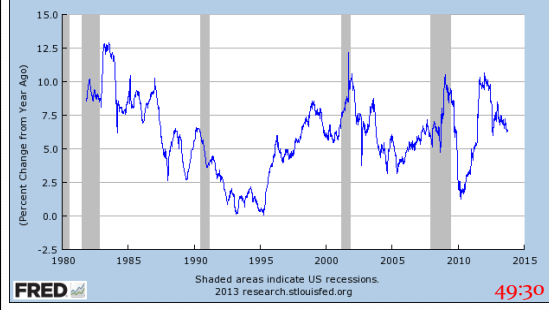
M1 Money Multiplier (MULT)  
Source: Federal Reserve Bank of St. Louis



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## M2 Growth (Annual, %)

M2 Money Stock (M2)  
Source: Board of Governors of the Federal Reserve System



49:30

## Growth of Domestic Final Sales

Final Sales to Domestic Purchasers

