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## Why Not Abolish the Fed?

by Jacob G. Hornberger

One of the positions of Republican presidential candidate Ron Paul that mainstream pundits find “wacky” is his call to abolish the Federal Reserve System. Never mind that two Nobel Prize-winning economists — both libertarians — called for the same thing. And never mind that the Fed is the entity directly responsible for the debasement of the dollar over the many decades since the Fed was established.

Both Milton Friedman and Friedrich Hayek called for the abolition of the Fed during their careers. While Friedman spent much of his life advocating externally imposed constraints on the Fed’s power to expand the money supply, his first wish was to have the Fed abolished, as he pointed out in a 1995 [Reason magazine interview](#). In his book *Denationalisation of Money: An Analysis of the Theory and Practise of Concurrent Currencies*, Hayek advocated a free-market monetary system of competing currencies.

Most Americans probably still believe that the Great Depression was caused by “the failure of the free-enterprise system.” It is a false belief. The truth is that the worst economic disaster in American history was caused by the Federal Reserve. Give current Fed Chairman Ben Bernanke credit for publicly acknowledging that fact [in a speech](#) delivered in 2002 commemorating Friedman’s 90th birthday.

Throughout the ages, the favorite political trick for public officials has been to dole out “free benefits” to the citizenry and engage in expensive foreign military adventures without raising taxes. To accomplish this feat, they have simply resorted to the printing press to get the money to pay for the “free benefits” and the military adventures. As more money was printed, its value would drop, which would be reflected in rising prices for the things that money buys. As prices rose, people would blame speculators, capitalists, price-gougers, and profiteers, never suspecting that their public officials were behind the scam.

That’s what the Fed has been doing for decades — accommodating ever-increasing government expenditures by printing the money to pay for them. That’s why the value of the dollar has been plummeting ever since the 1930s. It’s also why U.S. coins are now made of cheap

alloys rather than of gold and silver. As the value of precious metals rose in response to an ever-depreciating currency, the value of the precious metals in coins became greater than the face value of the coins, encouraging people to hoard the coins or even melt them down for the metal. That's what Gresham's Law in economics is all about — that bad money (i.e., depreciating money) inevitably drives good money out of circulation.

For decades, U.S. officials made it a felony offense for Americans to own gold. Why did they do that? To prevent Americans from protecting themselves from a constantly depreciating currency. Equally important, the price of gold has always been an easy way to gauge what politicians are doing to the money. They have never liked that.

What the Fed has done to our money over the decades should not surprise anyone. After all, the Federal Reserve is nothing more than a central-planning agency in the classic socialist mold. Just like the central-planning boards in the Soviet Union and communist China, the Fed is composed of a central board of bureaucratic appointees planning, in a top-down fashion, complex monetary matters affecting millions of economic participants under constantly changing conditions. Given the inherent defects of socialist central planning, why would anyone expect anything but bad and perverse results from monetary central planning?

As Friedman and Hayek and other free-market economists (most notably Ludwig von Mises) pointed out, the Federal Reserve is the prime destroyer of currency and, therefore, one of the greatest threats to the freedom and well-being of a citizenry. As the monetary crisis facing our country continues to worsen, it's important that we keep in mind that there is only one long-term solution — the one advocated by people such as Republican presidential candidate Ron Paul and Nobel Laureates Milton Friedman and Friedrich Hayek: Abolish the Fed.

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