The Hayek Club goes to the Financial Times [1]

Written by **Sam Bowman** [2] | Friday 4 May 2012

Congressman Ron Paul had an op-ed in the Financial Times yesterday (£) [3]. As part of their series on the future of central banking, Paul wrote about the 'intellectual bankruptcy' of the world's central bankers. It's quite a coup for the Hayek Club, our informal list [4] of people who see central bank credit expansion as the root cause of the financial crisis and post-2008 recession. Paul wrote:

> Economists understand that having wages or commodity prices established by government fiat would cause shortages, misallocations of capital and hardship. Yet they accept at face value the notion that central banks must determine not only the supply of one particular commodity ? money ? but also the cost of that commodity via the setting of interest rates.
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> Printing unlimited amounts of money does not lead to unlimited prosperity. This is readily apparent from observing the Fed?s monetary policy over the past two decades. It has pumped trillions of dollars into the economy, providing money to banks with the hope that this new money will spur lending and, in turn, consumption. These interventions are intended to raise stock prices, lower borrowing costs for companies and individuals, and maintain high housing prices.
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> But like their predecessors in the 1930s, today?s Fed governors behave as if the height of the credit bubble is the status quo to which we need to return. This confuses money with wealth, and reflects the idea that prosperity stems from high asset prices and large amounts of money and credit.
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> The push for easy money is not new. Central banking was supposed to have ended the types of periodic financial crises the US experienced throughout the 19th century. Yet US financial panics have only got worse since the centralisation of monetary policy via the creation of the Fed in 1913. The Depression in the 1930s; the haemorrhaging of gold reserves during the 1960s; the stagflation of the 1970s; the dotcom bubble of the early 2000s; and the current recession all have their root in the Fed?s loose monetary policy.
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> Each of these crises began with an inflationary monetary policy that led to bubbles, and the solution to the busts that inevitably followed has always been to reflate the bubble.
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> This only sows the seeds for the next crisis. Lowering interest rates in an attempt to forestall a recession in the aftermath of the dotcom bubble required massive credit creation that led to the housing bubble, the collapse of which we still have not recovered from today. Failing to learn the lesson of the bursting of both the dotcom bubble and the housing bubble, the Fed has pumped trillions of dollars into the economy and has promised to leave interest rates at zero through to at least 2014. This will only ensure that the next crisis will be even more destructive than the current one.

The article is behind a registration wall, but it can be read in full here [5] if you don't have an FT account.

My one regret is that the FT chose to ask Ron Paul to represent the Austrian perspective. Paul has had a profoundly positive impact on the world by promoting this point of view, but he a politician, not an economist like those writing in the rest of the FT's series. Like Bloomberg TV pitting Ron Paul against Paul Krugman [6], it's a lop-sided debate. There are some superb Austrian school monetary economists around, like George Selgin, Larry White, Steve Horwitz and our own Kevin Dowd, who are more qualified to make the case against central banking than Paul in a relatively technical newspaper like the FT.

Still, it's remarkable that any Austrian was asked to give this point of view. As I've written here before, it all adds to my feeling that the Austrians are on the rise.

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