

The Simplicity of Sound Money

Editor's Pick. Written by Patrick Barron.

Understanding today's convoluted domestic and international fiat monetary system frankly requires a great deal of time and study. One must understand fractional reserve banking, and the way this system affects the money supply. One must understand the multi-step process by which banks create money out of thin air.

One must understand central bank open market operations. Internationally, one must try to understand floating exchange rates, how they are manipulated by central banks, and the resulting impact on national economies. For example, is it best for a country to drive down its exchange rate in relation to other currencies or do the opposite?

These issues are never understood by policymakers, who appear to be among the most illiterate in economic matters, so monetary policy swings to-and-fro according to which economic group has temporary control over the levers of the government, and particularly of central banks.

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