# The Monetary Madness of Trump, Cruz, and Rubio

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Anyone watching the U.S. presidential primaries is seeing a fascinating cast of characters and plenty of energetic debate. The three leading contenders on the Republican side—Donald Trump, Ted Cruz, and Marco Rubio—are particularly interesting. They naturally have competing views on many issues, but when it comes to monetary policy they are remarkably aligned. Unfortunately, they all line up in the wrong direction; each apparently misunderstands why central banks operate the way they do.

Begin with the front-runner, Donald Trump. He argues that the U.S. Federal Reserve should be audited. He is hopefully aware that the Fed's books are already audited, and available for all to see on the Fed's website. But what he really appears to mean is that all the Fed's policy decisions should be brought before Congress and defended, and maybe even subjected to some kind of vote.

This is a very bad idea because it would politicize monetary policy. Central banks all across the world have operational independence from their government masters for good reason. Before such independence was granted, central banks were under political pressure to ease policy before elections, and this led over the years to higher inflation. Eventually we learned that the way to keep inflation low and stable is to state this objective clearly, grant central banks the operational independence to achieve it, and then hold them accountable for their performance. The last 25 years of inflation targeting in many countries suggests that the current system is working.

Now consider the views of Texas Senator Ted Cruz, as reported in November by the Huffington Post: "Instead of adjusting monetary policy according to whims…the Fed should be… keeping our money tied to a stable level of gold…" Mr. Cruz is suggesting that the Federal Reserve go back a century to the days of the Gold Standard.

This is also a very bad idea. It would tie the Fed's hands and prevent it from dealing with the impact of large economic shocks. During the Great Depression in the 1930s, when thousands of U.S. banks failed and the economy went into a massive tailspin, the Fed's strict adherence to the Gold Standard kept it from acting. It could not extend credit to solvent but illiquid private banks without violating its gold-based rule, and so it chose instead to sit on the sidelines and watch the economic tragedy unfold.

Most economists today look back at that experience and conclude that the Fed's policy was a major error. They also conclude that if the Fed had been using the same gold-based rules when the global financial crisis began in 2008, the subsequent recession would have been far worse than it was, when the Fed was able to act aggressively.

Florida Senator Marco Rubio also has a problem with the Federal Reserve. At a CNN Town Hall event last month, he said that the Fed's job is to "provide stable currency and I believe

they should operate on a rules-based system. They would have a very simple rule that determines when interest rates go up and when interest rates go down."

While simple rules sound appealing, this is also a very bad idea. The job of the Fed is to keep inflation low while promoting growth and keeping financial markets stable. It does this by adjusting its policies, sometimes in response to shocks and sometimes in anticipation of events that are expected to occur. The shocks vary by origin, type, size, duration, and impact. The almost countless possibilities mean that policy cannot follow a simple rule—and using one would prevent central bankers from doing their job, resulting in worse economic outcomes.

So far, monetary policy has not figured prominently in the U.S. presidential primaries. Based on these views, this is probably a good thing. But there is still plenty of time before the candidates will be chosen, and who knows what debates will unfold regarding the appropriate behaviour of the Federal Reserve?

The truth is that the processes of economic growth and inflation are complex, and monetary policy is equally complex. We need our central banks to maintain their operational independence and central bankers to continue using their well-informed judgement to keep our economies operating on an even keel.

Let's hope these three bad ideas disappear soon and don't threaten the policy coherence at the world's most important central bank.

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