



SOUND MONEY AND CAPITAL FREEDOM

Inflation is a hidden and dangerous tax. It is never legislated openly, and it falls hardest on wage earners and savers with limited means to invest. The Federal Reserve's high degree of discretion makes high inflation possible—some would say inevitable. In recent years, the Fed created a huge supply of new money to accommodate massive federal deficit spending while also purchasing other favored assets. Such power allows the Fed to steer capital toward politically favored sectors instead of more productive investments. Ensuring monetary discipline and limiting the Fed's discretion would lead to a sounder and more stable dollar.

Capital markets serve a critical function in the economy, facilitating mutually beneficial arrangements. Those with savings and excess funds provide capital to individuals who need help financing a new home, for example, or to business owners investing in new equipment or facilities to grow their business. Capital markets also allow everyday individuals to own parts of major corporations and to share in their profits.

When capital markets are largely free, capital tends to be allocated efficiently. Because investors are putting their own money at stake (unlike central bankers buying assets), capital flows more readily to worthy investments, which helps increase economic growth, drive innovation, and raise productivity and real wages.

The proposals in this chapter focus on ways to ensure sound money through monetary discipline and on ways to promote capital freedom. For the former, the Federal Reserve should follow a transparent, predictable approach to determining interest rates. The Fed's discretion shouldn't drive the stock market, and it shouldn't be able to use taxpayer dollars to prop up specific businesses or sectors.

To promote capital freedom, Congress should create tax-advantaged universal savings accounts, which—unlike other existing accounts—would allow distributions for any purpose instead of for only narrowly specified purposes. Lawmakers should reject credit card interest rate caps, which could potentially make credit inaccessible to many millions of Americans. Other areas in need of reform include the Dodd-Frank Act, FINRA, and government-promoted ESG and DEI.

Americans feel like their dollars don't go as far largely because the Fed has diluted them. Congress should rein in the Fed while giving people and businesses more freedom with their own money.



The typical mortgage payment on a new home has nearly doubled since 2020

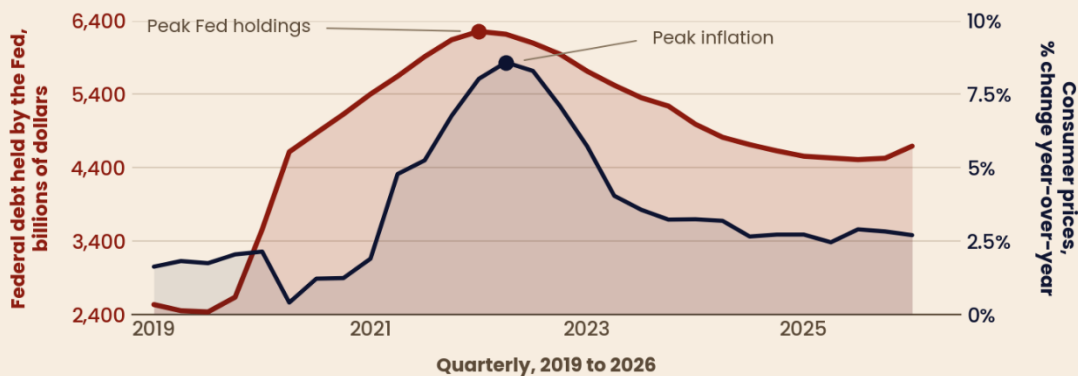
Monthly principal and interest on a median-priced new home, 20% down



Sources: U.S. Census Bureau and HUD, Median Sales Price of Houses Sold (MSPNHSUS); Freddie Mac, 30-Year Fixed Rate Mortgage Average — via FRED. AAF calculation: principal and interest on 80% of the median new-home price, excluding taxes and insurance. Figures are nominal.

The Fed printed dollars to finance the federal deficit and triggered a wave of inflation

Federal Reserve holdings peaked in the first quarter of 2022. Inflation peaked one quarter later.



Sources: U.S. Department of the Treasury, Fiscal Service, Federal Debt Held by Federal Reserve Banks (FDHFRBN); U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers (CPIAUCSL) — via FRED. Holdings are end of quarter and not seasonally adjusted. Inflation is the percentage change from a year ago. Shading runs to the axis floor of \$2,400bn, not to zero, so the shaded area is not proportional to the level.