Debt Ceiling Debate Bolsters Ron Paul and the Gold Standard

Politicians like Paul could benefit politically from the weakened dollar

By JESSICA RETTIG
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The dollar just ain't what it used to be.

Literally: For most of the United States' existence, the value of dollar had been tied to gold. That ended in 1971, when President Richard Nixon decided that the dollar could no longer be converted, at a fixed rate, into gold. But now, 40 years after abandoning what's known as the gold standard, fears over a falling dollar—both due to America's debt and the recent fiscal indecision of its leaders—may be giving gold, and its advocates, like GOP presidential contender Ron Paul, a new shot.

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The price of gold has risen steadily for at least the past decade. At the start of July 2001, according to precious-metals dealer Kitco, the spot price for New York gold was at around $265 per ounce. In contrast, at the beginning of this month it was nearly six times that at $1,544 per ounce. And now, after last week surpassing the $1,600 mark for the first time in history, the market price of gold is close to $1,620 per ounce.

It's safe to say that the fight over the debt ceiling in Washington has had something to do with that, says Mark Calabria, senior fellow of economic regulatory studies at the libertarian Cato institute. "Underlying the dollar ultimately is faith in not just the Federal Reserve, but also faith in the fiscal situation," he says. "There really is a sense that if the United States doesn't get its house in order, it's going to debase the dollar. So, you're going to see flight to these alternatives, like gold."

While a bullish run on gold doesn't directly mean a bullish attitude toward a renewed gold standard, some economic experts suggest that it could raise the profile of such ideas, especially as trust in the dollar declines. According to Lewis Lehrman, chairman and founder of the Lehrman Institute, a research organization which advocates for the gold standard, since abandoning the gold standard, the high rate of inflation and the depreciation of the dollar have raised doubts about the stability of the current monetary system. Gold, he says, is the "least imperfect currency" out there. "The whole paper credit money system has failed to protect those who are most vulnerable--which is to say, those on salaries, wages, fixed incomes. The nimble, speculative classes on Wall Street are generally in position to keep ahead of inflation, but those who are not insiders are at a profound disadvantage and have grown poorer as a result," he says.

Any commodity, even one as lasting as gold, however, has its own drawbacks. For one, says Michael Ettlinger, vice president for economic policy at the left-leaning Center for American Progress, it's still volatile and exposed to the markets like anything else. Also, similar to any other commodity or natural resource, some countries have greater access than others. "We're seeing gold being volatile," he says. "You wouldn't have an oil standard, right? We're not going to have an oil standard because it would put us in the hands of the countries that control the oil, and I don't think particularly we want to be under the control of countries that just happen to own gold."

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Instead, Ettlinger says that the most likely alternative to the dollar, long down the road, would be some kind of a currency basket, in which many foreign currencies are bundled together as a standard. But for now, the dollar remains the most stable currency available.

Even so, the recent binge bodes well for Paul, who continues to poll in single digits among predicted GOP candidates. After all, the long-time Congressman from Texas has been one of the most well-known supporters of alternative currencies, and gold in particular. In the early 1980s, he was even a member, with Lehrman, of the U.S. Gold Commission under President Ronald Reagan, who himself had been sympathetic to the gold standard.

Just this month, while grilling Federal Reserve Chairman Ben Bernanke during a House Financial Services Committee hearing, Paul pushed the issue by asking Bernanke whether gold is money, which he believes it should be. Bernanke said no. Also earlier this year Paul chaired an investigation on the Hill into whether the Treasury could account for all the country's gold reserves, most of which are held at Fort Knox in Kentucky, after rumors circulated that the country had sold off some of its stores.

For Paul, allowing gold as a currency, is a constitutional issue. He has argued that the legal tender law, which declares U.S. minted coins and paper legal tender, was outside of Congress' power to legislate. While to decide what constitutes legal tender But, as law experts note, it doesn't prevent Congress from doing so either. So, one argument against Paul's is that without an outright prohibition, Congress's authority may be covered under its powers under the Constitution's "necessary and proper" clause.

Paul also has a problem with federal tax laws that disincentivize the use of gold as currency. There's a 28 to 35 percent federal capital gains tax on gold and silver coins, which essentially demonetizes them by making them taxable collectibles rather than currency to be freely exchanged. It's also a matter of governmental control. He and many Tea Party conservatives argue that there should be a competition of currencies, in which gold could be included, in order to strip central banks of their power over exchange.

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To fix those issues, he has introduced the Free Competition in Currency Act in the House of Representatives, which would eliminate legal tender laws and the taxes related to gold and silver coins. While not as comprehensive, several states, like Georgia and Idaho, have also introduced similar legislation to promote the use of other currencies; Utah even passed such a law earlier this year, called the Legal Tender Act. Also, conservative Republicans in the Senate, like South Carolina Sen. Jim DeMint, Utah Sen. Mike Lee, and Kentucky Sen. Rand Paul, are trying to nationalize the cause by backing the Sound Money Promotion Act, which eliminates taxes on gold and silver legal tender.

Ettlinger argues that regardless of these attempts, the concepts of backing dollars with gold or using gold as a currency remain in the fringe of the GOP and aren't taken seriously by most economists. "If they haven't put it in a bill that they're attaching to the debt limit, then it's really fringe," he says.

Fringe or not, these types of ideas on currency, which are largely supported by the Tea Party, could have influence in the future if the dollar takes a dive. And as the debt debate in Washington drags on, in part due to the demands of the conservative right themselves, that's looking more likely by the day.

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