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AEI's James Pethokoukis Fouls Out With His "Nazis and Hitler" Innuendo

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James Pethokoukis, the Dewitt Wallace Fellow and "Money & Politics columnist-blogger" for the American Enterprise Institute, is a frequently interesting analyst and polemicist … when he doesn't mar his commentary with unseemly snark. That snark factor rose to radioactive in his recent connivance, at AEIdeas, in a shameful innuendo that the gold standard somehow led to Hitler's rise.

Pethokoukis, at the lively but heretofore decorous AEIdeas.org, there promoted as, in his words "a really great Twitter debate" on the proposition "What was the role of the gold standard in the rise of Hitler and the Nazis?" "What was the" rather than "Was there a" contains an unequivocal, shameful, innuendo of causation. It disgraces both him and AEI and sullies the name of the late, great, Dewitt Wallace.

Nazi gold? Fringe and reprehensible.

When two of the millions of members of MoveOn.org uploaded images comparing President George W. Bush to Hitler it sparked a national backlash. MoveOn promptly deleted the images, issued an apology, and pledged to employ more rigorous screening standards.

It is far more troubling for AEI to be using Hitler to tar a perfectly respectable conservative, classical liberal, constitutionally sound, albeit unfashionable, economic doctrine. Ronald Reagan sympathized with the gold standard. Rep. Jack Kemp introduced legislation to restore it, legislation co-sponsored by other conservatives such as Rep. Newt Gingrich. The innuendo was reprehensible.

Sympathy toward the gold standard is a stand for which other conservative groups are on record, including the Cato Institute, Heritage Foundation, Atlas Economic Research Foundation, and, of course, the American Principles Project (whose sister organization this columnist professionally advises), among many others. Pethokoukis seriously transgressed.

This post also implied palm-to-forehead ignorance on Pethokoukis's part. Hitler detested the gold standard.

In a book of *Hitler's Table Talk*, Hitler is reported to have said:

This was the period when every charlatan had some project to put before me. I told the alchemists that I had no interest in gold— either natural or synthetic.

…

Our opponents have not yet understood our system. We can be easy in our minds on that subject; they'll have terrible crises once the war is over. During that time, we'll be building a solid State, proof against crises, and without an ounce of gold behind it. Anyone who sells above the set prices, let him be marched off into a concentration camp! That's the bastion of money. There's no other way. The egoist doesn't care about the public interest. He fills his pockets, and sneaks off abroad with his foreign currency. One cannot establish a money's solidity on the good sense of the citizens.

Pethokoukis also betrays an excruciating historical ignorance in characterizing the proposition of this "Twitter debate" as "really great." The international gold standard collapsed in 1914. In the absence of the gold standard, the Weimar Republic experienced an epic hyperinflation in 1922, culminating in 1923.

As George J.W. Goodman, writing as "Adam Smith," wrote in his 1981 book *Paper Money*:

But the prices that had doubled from 1914 to 1919 doubled again during just five months in 1922. Milk went from 7 Marks per liter to 16; beer from 5.6 to 18. There were complaints about the high cost of living. Professors and civil servants complained of getting squeezed. Factory workers pressed for wage increases. …

The nervous citizens of the Ruhr were already [in 1922] getting their money out of the currency and into real goods — diamonds, works of art, safe real estate. Now ordinary Germans began to get out of Marks and into real goods.

So the printing presses ran, and once they began to run, they were hard to stop. The price increases began to be dizzying.

Pearl Buck, the American writer who became famous for her novels of China, was in Germany in 1923. She wrote later: "The cities were still there, the houses not yet bombed and in ruins, but the victims were millions of people. They had lost their fortunes, their savings; they were dazed and inflation-shocked and did not understand how it had happened to them and who the foe was who had defeated them. Yet they had lost their self-assurance, their feeling that they themselves could be the masters of their own lives if only they worked hard enough; and lost, too, were the old values of morals, of ethics, of decency."

The Beer Hall Putsch occurred in 1923. Hitler was named Chancellor in 1933, almost a generation after the classical gold standard perished (to be replaced, in 1922, with what Jacques Rueff termed a "grotesque caricature"). Thus, the question celebrated as "really great" by Pethokoukis is not just snarky but … perverse. The historical evidence points to the *absence* of the gold standard as a cause in the rise of the Nazis.

As a not insignificant historical aside, Hitler was not the only socialist despot who despised the gold standard. Two eminent monetary scholars, Michael V. White and Kurt Schuler, in the *Journal of Economic Perspectives* article *Retrospectives: Who Said "Debauch the Currency": Keynes or Lenin?* cite Lenin as stating:

Hundreds of thousands of rouble notes are being issued daily by our treasury. This is done, not in order to fill the coffers of the State with practically worthless paper, but with the deliberate intention of destroying the value of money as a means of payment. There is no justification for the existence of money in the Bolshevik state, where the necessities of life shall be paid for by work alone.

Experience has taught us it is impossible to root out the evils of capitalism merely by confiscation and expropriation, for however ruthlessly such measures may be applied, astute speculators and obstinate survivors of the capitalist classes will always manage to evade them and continue to corrupt the life of the community. The simplest way to exterminate the very spirit of capitalism is therefore to flood the country with notes of a high face-value without financial guarantees of any sort.

To what "financial guarantees" was Lenin alluding? The "gold standard" of financial guarantees is, of course, the classical gold standard in which currency is defined by a fixed weight of, and convertible to, gold.

Pethokoukis's lack of perspective also shows up in his follow on AEIdea headlined "The case for the gold standard is really pretty awful." Apparently alarmed by a favorable review, *The Case For The Gold Standard*, from the Manhattan Institute, of Steve Forbes and Elizabeth Ames recent, very well-received, book *Money* Pethokoukis goes into full Krugman/DeLong hysteria mode:

"Re-adopting the gold standard in America," argues a surprising e21 editorial, "could spur the economic powerhouses of the world to join, creating more stable markets and prosperity across the globe. Let us hope."

Let us hope *what,* exactly? "Let us hope" that the gold standard is re-adopted? Unlikely, as even its proponents concede. "Let us hope" that re-adopting the gold standard would produce greater prosperity? Even more unlikely, if that's possible. A new gold standard would risk deflation and depression.

For instance: Imagine, writes economist Scott Sumner, a scenario where soaring Asian demand for gold raises the yellow metal's purchasing power, "producing deflation in all countries that use gold as the asset in terms of which all prices are quoted." With prices falling, demand would decline, unemployment would raise, and prices would fall further. At that point, fear of government abandoning the gold standard, Ramesh Ponnuru explains, might prompt gold hoarding, accelerating the deflationary spiral. As Tyler Cowen has put it, "Why put your economy at the mercy of these essentially random forces?"

This takes Tyler Cowen far out of context. While Cowen is no proponent of the gold standard he has the virtue of intellectual honesty. Cowen in *A short note on the gold standard*:

Dare anyone critical of the gold standard bring themselves to utter these (roughly true) words?: "For the Western world, the gold standard era, defined say as 1815-1913, was arguably the greatest period of human advance ever, at least in matters of economics, culture, and technology." Chunks of the post-WWII era contend for this designation, but still this sentence is not a crazy one.

Prof. Beckworth, also not a gold standard proponent, in his Macromusings blog referencing his thoughtful *National Review* essay on Lewis E. Lehrman's (the monetary policy site of whose eponymous institute this writer professionally edits) *Money, Gold, and History*, observes that "the classical gold standard of 1870-1914 did work relatively well."

A look at the actual writings of the scholarly and gentlemanly Cowen and Beckworth thus puts a dark cloud over Pethokoukis's blithe observation, "Given the weight of evidence against the wisdom of returning to a gold standard…." The only "evidence" cited in his blog by Pethokoukis is an imaginary scenario by the good Prof. Sumner, a speculation by Mr. Ponnuru, and a "thought experiment" by AEI economist John Makin. To call this "evidence" is speculating well beyond the data.

Professors Sumner and *National Review*'s Ramesh Ponnuru are, with Beckworth, among the most distinguished proponents of NGDP-targeting. Their expertise in this arcane matter cannot be gainsaid. That said, their specialty is NGDP targeting, not the workings of the classical gold standard, as they themselves might be the first to admit.

Meanwhile, there is a very respectable case for gold as Manhattan Institute's thoughtful review of Steve Forbes and Elizabeth Ames's *Money* demonstrates, as does the reviewed work itself. Those who wish to dispute should dispute respectfully and thoughtfully, as did Beckworth with Lehrman, rather than with puerile snark.

It would be useful to have a public conversation between the leading proponents of NGDP targeting, and leading proponents of the Taylor Rule (such as the esteemed Prof. John Taylor, who has trenchantly criticized NGDP targeting), and leading proponents of the classical gold standard such as Prof. Lawrence White of George Mason University. Perhaps AEI would care to host such a debate? Perhaps James Pethokoukis might, by way of learning more about the real evidence, moderate it.