THE NATIONAL INTEREST

The Gold Standard Goes Mainstream

Ralph Benko | September 12, 2012

The U.S. treasurer under Eisenhower, Ivy Baker Priest, is best remembered for her observation, "I'm often wrong, but never in doubt." That's a delightful maxim for a neutral position like the treasurer. But it's a terrible rule for a president, Fed chairman or Treasury secretary. With unemployment stuck above 8 percent for forty-two months, it is time for officials in Washington to soften their posture of complete self-assurance and take a hard look at some of the prevailing dogmas that are strangling the economy.

Last year, *The National Interest* helped along the reexamination process by publishing what this columnist then called [3] "a lengthy, thoughtful, and perplexed, 'A Critique of Pure Gold.'" A subsequent column, "The Grave Economic Consequences of Money For Nothing [4]" observed:

The grounds for the prevailing opposition to gold convertibility are nicely summed up by Prof. Barry Eichengreen in . . . The National Interest [5]'s September-October issue, Eichengreen wrote:

"Society, in its wisdom, has concluded that inflicting intense pain upon innocent bystanders through a long period of high unemployment is not the best way of discouraging irrational exuberance in financial markets. Nor is precipitating a depression the most expeditious way of cleansing bank and corporate balance sheets. Better is to stabilize the level of economic activity and encourage the strong expansion of the economy. This enables banks and firms to grow out from under their bad debts. In this way, the mistaken investments of the past eventually become inconsequential."

Better to stabilize and encourage? Not so fast. There are two free market camps and, thus, two complementary free market responses. The first is the libertarian posture of skepticism as to government's capabilities. The second one is the conservative's review of the actual empirical evidence.

The conservative gold-standard advocates feature the classical gold standard as the antidote to unemployment. They contend that, properly configured (perhaps as set forth in a recent book, *The True Gold Standard* [6] by the gold standard's éminence grise, Lewis E. Lehrman, whose institute I professionally serve), the gold standard empirically is demonstrated as essential for vibrant, sustained economic growth. Moreover, it simply is incorrect to characterize either the conservative or libertarian model as designed to “inflict pain upon innocent bystanders.”

The most recent development in this policy discussion is the call in the GOP platform for a new gold commission to reassess the recommendation of the Reagan Gold Commission of 1981. Rep. Ron Paul and Lewis Lehrman, both commissioners, issued a dissenting report, *The Case For Gold*, called “landmark [7]” by the Cato Institute. The first gold commission was dominated by monetarism, a fading outlook, while *The Case for Gold* remains widely read.

The call for a new gold commission was hailed by the *Financial Times* [8], the *Wall Street Journal* [9] and in my own *Forbes.com* [10] column as a sign that the gold standard is going mainstream.

The push for a new gold commission (and calls by Newt Gingrich and Larry Kudlow for Lehrman to chair it) and the public interest it is engendering are not isolated events. Since publication of Eichengreen’s article, there has been much incremental movement in the general direction of the classical gold standard.

Joint Economic Committee vice chairman Kevin Brady (R-Tx) is pushing his Sound Dollar Act, arguably the most important piece of monetary-reform legislation in forty years. This legislation, designed to move the Fed toward policies that will stop depreciating the dollar, does not call for the gold standard. Yet it heavily weights gold in its criteria for reestablishing quality monetary policy. Republican Study Committee chairman Jim Jordan (R-Oh) has made monetary reform one of the pillars of his policy architecture to restore economic growth, although he has not yet specified the mechanisms.

Leading Republican Party figures, including vice-presidential nominee Paul Ryan, have come to a consensus that monetary reform is important, perhaps even essential, to restarting economic growth and job creation. The party elites, who lean toward a price rule, and the conservative base, which favors the “golden rule,” are in accord.

The GOP base has demonstrated enthusiasm for monetary reform in general and, at minimum, sympathy toward the gold standard. The Conservative Action Project—one hundred conservative leaders, in which this columnist finds himself included, chaired by Reagan’s counselor and Attorney General Edwin Meese—has, for the first time, placed [11] monetary reform in the top tier of the movement’s conservative agenda. Tea Party favorite and former presidential hopeful Herman Cain [12]is unequivocally pro-gold, reflecting his populist constituency. Important libertarian thinkers, such as incoming Cato Institute president John Allison, are eloquent for gold as requisite to growth, as reflected in a column coauthored by Allison in AEI’s *American.com*, “It’s Time for Pro-Growth Monetary Reform [13].” Supply-side leaders have supported gold since before Jack Kemp introduced (cosponsored by Rep. Newt Gingrich) the Gold Standard Act of 1984. Supply-side icon and former presidential candidate Steve Forbes is vocal in his prediction that the gold standard will be restored, and soon.

Is all this merely an atavism, as the Left likes to characterize it? Despite Hayek's Nobel, Paul Krugman dismisses Austrian economics, of which the gold standard is a key tenet, as "phlogiston." Is the call for gold merely an exercise in misguided nostalgia?

The empirical evidence demonstrates beyond quibble that the gold standard deserves renewed consideration. The Bank of England last December published the arcanely titled "Financial Stability Paper No. 13 [14]. [14]" It was noted in the financial press, beginning with a *Bloomberg* report headlined "Global Economy Worked Better With Bretton Woods Currency System, BOE Says [15]." This was followed by *Forbes.* [16]*com* *[16]* [17]and *DailyFinance.com* [18], among others. Although the Bank of England's assessment did not advocate a restoration of the gold standard, its conclusions cannot be avoided. It contends that the fiduciary dollar standard introduced by President Nixon is by an honest review of the data a sad and total failure.

Bloomberg's excerpt of the findings: "The current system has coexisted, on average, with: slower, more volatile, global growth; more frequent economic downturns; higher inflation and inflation volatility; larger current account imbalances; and more frequent banking crises, currency crises and external defaults."

Ron Paul has had the most public visibility. Thus, it is understandable that public intellectuals, such as Professor Eichengreen, have been focusing on the Austrian prescription. Yet it is the conservative model that is gaining policy traction. This is the one described as centrist in a column on August 29 by Seth Lipsky in the *Wall Street Journal* (the most read of its day), "The Gold Standard Goes Mainstream [9]":

> In the center would be advocates of a classical gold standard, in which a dollar is defined as a fixed amount of gold. These include, among others, Mr. Lehrman, James Grant of Grant's Interest Rate Observer, publisher Steve Forbes, economist Judy Shelton, and Sean Fieler of the American Principles Project.

The classical, or "American principle," gold standard is the one generating consensus. Here the matter now stands. Should monetary policy be one of discretionary activism, as Barney Frank and most Democrats, presumably including the president, advocate? Or should it be a rule-based policy, as is the GOP consensus? If rule-based, what rule should be adopted? Should it be the Taylor Rule, favored by many elite economists? Or the "golden rule," favored by the base and sophisticated elite modern gold-standard advocates?

This is an important, and potentially historic, question. It will be valuable to have Professor Eichengreen and his peers applying their intellects to the real debate, which is not about “inflicting intense pain upon innocent bystanders.” It is about what might be needed to get robust job creation and vibrant economic growth restored.

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