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Ted Cruz Has The Best Idea In The Presidential Debate: A Return To The Gold Standard

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The *LA Times*'s Pulitzer Prize (for beat reporting) winning Michael Hiltzik recently wrote a column slamming the GOP field in general and one of the two front-runners, Ted Cruz, in particular: *The worst idea in the presidential debate: a return to the gold standard*. Mr. Hiltzik thereby joins with a lot of usual suspects, like Paul Krugman and Larry Summers, in the ridicule-heaping ritual. Such conduct is unbecoming of him and his headline and conclusions are contradicted by a lot of reliable data.

There actually is abundant evidence that Ted Cruz's proposal of the gold standard is the very best idea in the presidential debate so far and that Cruz is to be commended for it. There's far more evidence for the goodness of gold than for considering it a bad idea. It certainly is not ridiculous. Let's take a closer look.

Mr. Hiltzik, after his prerequisite preliminary orgy of ridicule, writes:

The gold standard is one of the few economic nostrums on which progressives and conservatives agree. Neither side likes it. Here, for example, is James Pethokoukis of the conservative American Enterprise Institute: "When GOP presidential candidates talk about the gold standard, I'm not sure if they're serious or just signaling a certain segment of voters obsessed about inflation and the dangers of 'fiat money.' I sure hope they're not serious and this is just campaign season silliness."

The proposition is flat, factually, wrong that "The gold standard is one of the few economic nostrums on which progressives and conservatives agree." Mr. Hiltzik cherry picked one — James Pethokoukis — of very, very, few conservatives who have been consistently hostile to the gold standard.

A few others have written occasional criticism of the gold standard but none have crusaded against it comparably to Pethokoukis. Pethokoukis is a conservative outlier in manning the anti-gold barricades along with left wing polemicists such as Paul Krugman.

The right predominantly supports, or at least appreciates, the gold standard. In addition to Ted Cruz's direct advocacy presidential contenders Donald Trump, Rand Paul, Ben Carson and Mike Huckabee have made sympathetic statements. Jeb Bush has professed open-mindedness.

Among conservative and libertarian public intellectuals proponents include such greatly respected figures as Reagan Gold Commissioner Lewis E. Lehrman (founder and chairman of The Lehrman Institute, with which I once had a professional association), publisher and former presidential contender Steve Forbes, and financier/philanthropist Sean Fieler (who chairs the American Principles Project, which I professionally advise).

Journalists William Kristol, George Melloan, James Grant, Nathan Lewis, John Tamny and Peter Ferrara, among many, many, others have praised the gold standard. Dr. Norbert Michel of Heritage Foundation and Dr. George Selgin of the Cato Institute, both monetary policy thought leaders, have expressed astute sympathy toward, although not advocacy of, the gold standard.

Mr. Hiltzik states that "economic historians concluded long ago, however, the idea that the gold standard provided stability is a myth." While this is correct as to prevailing sentiment such views by no means are unanimous. In addition to economic historian Prof. Brian Domitrovic, Prof. Richard Timberlake, particularly in his excellent 2013 *Constitutional Money: A Review of the Supreme Court's Monetary Decisions*, does not support Hiltzik's overgeneralized conclusion. Nor does monetary economist Prof. Lawrence White of George Mason University.

Prof. Robert Mundell, in his magisterial 1999 Nobel Prize in Economics acceptance speech offers a far more appreciative and wide-ranging view of the history of the gold standard than that stated by Mr. Hiltzik. While Mundell can not be counted an outright gold standard proponent he clearly is a sympathizer.

"Economic stability" (which ostensibly economic historians concluded "long ago" that the gold standard lacks) is relative. The current epoch of fiduciary monetary policy is much less stable than the precursor gold standard. Fed Chair Paul Volcker, himself not an advocate of the gold standard, definitively nailed the instability of the current fiduciary dollar standard in a speech at the Bretton Woods Committee in 2014. Volcker:

In fact, international financial crises seem at least as frequent and more destructive in impeding economic stability and growth. The United States, in particular, had in the 1970's an unhappy decade of inflation ending in stagflation. The major Latin American debt crisis followed in the 1980's. There was a serious banking crisis late in that decade, followed by a new Mexican crisis, and then the really big and damaging Asian crisis. Less than a decade later, it was capped by the financial crisis of the 2007-2009 period and the great Recession. Not a pretty picture.

As I also have noted, "Former Fed Chairman Alan Greenspan recently, in *Foreign Affairs*, while not discerning gold on the horizon, recently celebrated the 'universal acceptability of gold' while raising a quizzical avuncular eyebrow, or two, at what he describes as 'fiat' currency. He repeated his assessment before the Council of Foreign Relations."

As for former Fed Chairman Ben Bernanke, as I noted in an op-ed in*Roll Call*, *"*Chairman Bernanke's statement that 'if you look at actual history the gold standard didn't work well' was in direct contradiction of Governor Bernanke's 2004 speech at Washington and Lee University in which he stated:

The gold standard appeared to be highly successful from about 1870 to the beginning of World War I in 1914. During the so-called 'classical gold standard period,' international trade and capital flows expanded markedly, and central banks experienced relatively few problems ensuring that their currencies retained their legal value.

Going offshore, Dr. Jens Weidmann, president of the Bundesbank, called the gold standard "in a sense, a timeless classic" in a 2012 notable speech, *Money creation and responsibility* at the Institute for Bank-Historical Research. Former deputy governor of the Reserve Bank of India S.S. Tarapore has written extensively and favorably on the gold standard. So too has written former finance minister of El Salvador Manuel Hinds (who dollarized the Salvadoran economy to its great benefit).

The Bank of England's 2011 *Financial Stability Paper No. 13*assessed the Federal Reserve Note standard and its real outcomes — in every category reviewed, including job creation, economic growth, and inflation — has demonstrated itself, over 40 years, as inferior to the gold and gold-exchange standards. Further research since that time supports the assessment of this paper.

And reaching into history, as I here wrote:

Gold advocates and sympathizers from the deep past include Copernicus and Newton, [and] George Washington, Alexander Hamilton, Thomas Jefferson, John Witherspoon, John Marshall and Tom Paine, among many other American founders; and, from the less distant past, such important thinkers as Carl Menger, Ludwig von Mises and Jacques Rueff, as well as revered political leaders such as Ronald Reagan and Jack Kemp.

There is a very respectable body of opinion in support of the gold standard. The record of this is by no means obscure. Mr. Hiltzik's excluding respected proponents of the gold standard does not do his readers justice.

So why the hostility (and snark) directed at the gold standard? If I believed as does Mr. Hiltzik that …

the 'stability' provided by linking currencies and exchange rates to a fixed value of gold benefited only one economic class — creditors, who desired the returns on their assets to be protected from inflation and to take primacy over every other interest group

… then I too — as a worker (AFL-CIO member) not an oligarch — would be as hostile to the gold standard as is Mr. Hiltzik. That said, characterizing the gold standard as a way to privilege Scrooge and prejudice Bob Cratchit is contradicted by the facts.

Under the post-war Bretton Woods dilute form of the gold standard, for example, workers and median income families thrived, and dramatically so. Soon after Nixon "temporarily" closed the gold window, in 1971, median family income flat-lined … while the rich got much richer. The ending of the gold standard correlates directly with median family wage stagnation. Meanwhile Scrooge did much better than ever.

Empirical evidence is persuasive that the gold standard, properly done (an important caveat — with the parity point set neutrally or even slightly favorably toward labor and debtors) is far more beneficial to working people than has been the fiduciary dollar management of the Nixonian monetary regime under which we still labor today.

It seems that Mr. Hiltzik, along many others in the cultural elite (including all of the 40 — not 51 — academic economists, few of whom were monetary economists, sloppily surveyed by the Booth School in 2012), has fallen prey to the "Eichengreen Fallacy." The Eichengreen Fallacy is the attribution of the Great Depression to the gold standard. The gold standard had ceased operation over a decade before the Great Depression. It was not the causative factor.

I once described the Eichengreen Fallacy here:

Prof. Eichengreen, author of *Golden Fetters*, was and remains non-cognizant of a subtle but crucial aspect of world monetary history — and, apparently, of the works of Profs. Jacques Rueff and Robert Triffin elucidating the implications. Eichengreen blundered by attributing the Great Depression to the gold standard. This, demonstrably, is untrue. That claim has led the discourse astray.

The classical gold standard … collapsed under the pressure of the first World War, long before the Great Depression. The classical gold standard was suspended when the Depression hit.

An attempt was made to resuscitate the gold standard in Genoa, in 1922, putting in place what that great French classical liberal economist Jacques Rueff called "a grotesque caricature" of the gold standard: the gold-exchange standard. Genoa authorized a deformed pastiche of gold and paper currency as official central bank reserve assets.

The *Economist* recently, and aptly, referred to the Interwar gold-exchange standard as "a mess." Mr. Hiltzik, following Eichengreen, collapses a critical distinction.

Cruz is on strong ground — economically, historically, and politically — in his advocacy of the gold standard. The claim "*The worst idea in the presidential debate: a return to the gold standard*" is, simply, unsupported by the facts. While the gold standard is not, nor is it claimed to be, perfect — no system is perfect — it has an impressive track record. Readers deserve to have the evidence objectively reviewed rather than the topic ridiculed.

The gold standard correlates with the American Dream of achieving decent middle class affluence through hard work far better than middle class affluence correlates with the Federal Reserve Note standard. Sen. Cruz's advocacy of the gold standard is impeccably respectable. The gold standard is the best idea in the 2016 presidential debate.