Herman Cain's monetary heresies aren't as crazy as they sound

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Word that President Trump might offer former presidential candidate Herman Cain a seat on the Federal Reserve's Board of Governors had tweeters and pundits scrambling for the right pejoratives by which to describe that choice. Favorites included "bizarre," "absurd" and "crazy."

As for arguments, some point out that making monetary policy isn't at all like making pizzas, while others remember the sexual harassment allegations that scuttled Cain's 2011 presidential campaign, or his cringe-worthy campaign ads and gaffes. Several also recall Cain's relentlessly hawkish stand throughout the depths of the Great Recession.

But when it comes to holding Cain unfit for the Fed, the favorite smoking gun is an op-ed he published in May 2012. Sounding more like a candidate in 1896 than a 2012 presidential candidate, Cain called the "classical" gold standard of 1870 to 1914 "the best among all alternatives." "

The empirical data," he said, shows that under that standard "economic growth was stronger, unemployment rates lower, the price level more stable, and recessions less frequent and less severe than under the present system."

Crazy? Absurd? Bizarre? Actually, as unpopular — and ultimately impractical — as Cain's beliefs about the gold standard may be, there's more than a slice of truth to them. And keeping that truth in mind may be a healthy counter to official complacency regarding the merits of our present monetary system.

Consider unemployment. Although the pre-1914 statistics aren't very reliable, those we do have show a considerably lower average unemployment rate for 1870-1914 than for 1914-1946 or since 1970. Unemployment between 1946 and 1970 was lower than it had been during the gold standard era, but just barely.

And recessions? According to statistics developed by Christina Romer, the highly-regarded economic historian who served as chair of the Council of Economic Advisers in the Obama administration, recessions have actually been longer-lasting, more severe and more frequent since 1914 than before. What's more, they've even been slightly longer, slightly deeper and no less frequent since World War II than they were back then.

The price level? Here the gold standard era wins hands down. Under the gold standard, prices of goods and services tended to decline gradually, and money wages rose modestly. Confidence in the stability of the dollar's purchasing power was so high, in fact, that bonds with fixed interest rates maturing in 99 or 100 years were common.

Although the price level was more unstable in the short run, the cruder price-level statistics of the pre-1914 period tend to exaggerate the difference between the two eras.

Though he didn't mention financial panics, Cain might have noted that, although the gold-standard era was pock-marked with them, there were actually more panics during the two decades after the Fed's establishment (and the end of the classical gold standard era) than there'd been during the previous two decades.

Things only quieted down after the Federal Deposit Insurance Corporation (FDIC) was established; and, as everyone now knows, even that long-delayed improvement didn't last.

These facts hardly mean that Cain's grasp of monetary history leaves nothing to be desired, let alone that he's fit for a job at the Fed. On the topic of economic growth, for example, he's sloppy.

Although that growth was rapid before 1914, so was population growth: Average per-capita growth was actually lower under the classical gold standard than it's been since World War II.

In praising not just the classical gold standard but the later "gold exchange" and Bretton-Woods standards, Cain skates on very thin ice. The post-WWI gold exchange standard — a jury-rigged system meant to "economize" on gold — was a house of cards that helped bring on the Great Depression.

Nor was the Bretton Woods set-up much better: Having only got going in the mid-1950s, that system lasted barely a decade before unravelling.

Finally, Cain's belief that the government might replicate the advantages of the old gold standard by defining the dollar "as a fixed quantity of gold" again is wishful thinking.

Among other things, the old gold standard worked well partly because it was an international standard: A U.S.-only gold standard would more likely prove a recipe for severe economic instability. The public trust in government promises that once held the gold standard together is also long gone, and neither the present government nor any other likely one can hope to win it back.

But while Cain's proposed reform is no cure for our monetary ills, his belief that the present set-up has itself been "a dismal failure" could use an airing among Fed officials, who seem to subscribe to the no-less-skewed belief that ours is the best of all possible monetary systems.

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