



The Trump Fed

November 17, 2016

President Trump will have a choice opportunity that few if any presidents have had — the immediate chance to fill two openings on the board of governors of the Federal Reserve. Only five of the board's seven seats are now filled, a fact that has received scant attention in the press. Yet finding the right nominees will be important in setting the stage for monetary reforms needed to end the age of fiat money and put paid to the "false economy" of which Mr. Trump warned.

We are only one stop on the organ known as the "Great Mentioner," but we see a fabulous field. It includes economist Judy Shelton, one of America's most articulate advocates of sound money and a tribune of Jeffersonian principles; Steve Forbes, the author of a particularly clear book on the gold standard and a sage with few peers in his grasp of monetary history; and David Malpass, an economist who has been a senior economic adviser to Candidate Trump and a critic of the Fed's zero-interest-rate policy.

It's not our purpose here to pick favorites, particularly because there is a large field. Economist John Taylor of Stanford University has advanced the idea of requiring the Fed to decide for itself a rule to guide its own policies. His idea is that the Fed would let the Congress know what the rule is so that it, and the rest of us, can gauge the Fed's performance. The Fed, of course, is resisting even this *noblesse oblige*. All the more tempting to put Professor Taylor up for the Fed board.

There is also Alan Reynolds of the Cato Institute. He's one of the early supply-siders who helped ignite the Reagan Revolution. And no New York Sun short-list would be complete without the editor of the Interest Rate Observer, James Grant, whom Congressman Ron Paul, at the height of his campaign for the presidency, promised to name as Fed chairman. Mr. Grant was once invited by the New York Federal Reserve Bank to make a formal address on the Fed's own failings.

None of the names on the Sun short-list are what one would call conventional choices for the Fed board. Then again, too, Mr. Trump is not exactly your conventional president-elect. The fact is that the decision of the American people to bring in Mr. Trump as president and retain the Republicans in control of both the House and the Senate sets up the first clear opportunity for monetary reform since 1971, when President Nixon ended Bretton Woods and opened the age of fiat money.

Mr. Trump himself has declared that a restoration of the gold standard would be, at least in principle, ideal. He has also marked the issue of currency manipulation as one of the evils that have delivered the kind of trade imbalances he wants addressed. Ms. Shelton has already covered, in several pieces in the Wall Street Journal, how this opens up the whole question of monetary reform; no sooner had her ideas been published than Mr. Trump made her an adviser to his campaign.

Opportunity knocks, too, because reform has been fermenting in the institution to which the Constitution grants exactly 100% of the government's monetary powers — the Congress. Reform started with Ron Paul, who advanced his bill known as Audit the Fed. That would open the way for Congress inspect all that the Fed is doing in setting monetary policy (the measure has thrice passed the House). Reform was nursed in the Joint Economic Committee when Kevin Brady, Republican of Texas, was its chair.

One of Mr. Brady's measures, the Sound Dollar Act, could, among other things, open up the question of ending Humphrey Hawkins, the law, passed in 1978, that expanded the Fed's "mandate" to include full employment. Humphrey Hawkins gave us ever greater politicization of monetary policy. Mr. Brady is now chairing Ways and Means, while another advocate of monetary reform, Jeb Hensarling, is chairman of the Financial Services Committee.

We also have, in Paul Ryan, a Speaker who understands this issue down to the ground. Come January 20, we'll have at the head of the Senate a vice president who, in Mike Pence, understands the issue not only in economic but also in moral terms. Talk about an alignment of the stars. What an opportunity for Mr. Trump. Monetary reform would lay the groundwork for the kind of growth he promised in his triumphant march through the very American heartland that has been devastated in the age of fiat money.