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Inflation Ahead, Then a Return to a Gold Standard

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Richard Rahn is a free market economist with the Washington think-tank, Cato Institute. He has drawn attention to the reasons why we should not expect deflation. The Federal Reserve will see to that.

He sees where present policies are headed unless governments reverse course. "The major world governments are in the process of destroying the value of the money their citizens hold"

How bad is it? Bad enough to scare senior economists, who usually think there is a solution to everything: "at some price." But what price? High.

On Nov. 16, the Cato Institute held its annual monetary conference. Speakers included high-ranking officials from the Federal Reserve and monetary experts from the academy, think thanks and financial institutions. There was unanimous agreement that the world monetary system is in deep trouble, which is obvious to anyone who keeps up with the news. It is easier to observe the problem than to come up with a solution.

He understands the problem.

It is apparent that the political classes in Europe, the United States and even China are not yet prepared to cut government spending back to a rate that can be supported by their economies. Thus, the pressure will increase on the central banks to cover more and more of the debt by printing money, which goes by the deceiving euphemism "quantitative easing." When a central bank creates more money to buy bonds, whether they be Greek or Italian bonds in the European case, or U.S. government bonds in this country, no new wealth is created. Only the real-money value of the existing wealth is reduced (in essence, a hidden wealth tax).

Will this lead to hyperinflation? No. On this, he and I are in agreement.

He thinks there will be a return to a gold standard.

At some point, politically intolerable rates of inflation or economic stagnation will result. This, in turn, will force a massive monetary contraction or a move back to a gold standard or some other real backing for the money. The United States has more than 8,000 tons of gold, with a current market value of almost a half-trillion dollars, which would be enough to move to some form of a gold standard. A gold standard for money is not a panacea, but it is far better than an undisciplined fiat standard.

He and I agree on the ultimate solution: getting the government out of the money-creation business.

The real solution to the money dilemma is for governments to give up their monopolies on the issuance of money and allow free competition to determine who produces the best money. If innovative minds like Thomas Edison and Steve Jobs had been free to develop sound money, I expect many of our money problems would be relics of the past.

I agree. But I do not think this will happen anytime soon.