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Hey La, Hey La, Supply Side's Back: The New A-Team Arrives

By: Ralph Benko – January 7th, 2012

Washington, quietly, is re-orientating. To be sure it still is sorting out what caused the financial crisis, the Great Recession, and the disorders that have ensued (from the application of bad medicine like bailouts and stimulus). But there's just occurred a dramatic changing of the guard in the GOP and in the leadership of its intelligentsia.

The Republican Party appears ready to put behind it the snakebit political era of the 2012 presidential cycle and the 111th and 112thCongress's fixation on fruitless answers to problems besetting job creation and deficit reduction. Approaches attempted in the past four years by well-intended Supercommittees, Gangs of Six, Hyphenated Commissions, the presidentially ambitious, and partisan bloggers are, obviously, except to the most stubbornly dogmatic politicos (such as President Obama), thoroughly discredited.

To paraphrase *The Angels*: "*Hey la, hey la, Supply Side's back*." Outgoing Cato chief Ed Crane and the Brothers Koch together recruited John Allison as new president of the Cato Institute. And "*he's kinda big and he's awful strong*." Allison is no ordinary public intellectual. He built a small regional bank,BB&T, into a triple-digit-billion dollar national titan — and without unjustly enriching himself.

Last year, Allison telegraphed his message in *The Financial Crisis and the Free Market Cure: How Destructive Banking Reform is Killing the Economy*. As Allison is no ordinary public intellectual this is no ordinary book. It is a reform blueprint with deep integrity.

The twelfth of ur-Tea Partier Saul Alinsky's Rulesteaches: "The price of a successful attack is a constructive alternative." Allison's constructive alternative has unimpeachable credibility. He authoritatively provides the policy community this crucial missing piece.

Part of Washington's approach to the whirlwind it reaped in 2008 was to … sow more wind: Dodd-Frank. As described by the National Center for Policy Analysis:

> At least 10 federal agencies will be tasked with ensuring compliance with roughly 300 new rules created by Dodd-Frank, says the Congressional Research Service. Several new agencies were created. One of them, the Consumer Financial Protection Bureau (CFPB), opened its doors recently. The head of the CFPB will be appointed for a five-year term. Once confirmed by the House and Senate, he or she will have free rein to spend

> $500 million without interference from Congress, since the CFPB is funded by the Federal Reserve, rather than congressional appropriations.

Dodd-Frank is Washington nakedly asserting power over a key sector of the American economy. No good can come of this. Dodd-Frank is vague, burdensome, of no protective value, and anti-growth. Yet for all of that it is insufficient merely to rail against it. America needs a constructive alternative. Enter Allison.

Allison divides the causes of the financial sector's meltdown into three parts: the Fed as primary cause, the FDIC as the background cause; and government housing policy as the proximate cause.

> "What is interesting," writes Allison, "is that the economists at the Fed know that bureaucratic price setting is a total failure. They have observed this phenomenon in all socialist and communist economies. They would not claim the ability to set the right price for an automobile, but they somehow believe that they can establish the proper interest rate for a highly complex economy in a globally integrated environment. …
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> "One reason for this phenomenon is that being a key decision maker in the Federal Reserve is intoxicating. After all, the Fed is one of the most powerful economic bodies in the world. Alan Greenspan is a classic example. Before he became chairman of the Fed, he argued in*Capitalism: The Unknown Ideal* that the Fed should be abolished and the United States should go to a gold standard."

Allison brings thoughtful solutions to the problems besetting both the banking industry and the American economy. Many of our problems derive from inefficient, oppressive, and counterproductive regulation of credit markets. Nor does Allison neglect the heart of darkness, our bureaucratic monetary policy:

> "The most fundamental cure for this crisis and future financial crises would be to eliminate the Federal Reserve. … Between 1870 and 1913, the United States experienced the greatest economic boom in history without a central bank. … While there were economic corrections during this period, none were as destructive as the Great Depression or even the lingering Great Recession. … If the Fed cannot be closed and a private banking system created for political reasons, then the second best solution is to make the dollar convertible in a fixed exchange rate to a quantity of gold. The conversion ratio would be based on current market prices with time allowed for the market to adjust to the announcement."

The 2012 presidential election now is behind us. In retrospect it feels as if the GOP had a nervous breakdown. Its presidential candidates peripatetically alighted, weirdly and ineffectually, on such issues as vaccine scaremongering, secession, repealing the direct election of Senators, unspecified spending cuts, hinted disapproval of connubial acts between husbands and wives, even moon colonies. The Republicans finally settled on a candidate who campaigned on the pathetically insufficient quality of non-Obamaness. All this disappointed voters keen for recipes for economic growth, good job creation, and a champion for their constitutional rights and values.

In the campaign many of the presidential aspirants touched, if insufficiently, on the importance of reforming American monetary policy. The call for monetary reform developed so much momentum that the party placed a plank calling for a monetary commission in its national platform. This resonated. It continues to do so.

Each of the presidential aspirants, when touching on monetary reform experienced some electoral loft. National polling by Scott Rasmussen and regional polling undertaken by the American Principles Project (with which this columnist professionally is engaged) showed gold standard advocacy extraordinarily popular.

The GOP's nervous breakdown recedes into the past. A new, solid, generation of Republican leaders is taking the field. The new GOP leadership actively seeks to replicate the hot growth exemplified by Reagan and Clinton. That job growth came from policies — most notably lower marginal tax rates and good monetary policy — associated with one Rep. Jack Kemp.

The *Washington Post* fixates on the party's institutional leadership — its Generals such as John Boehner and Mitch McConnell. Just beneath that surface, the House GOP has invested its operational policy leadership — its committee chairmanships — in a rising generation of principled free market Supply Siders. In the House these GOP "Colonels" — the ones setting the agenda — include the new JEC Chairman (and prime sponsor of the Sound Dollar Act) Kevin Brady, House Financial Services Committee Chairman (noted foe of Dodd-Frank and champion of good monetary policy) Jeb Hensarling, and exceptionally respected rank-and-file Members such as Jim Jordan.

In the Senate, Marco Rubio widely, and for good reason, is considered the most likely next Republican presidential nominee. Tea Party Ted Cruz,dubbed by *Mother Jones* as the "Republican Party's Barack Obama," is proving a media magnet. These, plus the Senate's number two Republican, John Cornyn, all have signed on to serious monetary reform.

A major lesson of 2012 is dawning on the new GOP A-team: the centrality of an economic growth (and constitutional rights) message and the excitement it produces among voters — conservatives, libertarians, tea partiers and independents. Monetary reform, as anchored in the party platform, is the most obvious place to look to get the economy growing well again. Bonus: monetary reform is an uncontaminated issue where Democrats, whether Blue Dog or Progressive, can, without violating principle, participate as equals.

Monetary reform is coming to the fore among the base and from public intellectuals such as the American Principles Project and the Lehrman Institute (both of which this columnist professionally is associated), Atlas Economic Research Foundation's Judith Shelton, Reagan counselor and attorney general Edwin Meese's influential Conservative Action Project (which recently called for the formation of a national monetary commission as one of its major Congressional priorities for the 113th Congress), and other figures such as *Forbes.com*'s own John Tamny and the *New York Sun*'s Seth Lipsky. Cato Institute, led by John Allison, is certain to be at the forefront.

The new GOP leadership team has a new generation of thought leaders formulating up-to-date prescriptions for doubling the growth rate from 2% to 4%, the prescription upon which both job growth and deficit reduction depend. John Allison's *The Financial Crisis* *and the Free Market Cure: How Destructive Banking Reform is Killing the Economy* is an excellent resource to advance the renewal of equitable prosperity.