Gold Standard Arguments Being Promoted Again

Two years ago Steve Forbes, two-time candidate for nomination for president by the Republican Party and editor of *Forbes magazine*, *predicted "a return to the gold standard* *by the United States within five years … [because it would] help the nation solve a variety of economic, fiscal and monetary ills." It's now two years into his prediction and articles explaining how such a return would work, and why, are beginning to appear in the media.*

Particularly insightful is one written by Nathan Lewis, a monetary historian and author of *Gold: The Once and Future Money,* that appears, not surprisingly, in *Forbes,* in its first issue of 2013. Lewis' message is simple: The United States was on a gold standard from 1870 to 1914, and it can be reestablished without difficulty once again. He writes, "We don't have to hypothesize too much about what a new world gold standard system could look like. We can just look at what has already been done."

He says that the system would look pretty much the same as it does now. Paper dollars could be redeemed for gold coins but most people probably wouldn't — it's just too much bother. All that holders of paper money would like to know is that they could, at any time, receive an equivalent unchanging number of gold coins for a certain amount of paper money. That confidence would remove a major obstacle facing the economy at the present time: uncertainty about what those dollars might be worth in the future.

With the United States leading the way, the country's major trading partners would be forced to back up their own currencies with gold as well, which would lead to another "river of capital" flowing into the country just as in the latter half of the 19th century. Wrote Lewis:

> This river of capital flowed mostly to emerging markets. The United States, which was something of an emerging market in those days although one that was already surpassing its European forebears (much like China today), was a consistent capital-importer….
>
> Gross global foreign investment rose from an estimated 7% of GDP in 1870 to 18% in 1914.

It was "risk capital," to be sure, as investors wanted to participate in the economic explosion taking place in America. But one major risk had been taken off the table: the risk of a sudden devaluation of the currency by a government suffering from out of control spending. In fact, government was hardly involved in those capital flows at all:

> The arrangement was largely voluntary. There were no fiscal limitations or centralized governing bodies, such as the Eurozone has today. The Bank of England served mostly as an example to imitate. Countries could opt out if they wished, and several did from time to time, although they usually tried to rejoin later.

With investors being rewarded by taking risks without currency concerns, alternative investment alternatives, such as bonds, were largely ignored. Because of the perceived monetary stability, bond yields fell to historically low levels, and stayed there. Explained Lewis:

> Unlike today, these rock-bottom yields were not obtained by every sort of central bank manipulation imaginable, but reflected the long history and expectation for monetary and macroeconomic stability that the gold standard system provided. They could continue at these low levels for decades, and often did: from 1821, when Britain returned to a gold standard after a floating-currency period during the Napoleonic Wars, to 1914, the average yield on government bonds of infinite (!) maturity in Britain was 3.14%.

This has been unmatched by any country since governments removed gold backing from their currencies:

> During the 20th century, and now into the 21st, no central bank in the world has been able to match this performance. They are not even in the same galaxy. No world monetary arrangement has provided even a pale shadow of that era's incredible successes.

He concluded that it'll be easy to go back simply because the country has that successful past history with the gold standard: "Once we finally abandon these funny-money notions — probably because of their catastrophic failure — it will be very easy to create, once again, a superlative world gold standard system."

Robert Blumen isn't so sure that the transition will be "easy." There are too many special interests enjoying the benefits of a manipulated paper currency for them to acquiesce quietly in the transition to such a free market phenomenon. The history of the creation of the Federal Reserve, so meticulously noted by G. Edward Griffin in his *The Creature from Jekyll Island*, illustrates that efforts to create a banking cartel reached back into the late 19th century, just when the economy was exploding and creating all kinds of competition and difficulties for the large banking interests. Once the Federal Reserve was finally established in 1913, it took the federal government just a few years to take advantage of the Fed's ability to create money without the bother of going to either the bond markets or the taxpayers for it. The Fed also served nicely as the "lender of last resort," providing cover and funds for banks that over-extended their loan portfolios. As Blumen summarized:

> It was abandoned for political reasons. Factors leading to the demise of the gold standard were the desire of governments to spend in excess of politically tolerable levels of taxation, the need to finance World War I and other wars, and the wishes of the banking for a lender of last resort to bail out over-leveraged banks when they had insufficient reserves to cover their losses.

And then there are the entrenched Keynesians who continue to listen to the siren song of paper money creation and manipulation and ignore the history of how well an unencumbered economy using gold-backed currency performed.

Just how well? During the 1870s and 1880s the U.S. economy grew at its fastest rate in history. For example, between 1865 and 1898 the output of wheat increased by 256 percent, corn by 222 percent, coal by an astonishing 800 percent, and miles of railroad track by 567 percent. Per capita income by the year 1900 was twice that of Germany or France, and 50 percent higher than that of Great Britain.

But Keynesians could not care less. They continue to draw their inspiration for manipulation from John Maynard Keynes who, as Lew Rockwell expressed it,

> hated the gold standard with astonishing intensity, and he considered it his great accomplishment in life to have assisted in its destruction. Even to this day, his influence is immense, with most

> economists accepting the broad framework that he laid out in his work, and sharing his conviction that the worst thing that could befall any society is for the government to lose its power to manage economic life.

It's going to take more than a simple prediction by a former presidential candidate to reestablish the gold standard. The history is there to be repeated, certainly. What it will take is sufficient numbers of an informed citizenry to demand a return to honesty in government and currency. It's nice to see the conversation beginning again. It remains to be seen if the conversation is picked up, is repeated, and then catches fire. As Samuel Adams put it, "It does not take a majority to prevail … but rather an irate, tireless minority, keen on setting brushfires of freedom in the minds of men."

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