PUBLIC TROUGH

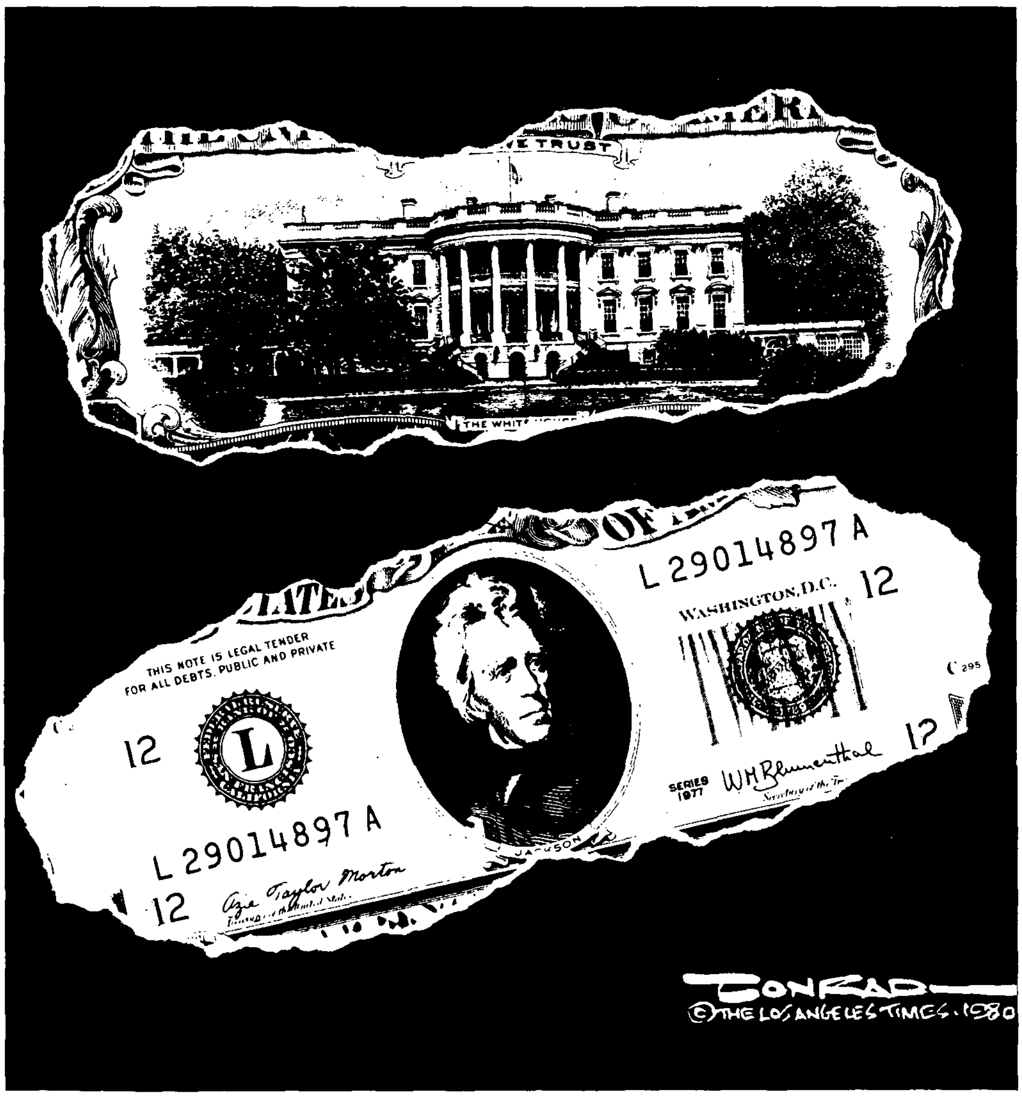
Why gold?

BRUCE BARTLETT

LAST JANUARY'S ANnouncement that the Consumer Price Index was rising at the rate of 18 percent per year created something of a panic atmosphere in Washington. Long-time liberals began talking about slashing the federal budget while hard-core conservatives gave serious consideration to wage and price controls. The situation seemed so critical that no anti-inflation program was automatically dismissed by anyone, no matter how far-fetched it may have seemed. There was even serious talk about reinstitution of the gold standard, the bane of politicians and academic economists for more than 50 years.

Although inflation is the major reason why former sceptics are giving gold another look, there are also other important factors at work. One is a growing frustration with the volatility of floating exchange rates, which make it extremely difficult to transact international business. Second is the steep increase in the price of gold in recent months to well over $600 per ounce. At a stroke, this price increase has removed the major argument which has always been used against gold convertibility: that there isn't enough of it. At $600 per ounce the U.S. gold stock is worth $158 billion—enough to redeem every federal reserve note in existence and have plenty left over.

Another important factor is that those who advocate a return to gold convertibility are becoming more sophisticated. No longer do they argue that there is some mys-



The bills pictured here are: a) today's eroded dollars, b) D. B. Cooper's loot, c) funny money, d) all of the above.

tical, magical quality about gold which requires its use as money. Instead they argue that gold simply has certain qualities which make it ideal for use as money. The most important of these are that gold has met the market test of wide acceptability and that its quantity is limited. In other words, as Professor Arthur Laffer puts it, "The absolute quantity of gold and its value are outside the purview of monetary authorities and their purely political decisions. Tying a currency to a gold standard has the same effect on inflation that putting a governor on a car has on speeding. Fuel is restricted."

In academia the most important contribution to the new respectability of gold is the publication of Professor Roy Jastram's book, *The Golden Constant* (New York: John Wiley & Sons, 1977). As Jastram points out, under the classical gold standard in Great Britain the general price level was the same in 1930 as it was in 1718. "The importance of all this," as Jude Wanniski has written in the *Wall Street Journal*, "is to remind us that price inflation is not part of the human condition, but is rather a gift of modern economics."

One also reads "pro-gold" articles in a number of unlikely places these days: *The New Republic* (January 19, 1980), *The Atlantic Monthly* (January 1980), *Harper's* (March 1980), *The Times* of London (December 12, 1979), *New York Magazine* (February 4, 1980), and in reports by the investment companies of Bear Stearns (September 21, 1979) and Morgan Stanley (January 29, 1980). The *Wall Street Journal* remains the major advocate of gold, having recently published important articles on the subject by Roy Jastram (September 20, 1979) and Lewis Lehrman (February 20, 1980). And, as has been noted, this wide publicity has even caused Washington politicians to examine the possibilities of gold in the present inflationary crisis.

When the crisis is examined thoroughly politicians will discover that the gold standard brings with it enormous benefits almost immediately. As Lewis Lehrman points out, true monetary reform based on gold convertibility would result in such developments as the following: "The price of gold would fall to its equilibrium level, emptied of a value based on inflationary expectations. The price level would stabilize rapidly. Long term interest rates would fall 700-800 basis points. At lower interest rates there would be a vast demand for investment capital. With a stable price level, a stable dollar, and lower relative tax rates the sluicegates would open and a flood of savings would flow into the market. Equity and debt capital would once again pour into business enterprise. The nation's productive plant would be rebuilt. Therefore the demand for labor would rise. Unemployment would decline."

For these reasons, some of Ronald Reagan's advisors, such as Richard Whalen and Jack Kemp, have urged him to make gold an issue in the presidential campaign. Reagan has thus far not done so, having been persuaded for the time being by Milton Friedman and others to stick with more conventional anti-inflation approaches. But whether or not the politicians say or do anything about it, reestablishment of a *de facto* gold standard is already coming along well. The market is doing it for us. The only danger is that politicians will erect barriers to this development. This is the reason why gold must become an issue once again. ❑


BLACK STAR