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# A Glittering Economy

President Reagan was elected to end inflation and restore the economy. He is moving in that direction by slowing down monetary growth, reducing federal spending increases, cutting tax increases and eliminating some costly government regulations.

But the economic program will not work without a balanced budget and the gold standard. Without these, interest rates will come down only slowly from 20 percent, and demoralized financial markets will not recover.

Some presidential advisers and the Federal Reserve may try to force a recession and higher unemployment to bring down interest rates more quickly. But no compassionate person can really want to cure inflation and high interest rates with worklessness.

By itself, gradually reducing the rate of growth in the money supply will not work. We need something other than austerity and monetarism. Thatcherism will work no better here than it has in England.

Together, a balanced budget and a monetary reform based on gold will quickly reduce interest rates. The currency would be stabilized, along with the market for government securities, and inflationary expectations would evaporate.

Such a policy, with economic expansion as its goal, is clearly implied in the 1980 Republican platform, which stated: "One of the most urgent tasks in the period ahead will be the restoration of a dependable monetary standard—that is, an end to inflation."

Last year, Congress established a commission to study the gold standard. Its task is to examine an institution ridiculed by most academic economists and almost all politicians. Their feelings are natural, because the gold standard would end political and bureaucratic manipulation of the money supply. So would an annually balanced federal budget.

A gold standard puts control over money in the hands of the people. A balanced budget would return savings to the marketplace for growth and new jobs. In a free market, the people could decide between a gold and a paper dollar.

I believe, given a true choice, that Americans will choose the gold dollar as their money, just as they will choose a balanced budget, at the present level of tax receipts, as the basis for financial order. A true gold standard and a balanced budget will give us 4 percent interest rates, and there is no other way to get them.

For most of our life as a nation, we had stable prices and low interest rates under the gold standard. After mercantilist trade wars had wrecked the world economy and the international monetary system, President Roosevelt abandoned the gold standard domestically in 1934. President Johnson abandoned international convertibility in 1968, and President Nixon officially ended it in 1971.

The economic situation we have faced since 1971 is not unique. It is all too similar to the inflations of the Revolutionary and Civil wars. During the Revolution, the Continental Congress reduced the value of its currency to a pittance. But in 1792, after the inauguration of President Washington, Congress established the gold and silver standard. During the Civil War, the U.S. government issued Greenbacks that were not convertible into gold, and the price level doubled.

Inflation was a problem until Congress began the transition to a gold standard in 1875, completing it in 1879. For more than a generation, the price level was stable, because the dollar was as good as gold.

Today, with the right leadership, our transition could be even smoother, because we know more about monetary theory, and we can learn from past mistakes.

After the disastrous paper money experiments of the Revolutionary War and Civil War periods, America rediscovered that gold is the natural monetary standard. Gold is found in limited quantities. Its production cannot be quickly increased. It once took centuries, and even today takes a generation, to improve the technology of gold production significantly. As a result, over the long term, the gold supply increases only about two percent a year, equal to the long-term rate of economic growth in the industrialized world.

Uniquely, the decline in the real cost of producing gold over the long run is about the same as the gain in productivity. That is, the gold standard is the natural regulator of monetary growth that the monetarists seek, and fail to find, in the Federal Reserve.

Gold is also unique as a stable yardstick of economic value. It takes a relatively constant amount of capital and labor to produce an ounce of gold. So gold is the best measuring rod for the value of all other products. Over the long run, the value of gold is far more stable than any other commodity that might be used as a standard. It is certainly better than paper.

To achieve the enduring financial order that President Reagan wants, we must have the gold standard and a balanced budget. Together they establish the necessary stable legal framework, the monetary constitution for that order.

Under the gold standard, authorities must maintain the convertibility of the currency. Together with a balanced budget, this means balance in our international payments, and a much increased rate of savings by the people.

These savings under the gold standard will allow American industry once again to plan for long-range growth, knowing that it could count on permanently low interest rates for borrowing. And all this new investment would vastly increase the demand for labor.

The long night of austerity and unemployment would end.

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