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The Case for the Gold Standard

By LEWIS E. LEHRMAN

The U.S. dollar today is an inconvertible paper currency. But this is nothing new. In 1690, the Massachusetts Bay Colony promised a limited issue of 7,000 pounds in paper notes. But by 1714, the colony had issued 194,000 pounds worth, and the value of the paper pound had fallen 70%. Naturally, the politicians blamed the currency depreciation on the people, they being "so sottish as to deny credit to the government."

During the Revolution, the Continental Congress financed the war with paper money. "Do you think, gentlemen, that I will consent to load my constituents with taxes," said one member of Congress, "when we can send to our printers, and get a wagonload of money, one quire (25 sheets) of which will pay for the whole?"

Congress issued $2 million worth of continental currency in early 1775. At first, the law required two Congressmen to sign and number each note—a sunlight procedure that much appeals to me. But that implicit restraint limited the number of paper notes, and the issuing technique was soon changed. By 1779 Congress had issued $200 million in continental currency and its purchasing power had fallen to 1/1000th of gold's.

American patriots suffered most of the depreciation, wrote William Gouge, President Andrew Jackson's financial adviser, since they accepted and held the paper money. "The Tories ... made it a rule to part with it as soon as possible." More than two centuries later, we still hear the phrase "not worth a continental."

Paper Money

During the Civil War, both North and South printed paper money. The Union issued $450 million worth, and the price level more than doubled. Every American knows what happened to Confederate paper money.

In our own time, President Nixon officially uncoupled the last link between the dollar and gold. The U.S. currency became once again an irredeemable paper money issued at will by the government. Since that act in 1971, the money supply has more than doubled, and so have prices.

Irredeemable paper money has almost always been accompanied by unbalanced budgets, high inflation and high interest rates. But the true gold standard has been associated with balanced budgets, reasonable price stability and low interest rates. Paper money has been the handmaiden of war, protectionism and big government. But the gold standard was the symbol of peace, free trade and limited government.

At one time, American companies could sell 100-year bonds paying 4% interest. Because of the gold standard, Americans saved and lent their savings for generations to growing corporations. People saved because the gold dollar's purchasing power did not decline. The price level was no higher in the 1930s, when we left the domestic gold standard, than it had been under President Washington.

Today, we must decide whether to have a nominal paper dollar or a real dollar, defined by its weight in gold; whether to have a budget balanced at current tax receipts, or continued deficits.

Establishing the gold standard would by itself balance the budget. One trillion dollars in national debt will cost the Treasury about $100 billion in interest payments next year, at about a 10% average annual interest rate.

Under the gold standard, the national debt could be refinanced at an interest rate of 5% or less, thus saving at least $50 billion. David Stockman estimates the 1982 deficit at approximately $45 billion.

The road to the balanced budget is paved with the gold standard.

To choose the gold standard and the balanced budget is to choose stable prices, low interest rates and economic growth. To some, that choice seems too simple—a prime reason many economists, politicians, and intellectuals reject the gold standard. Even a balanced budget is too straightforward for them. They want more complex institutions and problems to manipulate.

But a gold-based currency is the only money worthy of a free people. Most Americans cannot afford sophisticated financial and tax advisers, nor an economist to figure out the Fed's actions. Gold money, on the other hand, can be easily understood by everybody, and working people can control the quantity they desire. People, free to choose, decide for gold, because it is democratic money.

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Gold is also the best co-ordinator of a world market order. For centuries gold has been a common international currency. A gold dollar would benefit all nations, because there is only one economy, the global economy. Through the mechanism of arbitrage, the prices in all national economies are linked. This is, of course, a good thing. It leads not only to the maximum amount of individual liberty, but also to the maximum production of goods and services, to the special benefit of the poor. To choose the gold standard is to choose openness over isolation.

Inflation is immoral as well as an economic problem. The gold standard, being a human institution, is imperfect. But it is the least imperfect of all monetary institutions. Paper currencies and unbalanced budgets are dishonest and disorderly. The depreciation of the dollar deranges the movement of relative prices and interest rates around the world, and it causes unemployment through misdirected investments and uncertainty.

Above all, inflation fraudulently transfers hundreds of billions of dollars from the weak and honorable to the slick and well-placed. This wealth transfer—from the thrifty to the speculator, from the small businessman to the giant government contractor, from the saver to the spender, from the aged and poor to the rich and powerful—violates our religious heritage, makes a mockery of honest work and erodes our faith in constitutional government.

Today, interest rates are at the highest levels in American history: higher than during the Civil War, when the very life of the nation was in question. The real value of the average worker's paycheck is 14% less than 10 years ago. Small businessmen are being crushed by government bond sales, the result of federal deficits. At present interest rates, Americans can no longer afford to borrow money for a car or a house. They are not consoled by government officials who preach sacrifice for working people while spending more on the public sector.

Almost Impossible

The Dow Jones average is 52% lower, in real terms, than in 1971. The bond market is 61% lower, and most companies find it almost impossible to raise long-term capital.

As a remedy we are offered austerity and monetarism. But these well-meaning policies will not work here, any more than in Margaret Thatcher's Britain, where in two years they have doubled unemployment to 11.8%. Compassionate and enterprising Americans reject such an outcome here.

What America needs is a policy of financial order, the Reagan tax program and economic growth. That is why the establishment of the U.S. Gold Commission by Congress was so timely. The commission will consider, in the words of the Helms-Paul Amendment, what role gold should play "in the domestic and international monetary systems."

The National Monetary Commission of 1908 led to the creation of the Federal Reserve System in 1913. The Gold Commission could be as significant, as its work inspires a national debate about the choice between paper money and the gold standard. There is nothing like the free market to determine the real value of a product or idea.

As in the marketplace of ideas, so in the world of money: Now every American must discover again what is false, and what is true.

Mr. Lehrman, president of the Lehrman Institute, is a member of the United States Gold Commission.