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BOOKSHELF

Book Review: 'Money' by Steve Forbes and Elizabeth Ames

You can't have a reliable measurement tool that itself constantly changes in value. A gold standard would fix that.

George Melloan
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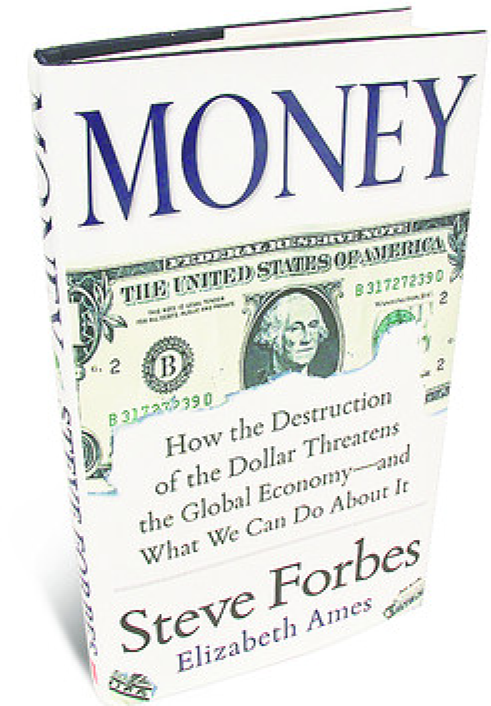
Could Gresham's Law, declaring that bad money drives out good, apply as well to public discourse? "Capital in the Twenty-First Century," a neo-Marxist polemic by a young Frenchman, was recently the object of inordinate acclaim—until its key "income inequality" research was discredited by serious economists. Meanwhile, a true gem of a book about economic principles and wayward policy runs the danger of being lost in relative obscurity.

"Money," by Steve Forbes and his co-author, Elizabeth Ames, is lucid, informative and timely. It takes special aim at the Federal Reserve Board, and rightly so. Seldom in the 100-year history of the Fed have its policies sown as much doubt as they do today. Its near-zero interest rate policy, or ZIRP, has cost savers and investors an estimated trillion dollars in lost income over the past decade. The Fed has also put itself in a precarious position by ballooning its balance sheet to $4.3 trillion from the $800 billion it held before 2008, making itself vulnerable to a drop in bond prices.

Chairman Janet Yellen assures Congress that everything is OK because ZIRP furthers full employment. That's a preposterous assertion at a time when the U.S. labor-participation rate is at the lowest level since 1978 and millions of Americans can't find jobs or are involuntarily working part-time.
Ms. Yellen got her own job because she is reliable Keynesian and thus friendly to the high-spending Obama administration and an army of bureaucrats, legislators and lobbyists. Mr. Forbes and Ms. Ames call Keynesian jargon a "smoke screen" to obscure how often statist interventions have been wrong. One example is the "stagflation" of the 1970s, referring to high inflation *and* high unemployment. The combination should have destroyed forever the "Phillips

Curve" theory that inflation begets employment. But the theory remains alive and well at the Fed, which persists in pumping out dollars in the vain hope of stimulating consumer demand and economic growth.



Money

By Steve Forbes and Elizabeth Ames

(McGraw-Hill, 249 pages, $28)

Neither Fed economists nor politicians are dumb, however. Fed money creation finances unprecedented government borrowing, which is why politicians often nod in agreement whenever Ms. Yellen serves up "stimulus" nonsense. Yet politicians are becoming less acquiescent, say Mr. Forbes and Ms. Ames. There is increasing worry that the dollar will be destroyed by the jolly collaboration between the government as creditor (the Fed) and the government as chief borrower (Congress). The new money created to buy government bonds in the market has piled up $2.6 trillion in potentially inflationary excess bank reserves. It has fueled exuberant stock buying, raising corporate price-earnings ratios to worrisome heights. How do we safely climb down off this fiat money mountain?

"Money" supplies an answer: Today's political dollar must be abandoned in favor of a monetary standard that is independent of politics. The U.S. dollar is the world's dominant currency, and its stability is highly important to the physical and psychological well-being of the world's people. Today, unfortunately, it is an unreliable measure of value and a source of uncertainty that harms global commerce and investment.

The authors sagely observe that money itself doesn't constitute wealth; it is merely a measurement of it. But you can't have a reliable measurement tool that itself constantly changes in value. Not surprisingly, the standard the authors recommend is gold. They cite the gold standard's efficacy throughout the Industrial Revolution, which raised living standards for millions. Gold lost its place only in 1971, when the gold-dollar standard of the post-World War II Bretton Woods agreement was scuttled by U.S. spending excesses that ravaged the dollar.

Mr. Forbes and Ms. Ames refute the common complaint that there is not enough gold to back money without restricting the money supply and strangling the international economy. They point out that places like Hong Kong have fixed their currencies to the dollar for many years without the need for warehouses full of dollars. As the dollar value of their currencies moves up or down, as it must, a formula untouched by human hands automatically adjusts the supply of the local currency to bring it back into balance. A gold standard would work the same way. To keep the system honest, the authors would restore the dollar's convertibility into gold, abandoned during the New Deal.

The most crucial part of a return to a gold standard would be avoiding the colossal mistake that England made after a World War I, whose unconscionable costs had forced the country to temporarily abandon the standard. The British tried to return the gold price to its prewar level, touching off a destructive deflation that discredited the standard itself. To avoid such a mistake, the authors suggest setting the standard at the market price of gold averaged over the past five or 10 years. They admit that the U.S. "is still far away from the intellectual understanding needed for implementing a new gold standard," but they predict it will come.

Sir Thomas Gresham (1519-79) held that if both base metal and precious metal coinage were competing in the same market and were declared by government to have the same value, consumers would wisely use the cheap currency for commerce and save the precious coinage as a store of value. Similar discernment about the value of intellectual coinage would be most welcome.

Mr. Melloan, a former columnist and deputy editor of the Journal editorial page, is the author of "The Great Money Binge: Spending Our Way to Socialism."