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Lehrman urges return to gold standard

INTERVIEW

Lewis Lehrman on monetary policy and the Reagan administration.

Last fall, Republican millionaire Lewis Lehrman narrowly lost to Democratic candidate Mario Cuomo for the governorship of New York. With the backing of the Conservative Party and large independent and ethnic factions, Lehrman — in his first try for public office — almost became only the second Jewish governor in New York's history.

In today's interview, Lehrman, 44, talks with Washington Times columnist John Lofton about the Reagan administration's handling of monetary policy — and he tells what he would do to solve economic problems.

Q: You have been openly critical of the administration. As the Reagan administration approaches mid-term, how do you see things?

A: The president's ideas and his attitudes, especially his campaign of 1980, remain the inspiration for all of us. The formulation of the policies has produced a great deal of debate. The question now is: "Did the president establish goals during his campaign which the administration has not designed the means to attain?"

And I would say right off the bat that to establish a goal, or to establish goals in a democratic society, in a presidential administration without the effective means to attain those goals is to court political disaster. And that, I believe, is the situation we find ourselves in.

Q: In the economic area, what are the two or three good things that were promised that were really not delivered on, and how they might be delivered on?

A: Well, the president in 1980 campaigned on a program for economic growth. He campaigned to make America No. 1 again, not just to restore its prestige abroad, but to restore its economy to pre-eminence.

He campaigned on an economic program whereby Americans once again could expect mortgage money at reasonable rates. He campaigned on a program whereby he wanted to create economic conditions in which every man and woman who desired honest work could obtain it.

Indeed, the first budget forecast called for economic growth throughout the first term. We have forgotten that.

Now, these are goals that I endorse and, of course, the president is the very best man we've had since the end of World War II to attain them.

So we reflect on the past two years. We remember that in the autumn of 1980, our goals were rapid economic growth and rebuilding the economic institutions of America — not only for our children, but in order to defend our vital interests abroad.

In fact, at that time it was said that the only way we could pay for the rebuilding of our fighting forces was through rapid economic growth. In the same period in 1980, I, along with many others, made the argument that the only way we could balance the budget was through rapid economic growth, given the political constellation of forces in the Congress.

I think all of these conclusions to some extent were lost in the debates and the arguments of 1981-1982. So I would go as far today as saying that for the next generation no president is going to be elected for two terms, unless he has a program for economic growth in the future, the goals of which are full employment and low long-term interest rates — let us say, 4 percent long-term interest rates.

Kimberly Haught/Washington Times

"We've taken a nation of savers and investors and turned it into a land of speculators. The whole world resembles nothing more than a gaming table of Las Vegas."

Now, the reason this is the case, the reason that such a program is indispensable for any presidential campaign and administration is that this is in fact American history: For the better part of 200 years, interest rates in America, long-term interest rates, were 4 percent or better.

Q: What does the administration have to do to achieve these goals?

A: Under present conditions, there's only one economic program which I believe will bring about very rapid economic growth and low long-term interest rates, and that is the economic policy which was the historic American policy through the better part of two centuries.

The first element of this program must be a re-establishment of the monetary standard in the United States.

From 1792 until 1971, but for brief interruptions, the monetary standard of the United States was "a dollar as good as gold." The dollar was convertible into gold. The standard of measurement in the world of commerce was a standard, a yardstick, defined by statute as a weight of gold. That is why the dollar always has been known to some as convertible currency, to others as a sound and stable currency.

In 1971, President Nixon suspended the convertibility of the dollar and broke the link of our currency with something of real and enduring value, a monetary standard.

It did two things. First, it gave the politicians in Washington almost an infinite capacity to print currency of our country with which to pay the deficits which they seem unable to control. Secondly, it was a signal to the world that whatever discipline there was in our financial and economic affairs was being abandoned. And the last 10 years was a witness to those who believed that would be the outcome. The dollar would become a political football in Congress, and as a result the faith in the future purchasing power of our currency has been destroyed.

That's the single most important reason why investors, working people from all walks of life no longer save and invest for long periods of time.

The best way to look at this is to remember what our grandfathers and fathers did. They lent industry in America — for example, the railroads — for a 100-year period — their savings at 2 to 3 to 4 percent interest rates. So certain were our forefathers of the future purchasing power of the dollar that they would give over their savings to the growing industry that the railroads were up until World War I, at 2 to 3 percent interest rates, confident that their grandchildren and their great-grandchildren who would inherit these savings would have a similar purchasing power 100 years hence.

What has happened is that, given the structure of our currency, the destruction of confidence in the future purchasing power of the dollar, the investment horizon now has shortened to two or three years. We've taken a nation of savers and investors and turned it into a land of speculators. The whole world resembles nothing more than a gaming table at Las Vegas.

Q: And we're losing?

A: And we are losing.

So what we have to do is to establish a stable currency so that once again we can turn America, instead of a nation of collectors of coins and antiques, into a nation of savers and investors in the capital of new plant and new equipment.

Q: Do you detect any administration interest in returning to the gold standard?

A: Well, I'm certain that the president himself is sympathetic with this idea. He believes, as I do, that we will go forward to the gold standard or our currency will not survive in the future. It was President Reagan who said a couple of years ago that no currency has ever survived long without a link to gold. And as he has understood that and has said that, I'm sure he at least must be sympathetic to considering the idea.

Now, the reason it hasn't been considered is that the administration policy is dominated by monetarists, supply-siders who are not particularly interested in the question of monetary policy.

I believe that the monetarists had the best of intentions, that the econometric models and equations are as well worked out as any. They simply have failed to produce an effective result.

For three years, we have had a monetarist monetary policy at the Federal Reserve System. During that period we have had 21½ percent interest rates at its peak, and 12 percent interest rates at the bottom. These are the highest interest rates since the birth of Christ, as (former West German Chancellor) Helmut Schmidt said at Ottawa.

That is telling us something. It's showing that we are in the middle of the biggest financial crisis in American history. That's why I say we need a thorough-going reformation of our monetary institutions, beginning with re-establishment of the monetary standard.

Q: Do we really need a central bank at all?

A: In a free country it's a very serious question whether you need one. I would say that I believe that our monetary institutions can work effectively with a properly run Federal Reserve System, and they can work equally well without a Federal Reserve System.

Our dollar cannot survive the present monetary policies of the Federal Reserve System. That, I feel, is for certain.