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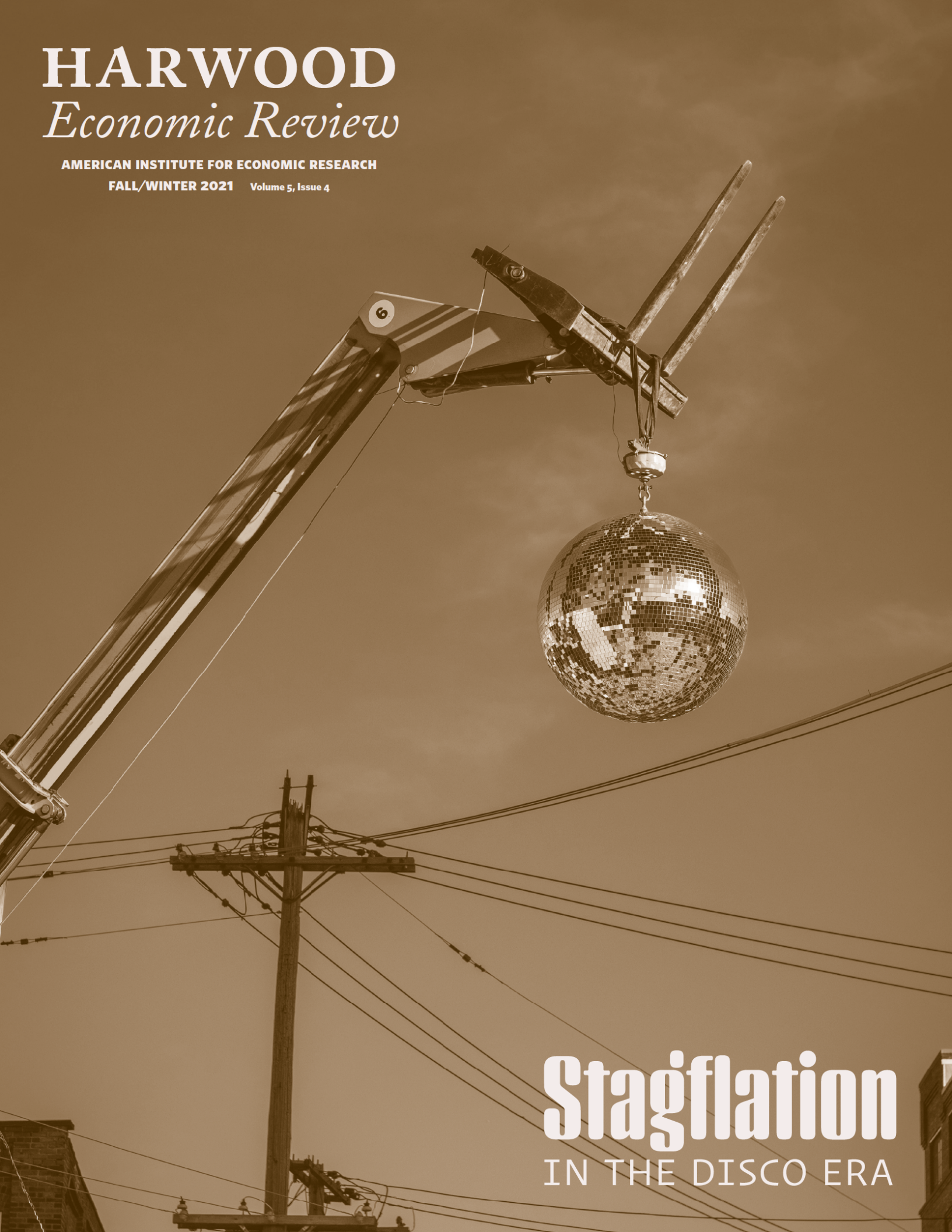

Stagflation
IN THE DISCO ERA

Harwood Economic Review
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A Letter from the Managing Editor

Peter C. Earle

To almost everyone over a certain age, the 1970s are an immediately recognizable period of time. Even among people too young to have been there, the fashion, music, film, hairstyles, cars, decor, expressions, and other fixtures of that decade are distinctive. Shag carpeting, wood paneling, 8-track tapes, View Masters, and pet rocks are someone else's kitsch or even joke, but for many of us they were simply part of life's landscape. . . as were macrame, televisions in massive wooden cabinets, tube socks, vector-graphic video games, and Pop Rocks.

But recalling those colorful—and when old photos emerge, often embarrassing—memories also distract attention from what were, for many, difficult times.

In the US and abroad the 1970s brought low levels of economic growth, including a few years of negative real GDP. Inflation spiked, and unemployment reached levels not seen in decades. Oil prices tripled. Numerous railroads and airlines failed or consolidated, attempting to capitalize upon economies of scale. Capital goods and consumer durables industries—auto, steel, mining, and construction among others—were decimated, with many closing plants and discontinuing product lines. Labor unrest was rampant throughout the decade, which began with more than 5,000 strikes accounting for over 3 million workers in 1970 alone.

Yes, there were bell-bottoms. And, of course, disco. And people wore suits and dresses for air travel, during which actual meals were served on ceramic plates with metal utensils and glassware. But for many of us, recollections of that type are tempered by more sobering memories: gas lines, rising prices, and increasing uncertainty about our (or our parents') jobs.

One US dollar acquired on January 1, 1970 bought $0.47 worth of the same goods by December 31, 1979. And over that same time period, the price of an ounce of gold ran from $35 to over $500.

It is appropriate to look back upon those days today. The American Institute for Economic Research recently published a book and held an event marking the 50th anniversary of the Nixon Shock, the 1971 severing of the final link between the dollar and gold. In this issue of the *Harwood Economic Review* we are again looking back to the '70s, as the worrisome prospects of increasing costs of living amid slowing economic growth are emerging. And with those, the ugliest word in economics has resurfaced: stagflation.

These topics are AIER's proverbial bread and butter, and have been for almost 90 years. They are issues we examine and analyze unapologetically with fervor, diligence, and academic rigor. They are why I, and I'm sure everyone else on this hilltop deep in the Berkshires, wake up every morning.

Your support not only sustains but inspires us. Thank you.

Peter C. Earle
Managing Editor, *Harwood Economic Review*

Nixonomics in Retrospect: Devaluation and Wage-Price Controls, August 15, 1971

Alan Reynolds

Fifty years ago, July 1971, I wrote *The Case Against Wage and Price Control* and sent it to *National Review*. I was early because I could see it coming. Sure enough, on August 15, President Nixon announced a 90-day freeze on wages, prices, and rents. One year earlier, Congress had granted the President a blanket power to sabotage the price system, micromanage business and labor contracts, and replace free markets with frozen markets.

Helped by good timing, the second article I had written (the first was about Milton Friedman in *Reason*) was quickly accepted as a cover feature. Soon after, editor William F. Buckley Jr. invited me to lunch in San Francisco and hired me.

Barron's publisher Robert Bleiberg later shared the following exquisite example from Pierre Rinfret of the maniacal cheerleading that greeted Nixon's economic coup d'état:

> *On August 15, 1971, Richard Nixon introduced a daring, dynamic, and delightful economic program. With one broadside blast, he attacked the international problem of the dollar, the domestic problem of inadequate capital investment, the problem of jobs in the industrial cities, the inflation, the technological problem, the problem of lagging consumer demand, and last but not least, the confidence problem. No one could ask for more. I praise the program. I support the program. I applaud the program. I have a sense of joy and elation. I am proud of a President who had the courage, stamina, and strength to move forward vigorously.*

President Nixon and his Cost of Living Council spent the next three years trying to dictate to workers what their work was worth and to businesses how their products must be priced. This bossy task soon proved as impossible as it was hubristic and tyrannical.

The whole endeavor was quixotic. American price czars could not possibly regulate prices of international traded commodities, priced in dollars, which were bound to soar with a deliberately devalued dollar. They could not possibly police millions of deals for services bought with cash. They couldn't control prices of used goods. They couldn't control prices of new goods either: If something is new, there is no way to tell if its price has increased.

Behind the distractive smokescreen of price controls, President Nixon abandoned the Bretton Woods pledge to redeem official foreign holdings of dollars for gold, and levied a temporary 10% tariff. The dollar was first officially devalued against gold from $35 to $38 and then $42.22 an ounce in 1972, with that gold/dollar ratio later invited to sink (*float*) ceaselessly to $183 by the end of 1973 and $675 by September 1980.

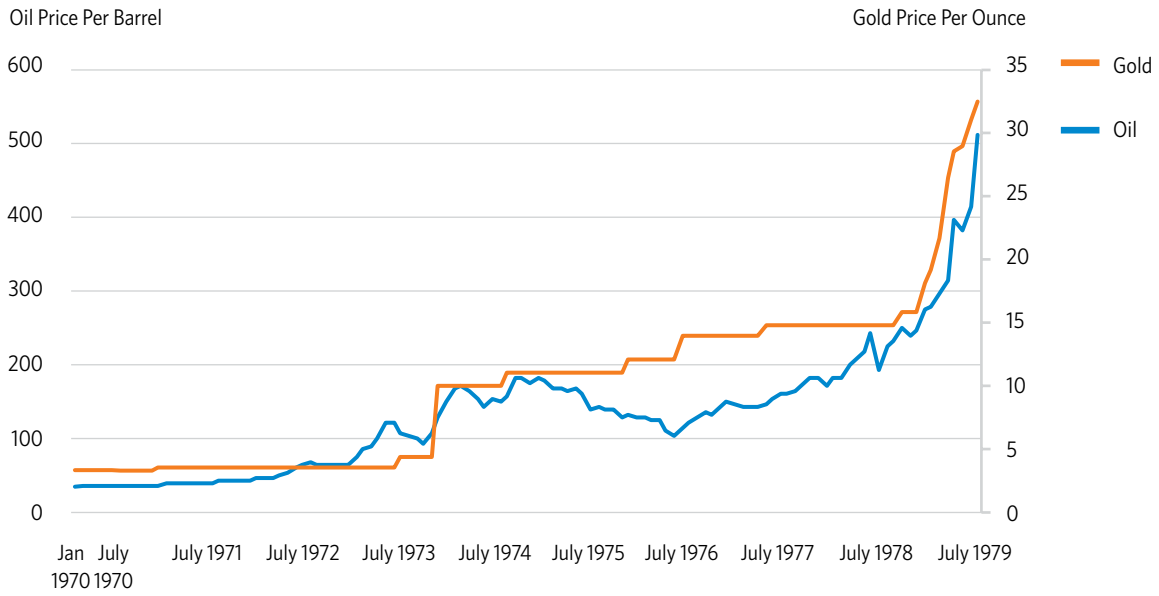
The Administration welcomed the closely related devaluation of the dollar against more stable currencies, arguing that a cheapened dollar would make U.S. goods more *competitive*. They imagined a feeble dollar would *improve* the *real* terms of trade (other countries would take more of our products in exchange for fewer of theirs). They did not foresee that deep devaluation would inflate dollar prices of both imports and exports.

In January 1971 a dollar would buy more than 3.6 German marks and 357 Japanese yen in January 1971, but by December 1979 a dollar was worth only 1.7 marks and 240 yen.

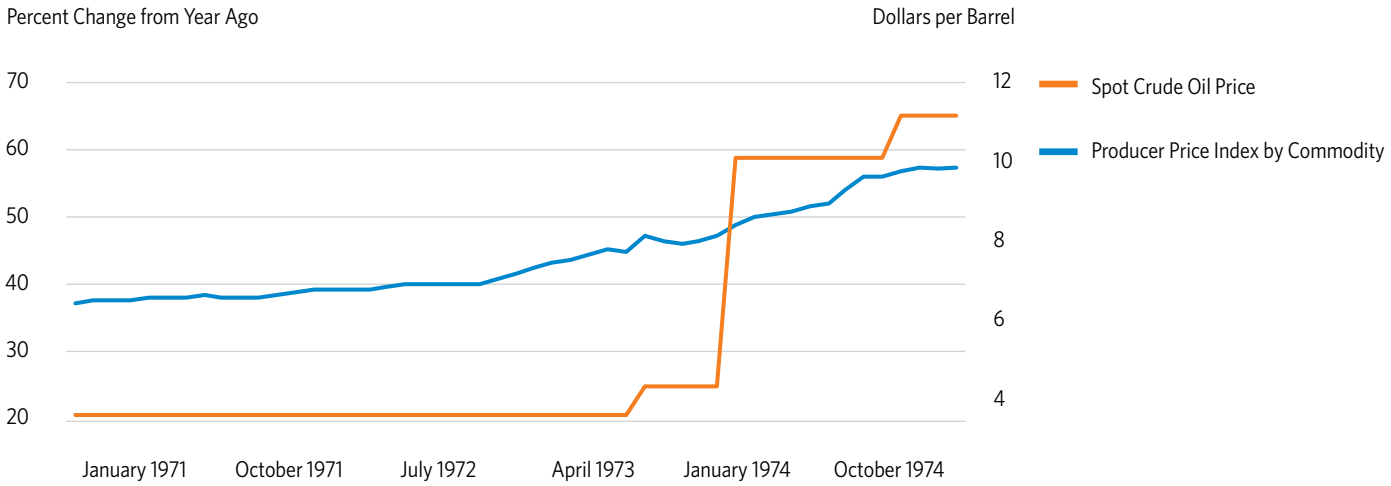
Since internationally traded commodities are priced in dollars, the falling dollar made stockpiling metals, grains and oil appear cheaper to foreigners who bid their prices up in dollars. That demand-side effect inflated commodity prices so long as the dollar fell, which meant many years. But it also had a big supply-side impact on the *sellers* of commodities, because it encouraged suppliers of storable commodities such as oil and crude oil to withhold supplies until they got more dollars per barrel (or per ounce) to compensate for the dollar's shrinking buying power.

The first graph *U.S. $ Price of Oil and Gold* is from a crucial 2003 study—*Black Gold: The End of Bretton Woods and the Oil Price Shocks of the 1970s*—by David Hammes and Douglas Wills, who persuasively argued that, *The conditions that brought about the demise of Bretton Woods also made the increases in the US dollar price of oil inevitable. Furthermore, the two dramatic US dollar price increases, in 1973 and then in 1979, only brought the 'real' or gold price of oil back within its historical range.*

US $ Price of Oil and Gold



PPI by Commodity (all) vs. West Texas Intermediate oil (spot price)



As Boston Fed economist Michael Corbett explained,

> *The devaluation of the dollar that was experienced in the early 1970s was also a central factor in the price increases instituted by OPEC. Since the price of oil was quoted in dollar terms, the falling value of the dollar effectively decreased the revenues that OPEC nations were seeing from their oil. OPEC nations resorted to pricing their oil in terms of gold and not the dollar. Due to the ending of the Bretton Woods agreement, which had pegged gold to a price of $35, the price of gold rose to $455 an ounce by the end of the 1970s. This drastic change in the value of the dollar is an undeniably important factor in the oil price increases of the 1970s.*

Many economic journalists and economists still try to excuse Presidents Nixon, Ford, and Carter for debasing the dollar with assistance from politicized Fed Chairmen like Arthur Burns. They try to blame a prolonged general inflation in the average of dollar prices on spurts in just one price —the price of crude oil. But the second graph clearly shows that most commodity prices (not just gold) began rising in late 1972—long before sticky oil price contracts belatedly caught up.

How could a U.S. President surrounded by ostensibly intelligent advisers end up debauching the dollar and trying to disguise the effects with wage and price controls? Most likely that happened because terrible theories encourage and excuse terrible policies.

Determined to blame inflation on anything except fiscal or monetary policy, media pop stars like Rinfret and Galbraith fell back on primitive fallacies about most prices rising because some prices rose (cost-push), or because wages rose (wage-push), or because people simply expected most prices to rise and were somehow willing and able to keep paying more and more for everything without growing transfer payments and/or a reckless Fed giving everyone more and more money to spend.

Even Fed Chairman Arthur Burns testified in June 1971 that because *a substantial increase of unemployment has failed to check the rapidity of wage advances. . . I have therefore come to believe that our Nation must supplement monetary and fiscal policy with specific policies to moderate wage and price increases.* If you don't like the message the price system is sending, shoot the messenger.

Herb Stein once confessed that before he came chairman of the Nixon's CEA in 1972, he and other Nixon advisers simply bowed to Fed and media pressure to *do something,* even something stupid. The Council of Economic Advisers, he wrote, *found itself involved in helping devise measures that would meet the rising demand to do something—which meant incomes policy*. But by 1972, he lamented, *we were living in a new world of price and wage controls and a devalued dollar*.

That poisonous policy stew was doomed to fail horribly. Artificially low prices boost demand and discourage supply, resulting in apparent shortages of everything but money. As Schuettinger and Butler documented, wage and price controls have been repeatedly inflicted for 4,000 years and always ended in disaster.

President Nixon unleashed an inflationary hurricane in 1971 by letting the dollar collapse in terms of gold and relatively sound currencies. Inflation remained frighteningly high from 1973 to 1982, with unemployment often much higher than before the price control fiasco. The Fed put the Fed funds rate up from 9% in June 1980 to 19% in January 1981 when President Reagan took office. A 30-year mortgage rate topped 18.6% that October. It took until 1983 (when Reagan tax rate relief really started) to start getting things back to normal.

Many costly tax and other economic policy mistakes were made in the seventies, but the worst problems of the 1973–82 stagflationary era by far were the legacy of terrible monetary and regulatory blunders made in 1971.

Energy Infamy

Nixon's 1971 Price Controls Turn 50

Robert L. Bradley Jr.

August 15, 1971, forever lives in energy infamy. President Nixon's 90-day price freeze, as extended, disabled the impersonal market forces coordinating supply and demand. Petroleum shortages began the next year, and the industry was fast-tracked to allocation controls and a suite of government programs to increase supply or reduce demand (*gapism*).

The 1970s energy crisis was underway well *before* the Arab Oil embargo of October 1973. But the narrative became that OPEC caused the shortages, requiring government to discourage oil imports and otherwise promote *energy security*.

In February 1973 Senate hearings, Henry Jackson concluded:

> *One, there has been an unprecedented breakdown in our energy supply and distribution system; Two, the fuel shortages now being experienced are far more extensive than anticipated; Three, more severe shortages of fuels, particularly gasoline, are in the offing.*

For the foreseeable future, the Ford Foundation's tome *A Time to Choose: America's Energy Future* (1974) stated: *The energy crisis is real and long-lived; conservation is as important as supply; and, the U.S. needs an integrated national energy policy*.

And it all began with Nixon's Executive Order 11615—Providing for Stabilization of Prices, Rents, Wages, and Salaries—pursuant to the Economic Stabilization Act of 1970.

Background

The 37th president of the United States got on the wrong side of economic law three years before his resignation by imposing the first peacetime wage-and-price controls in American history.

The business community and labor reined in surprise to offer pragmatic support. John Kenneth Galbraith and Paul Samuelson offered quick congratulations. One notable dissented. *I regret exceedingly. . . a ninety-day freeze on prices and wages,* Milton Friedman wrote in *Newsweek*. *That is one of those 'very plausible schemes. . . with very pleasing commencements [that] have often shameful and lamentable conclusions.'*

Nixon's action inspired Ayn Rand's two-part series, *The Moratorium on Brains*. Murray Rothbard wrote: *On August 15, 1971, fascism came to America.* But the public, believing the *Nixon shock* would check inflation, was generally supportive.

The critics were right. Confirming Friedman's insight that *nothing is as permanent as a temporary government program,* Nixon's Phase I turned into Phase II, Phase III, Phase III½, and Phase IV. Worse, petroleum was singled out for continued tip-to-toe regulation under the Emergency Petroleum Allocation Act of 1973 (EPAA), which would not be revoked until early 1981.

Government Failure

The propensity of government intervention to expand from its own shortcomings defined U.S. energy policy in the 1970s. Price deregulation, meanwhile, was off the table.

First, federal bureaucracies managed the shortage with a variety of edicts. Congressional hearings in March 1973 on energy conservation, a first, attracted testimony from the Environmental Defense Fund, Friends of the Earth, and the Sierra Club.

Second, different price tiers for physically identical crude (old oil, new oil, etc.) required a very complicated, politicized program to equalize prices for refineries. Third, federal authorities restarted programs to turn relatively plentiful coal into natural gas and oil (synfuel programs would be abandoned). Fourth, the U.S created the Strategic Petroleum Reserve to prepare for another oil-import crisis (it never came).

The initial EPAA regulations covering 27 pages in the *Federal Register* would burgeon into more than 5,000 pages in its first two years. By the time it was over seven years later, there would be *no fewer than six different regulatory agencies and seven distinct price control regimes, each successively more complicated and pervasive.*

Politics were rampant. Between 1977 and 1980, more than 300 energy bills were considered in Congress. State legislatures considered countless more.

Even ardent interventionists would throw in the towel. Senator Edward Kennedy (D-MA) complained about the *outrageous weed garden of regulation*. James Schlesinger, the first head of the U.S. Department of Energy (created in 1977), called the experience *the political equivalent of Chinese water torture*.

And it all started with Nixon's *temporary* price control order, with energy an afterthought.

Analytic Failure

Physical shortages of oil (and natural gas under a different regulatory regime) misled economists into thinking that mineral resources, fixed and thus depletable, had a logic of their own. Harold Hotelling, whose journal article, *The Economics of Exhaustible Resources* (1931), mathematically proved how mineral extraction was an increasing-cost industry, was resurrected.

The new subdiscipline of resource or energy economics produced countless articles applying Hotelling's Rule (*user cost*) to the data of increased scarcity. M. King Hubbert proclaimed victory for his geology-based Peak Oil and Peak Gas predictions. A spreading neo-Malthusian movement, which found voice in Paul Ehrlich and in the Club of Rome's *Limits to Growth* (1972), captured the intellectual class.

Scattered dissent such as from Julian Simon and M. A. Adelman was drowned out. And little known, Ludwig von Mises in a single paragraph in 1940 rejected the very notion that non-reproducible minerals possessed a special scarcity value.

Deregulation and the 1980s quieted the depletionists. Oil and gas, after all, are manufactured goods. Had not Mises stated in *Human Action* that *deposits of mineral substances and their exploitation are not characterized by features which would give a particular mark to human action dealing with them?* And if market forces were appropriate, why did government need to augment supply and/or reduce demand?

Conclusion

A surplus of regulation, not a shortage of oil or gas, caused the 1970s crisis. *When the black day of August 15, 1971 arrived,* Murray Rothbard reminisced, *we free-market economists predicted that shortages of all sorts of products would result. . .* Added Ayn Rand: *The Arab oil embargo was not the cause of the energy crisis in this country: it was merely the straw that showed that the camel's back was broken.*

The 1970s stand as one of most grievous eras in the history of energy, and public policy in general. And it happened as a byproduct of a seemingly innocuous, temporary government intervention.

One of the great *ifs* of U.S. political economy is: What would have happened if prices had not been regulated and oil markets could have spontaneously adjusted to the Arab embargo? Higher prices would have resulted in lower prices later on, avoiding shortages and government involvement. And today, energy would be somewhat less political and more nondescript.

Nixon's Gold Treachery Made Me a Cynic

James Bovard

Fifty years ago, on August 15, 1971, President Richard Nixon announced that the U.S. government would cease honoring its pledge to pay gold to redeem the dollars held by foreign central banks. Nixon declared he was taking *action necessary to defend the dollar against the speculators*. But there was no way to defend the dollar against politicians. Nixon touted his default as therapy for his tormented fellow citizens, promising it would *help us snap out of the self-doubt, the self-disparagement that saps our energy and erodes our confidence in ourselves*. Nixon wrapped his decree with lofty political rhetoric, appealing to the nation's *greatest ideals* and promising a *new prosperity* that *befits a great people*.

The dollar thus became a fiat currency—something which possessed value solely because politicians said so. Nixon spurred the Federal Reserve to create an artificial boom to boost his reelection campaign. To suppress the damage from a flood of new money, he imposed wage and price controls, making it a crime to raise prices without government permission.

At that time, I was working in a peach orchard in rural Virginia for 10 hours a day, reaping $1.40 an hour and all the peach fuzz I could take home on my arms and neck. Nixon's wage controls doomed any chance of getting that raise to $1.45 an hour. But no loss—I was leaving that job soon to go back to high school. I was 15 at that time and an avid coin collector. I soaked up the rage at the reckless federal policies that permeated Coin News and other numismatic publications. *Government as scoundrel* was the theme of many editorials and articles I read in those periodicals in the following months and years. I had no savvy on economics but my gut sense told me something was profoundly amiss. Nixon's decree spurred my reading and researching.

Nixon's gold default was also a landmark for America's rising economic and political illiteracy. In the era of this nation's birth, currency was often recognized as a character issue—specifically, the contemptible character of politicians. Shortly before the 1787 Constitutional Convention, George Washington warned that unsecured paper money will *ruin commerce, oppress the honest, and open the door to every species of fraud and injustice*. The Coinage Age of 1792 established gold and silver as the foundation for the nation's currency and authorized a death penalty for anyone who debased the nation's gold or silver coins.

Unfortunately, politicians later exempted themselves from penalties for debasing the currency. In 1933, the U.S. had the largest gold reserves of any nation in the world. But fear of devaluation spurred a panic, which President Franklin Roosevelt exploited to seize people's gold. FDR denounced anyone who refused to turn in their gold as a *hoarder*. Any citizen caught with more than $100 in gold coins faced ten years in prison and a $250,000 fine. (The penalty was not as harsh the Soviet Union's death penalty for anyone caught *hoarding* wheat from a collective farm.)

FDR asserted that banning private ownership of gold was necessary to give government *freedom of action*—which he quickly exploited by devaluing the dollar by 59% with a decree raising the value of gold from $20 an ounce to $35 an ounce. Treasury Secretary Henry Morgenthau hailed the gold policy as part of the administration's *plans for a restoration of public confidence*, but the de facto default on government debts set the precedent for boundless federal arbitrariness for the rest of the decade. FDR tried every trick to drive up prices, foolishly confident that a mere change in numerical prices would spawn prosperity. The resulting inflation was invoked in the early 1940s to help justify imposing payroll tax withholding.

In the mid-1960s, the dollar was under pressure from perennial federal deficit spending and President Lyndon Johnson responded by eliminating all the silver in new dimes and quarters. After severing the dollar's link to silver, LBJ demanded that the Federal Reserve pump up the economy. He even summoned Fed Chairman William McChesney Martin to his Texas ranch and *physically beat him. He slammed him against the wall, and said, 'Martin, my boys are dying in Vietnam, and you won't print the money I need,'* according to Dallas Federal Reserve president Richard Fisher. Since LBJ didn't murder Martin at his ranch, the media could continue to portray the Federal Reserve as *independent* of political control. The Fed accommodated LBJ sufficiently that the inflation rate more than tripled between 1964 to 1968, rising from 1.3% to 4.3%. The rising inflation set the scene for Nixon's gold repudiation.

FDR's prohibition on private gold ownership contained a loophole for rare coins with numismatic value. Luckily, the feds did not vigorously police that exemption. By 1973, I was buying Mexican and French gold pieces to save and to sell to high school classmates and others. After I got laid off from a construction job in the summer of 1974, I saw it as a sign from God (or at least from the market) that I should buy more gold. I liquidated most of my coin collection and put all my available cash into gold and also took out a consumer finance loan at 18% to purchase even more. That interest rate was the gauge of my blind confidence. I had been closely following gold prices and was convinced a price spike was coming. Nixon's resignation in August did wonders for the price of gold.

I didn't get rich but made enough to help cover my costs for sporadically attending Virginia Tech, with some money left over to pay for my first literary strikeouts. Though Nixon assured the nation in 1971 that *the effect of this action . . . will be to stabilize the dollar,* the *Nixon Shock* was *followed by a decade of one of the worst inflations of American history and the most stagnant economy since the Great Depression. The price of gold rose to $800 from $35,* as Lewis Lehrman noted. Americans have suffered 570% inflation since Nixon *stabilized* the dollar.

The Greek philosopher Diogenes (404-323 BC) is seated in his abode, the earthenware tub, in the Metroon, Athens, lighting the lamp in daylight with which he was to search for an honest man. His companions were dogs that also served as emblems of his "Cynic" philosophy.
—Jean-Léon Gérôme 1860

Nixon's gold decree and other policies helped me recognize that politicians are far more perfidious than the media portrays. If the government would intentionally destroy the value of the currency, I wondered what else it was undermining. The Watergate scandal provided further evidence of *politician* as synonym for *damn rascal*. The dissolution of the Vietnam War clinched the case as Americans learned how presidents had conned the nation into a pointless Asian bloodbath. Gas shortages and gas lines beginning in late 1973 confirmed that any cadre of *best and brightest* in Washington was an optical illusion.

Fifty years after Nixon's betrayal, America is again facing rapidly increasing inflation. The Biden administration is embracing almost boundless deficit spending in its quest to throw unrestricted free money at any non-millionaire who might vote for Democratic candidates. Most of the fawning media coverage on Biden policies is as economically illiterate as the cheerleaders for Nixon's chicanery long ago. If the government continues on this path, it is only a question of time until fresh debacles result. But from the economic wreckage, a new generation of cynics may arise who do a far better job of putting politicians back on a leash.

A Tragic Half Century
WITHOUT GOLD MONEY

Richard M. Salsman

In 2012 a poll taken by the University of Chicago's Booth School of three dozen academic economists from eight prestigious universities revealed that they all despised the gold standard; they rejected it not so much for its track record but as a possible monetary system for current times. Professors from Chicago (8), Stanford (6), Yale (5), Harvard (5), Berkeley (5), MIT (4), Princeton (4), and Columbia (1) spoke with one voice and not a scintilla of intellectual diversity.

Surely then they must know something I don't know, me being a serious scholar and proponent of the gold standard. Alas, it isn't so. Their view is a product of their time, not of monetary science.

Had similar academics been polled a *century* ago they would have *extolled* the gold standard; they would have expressed deep regret at having just witnessed the political sabotage of the well-functioning, well-respected *classical gold standard* (1870–1913) during WWI (1914–1918); they would have warned against a resort to watered-down versions of the gold standard; they would have opposed arbitrary fiat-money regimes. How do I know this? Because I've read most of the books, articles, and speeches of the major monetary economists of that golden period.

Unlike foes of the gold standard today, the fans of it a century ago had facts and logic on their side; but also, nothing material has transpired since 1921 to make the case for a golden monetary system any less valid. Indeed, the current unanchored *system* of monetary nationalism, with its dozens of floating, sinking, and gyrating currencies both defies logic and deranges economies. This is what *prestigious* foes of gold implicitly condone: the subjective, the arbitrary.

Today the case for a gold-based monetary system is dismissed out of hand, in parrot-like unison, as unprofessional, as mere quackery; a century ago, opposition to gold-based monetary systems likewise was ridiculed as the amateurish rants of cranks. A crucial phenomenon this reveals is that economics–at least *establishment* (*i.e.*, conventional, acceptable) economics–is logically downstream from politics, just as politics (I would argue) is downstream from culture and morals. For good or ill, politicians and bureaucrats get the monetary system that they (and voters) want.

If the philosophy of a previously-free nation changes for the worse–*i.e.*, toward authoritarianism–such that voters demand that government exert free rein in money and public finance, with unlimited scope for fiscal profligacy, any type of gold standard will have to relent. This traditional bulwark of monetary integrity and solidity will be countered, coopted, and crushed. The gold standard wasn't suspended in 1933–34 because it caused the Great Depression or the wave of bank failures, nor did it disappear in 1971 because it somehow *didn't work* anymore. It's been gone since 1971 because fiscal alchemists in charge of profligate states couldn't make it work like magic, meaning: they couldn't expand the *gold supply* as much as they expanded *government*.

Fifty years without a gold-based monetary system is not only unprecedented in human history but unfriendly to economic prosperity. When President Nixon jettisoned the Bretton Woods gold-exchange standard on August 15, 1971, many folks thought it was a temporary measure; not coincidentally, it came with wage and price controls. But the balkanized, nationalistic non-system that followed 1971 has persisted. The terrible legacy of this fundamentally arbitrary system—one endorsed by Marxists, Keynesians, and Monetarists alike—is a sustained erosion of sound finance.

Most economists who examine the gold standard (a dwindling lot of us, to be sure) tend to focus most on its history or mechanics, regardless of the different forms the standard might take and apart from whether economists identify as fans or foes of gold-based money. By reference to such criteria as efficiency and practicality, it is well-established and well-proven that gold-based monetary systems have best facilitated price discovery, profit calculation, private planning, saving and investment, international trade, and—*consequently*—economic prosperity.

Importantly, efficient, practical success was most evident during the decades of the *classical* gold-coin standard (1870–1913), but *less so* when government hoarded and debased gold under the gold-bullion standard (1914–1948), and even less so under the gold-exchange standard (Bretton Woods, 1948–1971), when the U.S. dollar alone was directly redeemable in gold (for foreign central banks) then further debased. A close study of these distinct versions of the gold standard shows that they tracked closely the prevailing size, scope, and power of the U.S. government.

A minimalist, more constitutionally limited government prevailed under the classical gold-coin standard; it was four decades of free trade, no income tax, no central bank, no welfare state, and no major wars. Subsequent versions (1914–1948, 1948–1971) were accompanied by massive increases in the welfare-warfare state; gold money suffered amid wars, deep recessions and depressions, systemic bank failures, and mass unemployment. Disingenuous observers (and perpetrators) of these various catastrophes cleverly (and falsely) blamed the gold standard and capitalism, even as each was assaulted, in accord with the wishes of socialists and fascists.

Successively weaker versions of the gold standard over the century of 1870–1971 mirrored successively stronger (*i.e.*, more statist, more invasive) versions of U.S. federal governance. The welfare state has grown enormously, but for electoral reasons it can't be sustained by ever-higher taxes; it needs more deficit spending, hence more public debt, hence more debt monetization, hence more fiat money creation. None of that is consistent with a gold standard (of any type).

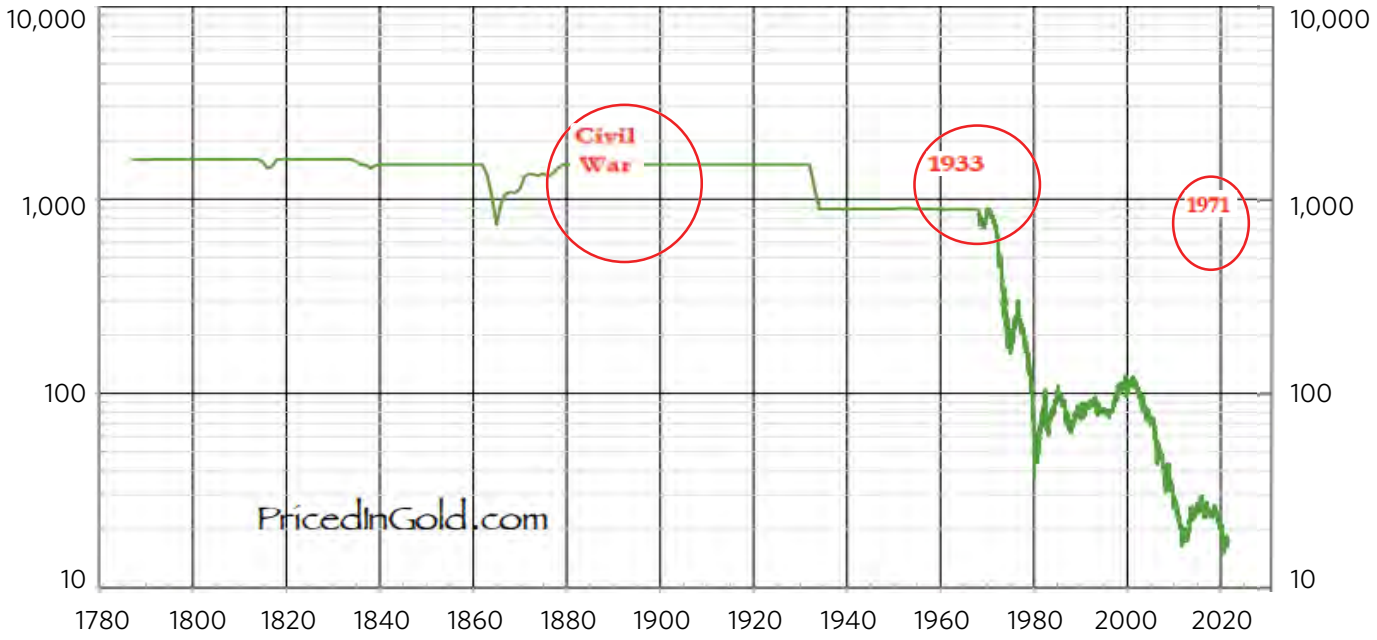
Statism largely explains why gold-based money was jettisoned and why its restoration won't come easily (or soon). It's not the mechanics of gold that bar a clear path to monetary sanity; in fact, it isn't very difficult to end central banking and reinstate the gold standard. The root problem is that central banks exist not to *fix market failure*, *smooth the business cycle*, or *fight inflation* but to facilitate public profligacy. Thus, central banks will persist so long as fiscal profligacy persists, and the latter will persist–and even intensify–the longer we're left to work without gold money.

Figure One illustrates how the U.S. dollar was *as good as gold* from the time of the nation's founding in 1787 (thanks to Treasury Secretary Alexander Hamilton) until WWI, with the exception of the inflationary *greenback* era during America's Civil War. In this amazing century-and-a-quarter, inventors, capitalists, and entrepreneurs heroically built America's agricultural-industrial-financial might. Gold wasn't an impediment to this fine achievement but an impetus.

Figure One

The U.S. Dollar's Weight in Gold Since the Founding

Log chart: dollar in milligrams of gold: 1787–2021



As I've documented previously, the production of money isn't the same as the production of wealth, of real goods that enhance living standards. Humans need wealth more than money, and money only to the extent it facilitates the creation of wealth. Which type of money has best promoted real U.S. output in the past century? Gold-based standards (Table below) with 4.9% per annum growth in industrial output during 1921–1948 (a period which *includes* the Great Depression and the destruction of WWII) and 4.2% per annum even amid the less-solid Bretton Woods gold-exchange standard (1948–1971). U.S. output has grown *least* since 1971 (a mere +2% per annum), when gold was *absent* from the monetary system. Slow growth is now the *norm*. This system is preferred by academic-economic elites today. Are they not the real monetary cranks?

Consider, also, the record of U.S. federal deficit spending since 1921. It's been most prominent over the past fifty years, the years *without* the dreaded gold standard. Budget deficits have occurred 94% of the time since 1971. This is now the *norm*. Do academic elites despise the gold standard because they prefer *both* slower economic growth and greater public profligacy?

The best that can be done in the near term is to make central banks adopt a gold price rule, an approach I've explained and defended elsewhere (*Real and Pseudo Gold Price Rules, Cato Journal, 2020*). But even this requires rulers to follow a rule. In today's world, where objectivity and the rule of law are in retreat, while authoritarian discretion is on the march, any rule (of any kind) is dismissed by monetary central planners as too rigid, even dangerous. In truth, the planners want to evade accountability; they also tend to prefer more statist government.

Just as economic-monetary systems reflect political systems, for good or ill, so political systems reflect moral-philosophic systems. The philosophic basis of the gold standard includes an individualistic ethic, a widespread love of liberty, robust entrepreneurship, respect for property rights, the maintenance of constitutionally limited government, free trade, and peace. When these features are diluted, disdained, or dismantled, gold-based money necessarily leaves the scene. A once-*objective* system of *real* money is displaced by *subjective* schemes and *virtual* money.

More than a quarter century ago, I wrote that:

> *Free banking and the gold standard require a context of greater political freedom. All over the world, people have been protesting big government and voting for freer political systems. If the growing resentment of the failures of central planning and the growing respect for free markets grows further, free market money may be possible one day. The factual evidence of its past performance is a matter of public record—it must be taken seriously by monetary reformers. What is needed above anything else is a clear and unequivocal endorsement of the classical liberal philosophy held by America's Founding Fathers. The prospects for free banking and gold money depend ultimately on the prospects for liberty. (Gold and Liberty, AIER, 1995, p. 122)*

Prospects for a gold-based monetary system in our future are as bleak as are prospects for liberty.

THE PRODUCTION OF WEALTH VERSUS DEFICIT SPENDING U.S. 1921–2021

	1921–1948 *(27 yrs.)* gold-exchange standard	1948–1971 *(23 yrs.)* Bretton Woods System	1971–2021 *(50 yrs.)* fiat money standard
compounded per annum growth in the Industrial Production Index	4.9%	4.2%	2.0%
percentage of years when the U.S. buget was in deficit	59%	74%	94%

The End of Bretton Woods, Jacques Rueff, and the *Monetary Sin of the West*

Lawrence H. White

August 15, 2021 marks the 50th anniversary of the day President Richard Nixon *closed the gold window,* ending the postwar Bretton Woods international monetary system. It is an appropriate moment to reconsider the internal inconsistencies of the Bretton Woods system. As its contemporary critics understood, Bretton Woods was doomed to fail if it could not be fundamentally reformed. One of its chief contemporary critics was the French economist, Jacques Rueff.

Jacques Rueff

Rueff (1896–1978) was the most important French classical liberal economist of his generation. As a young economist, he worked under Raymond Poincaré on the successful devaluation of the franc in 1926. He then worked on financial issues for the French embassy in London, where he observed first-hand Britain's failed attempt to resume the gold standard after a wartime inflation, without devaluation against gold to match the wartime erosion of the pound's purchasing power relative to gold (or enough deflation to raise the pound's purchasing power back to that of gold's). Rueff came to attribute the Great Depression to the failure to reestablish the classical gold standard after the war. Instead, an improvised and ever-changing *gold-exchange standard* allowed imbalances to build up until the financial system crashed. It was not the classical gold standard, but a gold-exchange standard mismanaged by central banks, that failed in the interwar period.

Rueff helped to organize the Walter Lippmann Symposium, an international gathering of classical liberals in Paris in 1938 to discuss Lippmann's 1937 book *The Good Society*. The meeting has been seen as a precursor to the Mont Pelerin Society. He would later attend the first meeting of the Mont Pelerin Society. In 1939 he became Deputy Governor of the Bank of France, but was dismissed during the German occupation on account of his Jewish ancestry.

After the Second World War, Rueff was a leading free-trade advocate while holding a variety of official positions in the French government, in the European Coal and Steel Commission, and on the European Court. When French President Charles DeGaulle returned to power in 1958, he appointed Rueff to chair a commission on fiscal and monetary reforms for France. The resulting *Rueff Plan* made the French franc freely convertible into dollars, ending exchange controls, after a sizable devaluation. The plan also included tariff reductions, the removal of business subsidies, and a halving of the budget deficit. In his obituary, the *New York Times* wrote that Rueff *was perhaps best known for his austerity reform program of 1958, which stabilized the French economy* at the outset of de Gaulle's Fifth Republic, adding: *With adoption of the Rueff Plan, the French economy began a period of vigorous industrial and trade expansion and Mr. Rueff continued in prominence through the 1960s as a sharp critic of United States monetary policies and payments deficits.*

The Internal Contradictions of Bretton Woods

Rueff and the American economist Robert Triffin were the two most prominent analysts to identify the inbuilt problems of the postwar international monetary system established at Bretton Woods. Under the system, the currencies of other nations were to maintain fixed exchange rates with the U.S. dollar (they were redeemable for U.S. dollars, but not directly for gold). The U.S. dollar was the *key currency*, the only one directly redeemable for gold and against which a large gold reserve was held. The right to redeem, however, was limited to foreign central banks. U.S. firms and citizens continued to be legally barred from holding monetary gold. To get gold by redeeming U.S. dollars, a foreign central bank had to be willing to risk the disapproval of the U.S. authorities, at a time when the U.S. was providing Marshall Aid and defense against the Soviet Bloc.

Rueff saw in the Bretton Woods system, with the U.S. dollar the key currency, the same weaknesses exhibited by the gold-exchange system during the interwar period with the British pound and the U.S. dollar then sharing key currency status. Under the classical gold standard, every central bank (or banking system, if like the U.S. and Canada it had no central bank) held its own gold reserves. Under Bretton Woods, by contrast, non-U.S. central banks held only assets denominated in the gold-redeemable U.S. dollar (most importantly, U.S. Treasury bonds) as their reserves for maintaining a fixed exchange rate with the dollar.

This arrangement gave the United States what France's Minister of Finance called an *exorbitant privilege*. The U.S. could acquire goods and services from the rest of the world merely by expanding the supply of dollars, with

the bill coming due only in the indefinite future. The temptation proved irresistible. *The Bretton Woods set-up was not incentive-compatible:* It enabled the U.S. government to profitably issue the world's reserve currency, with immediate benefit but little immediate cost to pursuing a monetary policy too expansionary to maintain its peg in the long run. Foreign central banks held dollar assets as reserves and therefore would gladly accept them—up to a point. (The foreign central banks did not hold Federal Reserve Notes or dollar checking account balances; they swapped those for interest-earning safe dollar assets.) The flow of dollars overseas meant that foreign monetary systems gained reserves and also could nominally expand, while (in contrast to the classical gold standard under which the U.S. would lose gold to settle its balance of payments) the U.S. did not need to contract. Thus the gold-exchange system, in Rueff's words, *substantially impaired the sensitivity and efficacy of the gold-standard mechanism* at self-regulation.

Notice the qualifier in the previous paragraph: up to a point. The immediate postwar period was characterized by complaints of a *dollar shortage* in Europe as central banks tried to build up the dollar reserves that they needed to peg their national currencies to the U.S. dollar. Over time, with the U.S. government happily printing dollars to export to Europe in exchange for goods and services, talk turned to the problem of a *dollar glut*. European central banks accumulated more dollar-denominated IOUs than they wanted. As Rueff later noted, the U.S. could even go somewhat beyond the willing-accumulation point to the extent that it could successfully use political or diplomatic leverage to discourage foreign central banks from redeeming its currency. But such diplomatic talk could not be effective forever, as ongoing monetary expansion caused ever-growing reserves of dollars to pile up in European central banks.


Jacques Rueff 1967

Unlike Triffin, who favored patching over the problems of the Bretton Woods system with expanded IMF credit facilities, Rueff recommended eliminating its core contradictions by replacing the Bretton Woods gold-exchange standard with a full-fledged international gold standard of the classical pre-WWI sort. Each nation was to hold its own gold reserves. In this recommendation Rueff was nearly alone, joined by only one contemporary European economist, Michael Heilperin of the Graduate Institute of International Studies in Geneva. In the United States, the economic journalist Henry Hazlitt criticized Bretton Woods along lines similar to Rueff's. International policymakers, of course, did not embrace Rueff's analysis or recommendations.

The Unraveling of the Bretton Woods System

Gold drained from the U.S. Treasury throughout the 1960s as European central banks understandably redeemed some of their accumulating dollar inventories. Shrinking U.S. gold reserves in turn amplified redemptions: European central banks must have understood the growing danger of a devaluation of the U.S. dollar against gold as U.S. gold reserves ran out. A central bank left holding dollar assets when devaluation came would have redeemed too little too late.

The International Monetary Fund tried to paper over the problem by issuing *Special Drawing Rights* (SDRs) for use as international settlement media in lieu of gold. But the SDRs proved futile at stopping the drain of gold from the U.S. Treasury. When U.S. gold reserves fell critically low in August 1971, rather than tighten U.S. monetary policy, Nixon *shut the gold window*, severing the international monetary system's last link to gold. An unbacked settlement system was tried in the Smithsonian Agreement of 1971, but it lasted less than 18 months before the world entered the modern era of outright floating fiat currencies.

Rueff's 1971 book *The Monetary Sin of the West* (first published in French as *Le Péché Monêtaìre de l'Occident*) provides a scrapbook of the ever-worsening situation under the Bretton Woods system during its last decade. Rueff saw the imbalances building up in the 1960s as similar to those that built up prior to 1929, and feared a crisis of Great-Depression scale. The crisis that unfolded in 1971 was not a debt-deflation crisis, however. It turned out to be a debt-repudiation and inflation crisis.

In passing, Rueff perceptively argued that chronic crises are to be expected when a central bank is placed in charge of a gold standard. The market mechanisms of a decentralized gold standard coordinate money supplies with demands better than any central monetary planner can or will: *I do not believe, as a matter of fact, that the monetary authorities, however courageous and well informed they may be, can deliberately bring about those contractions in the money supply that the mere mechanism of the gold standard would have generated automatically.* In practice, the authorities delayed contraction, prolonging the boom until the necessary correction is a large painful shock, whereas a decentralized gold standard operates daily, slowly, and gradually to maintain equilibrium via the price-specie flow mechanism.

In a February 1970 article from *Le Monde*, included in *The Monetary Sin of the West*, Rueff warned that *if residual requests for conversion of dollars into foreign exchange or gold . . . were more than the United States could satisfy,* the American monetary authorities would have to close the gold window. As an accompanying footnote, inserted into the 1972 American edition, poignantly reads, *That happened on 15 August 1971.*

Rueff's consistent prognosis that the Bretton Woods system could not survive in its then-current form, because other national governments would eventually be unwilling to continue accumulating piles of dollar claims, proved correct. On the other hand, Rueff consistently warned that another Great Depression loomed if the system was not promptly fixed in the manner he suggested. He wrote many times about a *catastrophe* in the works. After the fact, we know that these warnings were unduly alarmist. He failed to consider the exit strategy that Milton Friedman (16 years Rueff's junior) proposed during the 1960s, even before the U.S. gold reserves began to run out, namely a move to floating exchange rates combined with a monetary rule for constraining inflation once the gold-redemption constraint was removed. No deflation was necessary.

Henry Hazlitt

Of course, Friedman only got the first half of his program. The *de jure* end of Bretton Woods ratified the *de facto* end (since the mid-1960s) of the Fed making monetary policy as though constrained by gold redeemability. No other constraint replaced it. Annual money growth (M2) hit double digits. The inflation rate, already rising, followed: it moved into double digits in 1974, 1979, and 1980. As it turned out, then, the Bretton Woods gold-exchange system ended in monetary expansion and the Great Inflation, not in monetary contraction and a Great Depression. One might say that the inflation merely postponed the recession to 1980–82. While it is true that 1980–82 was a relatively severe recession, it was nothing like the Great Depression.

The $23 Trillion Question

Peter C. Earle

Is stagflation ahead? That's the $23 trillion question; the one upon which the near future of the US economy hinges.

The return of a '70s-style stagflation is among the foremost topics of discussion in economic circles today. Will the low growth, high inflation, high unemployment conditions of almost five decades ago reappear, or is what we are presently seeing something similar in appearance, but phenomenologically different? Or, are the trends materializing in the US economy transitory, as it is being called by the Federal Reserve and in other quarters?

What follow are a handful of current arguments for and against the contention that stagflation is on the horizon, offered with three caveats:

1. This list is not exhaustive;
2. The *one-armed* economist that Harry Truman sought (such economists are noncommittal and couldn't offer an opinion and then say, *but on the other hand. . .*) still doesn't exist; and,
3. Economics is a veritable amusement park for confirmation biases.

Off we go.

For Impending Stagflation

New York University economist Nouriel Roubini is solidly in the corner of the stagflationists. The combination of the Biden administration's fiscal profligacy and the Federal Reserve's demonstrated propensity to open the monetary floodgates whenever a crisis appears, in Roubini's view, makes the likelihood of tepid economic growth and appreciably higher inflation in the near future likely.

> *Even if inflation stays higher than targeted, exiting QE too soon could cause bond, credit, and stock markets to crash. That would subject the economy to a hard landing, possibly forcing the Fed to reverse itself and resume QE. After all, this is what happened between the fourth quarter of 2018 and the first quarter of 2019, following the Fed's previous attempt to raise rates and roll back QE. Credit and stock markets plummeted and the Fed duly halted its policy tightening. Then, when the US economy suffered a trade war-driven slowdown and a mild repo-market seizure a few months later, the Fed returned fully to cutting rates and pursuing QE (through the backdoor).*

Continuing, Roubini notes that this was the state long before

> *COVID broadsided the economy and pushed the Fed and other central banks to engage in unprecedented unconventional monetary policies while governments engineered the largest fiscal deficits since the Great Depression. The real test of the Fed's mettle will come when markets suffer a shock amid a slowing economy and high inflation. Most likely, the Fed will wimp out and blink.*

A handful of analysts concur with Roubini but predict a more subdued outcome referred to as *stagflation-lite*. They see higher inflation and lower growth than has been seen over the past decade or so, but nothing approaching nominal levels in the 1970s.

Higher inflation and lower growth may also look different today versus four-and-a-half decades ago. Between 2015 and 2020, inflation (US CPI for Urban Consumers YoY) averaged 1.6% per year. Thus annual rates of inflation of 4 to 5 percent would be materially higher than recent history but fall quite short of the over 7% annual rates of inflation seen during the '70s. Annual US GDP growth (in chained 2012 dollars QoQ) between 2015 and 2020 averaged 2.3% (2.5% in 2020). But average annual GDP growth in the stagflationary '70s was 3.4%: higher than today, but lower than the 4.5% average annual growth in the 1960s. (In fact, average annual growth rates seen during the Obama administration of 1.8% would meet the stagflationary definition from current levels.)

Nevertheless, small but persistent changes from recent values would satisfy the view that stagflation had returned, while not achieving the levels seen in the '70s.

Against Impending Stagflation

The view that the US and the world more broadly aren't headed for a new period of stagflation takes several forms.

One argument is that current levels of cash being held by both households and businesses still stave off an economic slowdown. Elevated, even unsustainably high consumption brings with it a spate of potential pitfalls, but slowing growth is not one of them. US personal savings as a percent of disposable income, as tracked by the Bureau of Economic Analysis, is even now several percentage points higher than it was before the pandemic. Indeed, the current levels of savings are three to four times higher than they were in the early 2000s.

From what can be seen in the financial statements of publicly-traded firms, operating margins (a measurement of pricing and efficiency) are the best they've been in almost thirty years. Return-on-equity is near an all-time high. As the Wall Street Journal reported several weeks ago,

> *[b]usinesses including Tyson Foods Inc., consumer-products firm Newell Brands, Morgan Stanley and alcohol sellers Constellation Brands Inc. have said in recent weeks that they plan to build factories, expand research budgets, pay down debt or seek acquisitions while also giving priority to dividends or share repurchases. . . S&P 500 firms are projected to increase cash spending to $2.8 trillion in 2021, mostly on capital expenditures, mergers or other types of business investment[.]*

Another argument is that the spark for a stagflationary slump simply isn't achievable owing to the structure of modern economies. The difference between the industrial, goods-based economy of the Nixon-Ford-Carter era versus the high tech, service-based economy of the post-Clinton era is that a certain degree of efficiency is baked in. Slackness is readily ironed out without layoffs or major production cuts.

Relatedly, an analogy drawing parallels between oil shortages in the '70s and supply chain problems with semiconductors doesn't hold. *In the case of [semiconductor] supply*, says analyst David H. Lerner, *we know that there will be plenty of chips in the near future. In fact, in 2020 the supply expanded by 25%! It's just that the world's appetite for chips is gluttonous and insatiable and so. . . growing at even faster than production*.

Most of the anti-stagflation arguments target the unlikely return of the *stag* portion of the portmanteau while remaining silent on the *flation* half.

What's the MSC?

In business there is a concept known as the MVP: the minimum viable product. In the context of assessing views regarding the likelihood of stagflation there is no consensus. But perhaps we can draw out the maximum salvageable conclusions: the most consequential if non-specific takeaways.

Clearly, levels of uncertainty about both the direction of the economy and likely policy responses have risen notably. As clarity dissipates, economic choices among households and firms alike tend to become more present-oriented. That may lead to a decline in investment, which in turn might exert a dampening effect upon economic growth.

Debates about whether rising prices are transitory are either short-sighted or miss the point entirely. Even if prices—whether of shipping rates, plastics, bacon, used cars, or semiconductors—begin to decline tomorrow, a certain amount of damage will have already been done. Much of that economic damage can only be considered in counterfactuals: how many more goods and services might have been produced, and how many jobs would have been created to produce them, if container prices hadn't more than quadrupled in the past six months? How many loggers and miners' children won't go to college, or will have to change their plans, owing to severe dislocations in commodity markets?

In mid-1979, SUNY Purchase Professor of Economics Alfred S. Eichner opined in a *New York Times* editorial entitled *Stagflation: The Worst of Two Worlds*, that

> *[t]he principal policy implication. . . is that some form of incomes [sic] policy needs to be added to the existing fiscal and monetary instruments for regulating the place of aggregate economic activity. Such a policy cannot be implemented in an institutional vacuum but must instead follow from other changes to be made in the way economic policy is determined. Among the changes: 1) The better integration of the private interest groups that will be affected by any incomes policy into the process of economic decision making; 2) The better coordination of policy within government itself; 3) The better linking of policy making bodies to technical secretariats with data collection and analytical capabilities.*

If none of Eichner's proposals sound novel, it's because they aren't. Not only are they not unique or insightful today, they weren't in 1979. Interest groups figured prominently into the crafting of policy throughout the 1940s, '50s, '60s, '70s, and do today. Formal or not, a cocktail of fiscal and monetary policy that paved the way for the economic morass of the 1970s. And the establishment of data-inundated technocratic bureaus within *every* branch of government has been the case since even before World War II.

Eichner's call 42 years ago could be paraphrased in four words: *More of the same.*

What do we know for certain? That economic history rarely repeats but often *rhymes*. And that intellectually honest analyses require the consideration and integration of each new morsel of economic data or information that emerges. And finally that regardless of what transpires, gold remains a timeless ally in the fight for asset preservation during periods of inflation, deflation, recession, stagflation, mania, depression, revolution, and whatever else fate deals. And that is perhaps the best possible answer to the $23 trillion question.

Why You Should Include Charity In Your Will

Andrew Palmer

There is a common misconception that only the rich need to make a will. That is not true. A will eases the pain of your passing on those you leave behind, and without a will, regardless of your personal wishes, state laws will determine the transfer of your estate.

There is an even bigger misconception that only the super-rich leave money to charity when they die. That's also not true. The fact is that most gifts by will, (bequests) are made by everyday people who want to have a lasting, positive impact on their community.

Without this type of generosity, many charitable institutions couldn't continue their missions into the future. Non-profits need our support to do their good work.

Here are four reasons why you should include a charity in your will:

A Gift By Will Is Easy To Make
A bequest is one of the easiest charitable gifts to make. It is simple to implement, and easy to change should you ever need to. You can give specific property or designate a dollar amount or a percentage of your estate. You can also designate a non-profit as a beneficiary of your retirement plan or life insurance policy.

A Gift By Will Does Not Alter Your Current Lifestyle
Making a bequest is a way of demonstrating your commitment to the future of the institution you love that doesn't affect your current asset balance or cash flow. There are no substantial costs, and the gift can easily be modified to address your changing needs.

A Gift By Will Can Change Lives
Non-profits improve our lives every day through their dedicated work, community, and stability. A bequest can help your best-loved charity further its mission and values. It can continue making a difference for generations to come.

A Gift By Will Creates A Lasting Legacy
Including a non-profit in your will is a great way to bring dignity, meaning, and purpose to a life well-lived. You can demonstrate your commitment to the future of the institution you love, and better yet, a bequest can allow you to give to an institution that you may have always wanted to support, but were unable to during your lifetime. Creating a legacy with your gift ensures that you, and your values, will live on.

You don't have to be wealthy to make a difference. Whoever you are, whatever your situation, you can help make a better world by including a charity in your will.

SEE PAGE 23 TO GIVE TO AIER

AIER events

***Cutting Red Tape in Kansas: A Menu of Options* with Dr. James Broughel**

November 4
Wichita, KS

Join AIER's Bastiat Society program in Wichita with The Institute for the Study of Economic Growth at WSU for a talk with Dr. James Broughel, Senior Research Fellow at the Mercatus Center at George Mason University. Dr. Broughel will discuss why the amount of regulation in a state matters for its residents' quality of life, how the regulatory environment in Kansas compares to other states, and options available for policymakers who want improved economic growth and more economic freedom.

***Human Flourishing* with James R. Harrigan**

November 18
Tucson, AZ

AIER's Bastiat Society program in Tucson, in partnership with Tus Vecinos en El Barrio, will host a luncheon with James R. Harrigan, Senior Editor at AIER. James will explore what it takes to create the sort of environment that allows for human beings to flourish. He will discuss his experiences living in Iraq, the works of Adam Smith, Thomas Jefferson, and more.

***Seeking Common Ground in U.S. and China Trade* with Dr. Ming Wang**

December 7
Nashville, TN

Join AIER's Bastiat Society program in Nashville for an event with Dr. Ming Wang, world-renowned laser eye surgeon, philanthropist, and co-founder of Common Ground Network. Dr. Wang will discuss what the two superpowers of the 21st century, U.S. and China, have in common, and will analyze the mutually beneficial trade opportunities.

***Sound Money* with Bob Luddy**

January 12
Raleigh, NC

AIER's Bastiat Society program in Raleigh will host an event with Bob Luddy, President and Founder of CapitiveAire Systems. Sound Money is imperative for business transactions, cost calculations and sustainable growth. America's fiat dollar is also the world's reserve currency, which is a huge competitive advantage. Price is the defining economic term, which requires stability. Bob Luddy will provide a brief history of the dollar for some insights into money and future policies.

Planned Giving

Each one of us already has a default estate plan—one dictated to us by the government. The government doesn't know who we are; it cares nothing for our achievements, our principles and beliefs, our ethics, or our commitment to our families. In this plan, hard-earned assets can be unnecessarily taxed and heirs can be left with little or nothing.

The only way to make sure that your estate plan reflects your wishes is to design it yourself with competent counsel. Will your legacy be subsumed by faceless bureaucrats as a windfall profit for government programs that you may believe are antithetical to prosperity and justice? Or will it be a responsible transfer of values held dear by the one who earned the money? Make sure that you are the author of your own personal estate plan.

By making a planned gift to AIER—whether it be through your will, charitable trust, or another giving vehicle—you are making an incredible commitment to true freedom, sound money, and private governance. You not only secure your legacy as a champion of free markets, but you ensure that AIER will continue to fight for the principles you hold dear for generations to come.

We are forever grateful for AIER's planned giving supporters who help to ensure that people around the world will always have access to sound economic research, robust education in free market concepts, and practical training from AIER.

Here are some ideas on how to include AIER in your estate plans:

Your Will

If you already have a will, you can generally amend it to create a bequest for AIER and other charities. If you have elected a living trust rather than a will, you can also include AIER and other charities as trust beneficiaries, similar to creating bequests under a will.

Your Retirement Accounts

Retirement accounts—such as an IRA, 401(k), and others—that are left to heirs are double-taxed because (often but not always) they are subject to the estate tax and heirs are also subject to ordinary income tax on what's left. Retirement accounts left to a non-profit like AIER are not taxed at all.

Your Life Insurance

One of the easiest ways to leave AIER in your estate plans is to simply name AIER as a beneficiary of a life insurance plan. Life insurance proceeds, other than when given to a spouse or to a tax-exempt entity like AIER, are generally subject to the estate tax. Therefore, life insurance policies that are no longer needed for financial security are a good choice for enhancing your philanthropic legacy.

Other Giving Vehicles

Several less common giving vehicles are typically used in complex estates, but might be worth consideration. We recommend you speak with your attorney or financial advisor regarding: Charitable Gift Annuities, Charitable Remainder Trusts, and Charitable Lead Trusts.

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I followed Colonel Harwood for many years and one thing that came through in all of his writing was that he was a great patriot and a strong believer in an honest currency. Having been in the investment business for 48 years, I think Colonel Harwood's teaching is needed even more now than it has ever been. He had a great impact on my thinking.

—**Arnold Van Den Berg**, Longtime AIER Donor

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