

Grasping Reality with Both Hands

The weblog of Brad DeLong. Comments (mostly) welcome, or email me at delong@hey.com with "delong-weblog" as the subject.
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Grasping Reality with Both Hands
Market Made for Man...

Archives
Note to Self: Slavery Course Topics...

Highlighted

Previously Featured
Grand Narrative: The 20th Century...
Why Are University of Chicago Professional Republicans so Stupid?...

Edit Posts

Coronavirus
Reading Big, Difficult Books...

Shelton's Confirmation to the Fed Would Be Very Ill-Advised—on Twitter



On Twitter: *Shelton's Confirmation to the Fed Would Be Very Ill-Advised* <https://twitter.com/delong/status/1285605073452761096>: The only person out there saying "confirm Judy Shelton" this morning is John Tamny... who says: confirm her because she's a goldbug and the gold standard is a good thing:

John Tamny: *Let's Bring Rationality to the Monetary Discussion: Confirm Judy Shelton* https://realclearmarkets.com/articles/2020/07/21/lets_bring_rationality_to_the_monetary_discussion_confirm_judy_shelton_499540.html: As always with money, it should be stressed up front how much better the monetary discussion would be if those who insert themselves into it actually understood money. Most don't. Strange about this is that money is simple. It's simple when it's properly understood...

...no one exchanges “money” when they transact. In reality, trade is always and everywhere products for products. Thousands of years ago money was merely a creation of producers of real goods, services and labor who sought a way for producers with disparate wants to trade with one another. Translating what is basic, I love Whataburger. The problem is that most Whataburger owners and their employees have little interest in my books and opinion pieces. If I showed up with them in pursuit of two breakfast tacos, large fries, small fries, and a medium Coke, they would reject my barter. Thankfully there's money. Like everyone else, I work for money, but what I'm really working for is access to Whataburger meals, clothes, shelter and all manner of other things that money is exchangeable for. Money wasn't a creation of the state as so many assume; rather it was once again an agreement about value that actual producers created so that they could exchange with one another despite wildly varying wants. The butcher wants the baker's bread, but the baker only wants the vintner's wine. With an agreement about value in circulation, exchange can happen between the butcher, baker and vintner even though their desires are very different. All of the above explains the why behind an endless search for monetary stability among producers over thousands of years. Since money is just a measure of value enabling the exchange of real things, the best money is that which holds its value. Money in a perfect form neither rises nor shrinks in value. It just is. Kind of like the inch or foot. Gold...

And bingo, we have the tell.

He's going to argue for Judy Shelton not despite but because she's a goldbug:

John Tamny (cont.): '...[Gold] was eventually happened upon by monetary types around the world not due to mysticism, or official religion, or because the sun set a funny way, but because per John Stuart Mill, it was the commodity “least influenced by any of the causes which produce fluctuations of value”. The desire for stable money was a logical outgrowth of the basic truth that it's always and everywhere products for products...'

And that is wrong too: one can—and does—have a demand not for products but for flexibility and social power. Two big mistakes here.

And a third big mistake is on the way. Even though gold has powerful advantages as a token in a primitive financial system, there is no reason for gold to be the **unit of account**. Labor, or staples, make much better units of account.

And now we met the evil genius of the conspiracy so immense that Judy Shelton needs to be put on the Fed Board to fight: longtime Fed staffer and superb economist David Wilcox:

John Tamny (cont.): '...Which brings us to David Wilcox... [who] plainly doesn't understand money. He's not very good on history either, or for that matter the policy portfolio of the Fed he used to work for. Wilcox refers to the multi-century gold standard era as a “disastrous experiment”.... Such a view just isn't serious...'

Mistake 4: It is ignoring the crash of the interwar gold standard into the Great Depression that is unserious—and, from a certain point of view, hilarious.

John Tamny (cont.):'...It presumes the world's producers went stupid centuries and millennia ago, only for Richard Nixon to save them from horrid money...'

Richard Nixon? Richard Nixon was an evil villain in many dimensions, but the idea that the gold standard survived the Great Depression only to be throttled by Richard Nixon is mistake #6, and is batshit insane.

John Tamny (cont.): '...Wilcox's hatred for gold-defined money has him calling for the U.S. Senate to not confirm Judy Shelton when they vote on her nomination.... Shelton has been a vocal supporter of bringing back gold... Her support has Wilcox triggered. Shelton's advocacy of gold-defined money just shows she properly understands money...'

Senator Kennedy of Louisiana: you are on notice. You said that monetary cranks should not be confirmed to the Fed Board. Here we have Shelton's only public advocate saying that the fact that she is a monetary crank is the reason to confirm her. Do you have a spine, Senator Kennedy?

John Tamny (cont.): '...Poor David Wilcox.... He gets it backwards. Money is a consequence of growth. Gold brings stability of value.... Money confuses Wilcox.... His witless attempt to take Shelton down. Wilcox believes monetary policy must be altered during troubled times to stimulate the economy. Implicit in the economist's droolings is that a basketball player who isn't generating any interest from the NBA should shrink the inch so that he can magically be 7 feet tall. No, an inch is just a veil. So is money. It doesn't alter reality as Wilcox assumes. As for devaluing the currency as Wilcox advocates, such a response to slow growth amounts to even slower growth. Think about it. Investors are the source of economic progress, and they buy dollars in the future when they invest.... Wilcox also thinks that the Fed can boost economic growth by reducing interest rates. He probably believed rent controls worked in the 1970s too. Sorry, but the borrowing of “money” is the borrowing of real economic goods. The Fed can't decree artificially cheap access to them despite what Wilcox imagines...'

And then, in mid-crazy-rant, Tamny realizes he has lost the thread.

The talking points from Trump by his elbow do say not that Shelton needs to be confirmed because she is a goldbug. They say that Shelton should be confirmed because she does not matter.

So Tamny pirouettes in midair.

It is a *grand jete*:

John Tamny (cont.): '...Shelton would be but one official on the Fed Board. The idea that she could put us back on the gold standard amounts to willful ignorance on the part of the former Fed official. The Fed operates based on consensus, and most at the central bank think as Wilcox does; that money has magical powers such that it can alter reality. Shelton would be a minority opinion, and Wilcox knows that. Or maybe he doesn't...'

And now another "Shelton does not matter, so who cares?" point. Just knuckle under to abusive alcoholic daddy Trump to keep him quiet!

John Tamny (cont.): '...The dollar's exchange value has never been part of the Fed's portfolio as is...'

Mistake #7. The dollar's exchange rate has always been profoundly influenced by Fed policy, and has always been something the Fed takes into account in its decision making.

John Tamny (cont.): '...President Nixon de-linking the dollar from gold.... Fed Chairman Arthur Burns begged Nixon to not do as he did, but he was powerless...'

Mistake #8: Had Arthur Burns wanted to keep the value of gold at 35 dollars a troy ounce, he could have done so: he did control the money supply. He thought—correctly—that that would be disastrous.

John Tamny (cont.): '...willful ignorance... argues loudly for Judy Shelton's confirmation... to an institution staffed by supercilious know-nothings.... Shelton would shrink the influence of people like David Wilcox...'

And what's wrong with people like David Wilcox who understand how a monetary economy works? It is that they are not goldbugs.

John Cochrane, John Taylor, Greg Mankiw, Mike Boskin, Kevin Hassett, Tomas Philippon, Casey Mulligan, where are you?

Tyler Goodspeed, this would be a very good moment to issue a statement saying that Shelton's confirmation would be ill-advised, and give WH staff an opportunity to (a) agree or (b) fire you. That's how you can keep your professional reputation—which you won't keep if you keep working for and enabling Trump.

Where are all you guys?

It is crunch time.

#economicsgonewrong #highlighted #monetarypolicy #moralresponsibility #orangehairedbaboons #2020-07-21

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