STEVE BLAISING

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ECONOMIST EXPECTS RETURN TO GOLD STANDARD BY 1989

By: Chuck McCollough
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Economist expects return to gold standard by 1989

By CHUCK McCOLLOUGH
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The United States will begin backing its currency with gold next year or early 1989 in a move that could drive auto- and home-loan interest rates down to 5 percent, a San Antonio-born economist predicts.

"The stage is set for a return to the gold standard. In fact, Treasury Secretary Jim Baker has publicly called for a gold-backed dollar," said Stephen N. Blaising, president of Dallas-based Financial Dynamics Inc.

He predicts President Reagan will implement the gold standard by executive order in the last quarter of his administration.

"If a Republican is elected president next year, Reagan may defer the move to the next GOP administration. Either way I believe we are going back on the system," said the 1973 graduate of Churchill High School. He holds a bachelor's degree in finance from the University of Texas at Austin.

Abolished by Nixon

The U.S. government has based the value of its currency on gold from early in its history but abandoned minting gold coins for circulation in 1933. The nation went on and off the gold standard several times until 1971 when President Nixon abolished the practice.

At that time gold sold for $40 a ounce. It closed at $482.50 an ounce Friday on the New York Commodities Exchange.

"Gold is the last piece of the puzzle for President Reagan's economic philosophy. The administration is repeating an economic policy similar to Calvin Coolidge and John F. Kennedy," Blaising said.

A return to the gold standard, combined with the tax cuts scheduled for next year, will make 1988 a "once-in-a-century year" for growth, he said.

"If the dollar is guaranteed to be worth the same 10 years from now as it is today, long-term interest rates will drop at least 1 to 2 percent below today's level. In fact I'll go out on a limb and say rates could drop to 5 percent for home and auto loans," Blaising said.

The U.S. dollar backed by gold would almost guarantee an era of low inflation and low interest rates that would be a key to Texas' economic recovery, he said.

"The move would drive the price of gold way down. As the dollar grows stronger the price of commodities go down," Blaising said.

"Metals have been a hedge against inflation, but if people know that 10 years from now the dollar will hold its value they will not invest in gold."

Instead they will be likely to invest in things that make the economy grow, he said.

If Reagan does not implement the gold standard, some other type of monetary standard will be set, Blaising said.

A possibility in that light is an agreement between the United States and other nations, including Japan, West Germany and France, in which limits would be set on how much the dollar can fluctuate.

"Such an international agreement is the goal of the seven-nation Louvre accord under way in Paris. It seeks to come up with a commodity-backed structure that would return stability to the dollar," he said.

Blaising predicts 1988 will be a real growth year, mainly because of the new tax rates.

6 percent more

"The corporate rate will drop from 40 percent to 34 percent which means businesses can keep an extra 6 cents out of every dollar.

"The individual tax brackets will drop from 38½ percent to 28 cents which means a person gets to keep an extra 10½ cents of every dollar they earn starting in 1988," he said.

How the American economy reacts long-term to the stock market crash of October depends on what Congress and the president do.

"They could follow the course of the 1929 crash which led to the Depression or they could follow the course of the 1962 crash which led to the go-go 1960s," he said.

In 1929 tax rates were increased, the money supply was tightened, protectionist tariffs were raised and the dollar was devalued, Blaising said.

In 1962 tax rates were cut, tariffs were reduced, the money supply was expanded, there were low interest rates, a low inflation rate and President Kennedy reaffirmed the dollar's tie to gold, he said.

Blaising said the talk in Congress about increasing tax rates and raising tariffs is scaring Wall Street and it would be a mistake to enact such legislation, just as it was in 1929.

Stephen Blaising foresees return to the gold standard.

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Stephen N. Blaising, President of Financial Dynamics, Inc. of Dallas, is a University Park resident.