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Steve Forbes: How to Bring Back America

By Ron Hera
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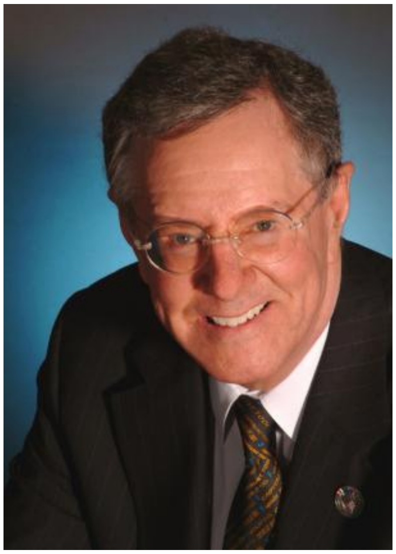

The Hera Research Newsletter is pleased to present an incredibly powerful interview with Steve Forbes, Chairman and Editor-in-Chief of Forbes Media. The company's flagship publication, **FORBES**, is the leading business magazine. Combined with international and licensee editions, **FORBES** reaches more than 6 million readers worldwide. The Forbes.com website is a leading destination for senior business decision-makers and investors with more than 30 million unique visitors per month.

Born July 18, 1947, in Morristown, New Jersey, Mr. Forbes graduated cum laude in 1966 from Brooks School in North Andover, Massachusetts. He received a B.A. in history from Princeton in 1970. A widely respected economic prognosticator, he is the only writer to have won the highly prestigious Crystal Owl Award, which was given to the financial journalist whose economic forecasts for the coming year proved most accurate, four times.

In 1985 President Reagan named Mr. Forbes Chairman of the bi-partisan Board for International Broadcasting (BIB). In this position he oversaw the operation of Radio Free Europe and Radio Liberty. Broadcasting behind the Iron Curtain, Radio Free Europe and Radio Liberty were praised by Poland's Lech Walesa as being critical to the struggle against communism. Mr. Forbes was reappointed to his post by President George H. W. Bush and served until 1993.

In both 1996 and 2000 Mr. Forbes campaigned vigorously for the Republican nomination for the presidency of the Unites States. Key to his platform were a flat tax, medical savings accounts, a new Social Security system for working Americans, parental choice of schools for their children, term limits and a strong national defense. Mr. Forbes continues to energetically promote this agenda.

Mr. Forbes is the author of *Freedom Manifesto: Why Free Markets Are Moral and Big Government Isn't*, co-authored by Elizabeth Ames (Random House, 2012). Mr. Forbes previously wrote *How Capitalism Will Save Us: Why Free People and Free Markets Are the Best Answer in Today's Economy*, co-authored by Elizabeth Ames (Crown Business, November 2009), and *Power Ambition Glory: The Stunning Parallels between Great Leaders of the Ancient World and Today and the Lessons You Can Learn*, co-authored by John Prevas (Crown Business, June 2009). He is also the author of *Flat Tax Revolution: Using a Postcard to Abolish the IRS* (Regnery, 2005) and of *A New Birth of Freedom* (Regnery, 1999).

Mr. Forbes currently serves on the boards of The Ronald Reagan Presidential Foundation, the Heritage Foundation and The Foundation for the Defense of Democracies. He is on the Board of Overseers of the Memorial Sloan-Kettering Cancer Center and on the Board of Visitors for the School of Public Policy of Pepperdine University. He previously served ten years on the Board of Trustees of Princeton University.

Hera Research Newsletter (HRN): Thank you for joining us today. With the U.S. economy struggling to recover from recession and financial crisis, what policies would you recommend?

Steve Forbes: The only way to recover is to stabilize our money, have a gold backed dollar, simplified tax code and return to a free market.

HRN: You advocate the gold standard?

Steve Forbes: If there's any better system to ensure a stable value for money, it's yet to be found. For nearly all of America's first 200 years, the dollar was linked to gold. Since we went off the gold standard, we've had more and more financial, economic and banking crises. For example, if the Federal Reserve hadn't started to print so much money ten years ago, we wouldn't have experienced the housing bust or the commodities boom or the sovereign debt crisis in Europe. Eventually, events become a persuasive teacher.

HRN: Don't we need a flexible money supply?

Steve Forbes: That's like saying that changing the number of minutes in an hour would be a great tool to increase productivity in the economy. Manipulating weights and measures, whether it's the number of ounces in a pound or minutes in an hour, is a false way to think that you can achieve prosperity. All gold does is serve as a yardstick to measure the value of your currency.

HRN: Doesn't increasing the money supply help to stimulate the economy?

Steve Forbes: The only way to increase prosperity is through innovation and productivity. Attempts to manipulate the value of money invariably fail. We've had numerous devaluations, and not once has it created lasting prosperity.

HRN: Under the gold standard, would there still be a lender of last resort to backstop the banking system?

Steve Forbes: The gold standard doesn't prevent lending during a panic. The Bank of England pioneered acting as a lender of last resort in the 1860s under the gold standard.

HRN: Wouldn't the gold standard prevent financial innovation?

Steve Forbes: No. Financial innovation has been with us for hundreds of years in terms of new financial instruments to meet expanding needs as the global economy becomes more complex. Many of the innovations of recent years, however, have come about in response to the instability of the dollar and other currencies, which has increased volatility in currency and commodity markets. New instruments have been designed either as insurance against volatility or to take advantage of it. If you had stable money, there would be much less hedging and financial speculation.

HRN: Can governments function under the gold standard?

Steve Forbes: Certain countries feel free to spend money whether they have it or not. Fiat money, which can just be printed up, has disguised the real cost. We would never have experienced the kind of government borrowing we've had in recent years if we'd had stable money. The gold standard would keep the government honest.

HRN: Doesn't government deficit spending smooth over recessions?

Steve Forbes: The bottom line for the U.S. is that a weak dollar means a weak recovery. Stability is good for the economy. The simplest thing to do is to re-link the U.S. dollar to gold.

HRN: Wouldn't that tie the hands of the Federal Reserve?

Steve Forbes: Tie their hands to do what, further harm to the economy? I don't think that's such a bad thing.

HRN: Isn't the price of gold volatile like other commodities?

Steve Forbes: The reason to return to the gold standard is that gold maintains a stable, intrinsic value over time. Stable money meets all conditions. Gold doesn't change in value. Currencies change in value. Gold is Polaris.

HRN: How would re-linking the U.S. dollar to gold work?

Steve Forbes: You simply peg the value of the dollar to gold. Let's say, for argument's sake, you peg the dollar to gold at $1,600 per ounce. If gold goes above $1,600, you tighten up on money creation. If it goes below $1,600, you ease up. You keep it around $1,600 by tightening or easing up on money creation. The gold standard doesn't preclude a booming economy having more money or a stagnant economy having less money.

HRN: Isn't the gold standard deflationary?

Steve Forbes: No. The gold standard is neither inflationary nor deflationary. It's like the mile: There are 5,280 feet in a mile; it's a fixed length. That doesn't restrict the number of miles of highway you can build. Between 1776 and 1900 the U.S. grew from a small, agricultural nation of 2.5 million people to a nation of 76.2 million people, and it became the greatest industrial power on earth. The money supply went up about 160-fold while the dollar was pegged to gold.

HRN: Wouldn't the gold standard severely limit leverage in the financial system?

Steve Forbes: If you're a worthy borrower, you can borrow at the market interest rate; if you're an unworthy borrower, you have to pay a higher interest rate or you can't get money. The gold standard would have prevented the wild lending and money creation we've experienced in the last few years, which has led to disaster. You can see it in the housing bubble and in the European government debt bubble. None of these things could have happened had we had stable money.

HRN: Is the Utah Legal Tender Act, which makes gold and silver legal in Utah, helpful?

Steve Forbes: I'm in favor of the states trying to get away from the Federal Reserve's play-money approach. The key is for the next President to institute a gold-linked dollar policy.

HRN: Do competing currencies make sense?

Steve Forbes: The idea of a parallel currency is a perfectly good one. People would come to prefer a dollar based on gold rather than a dollar based on politicians.

HRN: Do you also suggest using silver as money?

Steve Forbes: The Chinese and other cultures have used silver as money, but silver doesn't maintain its value the way gold does. Over time it takes more silver to buy an ounce of gold. About 120 years ago it took 15 ounces of silver to buy 1 ounce of gold. Today it takes more than 50 ounces. That's why the U.S. moved away from a bi-metallic standard to the gold standard. One metal becomes more valuable than the other at different times. Silver is better than fiat money, but there's only one gold standard.

HRN: Would the gold standard help the U.S. economy to recover?

Steve Forbes: In the 1980s, when we had very high unemployment and a stagnant economy, the way out was through a strong dollar, lower income taxes, entrepreneurship and new wealth creation. Remember, the values of assets go up when people see a future. They don't today.

HRN: We didn't have the gold standard in the 1980s.

Steve Forbes: Ronald Reagan killed the terrible inflation of the 1970s and sharply reduced income tax rates. Reagan wanted a return to the gold standard, but none of his advisors believed in it. Inflation was effectively killed by high interest rates. Deregulation was pushed forward, and America roared. In 1982, the Dow bottomed at 776; over the next 18 years it went up 18-fold.

HRN: You advocate cutting taxes?

Steve Forbes: Yes, and we should put in a flat tax. The advantage of the flat tax is that it enables people to focus on real things. Abraham Lincoln's Gettysburg Address, which defines the character of the American nation, is all of 272 words. The Declaration of Independence is a little more than 1,300 words. The Constitution of the United States and all of its amendments are a little more than 7,000 words. The Bible, which took centuries to put together, is a mere 773,000 words. The U.S. federal income tax code—with all of its cross-references, descriptions of amendments and effective dates—is probably now in excess of 4,000,000 words. Nobody knows what's in it. Last year the IRS announced that Americans spent 6.1 billion hours filling out tax forms and $300 billion on tax preparation. This is a huge waste of resources and brain power. Not to mention that it's a corrupting influence. It's a huge source of government power, and it brings out the worst in us. The sooner we get simplicity—and a flat tax would give us that—the more energy we can devote to productive pursuits.

HRN: How could the U.S. transition to a flat-tax system?

Steve Forbes: Since people get hung up on their deductions, we would institute a flat tax and give people the option of filing either under the new, simple system or the old, horrific system. If you're a masochist and want to punish yourself, you can file under the old income tax system. If you want the simplified one, you can go with that. I think 99% of Americans, out of sheer convenience, would quickly switch to the new system.

HRN: You mentioned deregulation. How would that help the U.S. economy?

Steve Forbes: Take health care, for example. We don't have a free market in health care. There's a disconnect between patients and health care providers. If you go to a hospital and ask how much something costs they'll look at you strangely because they think you're either uninsured or a lunatic. How many hospitals put the prices of procedures on their websites? It's like going into a restaurant and having no idea how much anything on the menu costs. It's a crazy system.

HRN: How would you go about deregulating health care?

Steve Forbes: First, we should repeal the Patient Protection and Affordable Care Act—Obamacare—which is an abomination. Patients should have more choice. The insurance companies don't compete freely for business. We should allow people to shop nationwide for health insurance. I live in New Jersey, which has a lot of senseless regulations. Why can't I buy a health insurance policy in Pennsylvania that costs less? We should equalize the tax treatment of health care expenses. If you're a business or are self-employed, you should be able to deduct the expense. And individuals should be free to go into the market and pay with after-tax dollars. We should make it easier for small businesses to form a collective to buy health insurance. There are a lot of simple things that could be done.

HRN: Do free markets really work?

Steve Forbes: Free markets, with sensible rules of the road, can do all the things that big government advocates say the government does but that it really can't do. Free markets enable people to move out of poverty and break down barriers between ethnic groups and between nations. Free markets increase cooperation and foster a sense of humanity. Everything that big government says it will do, you get more from free markets than from government bureaucracies. Which one has a better future, FedEx or the U.S. Post Office? Do you want food stamps or paychecks? Big government makes a lot of promises, but it's short sighted. Government is about meeting its own needs at the expense of the nation, and it's immoral. Free markets have gotten a bad rap, which happens to be the subject of my new book.

HRN: The Federal Reserve recently announced that it will extend its "Operation Twist" program by $267 billion through the end of 2012. Will that help the U.S. economy?

Steve Forbes: No. The more Federal Reserve Chairman Ben Bernanke messes up, the more he's hailed as a savior. The Federal Reserve's programs—quantitative easing 1 and 2 and Operation Twist—are just fancy words for printing up more money. It's a bunch of smoke and mirrors. They've done a lot of damage already, and they're continuing to. What they're doing is dangerous. Not only has the Federal Reserve created a lot of money and vastly expanded its balance sheet but, along with the U.S. Department of Treasury, it has dramatically shortened the maturity of U.S. government debt.

HRN: What do you mean when you say that the Federal Reserve has done a lot of damage?

Steve Forbes: By keeping interest rates artificially low, Chairman Ben Bernanke is cheapening the dollar, which punishes savers and harms future investment. It distorts financial markets and misdirects investments into things like creating the housing bubble. It subsidizes government borrowing at the expense of the rest of us. It's the equivalent of a cut in pay for workers. Let's say you're earning $20 per hour and the government cheapens the dollar; then, in effect, you're making $15 per hour. It violates contracts and undermines social trust.

HRN: What should Chairman Bernanke do instead?

Steve Forbes: Other than resign, Chairman Bernanke should realize that the gold standard works and that when you deviate from it, you create more and more uncertainty. He should re-link the dollar to gold. Doctors used to treat patients by bleeding them. Bernanke just keeps bleeding the economy.

HRN: Thank you for being so generous with your time.

Steve Forbes: Thank you.

After Words

Steve Forbes has a message for a nation dominated by increasingly short-term decisions made on Wall Street and in Washington D.C., and by ever greater economic, financial and currency instability. As long as America continues moving away from sound money; away from sound financial and economic policies; and, ultimately, away from freedom, its future grows more dim. The dot-com and housing bubbles followed by the 2008 financial crisis and the most severe economic decline since the Great Depression serve as powerful lessons. A future of bigger government, higher taxes, more burdensome regulations, less consumer choice and more unrealistic government promises requires more and more Federal Reserve play money. Steve Forbes has a quintessentially American policy prescription rooted in American history. The answer to America's economic problems is—and has always been—new wealth creation. New wealth creation doesn't come from the government or from the Federal Reserve's printing press. New wealth creation is what happens naturally with stable money based on the gold standard, lower taxes on individuals, a simplified tax code, reduced bureaucracy and free markets.

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