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Genesis of Good Ideas

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Rarely does one person have a positive idea that affects many others. Robert Mundell, who was awarded the Nobel Prize in economics in 1999, has already had two big ideas which have made life better for billions of others. He is known as the "father of the euro" because of his work on optimum currency areas.

Professor Mundell built on the foundations laid down by F.A. Hayek, Milton Friedman and others. He is also properly credited as the key architect of the reform in economic policy that freed the U.S. from the economic stagflation of the 1970s. Rather than continue to follow the failed Keynesian policies of the time, Mr. Mundell advocated cutting the high marginal tax rates that were stifling economic growth, while simultaneously having the Fed solely concentrate on getting the growth of the money supply under control to stop inflation.

Bob Mundell has been holding a small, annual conference here in Italy at an exquisite castle he purchased several decades ago and restored. His wife, Valerie, is a charming hostess and an accomplished organizer of the conferences. The castle is the family's principal residence, though Mr. Mundell continues to teach one semester each year at New York's Columbia University, where he is a professor of economics.

To get fresh ideas about the current global economic problems of the day, Mr. Mundell invites not only academic economists to his conferences but also central bankers and other financial and business professionals to obtain a variety of perspectives.

Some of the questions discussed at the conference will be found below, and you may wish to think about them yourselves. But first, the good news is that a number of the economists who attended this year felt the worst of the current financial crisis may be over. If so, some of the problem loans could begin to have real value again, which would greatly improve the balance sheets of some of the troubled banks.

Now for the questions: There have been many news stories about "sovereign wealth funds" which are investment funds controlled by a government rather than private parties. Should we be concerned about them? If you said "no," what about an asymmetrical relationship? An example would be where a fund controlled by a large country buys up

many of the assets of a small country and then has the potential to exert political leverage.

As would be expected, there was considerable debate about what to do about the big swings in the price of the euro against the dollar. Should the U.S. Government and the European Union set and then maintain a fixed price between the two currencies? Should a global currency be established? If so, should it be based on a basket of the major currencies or commodities? If so, which ones and how should the relative weight of each currency or commodity in the basket be determined?

Should the gold standard be re-established? If so, what would the price of gold be in order to cover the amount of currency now in existence? (Estimates were in the \$5,000 to \$15,000 per ounce range.) Would it even be possible to make a transition now to a gold standard given the increase in the price of gold that would be necessary?

Another issue of concern was whether central banks should target commodity prices (oil, corn, wheat, etc.) and asset prices (real estate, stocks, etc.) in addition to the prices of commonly consumed goods and services? When considering this question, remember that even though the prices of bread, milk and gasoline are going up, housing prices are going down, while the opposite was happening a decade ago.

Now as to oil prices: When will the price of oil peak and at what price? If people buy the all electric automobiles that will be produced in the future to avoid the high price of gas, will there be enough electric power generated to support the switchover?

Mankind is faced with endless problems, but it has always been so. Fortunately, our species is also very good at solving problems, which is why life is improving for most people on the planet. This improvement comes about because of business and policy entrepreneurs, such as Bob Mundell, who help stimulate the rest of us to think of solutions to the problems of the moment and provide the environment where good ideas are born.

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