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**THE ECONOMICS OF THE GOLD
STANDARD**

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GOLD STANDARD**

BY

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THE problems of the Gold Standard, like all problems, can be viewed from different angles, and the following study does not pretend to be exhaustive. The chief aim has been to explain the meaning of the Gold Standard and the machinery by which it is maintained. From that point of view, particular attention has been given to the probable long-period effects rather than to the more immediate consequences. Long-period views in these days are not always popular and are frequently received with impatience; but they cannot be ignored.

The argument that trade and industry stand to benefit by stable exchanges which the return to gold secures, has been much repeated in recent discussions. Much less familiar are the disadvantages even of stable exchanges if these exchanges are uneconomically high. Such a result bears most heavily upon export trades, and under present conditions of commerce, tends to intensify the existing depression in these trades, until the internal value of the currency is raised to correspond with the high exchanges. That more immediate problem has not been dealt with in these pages, since a full discussion would have diverted the book from its main purpose.

The immediate question nevertheless remains of great practical significance, and no good can come from ignoring it. The dilemma of the present situation would seem to be clearly defined, though none the less difficult in its solution. Granted that the present high level of the sterling exchange is the product of, and is maintained by, a group of special causes, and granted also that the high prevailing rates do

not correspond with the relation of British gold prices to the level of world gold prices, equilibrium might be attained in one of two ways. The first involves the repeal of the Gold Standard Act of 1925, thereby allowing the actual exchange to return to its natural level. The practical objections which would be brought against any such suggestion are obvious. Confidence would be shaken, and while the present additional burden imposed on the export trades might be removed, the reactions consequent upon exchange fluctuations would involve considerable disturbance and uncertainty.

The second alternative requires the raising of the internal value of the currency, or, in other words, a certain further amount of deflation. In so far as that process carries with it a series of conflicts over wages, much friction is inevitable. It is sometimes forgotten that while the high exchanges prove burdensome to the export trades, they should tend towards the cheapening of food imports. How far exactly the appreciation of sterling will operate in this way cannot yet be estimated; but to the extent to which it takes place and leads to a lower cost of living index figure, the amount of friction to be met during the transition might be reduced.

Great expectations, however, are to be avoided. No easy way of escape from the dilemma can be found and it would be useless to expend time in search of one. If, on the other hand, the fundamental elements in the position were clearly recognised the line to be taken might be followed with a minimum of disturbance. D. T. JACK.

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