

HIGH SPOTS IN THE CASE FOR
A RETURN TO THE
INTERNATIONAL GOLD STANDARD



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THE PRESENT WAR broke out in the Autumn of 1939 after ten years of widespread economic crises and depressions. During that period the monetary systems of all important nations and of most minor ones broke down, and metallic-money standards everywhere gave way to depreciated and depreciating managed paper-money standards. In 1939, the only metallic money standard of importance left in the world was that of the United States, and our then recently restored American gold standard was a weak hybrid—a mongrel which resembled its managed paper-money-standard father almost as much as it did its gold-standard mother.

As the War has progressed the paper-money standards of most countries have grown progressively worse and inflation has become rampant. Every one of the thirty-one countries for which the League of Nations publishes price index numbers has experienced inflation since 1939, and in the majority of them it has been serious. The end is not yet.

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No nation in the world today would want to look forward to a continuation after the War of its present monetary system.

The problem of world-wide monetary reorganization is, therefore, one that urgently demands an early solution. How will we solve it?

A RECOMMENDATION FOR THE GOLD STANDARD

IN THE SUMMER OF 1931, the famous MacMillan Committee, consisting of fourteen eminent British financiers and economists, made its Report on Finance and Industry. Although there was one dissenting opinion, that of Lord Bradbury, and although certain reservations were made by other members of the Committee including John Maynard Keynes, no one dissented from the recommendation for the retention of the gold standard. On this subject the Committee said, "There is, perhaps, no more important object in the field of human technique than that the world as a whole should achieve a sound and scientific monetary system. But there can be little or no hope of progress at an early date for the monetary system of the world as a whole, except as the result of a process of evolution starting from the historic gold standard." With this declaration I am in full agreement and this article is a brief statement of my principal reasons for this judgment.

PUBLIC CONFIDENCE IN GOLD

THE FIRST REQUIREMENT of any post-war monetary standard, that can be widely adopted internationally and maintained for any considerable time, is that it shall have the confidence of the people. It should be free from international jealousies. Like Caesar's wife, the standard should be above suspicion. To this end it should be simple and be a development out of a long common experience. The people distrust what they do not understand.

To be kept simple and to function efficiently and not at cross purposes the monetary system should be kept free from extraneous matters either of a fiscal or social-reform nature. The chief functions of money are those of providing the public with a common measure of value and with efficient and stable media of exchange. These are highly important functions and every monetary system should be organized and operated with the primary purpose of performing them well. All too often monetary systems have been wrecked on the rocks of fiscal opportunism.

The instinct for gold is a universal one. It is found among all peoples, savage and civilized, throughout history. Gold is today, as it has been for centuries, the most widely treasured and the most highly marketable commodity in the world. This high public esteem for gold is not likely to disappear quickly. The value of an ounce of gold in terms of its purchasing power over commodities in the United States during the half decade 1936-1940 was greater than for any other quinquennium back to the beginning of our price index numbers in 1801. This was true, moreover, in face of the fact that the large world production of gold since 1929 has been equal to the world's total known stock of monetary gold in 1923—the accumulation of the ages up to that time.

No other kind of a currency system in a distracted post-war world will so quickly restore the confidence of the public as a true gold standard. No other kind can be made so simple, so easily understood. That means much for the monetary system of a democracy.

GOLD STANDARD HIGHLY AUTOMATIC IN ITS OPERATION

THE MONETARY STANDARD OF THE FUTURE should be highly automatic in its functioning. This does not mean that it should be subject to no management. All currencies are more or

less managed. It is a question of degree. Such forms of management, as varying discount rates, open market operations and changing reserve requirements have doubtless come to stay; although resort to them has often done more harm than good. At any rate, whatever management we have should be superimposed upon a monetary system that is fundamentally automatic in its operation. Such management as does occur, moreover, in each country (except possibly in time of war) should be in the hands of the central bank where it can best be kept free from the blighting hand of politics.

The world has had many generations of experience with the operation of a highly automatic gold standard and the fundamental rules of the game are fairly well understood. Stronger resistances against political exploitation are put up by such a gold standard than by any form of governmentally managed-paper-money standard. "We have gold," says an old proverb, "because we cannot trust governments."

GOLD STANDARD AS AN INTERNATIONAL STANDARD

THE MONETARY STANDARD OF THE FUTURE should be a broadly international standard, and gold is the only standard at present that offers any reasonable prospect of becoming an international standard on a large scale. Thanks to recent developments in transportation and communication, by air, water and land, the world will be a much smaller one in the future than it has been in the past. For this reason, as well as others, the demand is becoming increasingly urgent on the part of thinking people, that wasteful economic nationalism be broken down and that trade and finance be permitted to move with a minimum of restrictions across political boundaries. To this end all the leading countries, and as many as possible of the minor ones, should have the same monetary stand-

ard, as more than two score of them did have, in gold, prior to the crisis of 1929. Gold makes the strongest case to be the international standard of the future. There is no other metal in the running. The last remnants of the silver standard have practically passed from the stage since World War I and there has been no bimetallism in the world for 70 years. Governmental managed paper-money standards, often tried, have been proven to be in practice eminently nationalistic standards and very susceptible to depreciation under the fiscal pressure of governments.

STABILITY OF GOLD AS A STANDARD

THE INTERNATIONAL STANDARD of the future should provide the nations of the world with monetary units that have a high degree of stability in value.

Both inflation and deflation are evils to be avoided but, of course, a perfectly stable unit of value is unattainable. Gold, although far from being stable when viewed over long periods of time, is usually reasonably stable over short periods, and has been more stable over the past half century than any other monetary metal. It gives promise of continuing to be so in the future. The world's annual production of gold even at its existing high rate is equivalent to only about 4 per cent of the total known stock of monetary gold. This means that the total supply available in the monetary market changes at a very slow rate — an outstanding characteristic of the yellow metal.

The important question here is: Not what standard would be most stable in Utopia, but, taking human nature as it is and politics as they are, what kind of a monetary standard is likely to prove the most stable in our present work-a-day world? To this question the answer is clearly gold.

A FEW POSTULATES OF THE POST-WAR INTERNATIONAL GOLD STANDARD

IF THE VERDICT is in favor of gold for the international monetary standard of the future, the next question is: What kind of a gold standard should we have? To this question my answer must be summarized very briefly.

I. All three of the principal types of the gold standard, i.e., gold-coin, gold-bullion and gold-exchange standard should be used; every country selecting the type it considers best suited for its own particular purpose.

II. Each country should choose its own gold unit, a unit that will presumably be approximately the gold equivalent of the paper-money unit prevailing when the gold standard is adopted (or an integral multiple of that unit), so as to hold to a minimum the disturbances resulting from price, wage and fiscal readjustments.

While there should be a high degree of voluntary monetary cooperation among the nations, no attempt should be made to *force* upon any nation either the adoption or the continual maintenance of any particular monetary unit. Nothing is more important in a nation's economic and political life than the value of its monetary unit, the unit in which all debts, public and private, are payable, all taxes are collected, all commodity purchases are effected and all wages paid. The political power tied up in the control of the

size of the monetary unit is enormous. It is unfortunate but true that, in time of war or of other great economic crisis, a reduction in the value of the monetary unit through inflation is very frequently resorted to by the governments, in the belief that it is the only effective means of obtaining promptly a large part of the necessary financial sinews. Revolutionary governments, moreover, usually finance themselves chiefly by inflation. Financing by inflation is likely to be the line of least resistance for governments in critical times, and most governments at such times will justify themselves on the plea that the nation's preservation (or perhaps, under their breath, their own) is Heaven's first law.

In plans for international monetary reform it is unrealistic to overlook this fact. A government does not often deliberately *ad hoc* debase its monetary unit; it simply slides off of it and down Inflation Hill, and then recognizes the fact afterwards.

Few if any nations will be willing to contract to give over to any super-state or other international body their sovereign right to control their own monetary system, and if any of them do so contract, the contract will be of little value in time of national emergency.

III. There should be convertibility on demand of all kinds of non-gold money into gold coin, gold bars, or gold drafts.

IV. The exportation and importation of gold should be free from all trade restrictions and tariffs.

V. The principal monetary authority in each country should be its central bank of issue on whose controlling board the government should be well represented. Among the central banks there should be maintained a close though largely informal and non-statutory cooperation directed toward the orderly functioning of the international exchanges.

VI. There should be an international bank of some kind through which the central banks can cooperate in collecting international monetary and financial statistics and in effecting international payments, and which, when needed, can take the leadership in measures to enable strong countries to help weak ones in the maintenance of their monetary standards.

VII. A high degree of freedom should be permitted in the international movement of goods and services. High tariff barriers are obstacles to international trade and to the smooth and orderly functioning of any monetary standard.

No kind of monetary standard would have functioned satisfactorily in the kind of a world we have been living in during the last thirty years. We must have many other fundamental reforms in our economic and political system if we are to have a successful monetary system but, as stated previously: the best hope for the monetary systems of the post-war world lies in "a process of monetary evolution starting from the historic gold standard."

PURPOSES OF THE
ECONOMISTS' NATIONAL COMMITTEE
ON MONETARY POLICY

1. To enlighten the public as to the economics of the monetary issues before the country.
2. To educate the public as to the desirability of an early return to a gold standard.
3. To combat unsound monetary programs such as those of the inflationists, devaluationists, and commodity dollar advocates.
4. To issue public statements on current monetary issues as circumstances seem to warrant.
5. To place speakers at the disposal of the public.
6. To distribute its own and other literature.
7. To suggest from among its members experts for those who wish such aid.