

# THE TRIUMPH OF GOLD



THE  
TRIUMPH OF  
☉ GOLD ☉

BY CHARLES RIST

*Translated from the French  
With an Introduction*

BY PHILIP CORTNEY

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“The one true reserve, gold.” \*

## *Introduction*

Charles Rist passed away in 1955. He was one of the great monetary economists of our time and enjoyed an international reputation. I had the good fortune to be one of his friends. Whatever worthwhile knowledge of monetary issues I acquired, which resisted the acid test of constant reflection and experience, I owe to him. While he had deep rooted convictions, Rist was no doctrinaire: his mind remained open, receptive and lucid until the last moments of his life. “L’histoire des doctrines relatives à la monnaie et au crédit” by Charles Rist is one of the great books on money. Unfortunately, the English translation does not do it justice. Whenever I become disturbed by the assault of fallacies expressed by clever sophisticated writers, I reread Charles Rist, whose intelligence, good sense and clarity give his ideas the power of evidence.

\* \* \*

Those who are pressed for time could limit their

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\* In an article: “Monetary Magicians,” New York Times, April 8, 1961.

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first reading to the Preface by Charles Rist and to the articles: 1) Gold and a Return to the Ideas of John Law (p. 107). 2) The Price of Gold in the the United States (p. 135), and 3) How to Evaluate the New Price of Gold (p. 208).

## FROM JOHN LAW TO ALLAN SPROUL

It occurred to me that an English translation of Rist's last book "La défense de l'or" could serve a good purpose at a time when our statesmen need clear thinking and sound guidance in order to restore monetary sanity. I chose for the English edition the title "The Triumph of Gold" because it was Rist's conviction, as it is mine, that only a return to the gold standard is able to preserve our free society and human freedom. We shall have sound money or we shall cease to be free. Only the discipline of the gold standard will insure us sound currencies and a workable international monetary system, both essential to the preservation of the free world.

In an appendix to this book the reader will find a famous speech by Allan Sproul, delivered in 1949 before the American Bankers Association. He was then President of the Federal Reserve Bank of New York. The ideas and policies regarding gold, enunciated in this speech, have become the "constitution" of the paper money managers. Rist's book answers most of the ideas defended by Mr. Allan Sproul. This is not surprising, because the views held and

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advocated by Mr. Sproul are as old as they are discredited by actual experiments in the past.

In his speech, Mr. Allan Sproul stated: "I perceive no moral problem involved in this question of gold convertibility. Money is a convenience devised by man to facilitate his economic life. It is a standard of value and a medium of exchange." It is symptomatic of his thinking that the "store of value" attribute of sound money, universally recognized by all important writers on money, is not even mentioned. Does Mr. Sproul think that the depreciation of the dollar by more than 50% since 1940 does not matter and is not a moral issue?

Discussing the depreciation of the dollar since 1939, the National City Bank in its "Monthly Letter" dated December 1951 made the following pertinent comments, as true today as they were then:

"Gold has had the best record over centuries as a store of value (a vital function of money which many economists nowadays forget). Paper money has been good when issued by banks which have been under a legal obligation to maintain convertibility into gold at the option of the dollar. . . . Paper money directly issued by National Treasuries has the worst record, though money can be just as bad if it is put out by a bank of issue which is free from the necessity of maintaining gold convertibility and bonds to the wishes of a profligate government for cheap financing. Most of the worthless currencies issued in foreign countries during and after the war bore the stamp of

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a corrupted central bank of issue.”

Is the preservation of a free society not a moral issue? The issue between individualism and collectivism, between internationalism and economic nationalism is settled when a country has decided what kind of monetary system it is going to have. If the government is free to print and manipulate money at will and arbitrarily, then we cease to have a free society.

In a speech delivered also in 1949 by Mr. Randolph Burgess, then Vice-Chairman of the National City Bank of New York, one can read:

“Of course the modern economic planners don’t like the gold standard just because it does put a limit on their powers . . . I have great confidence that the world will return to the gold standard in some form because the people in so many countries have learned that they need protection from the excesses of their political leaders.”

Henry Hazlitt in his recent book “Inflation” writes as follows: “The gold standard is not important as an isolated gadget but only as an integral part of a whole economic system. Just as ‘managed’ paper money goes with a statist and collectivist philosophy, with government ‘planning’, with a coercive economy in which the citizen is always at the mercy of bureaucratic caprice, so the gold standard is an integral part of a free enterprise economy under which government respects private property, economizes in spending, balances its budget, keeps its promises, and refuses

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to connive in overexpansion of money and credit.”

If the gold standard did not have anti-totalitarian virtues, the Nazis would not have conducted a campaign against gold which they didn't cease even during the war.

Moreover, the gold standard has served the cause of peace and has been an admirable instrument of international cooperation. It has coordinated the movements of prices in the different countries and it has thus unified the international monetary system. It is thanks to the gold standard that the good functioning of the international monetary system has been spared the evil influences of the doctrine of national sovereignty. It is the gold standard which has made possible the expansion of international commerce and the distribution throughout the world of the benefits that are derived from the international division of labor. It is gold and its general acceptance which permits each individual to buy what he wants and to sell the fruit of his labor any place in the world, thereby spreading the benefits of competition. It is gold which assures the individual his independence and which is the best shield of the small states against the arbitrariness of the large ones. Contrary to what a superficial judgment would indicate, gold and the gold standard are not the weapons of oppression of the well-to-do, but rather the weapons of defense of the weak and the disinherited. It is the stability of gold, its general acceptance and its liberty of movement which have made possible the devel-

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opment of backward countries by the savings of the capitalistic world (which means privations and individual risks!). It is gold, to sum up, which has been the best weapon against economic nationalism and its dangers.

## BLUNDER OF MONEY MANAGERS

It is not true, remarked Mr. Sproul, that gold convertibility eliminated wide swings in the purchasing power of the dollar. "What happened to us in 1920-21 and 1931-33 under a gold coin standard should prevent a too easy acceptance of that standard as the answer to the problem of a money with stable purchasing power." No objective defender of the gold standard has ever claimed perfection for it. The gold standard cannot offset the mismanagement of our monetary affairs by government, central banks and commercial banks, made possible by our Federal Reserve Act, nor can it correct, at times, the incompetence of the money managers. The fall in prices in 1920-21 was normal after the high level reached due to the paper money and credit inflation during the war and to the general rush to buy much needed goods accompanied by speculation fed by the banking system. Rist noted also that the convertibility of the dollar was maintained by the fact that the war compelled Europe to ship gold to the United States during the entire war of 1914-18 and immediately after until 1924-25.

As to the great depression and the fall in prices

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in 1931-33, this was a consequence of one of the greatest mistakes ever made by the managers of the gold standard after the end of World War I. The reason why the 1929 depression was so deep and prolonged remains a mystery to most people, instructed or not. Essentially it was due to the fact that the governments of the United States and of Great Britain failed to recognize that the huge paper money inflation during World War I and the concomitant rise of prices made impossible the maintenance of the pre-war relationship between gold and paper currencies. Germany returned to the gold standard in 1924 and Great Britain in 1925. Both tied their currencies to the dollar at the pre-war value in terms of gold. Until 1924, no central bank of any large European country was buying gold, with the result that gold was accumulated in the United States, and the illusion arose that dollar prices (due to paper money inflation during the war) were gold prices.

## NO SHORTAGE OF GOLD

Most British economists hold the view, expressed again recently by Professor Triffin, that the severe fall in commodity prices after 1929 and particularly after 1931, was due to a "shortage of gold." The fault lay, according to Professor Rist, and I share his opinion, in governments not recognizing the fact that inflated monetary means and prices had made the international liquidity in gold inadequate, and had hampered the expansion of production of gold,

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necessary to support high levels of economic activity at the level of prices inherited from the war. A re-adjustment of the price of gold in terms of the dollar and the pound should have been made in 1924-25 to bring the purchasing power of gold nearer what it would have been if the rise in prices had been due to an increase in the production of gold and not to monetized government debt. Such a readjustment would have put an end to the presumed "shortage of gold."

The fundamental error in the management of the gold standard had two major consequences. First, it led to the adoption of the gold-exchange standard to "save gold." As a result, in 1931 the pound-sterling collapsed because of massive withdrawals of foreign funds deposited in British banks, which accentuated the fall in dollar-prices, still tied to gold at the pre-war parity. Second, the Federal Reserve Board succeeded in the 1920's in holding up the price-level for a surprising length of time by an abnormal expansion of inflationary credit, but in so doing it helped produce the speculative boom. The collapse came when excessive private debt creation could no longer be expanded, thus putting an end to the post-war boom at a time when the trend of prices had turned downwards, making the depression the more severe.

With a complete disregard of the 1920-30 lesson, we are repeating the same mistakes now, and an abnormal expansion of inflationary money and credit was superimposed upon the paper money expansion

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which resulted from the financing of World War II. The lack of international gold liquidity led to the widespread use of the dollars as a reserve currency. The huge accumulation of foreign short-term funds in the United States is a constant menace to the dollar. By our deliberate policy, the free world has been put on a dollar standard, the dollar has been put on a government bonds standard, and government credit is largely dependent upon politics and labor unions. To clarify this situation, I would mention that bank notes (\$31 billions) and deposits with the Federal Reserve Banks (\$18 billions) are covered to the extent of about 55% by government securities (\$27 billions), while foreign short-term claims in the United States amount to over \$20 billions. If we decided to put an end to inflation, the disequilibrium between the general price level and the gold valuation of the world's key currencies, at \$35 an ounce, plus a low production of gold (due to its relatively low price), while the production of goods of all sorts is expanding, would exert a downward pull on prices and bring about a recession or depression and unemployment.

## DISTRUST OF MONEY MANAGERS

In the same speech, Mr. Allan Sproul made the two following remarks:

“Discipline is necessary (in monetary affairs) but it should be the discipline of competent and responsible men, not the automatic discipline of a harsh

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and perverse mechanism.”

“When you boil it all down and try to eliminate mythology from discussion, the principal argument for restoring the circulation of gold coin in this country seems to be distrust of the money managers and of the fiscal policies of the government.” Precisely, and I wonder why Mr. Allan Sproul should be surprised. It is the mismanagement of the gold standard and of our credit system which brought us the 1929 collapse and the great depression. It took a great deal of doing to put the dollar, the strongest currency in the world only ten years ago, in the vulnerable position it finds itself, leave aside its depreciation of 57% since 1939!

In an excellent book “Banking and the Business Cycle” published jointly in 1938 by three professors, C. A. Phillips, F. T. McManus and R. W. Nelson, one can read the following statements:

“Two events occurred in 1914 that were to have a profound influence on subsequent economic developments in the United States. The first of these was external, the outbreak in Europe of the World War; the second was internal, the formal inauguration of the Federal Reserve System. Both were events propagative of an unprecedented orgy of inflation. The two, inextricably intertwined, brought about a great inflation of bank credit in connection with war finance, and both were productive of striking changes in the economic structure of the world during and after the war. When the hegemony of world finance

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passed to the United States during and after the War (World War I) and with it the responsibility for international monetary management, there were only a few nations remaining on the gold standard, and the inexperienced or incapable hands in this country essayed to manage a purely domestic gold standard, apparently with scant regard for the international aspects of the situation."

Since the great depression, the hyper-elasticity of the Federal Reserve System has been still increased, (mainly by permitting bank notes to be covered by government bonds instead of commercial bills) and our monetary system has been streamlined into the biggest and subtlest inflation engine in the world.

I am coming now to one of the least understood abuses and distortions of our currency system: the tampering with the purchasing power of our standard of value.

## MEANING OF STANDARD OF VALUE

Mr. Allan Sproul accepts gold as a "standard of value." He also mentions that the Secretary of the Treasury is required, by law, to maintain all forms of United States money at parity with the gold-dollar which contains  $1/35$  of an ounce of gold.

Gold is both a commodity and money. It has been chosen to serve as money by traders and governments because of its intrinsic qualities as a commodity and because of its international acceptance as money.

In his book on money, D. H. Robertson defines

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the gold standard as "an arrangement whereby the value of a monetary unit and the value of a defined weight of gold are kept at an equality." By "value" Robertson means "purchasing power."

It is important to understand that our "managed currency" experiment is tampering with the purchasing power of our standard of value. Congress wanted a monetary system in which the purchasing power of the dollar is made to vary with the purchasing power of our standard of value, which is gold. However, the hyper-elasticity of our Federal Reserve System made it possible for us to monetize debt and increase the supply of money and credit to such an extent that the value of gold is made to conform to the purchasing power of the dollar instead of the value of the dollar conforming to the value of gold.

Professor Harold R. Reed in his book on "Money, Currency and Credit" makes the following comments:

"The gold standard is usually defined as a monetary system by which each unit of currency is redeemable in a stipulated amount of gold. . . . Convertibility provides only a mechanistic definition of the gold standard. In monetary discussions the standard is the rule for measuring fluctuations in the value, that is, the purchasing power, of the monetary unit. . . . What must it mean then to say that a certain monetary or currency system is tied to the gold standard? The answer surely must be that the exchange-value of a unit of the currency increases

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when gold, as a commodity, commands more of other goods in exchange. If, on the other hand, the exchange-value of gold falls, the purchasing power of the currency unit must likewise decline.”

D. H. Robertson explains that a large and rich country (like the United States) has the possibility to make the purchasing power of gold conform to the value of her money; such a country can then maintain an arbitrary standard, while still preserving intact the full trapping of a gold circulation or gold bullion system.

Ed. Bernstein, the former Director of Research of the International Monetary Fund, expressed himself as follows on this subject: “What makes the value of gold go up or down is monetary policy. It is the policy of the monetary authorities in creating units of money that determines the value of money; and it is the value of money (the dollar) which then determines the value (purchasing power) of gold.” This is the view generally held by those in favor of paper money management. The interpretation of Bernstein’s explanation leads one to the conclusion that the standard of value is the paper dollar! In fact the paper money managers keep asserting that it is the dollar which gives value to gold and not gold to the dollar.

## THE PRICE OF GOLD

It is important to realize that the present level of prices, wages, incomes is not the result of a normal

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relationship with the monetary gold reserves and the production of gold, but the outcome of huge monetizing of public and private non-commercial debt in the United States as well as in most other countries since 1939. The monetary means (currency and deposits) of the free world have increased to five times the amounts existing in 1939. If we had not monetized public and private non-commercial debt, the level of prices and wages would not have reached the present heights and the gold production would be much larger (because costs would be lower). The huge increase in fiat monetary means would not have been possible, if the free convertibility into gold had been maintained. These being the facts, it seems incredible that so many persons, even among the instructed, should continue to fight for the pre-war relationship between gold and the paper moneys. It is the tampering with the standard of value, which makes it necessary to raise the price of gold, in order to restore a normal relationship with the quantity of existing paper moneys (currency and deposits) and to permit an increase in the production of gold. Otherwise, if we should decide to put an end to inflation, a deflationary trend of prices or massive unemployment would be the result.

I realize that a change in the price of gold in terms of all currencies presents problems. In fact, I don't know any solution to our money muddle to which one cannot find objections.

But what are the alternatives? Either a severe

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deflation (particularly in the United States and Great Britain) or managed inflation assorted with international makeshift plans à la Triffin, which sooner or later would end in a catastrophe. There is of course the alternative of national socialism, which means also inflation, but held in check by controls of prices, wages, profits and exchange controls. Who wants this kind of a system which entails the loss of human freedom?

The only fundamental solution and one which presents the least difficulties is the return to a genuine international gold standard and a rise in the price of gold.

Many people confuse the request of a worldwide rise in the price of gold in terms of all national currencies with a quest for a devaluation of the dollar. I wish to make clear that a devaluation of a currency is usually designed to take care of the lack of balance between internal prices and world prices by a change of the exchange rate, while a worldwide adjustment in the price of gold is designed to reestablish a normal relationship between gold production and the production of goods so that no deflationary trend of prices should ensue once an end is put to inflation, so as to make possible a return to the international gold standard. The adjustment in the price of gold is essentially an international issue and does not necessitate a change in present exchange rates, unless some of them are already out of tune (which may be the case of the mark).

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### OBJECTIONS TO RAISING THE PRICE OF GOLD

Let us now analyze the dangers usually mentioned in relation to the proposal to increase the price of gold in terms of all currencies (*assuming an end to inflation and the restoration of the international gold standard*):

1. It is said that a raise in the price of gold may feed inflation. But this argument amounts to saying that we are less afraid of paper inflation by means of monetizing government debt than by the potential of inflation based on gold. If the government of the free world decided to put an end to inflation, while averting deflation thanks to the rise in the price of gold, the central banks are familiar with the means of sterilizing gold if such a need presented itself. Take the case of the United States. Our Federal Reserve Banks hold about \$27 billions of government securities, which are mainly the result of financing the war. If the price of gold should be doubled, the windfall of approximately \$18 billions could and should be used by the U. S. government either to repurchase 18 billion dollars of bonds at present held by the Federal Reserve Banks, or still better to reimburse the short-term foreign deposits in American banks.

In order to create a constitutional check on our inflationary bias and practices it may prove necessary to adopt one or more amendments to our Constitution prohibiting the institution of exchange controls in times of peace and that labor unions cannot be

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exempted from our anti-monopoly laws. The Federal Reserve System would have to be changed radically as well as some of the rules governing the operations of the commercial banks.

2. The second objection which is often made to a change in the price of gold is the following: if the governments are allowed to do it once they may be tempted to repeat such a change whenever it would seem expedient. In the first place, an inflation of paper money such as we had after 1939 is practicable only when countries wage a big war. Only a big world war gives rise to an inflation of monetary means of such magnitude that it makes it necessary to readjust the price of gold after an end is put to the war and to inflation. Besides, we should not raise the price of gold unless we are prepared to meet all the conditions necessary for a proper working of the international gold standard.

3. Another objection that is made to a rise in the price of gold is that by so doing the overall shortage of international liquidity may be cured but the countries that didn't have enough reserves would still be left with inadequate reserves after the change in the price of gold. I still remember the caustic remarks made by Charles Rist in the 1920's when this argument was put forward. In the first place, a change in the price of gold is not meant to redistribute international reserves. Nor is it supposed to help remedy the present deficit in the international accounts of the United States. Its purpose is to re-

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establish a normal relationship between gold production and the production of goods, and to increase international liquidity. Any country that wants to acquire or "buy" gold reserves, as Lord Lionel Robbins puts it, can do it if it puts its mind to it. The recent example of Germany is manifest proof that a country can improve its international liquidity by adopting proper policies. On the other hand, Sir Dennis Robertson remarked a long time ago that any country can in no time bring about a deficit in its balance of payments if it does not manage properly its monetary and fiscal affairs. The example of the United States does not need any commentary. It seems evident, however, that if the overall international liquidity were increased by a substantial rise in the price of gold it would be easier for each country to acquire the reserves it desires or needs.

4. One further objection is that the Russians will benefit from a rise in the price of gold. This is probably true but it doesn't change the fact that it is to our advantage to increase the price of gold if we are to return to an international gold standard. The Russian policy regarding gold is shrouded in mystery. They know perfectly well that a big gold reserve gives a country both power and prestige. Failing to uncover the Russian mystery regarding its policy it seems clear to me what our response should be: (a) We should pursue economic, fiscal and monetary policies aimed at making the dollar and the pound as strong currencies as possible. (b) We should

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endeavor to acquire as large stocks of gold as possible so that the dollar and the pound should be invulnerable in times of peace and war. (c) We should encourage as large a production of gold as practicable. (d) We should buy as much Russian gold as is offered to us. All information available leads to the conclusion that the Russians produce gold at a cost much higher than \$35 an ounce. This means that they can accumulate large stocks of gold regardless of cost and of the selling price.

## FREE MARKETS FOR GOLD ESSENTIAL

If gold is to be the standard of value and not the dollar, it is clear that we need free markets for gold and that anyone must be permitted to import or export the metal. Yet Mr. Sproul opposes free markets for gold on the ground that the result would be gold convertibility and the possibility for the "hoarders" to acquire gold. The gold hoarders are literally a nightmare for Mr. Sproul. People have no desire to hoard gold (which does not earn any interest) as long as they have confidence in the currency. The paper money managers dislike free markets for gold because they expose the arbitrary and fictitious legal rate. Rist has a great deal to say on this subject as the reader will discover. The well-known financial editor of the "Sunday Times," George Schwartz, wrote recently:

"The attraction and virtues of gold are that governments can't roll it off or create it with the stroke of

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a pen. It imposes some monetary discipline by affording a safeguard, a store of value which may escape looting, debasement and another forms of spoliation . . . that is why the people of the East, with centuries of experience of rascality by rulers, bandits and other depredators of human welfare, hoard a few pieces of gold against the days of pillage and spoliation." (A quotation from Melchior Palyi's recent book "An Inflation Primer.")

## GOLD THE ONLY DISCIPLINE

The irrational, emotional fear and repugnance some people have acquired for the words "gold" and the "gold standard" is one of the strangest phenomena of our times. Experts speak about "free convertibility of currencies" but their tongue freezes if they have to say "convertibility into gold," as if the words free convertibility made any sense if it is not convertibility into gold.

The same individuals who profess to believe that monetary policy should aim at obtaining monetary stability, free convertibility of currencies and stable exchange rates reject the discipline of the gold standard, as if the monetary discipline they declare themselves ready to accept were in their essence different from the discipline of the gold standard. And curiously enough most of them do not advocate discarding gold in monetary affairs but limiting its role to the settlement of international balances and to providing us with a guide in international finance and trade.

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What kind of "discipline" are these individuals willing to accept in order to attain our professed goals? A few superficially new concepts have been coined lately like the "discipline of balance of payments," or the discipline of a "*low* gold liquidity," or the discipline of "sound monetary and fiscal policies" or the discipline of the International Monetary Fund. But the more one analyzes these supposedly "new" disciplines, the more one has to admit they imply a conduct of our affairs identical to that inherent in the concept "discipline of the gold standard." I have stated repeatedly that the conditions necessary to put an end to inflation are not different from those to restore the gold standard. In fact those countries which handle their monetary affairs most ably and successfully behave as if they were on the full gold standard. Yet Mr. Allan Sproul holds strongly to the view that we can restore confidence in the dollar, balance our international accounts, obtain a sound "efficient international monetary system" without the compulsion of the "rude and often perverse restraint of some mechanical device," by which he means the gold standard. He does not explain how else we can reach and maintain our professed goals except to say that he relies on the "competence and wisdom of men." In the light of our dismal monetary history since the creation of the Federal Reserve System one wonders who in Mr. Sproul's opinion are those "competent and wise men," and whether he has considered the limitations put on their "wisdom and

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competence" by our living in a democracy with universal suffrage.

## GOLD MONEY VERSUS PAPER MONEY

Whether a country has a gold standard system or a paper money system, it requires "management" of a sort. The essential difference between the two systems is that in a gold standard system there is a limitation on the expansion of money and credit, and when properly managed the banking system, and particularly the central bank, cannot monetize government debt; these are precisely the very virtues of the gold standard.

What are the differences between the management of a paper money currency, as compared with the management of a gold standard currency, assuming that our goals are monetary stability, free convertibility of currencies and stable exchange rates?

The main characteristics of a paper money system are the following:

a) The printing of bank-notes and the expansion of credit are not limited by the amount of gold held by the central bank.

b) Government bills or bonds are considered a sound substitute for gold reserves.

c) The use of fluctuating exchange rates, when considered desirable.

d) The use of exchange controls, when and to the extent considered necessary.

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If we assume, however, the above-mentioned goals to be the guide-posts of our monetary policy, the only difference I can see between the management of a currency on the gold standard and that of a paper money currency is the amount of gold held as reserves. In other words, a country which is on the gold standard has to correct, in case of balance of payments deficits, its monetary and fiscal policies earlier than a country which has a paper money currency.

The main instrument of "managed money" is the purchase or sale of government bills or bonds by the central bank, the so-called "open market operations." In Great Britain it is the banking department of the Bank of England which conducts such operations. The European central banks, which were on the gold standard, did not consider it sound practice for the central bank to buy government bonds. It was the Federal Reserve System of the United States which, under the pressure of the needs to finance World War I, started the practice of a central bank buying and selling government bonds. I agree with Benjamin Anderson, Lionel Robbins, Charles Rist, and others that it is these purchases of government bonds that in 1924, and particularly in 1927, stimulated and fed the speculation in stocks and real estate ending in the 1929 crash.

I wish to make clear that I am not opposed to open market operations, even in a country on the gold standard, in order to give more elasticity to the credit management by the central bank. However,

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if such operations are to be allowed, the extent to which a central bank can hold government securities should be strictly limited. For instance, it seems to me that at the present time the Federal Reserve Banks of the United States do not need more than \$3 billions to take care of the desirable elasticity of the credit mechanism. If the figure of \$3 billions were initially adopted, (assuming, of course, a radical reform of the Federal Reserve System), it could be increased from time to time according to some rules, easy to be imagined, which should take into account the amount of gold reserves held by the Federal Reserve Banks.

## OBSTACLES TO GOLD STANDARD

If the above arguments are valid, what are the objections to restoring the international gold standard system? It would require super-human ability, competence and wisdom, and a different political set-up than we have, with so many sovereign nations, to manage a paper money system on the rules of a gold standard system. It was precisely a virtue of the international gold standard system that it made possible a well-knit worldwide economy, despite the sovereignty of individual nations, and semi-automatic adjustments of the balances of payments, without the intervention of governments and without requiring a super-human knowledge and infallibility on the part of the money managers.

A return to an international gold standard system

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is possible and advisable only on the two following conditions:

a) An end should be put to monetizing of government debt and private non-commercial loans, as well as to inflationary practices by government, labor and business. (This prescription applies also to obtaining domestic monetary stability, as explained later).

b) The price of gold will have to be increased to a minimum of \$70 an ounce if we are to avoid a fall in prices and/or a recession or depression.

These are formidable obstacles, indeed. It is no use minimizing the difficulty of overcoming the inflationary bias and practices of our times. This is a task for our statesmen and leaders. What are the alternatives? The continuation of the present policies, with the accompanying constantly recurring disturbances, ending probably in some kind of monetary chaos. Or drifting cowardly into exchange controls and national socialism.

The British may overcome their repugnance for the gold standard (in fact, more to the words than to the substance), because they have been erroneously taught by the good professors (starting with Keynes), that the gold standard was responsible for their economic and monetary difficulties in the 1920's and 1930's.

The main stumbling block to a change in the price of gold is the United States. It is due primarily to propaganda, to a lack of understanding of the issue

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by many people instructed or not, and because the people have not been told what the alternatives are. Lord Lionel Robbins wrote a few years ago:

“Now we must recognize at once that this proposal (a rise in the price of gold) is like a red rag to a bull to many of our friends in the United States.”

Indeed it is, but this is a problem for our professors and statesmen. It should not prove unsurmountable.

## INTERNATIONAL MONETARY SYSTEM

Even before World War II ended the countries of the Western World were concerned with the economic and monetary problems which would emerge at its end. In various official documents published by the allies, it was declared that our policies should aim at a high and stable level of employment, expansion of unfettered multilateral international trade and steady increases in the standard of living. (Master Lend-Lease Agreement and Atlantic Charter)

The allied governments were aware that monetary stability was a prime condition for the attainment of the declared aims. However, the fear was expressed that the post-war economic reconstruction would entail balance of payments difficulties and a scarcity of dollars. It was also expected that the United States would suffer again a serious economic post-war depression and make the dollar even scarcer.

At the end of the war the International Monetary Fund was established by the Western World in order to provide the free countries with an international

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monetary system or mechanism which should make possible the revival of a well-knit integrated world economy. The statutes of the IMF were devised to the effect that its policies should be directed at monetary stability, stable exchange rates and free convertibility of currencies. The statutes also provided for an orderly change of the exchange-rate of a currency which might become necessary because of wrong monetary and fiscal policies aimed at obtaining or maintaining full employment. They also stipulated the procedure to be followed for a uniform change in the price of gold in terms of all currencies.

When the Fund was established, it was widely assumed that the dollar would be a scarce currency for an indefinite period. It was largely in the post-war period that the dollar became the principal international reserve currency. An important reason for the emergence of the dollar as a reserve currency was its interchangeability with gold. The rules of the Fund were supposed to provide the free world, at the end of a five-year provisional period, with the nearest approximation to an international gold standard.

Unfortunately, international monetary affairs did not evolve as was expected at the time the IMF was established.

## PRECARIOUS MONETARY SYSTEM

Although the expansion of world trade was most impressive since the end of World War II, and the

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convertibility of currencies made considerable progress, the free world is still beset with too many restrictions on trade or currency transactions, and with recurrent crises in foreign payments in one country or another—not merely the under-developed countries, but the great trading nations as well.

It is a fact that the progress in the expansion of international trade, in freer convertibility of currencies and in the improvement of reserves of the European countries and of Japan, is due on one side to a large part to the assumption by the United States of so much more than its fair share of aid, grants, loans and foreign military expenditures, and on the other side to sound monetary and fiscal policies pursued by the European countries.

The huge increase in Germany's foreign reserves is an indication of a disturbed international monetary mechanism which creates a serious imbalance in the current international payments. At the present time the United States is faced with the urgent problem of balancing its foreign accounts and the pound-sterling may be moving once more into more turbulent waters. Since there is no automatic adjustment under the present system of international currency exchange, there is a danger that countries which are running an abnormal deficit of payments may eventually be forced into deflationary actions in an attempt to rectify the position. The Western nations should make a joint approach to these problems before disequilibrium reaches the stage of crisis.

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The international monetary system seems to me on a very precarious foundation. Whatever useful services the IMF has rendered it has not as yet fulfilled its original mission. The problems of how to obtain monetary stability and a sound monetary system are still with us.

### FUNDAMENTAL TRUTHS

The world has however relearned the hard way a few fundamental truths:

(1) There is no hope of establishing a sound and workable international monetary system on another basis than gold.

(2) There is a close relationship between domestic monetary and fiscal policies and the balance of payments of a particular country.

(3) *Monetary stability* is essential to sound domestic economic expansion as well as to the proper working of the international monetary system. But what do we mean by "monetary stability" and how is it obtained or maintained? Unfortunately the quest for monetary stability has come to be confused with the demand of a policy aiming at the stabilization of prices, an aim which cannot be reached, if at all obtainable, except in a completely planned economy. A policy aiming at monetary stability will secure a relative stability of prices, but the economic history of the 1920's teaches us that a policy whose goal is stabilization of prices may result in inflation of money and credit, and very unsound speculation.

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What do we then mean by "monetary stability"? A cursory definition would be: "a policy aiming at avoiding abnormal credit expansion or credit contraction." This definition leaves open the question: "What is normal and what is abnormal?" The fact is that we cannot answer the question quantitatively, but we can provide guidance on how to obtain monetary stability. In the first place monetary stability cannot be obtained if the banks monetize government debt or if they finance inflationary credits to private industry and commerce. In other words, the commercial banks should limit themselves to the financing of self-liquidating commercial or industrial credits and buy bonds or grant long-term loans only to the extent of savings deposited with them. A policy of monetary stability requires also a reasonable level of taxation, competition and the prevention of inflationary practices by labor unions and some powerful business interests.

(4) *The gold exchange standard* is a device whose purpose is to save the use of gold. It is an inflationary system because the same gold reserve serves to permit expansion of money and credit in two countries. It brought about the collapse of the pound when the foreign countries withdrew their deposits in the British banks and it was greatly responsible for the depth and length of the Great Depression of 1929/1933. The gold exchange standard considerably reduces the reactions which tend to correct imbalances of international payments.

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It is also the gold exchange standard which has recently led our country into the strange policy of keeping short-term interest relatively high, in order to prevent the outflow of foreign funds and to lower the long-term interest, in order to help us get out of the recession. I doubt that the attempt will prove successful.

(5) *Balance of payments.* It becomes clear that inflation is the main cause of balance of payments deficits. Contrary to what many people believe, the effectiveness of the international monetary system is not increased by policies aiming to correct directly the imbalances of current payments. Experience proves that we can expect a self-adjusting of the imbalances of current payments only by first restoring a sound and efficient international monetary system.

In the present condition of our international monetary system it is left to each government to maintain or restore their international payments accounts by means of government intervention and controls of one sort or another. As long as each nation is free to manage its national monetary system, without the discipline of the international gold standard, there is no self-equilibrating mechanism to restore equilibrium in the balance of payments accounts.

### A SOUND INTERNATIONAL MONETARY SYSTEM

There is one important lesson which we have not yet learned. An abnormal rise in prices and an arti-

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ficially stimulated economy due primarily to the huge monetizing of government debt during the war, and abnormal inflationary banking credit after the war, will have as an aftermath, sooner or later, a recession and a fall in prices. These can be severe if proper monetary readjustment is not made some time after the end of a big war and the stoppage of paper money inflation. An abuse of "paper money" can be corrected only by a monetary amputation, while an abuse of credit by the commercial banks can be corrected only by a deflation of credit.

There is little hope of establishing a sound international monetary system, of obtaining monetary stability and a relative stability of prices, and perhaps preventing a too painful readjustment of the economy and the price level reached since World War II by other means than the restoration of a workable international gold standard.

One may agree or disagree with the views of some economists that the international liquidity is adequate for our present needs and those of a growing free world economy at least for a few more years. I do not believe, however, that students of money who are not influenced by politics, or who are not willing to shut their eyes to the obvious dangers in the present situation, can concur with the view that our international monetary system is sound. If we do not overhaul it drastically we may be confronted in a very few years with unmanageable problems.

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### THE DOLLAR EXCHANGE STANDARD

How can we help being disquieted by the present international monetary system? It is based essentially on a yearly balance of payments deficit of the United States of \$1 to \$2 billion, for the simple reason that at the present price of gold the total increase in monetary gold stock that can be expected from new gold production and Russian gold sales is only about \$700 million a year. This is less than 1.5% of current world reserves of gold and foreign exchange. Worse yet, in order to supplement the insufficient supplies of monetary gold, the greatest part of the U.S. balance of payments deficits has been used in the last ten years to increase the foreign deposits in the American banks. This is the famous gold exchange standard. It is a dangerous inflationary device, feeding speculation both in Europe and in the United States. Large scale conversion of the foreign dollar liabilities into gold may at any time topple the whole structure as it did in 1931. The concern regarding the dollar exchange standard is shared by Per Jacobson who stated recently that if he were an American he would prefer that people abroad take more gold rather than continue to build up foreign bank balances in the United States.

What is the way out of this mess? Professor Triffin has recently called attention to the dangers implicit in a world monetary system depending so heavily on national currencies as international reserves. Further-

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more, he sees a continuing deficiency in additions of gold and foreign exchange to monetary reserves, once U.S. payments are restored to balance. He proposes to meet these two difficulties by converting the International Monetary Fund into the equivalent of a World Central Bank, holding deposits that can be used as reserves. Professor Triffin himself admits that his plan would endow the Fund with a lending capacity which, if improperly used, might impart a strong inflationary bias to the world economy. Moreover, his plan would bring about monetary management on a worldwide scale, the policies of which could influence or disturb the economic situation of each and all countries.

Edward Bernstein, the former chief economist of the IMF, proposes another scheme aiming to increase the resources of the Fund so that it may meet any extraordinary contingency that would arise. The plan does not do away with the danger inherent in the use of national currencies as international reserves, and it does not seem to me to meet the other prerequisites of a sound domestic and international monetary system.

## PREREQUISITES AND PROBLEMS

What are these prerequisites and the problems facing us if we are to restore monetary order by returning to an international gold standard?

1) The most pressing and difficult one seems to be domestic monetary stability, which implies an

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end to inflation and to inflationary practices. Unfortunately I find a quasi-general distrust in the willingness and ability of governments in the free countries to stop further inflation. The popular distrust is expressed in the refusal to buy fixed interest securities, and particularly government bonds. Therein lies the greatest danger of our times. Some of our wisest economists have come to think that only the discipline of low gold liquidity and the competition from abroad will be able to keep inflationary forces in check in our country. They hope that under such pressures we may revert to the policy we had at one time before the Great Depression, of translating into lower prices the greatest part of productivity increases due to technological progress. It cannot be repeated strongly enough and often enough that inflation will not cease as long as twelve to fifteen million workers, working in highly mechanized industries, and organized in powerful labor unions, are able to extort constant wage raises, often even larger than the increases in productivity in their industries.

Unfortunately people have been led to believe that we can violate fundamental economic laws with impunity, and that if wages rise above their economic level, inducing unemployment, the government has the duty and the means to correct the situation.

Yet, in a famous posthumous article which appeared in "The Economic Journal" of June 1946 no other than Keynes warned the economists:

"I find myself moved, not for the first time, to

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remind our contemporary economists that the classical teaching embodies some permanent truths of great significance, which we are liable today to overlook because we associate them with other doctrines which we cannot now accept without much qualification. There are in these matters deep undercurrents at work, natural forces, one can call them, or even the invisible hand, which are operating towards equilibrium. If it were not so, we could not have got on even so well as we have for many decades past. . . . But in the long run these expedients will work better, and we shall need them less, if the classical medicine is also at work. And if we reject the medicine from our systems altogether, we may just drift on from expedient to expedient and never really get fit again."

We should cease trying to "square the circle". It should be obvious by now that we cannot have at the same time a high level of employment, constantly rising wages, powerful monopolistic labor unions and stable prices. The sooner we recognize this truth the better off we shall be.

The restoration of monetary stability will require in the U.S.A. an overhauling of the Federal Reserve System and of our commercial banks. We may also need to add one or two amendments to our Constitution.

2) The world must be provided with an adequate *overall* quantity of gold for the reestablishment of a unified international monetary system. This can be

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done only by a change in the price of gold in terms of all currencies.

3) The yearly additions of gold to the existing gold reserves must bear some satisfactory relationship to the annual increases in economic activity in general and to international trade.

4) An end should be put to the gold exchange standard, which implies a liquidation by the United States and Great Britain of their present liabilities to foreign central banks.

5) The monetary arrangements to be made should have in mind the probability of incipient recession and downward trend of prices.

6) If and when all measures have been taken to put an end to inflation and to inflationary practices the price of gold will have to be raised to at least \$70 an ounce.

7) Free markets for gold should be established in all the important countries, and trading in gold, its export and import should be absolutely free.

8) There are indications that the amount of gold hoarded in the world is about fifteen billion dollars. Should gold be revalued there is no doubt that a considerable part of this gold would be sold on the free market. It would be advisable to make certain that the dishoarded gold is permitted to exercise only gradually its influence on the monetary system and on prices.

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### A STRANGE PHENOMENON

It is a strange phenomenon that while all kinds of plans—basically dangerous, inadequate to meet the present needs, and essentially inflationary—are put forward, no one in responsible positions for the conduct of our monetary affairs is proposing the only known solution able to satisfy the above requirements of a sound and workable international monetary system. This is a return to the international gold standard, accompanied by a rise in the price of gold in terms of all currencies (provided, to repeat once more, an end is put to the monetization of government debt and private inflationary credits).

### BETRAYAL BY INTELLECTUALS

About a generation ago a French writer, Julien Benda, wrote a book called “*La trahison des clercs*” (The Betrayal by Intellectuals) in which he stressed the responsibility of the intellectuals in the social and moral crisis of France. I am wondering whether the same indictment should not be uttered against our professors of monetary and economic issues in our universities. Their general complacency and reluctance to be publicly vocal could be compared to a situation wherein our country would suffer from a serious epidemic, difficult to diagnose, and the professors of medicine would remain inert and silent in their Ivory Towers. To this very day we don’t have an intelligible and realistic diagnosis of the

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1929 depression. It is my belief that if our country had been provided with an objective, realistic and intelligent analysis of the causes of the 1929 depression and of the 1937/38 recession we might have prevented a repetition of some of the mistakes we committed after the end of World War I. Who else but the academic economists can be blamed for this lack of diagnosis? If we are unable to analyze a situation like that of 1929 on the basis of all known facts, it is simply a mockery to teach or to profess the belief that we can put our economic destiny in the hands of government interventionists and money managers.

## A STRANGE IDEA

On the other hand, there is in our country a rather strange phenomenon. A group of economists known as the Economists' National Committee on Monetary Policy are fighting persistently and obstinately for a return to a gold coin standard, but they are rejecting even the idea of a change in the price of gold. This group has an Executive Committee of rather prominent professors. Most of them, I gather from my correspondence and from their writings, do not seem to be bothered at all by the present abnormal relationship between our gold reserves and annual gold production on one side, and the price level, wages and the quantity of monetary means (as a result of the money and credit inflation during and after the war) on the other side. For some reason

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which escapes me they don't seem to agree with the view that this abnormal relationship can be prolonged only either by deflation and recession, or by further monetizing of government debt and/or further and large expansion of bank credit. A continuation of inflation by way of monetizing of government debt is not possible because the European countries have become very weary of inflation and we cannot any more disregard the movement of prices there. We experimented with the use of bank credit to prolong an abnormal situation similar to the present one after World War I, and it brought us the great depression. Therefore the only alternative left is deflation, and here is where I am really baffled. We don't even know how to get the governments, and particularly our government to put an end to inflation and inflationary practices. And yet the distinguished professors on the Committee expect the government and the country to accept a deflationary policy to correct the present abnormal relationship mentioned above!

## THE ESSENCE OF THE GOLD STANDARD

Our standard of value has a weight and a value (purchasing power). It is not clear why the Economists' National Committee on Monetary Policy is exclusively concerned with the gold weight of our standard of value. The gold weight parity of the gold standard is its technical aspect, while the essence of it is the conformity of the purchasing power of the

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currency with the purchasing power of the standard of value. Our present monetary system is so novel and absurd that it cannot be called a gold standard system by any stretch of the imagination. To be on a gold standard it is not enough to have a legal parity for the currency with a definite weight of gold, but it is a *sine qua non* condition of the gold standard that there should be free markets for gold and that everyone should be allowed to trade freely in gold as a commodity. It seems obvious to me that at the present time, with a relatively low production of gold and a very high production of commodities of all sorts, the purchasing power of gold would tend to be very high at our fixed price of gold in dollars if we had a real gold standard system. The purchasing power of gold has been artificially reduced by the huge monetizing of government bonds and inflationary bank loans made possible by the great economic power of our country, its monopoly of gold, and the lack of free markets for gold as a commodity, while maintaining a limited convertibility of the dollar into gold.

The Committee is reasoning as if we had been incessantly on a genuine gold standard since the beginning of World War II. The fact is that since 1939 we have multiplied our monetary means by four or five, the largest part by monetizing government debt and non-commercial private debt. We had the illusion that the dollar remained convertible into gold (although strictly restricted) because when the war

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began we had a very large stock of gold, and during the war and for a few years after gold continued to flow into the United States in payment of goods which only our country was able to supply. The argument of the Committee is based on the false assumption that the prices of commodities have been gold prices throughout the war and post-war period. They argue that it is the essence of the gold standard that one does not tamper with the weight of the standard while, in fact, we are not on the gold standard and we have been tampering constantly with the value (purchasing power) of the standard.

## DEFLATION AFTER CIVIL WAR

The recommendation of the Committee for deflation to correct the present monetary imbalance is frequently justified by them with a parallel of what happened after paper money inflation of the Civil War. However, the gradual rise of the greenbacks toward pre-war gold parity was accompanied by a continued fall of commodity prices, (and a panic and economic stagnation!) and at the time of the resumption of gold-redemption the wholesale prices were down to the pre-Civil War level. Besides, many circumstances and facts were completely different than those existing in our present situation as is so clearly explained by Henry Hazlitt in his recent book "Inflation" (p. 50).

Contrary to what the Economists' National Committee on Monetary Policy asserts, it would not be

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enough to return to a gold coin standard to obtain a sound currency. In the 1920's we had a gold coin standard and the government was continuously reducing its national debt, and yet the period ended in a great depression. There is no doubt in my mind that our monetary system was not sound in 1929 despite the fact that we had a gold coin standard. It is my strong conviction that we shall not obtain a sound currency without an overhauling of our Federal Reserve System and of the banking laws, and without putting an end to the monopolistic power of the labor unions.

## RETURN TO GOLD!

The two main obstacles to a return to an international gold standard are: (a) the unwillingness of the governments to put an end to inflation and the acquiescence of the people, and (b) the refusal of the United States to consider a rise in the price of gold in terms of all currencies.

The alternative to a return to monetary sanity is more inflation, which would end, sooner or later, either in a monetary and social chaos or in exchange controls and regimented economies.

Many people believe that we still have a choice between inflation and non-inflation. It is my deep-rooted conviction that our real choice is between inflation and freedom.

PHILIP CORTNEY

*New York, April 1961*



# THE TRIUMPH OF GOLD



## *Preface*

The publication in volume form of the articles I have drafted in the last eight years, in favor of a return to gold, requires a short justification.

For many writers, contempt for gold is a new idea and praise of paper money an original thought. But the history of ideas about money shows, on the contrary, that we are dealing with a very old conflict that comes up periodically.

Immediately after the Second World War, the great majority of writers on money were in favor of paper money. To defend the gold standard was an anomaly. The memory of the depression of 1929 to 1932 was still present in our minds. The interpretation given to that depression by Anglo-Saxon economists was that gold was responsible. Gold, it was said, had increased in value.

It was necessary to note the effects on international commerce of the absence of a common standard in order to return to gold a part of its prestige and to rediscover a few elementary truths regarding it. It

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is also quite remarkable that the partisans of paper money refrain generally from answering the arguments of the defenders of gold. They repeat mainly a few reflections which appear true at first sight, but whose superficial character reveals itself as soon as one goes deeply into the problem.

I have thought that it would display a certain faint-heartedness on my part if I did not take sides in this great conflict, and if I did not defend once more the few simple ideas that I have held for a long time and that may be summarized thus:

1. Gold is the only metal capable of serving as a base to international commerce, because it is the only one that is asked for and accepted in payment in all the countries of the world, as bullion or in the form of money. It is merchandise-money par excellence.

2. It has this privilege because it is rare. No other product, whatever it be, is desired in like manner by all nations, from the most primitive to the most civilized. This immense demand, in relation to its limited production, gives it its prestige.

3. It is erroneous to consider in money only its purchasing power. The ability to *conserve* purchasing power through time is at least as important. All the errors in monetary organization are due to the fact that we forget this second aspect of money and consider only the first. It is contrary to the most elementary justice and to the welfare of individuals that the amount of money received in ex-

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change for services or merchandise should fluctuate rapidly over a period of time, causing the one who has received it to lose the benefits of the services or merchandise furnished by him.

4. The adversaries of gold say freely that gold is useless, that it is useful neither in production nor in consumption, and that consequently it could be replaced by any other object, particularly by paper money. This is a superficial argument that a bit of reflection suffices to dismiss.

The habit of economists of classifying goods as goods for production or for consumption encompasses only a fraction of all goods. There exists an immense category of goods demanded, desired, for which we pay considerable prices, which are the *rare* goods. One always comes back to the old doctrine of Galiani, who attributed to rareness that characteristic conferring value to services or merchandise.

The list of rare commodities could be arranged in the following order: rare metals, like gold, silver, platinum, to which there have been added in the last few decades radium, plutonium, uranium, etc.; precious stones of all kinds, of which the principal is the diamond, the list being too long for enumeration here; finally, the immense category of works of art, which comprises the treasures accumulated in the form of paintings, gems, jewelry, whether in the hands of individuals or in the museums of the world.

Let us consider simply the value represented by

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the treasures contained in the British Museum and the National Gallery in London, at the Louvre in France, at the Metropolitan Museum in New York, in the museums and churches of Italy, Belgium, Holland, and Germany, and in private collections, and one will realize that the goods that are useful neither to consumption nor to production constitute a large part of the total goods at the disposal of man.

An Irish critic of art, William Butler Yeats, has rightly said: "The things that have the greatest value are those that are not useful." Economists are too apt to forget this.

What characterizes all these goods is that without serving a useful purpose they lend themselves admirably to conserving value in time, precisely because the demand for them, far from decreasing, increases with time itself, with whose passing the oldest among them become more precious. So true is this that besides the pleasure of contemplating and possessing, one of the reasons for their demand is the presence of their value in time.

At all periods of history, especially during periods of political difficulty, men have sought the possession of goods of this nature, in the hope that after the pillage and destruction of all kinds, they would have at least something of universal value and assured price.

What gives gold its particular place in this cate-

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gory of commodities is the fact that it is practically indestructible and remains identical under all latitudes. Thus it is that in the history of humanity it is equally desired by all peoples and at all times. It enjoys a more extensive and more universal market than any of the other rare goods. The possession of gold gives to the one who holds it the assurance of being able to exchange it at any time and any place, for goods for consumption or production.

5. The experience of 1929 to 1932 proves nothing against the stability of the value of gold. The level of prices in the United States, resulting from the issue of paper money, was so high that the return to normal production was bound to make it come down by virtue of a fact which I have always considered true, that the rapid increase of a mass of merchandise in relation to a stable quantity of money must necessarily bring prices down. This reaffirmation of the quantitative theory of money, under its simplest and most general form, will not fail to annoy the numerous economists who have tried to make us believe for the last fifty years that the level of prices is not influenced by the quantity of money.

What deceived the public and the economists after 1920 was that the United States was able to maintain the convertibility of the dollar into gold, while undergoing considerable paper inflation, by reason of an *absolutely exceptional* situation which obliged

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Europe to send gold to the United States throughout the entire war. It is perhaps the most important monetary phenomenon of the last hundred years, and it has been enough to distort completely international monetary relations. Above all, it has caused a false interpretation of the decline of the gold-dollar prices which in reality was a decline in paper-dollar prices accidentally guaranteed by gold. I have tried to explain this situation in my *Histoire des doctrines monétaires*, but apparently it has not persuaded all those who continued and who still continue to see the depression of 1929 to 1932 as an ordinary depression, when it was in reality a postwar deflation, as classic a phenomenon as a war inflation.

I have always thought that the lesson of those years should be kept in mind in case of a new war, and that is why I have maintained since 1945 that we should expect the devaluation of the dollar.

What differentiates the situation today from analogous situations previously is that the problem of the return to gold has become international. It does not suffice, as in the eighteenth and nineteenth centuries, to recreate locally, after a devastating war, a monetary system based on the precious metals. It is a matter of reconstituting an international money. The inevitable devaluations must therefore be made in the interest of other countries by the country which holds the greatest mass of gold, that is, the United States.

6. All the plans, such as the one which Keynes

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proposed with the view to prevent a world deflation after the war, are based on an international system of paper money. All these systems ignore a fundamental psychological phenomenon, which is an international distrust with regard to paper money. Every effort, therefore, to combat deflation must be based on an international money which inspires confidence. That can only be gold.

The thesis I defend here has also been defended by M. Busschau, with a great deal of talent and a perfect knowledge of the facts, in a book—*The Measure of Gold*<sup>1</sup>—which I consider the best that has appeared on this subject. Like all works on economics of lasting value, it was at first criticized by all the economists, and it was only little by little that the correctness of his views came to be accepted.

7. The prohibitions during and since the Second World War against commerce in gold, the freedom of its purchase and sale, show quite well that those who have promoted these injunctions know perfectly the universal desire that exists for the possession of this metal. By their antimetal zeal they only confirm the prestige that gold enjoys in the world. These prohibitions, followed by sanctions, which we have experienced during the last ten years, remind us

<sup>1</sup> W. J. Busschau, "The Measure of Gold," Central News Agency, Ltd., South Africa, 1949. Together with Mr. Busschau I wish to mention Mr. Philip Cortney, who has constantly and energetically fought for the ideas I am defending.

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forcibly of the battles, bloody at times, that the prohibition of liquor occasioned in the United States, a prohibition that showed only the extent of the taste for alcohol in all forms of our friends on the other side of the Atlantic, a prohibition that was not long in being abolished, as will all the present prohibitions against the yellow metal, infinitely more innocent than alcohol and whose interdiction from circulation represents a form of fanaticism in favor of paper scarcely less than the fanaticism of American prohibitionists in favor of water.

I have just outlined the essential thesis of the articles of this little volume. I would like to add one word only that deals not with monetary questions, but with social questions. It happens that at the present time the extraction of gold, in certain of the countries where the gold metal is more abundant, takes place under conditions that can only incite the greatest indignation. They are real slaves who are employed in Siberia or in South Africa in the extraction of gold. Their situation is unworthy of civilized countries. There is something particularly disturbing about seeing the metal most indispensable to the normal functioning of international exchange obtained by means which humanity reprovcs. Gold, the international metal so necessary to international prosperity, is furnished to the world by methods which are contrary to the principles that have been firmly established by international agencies. One must hope that some international action will now

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be taken to prevent this gold, so indispensable to nations, from continuing to cause those who extract it suffering and humiliations such as should be unthinkable to those who use it.



## *Freedom for the Gold Market*

(*L'Opinion*, December 19, 1946)



Return the gold market to freedom? But why not? Nothing would do more to promote the financial health one hears about.

At the present time, gold is no longer money; it is merchandise. But it is not, like bread, wheat, or meat, a merchandise of prime necessity. Its purchase by some does not deprive others. None of the arguments still put forth against complete freedom in the sale of products holds good for gold.

Shall we say that the Bank of France's monopoly of purchase would be violated? But the Bank of France has certainly no illusion about the chances it has to acquire gold at the official price. Whether the market be free or clandestine, it knows that at the present moment it will not be offered a single gram.

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Let gold pass from hand to hand, or let it remain hoarded in the same vaults, the situation of the Bank will remain unchanged until the day when she decides to intervene in the market under new conditions.

Freedom of the market offers, therefore, no inconveniences for the individual or for the Bank. On the other hand, it would offer great advantages.

The first would be to lower the quotations for gold, by eliminating the premium due to risks today. And this reduction would certainly be felt in the prices of merchandise and on the Stock Exchange, which today are entirely dominated by monetary considerations.

But this would not be the only reason for a reduction, for the actual holders of stocks, fearing a further reduction, would hasten to liquidate them.

We know that such stocks today are considerable. On this everyone who has followed the foreign exchange market during the last ten years is agreed. The excellent magazine *Perspectives*, managed by M. Gascuel, has twice published some very suggestive estimates in this regard. According to these estimates, the gold hoarded in France might be about equal to the cash balance of the Bank at the start of this war. This is much more than is necessary to regulate the price of gold.

Besides, the premium for gold in France is so high that it attracts gold from foreign countries, increasing the already existent stock, a situation

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which had already occurred at the time of the *assignats* (French paper money 1789-97), when the premium offered for gold within the country surpassed the rates of exchange. This situation, by attracting the metal, even facilitated the recovery of money when the printing of *assignats* was given up.

However, one may ask whether the demand may not increase at the same time as the offer. I do not believe so.

When the public knows that it will find the merchandise desired at a convenient time it will spread its demand. If the sale of tobacco were free, those who rush to the tobacconist every ten days would postpone their purchases to the following day if they found the place crowded—which, of course, would clear the crowd.

But the main advantage of the free market for gold will be to furnish—no longer through officious data timidly published, but through official quotations similar to those of the foreign exchange—an index to the attitudes of the public.

We hear a good deal today about “l’expérience Poincaré” (the Poincaré experiment) but few people know what it is. One hears that its success was due to the indications furnished at that time by the foreign exchanges. No one today thinks of restoring the freedom of the foreign exchange market, but the necessity of a rule to guide monetary policies is nonetheless imperious. Such an index, operating within normal conditions, would be the best proof

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of the sincerity of a government in its efforts at reform, and therefore the best means of restoring confidence and of noting the progress of its efforts. It stands to reason that the reduction in the price of gold will not take place without a combination of conditions, the first of which is the restoration of budgetary equilibrium. But freedom in the gold market will be the indispensable complement of it, because what the public needs is to believe. And, like Saint Thomas, it wants to see before it believes.

The sight of gold will work miracles!<sup>1</sup>

<sup>1</sup>The liberty of the gold market (but not that of importation) was granted by the law of February 2, 1948. Cf. Rene Sédillot, *Le Franc*, Sirey, 1953, p. 356.

## *The Two Monetary Markets*

(*L'Opinion*, January 1, 1948)



Money is not only exchanged for merchandise; it is exchanged also for foreign moneys. The public, in general, knows only the first of these two markets. That is the gravest of errors.

In fact, the market “money-against-merchandise” (which, to simplify, we may consider as a whole) becomes each day a little more free. In any case, the prices at which money is exchanged for products are known. Notwithstanding certain regulations, still exaggerated, transactions are performed without difficulty.

On the contrary, the market “French money for foreign money” has been suppressed. It is not only regulated, but forbidden. The foreign-exchange rates and the prices of gold (which one may consider as a

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currency) are known only through the black market. The dealers in currencies or gold are looked upon as delinquents. All the transactions permitted with a foreign country and their settlement are made according to an arbitrary rate, fixed by the Bureau of Foreign Exchange, and have remained unchanged for the last two years.

As long as this situation prevails, all the efforts made within the country to stabilize money will be of no avail. The reasons are clear.

We know that the market in foreign currencies (and in gold) has as effect, first of all, to balance international commerce: the increase in the value of the franc, by increasing for the foreign market the price of French merchandise, causes immediately a restriction on French exports and an increase in foreign imports into France.

On the other hand, every decrease in the value of the franc has the effect of increasing French exports. Without this mechanism there is no way to balance purchases and sales in foreign countries. One can fix the amount of imports (on condition that we find the necessary credits for payment) but no decree can influence the amount of exports, which depends exclusively on foreign demand.

This mechanism is well known. But there is another which one notices more rarely: the foreign exchange market has an immediate and powerful effect on the interior money-for-merchandise market. As every increase in the price of the franc has

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the effect of increasing the mass of products offered on the French market, the immediate result is a decrease in the price of the products and a decrease, consequently, of the cost of living in France.

Let us go further. The fluctuations in the foreign exchange market have greater effect on the level of prices within the country than the efforts at deflation that one may attempt directly on these prices.

This has happened often and there are numerous examples.

A domestic deflation tending to reduce the purchasing power, has practically no influence on prices if it is not accompanied by a considerable increase in the products offered. Thus, an increase obtained solely by domestic production is necessarily very slow, whereas the increase of the franc on the foreign exchange market has an almost immediate effect.

Let us add that the increase in the value of the franc on the foreign exchange market being easy to verify, this increase causes an almost immediate unloading of merchandise within the country, and contributes, through a new mechanism, to the reduction in the cost of living. This unloading is much longer in coming if it results from interior deflation influenced only by the index of prices.

The Belgian example, which is cited so often, far from refuting these findings, confirms them completely.

Evidently, the fall of the franc on the foreign exchange market would produce reverse effects. But

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in the present situation of the French currency, with the Marshall Plan merchandise being almost free and having no impact on the foreign exchange market, with the effort to balance the French budget, and with the possibility of an outside loan for stabilization, everything indicates that the tendency of the foreign-exchange market will be toward an increase and not a decrease in value of the national currency.

It is a matter requiring tact on the part of the monetary authorities.

The progressive liberation of the foreign exchange market is an indispensable condition of the success of our financial reform.

## *The New Franc*

(*L'Opinion*, January 20, 1948)



A breach has finally been made in the monument of international hypocrisy so cleverly erected right after the war for the protection of paper moneys.

It is to the credit of the French government to have given the first blow to this universal conspiracy to prevent monetary truth from coming to light.

That the new system organized by the French monetary authorities still allows room for many uncertainties and does not resolve all the problems, no one can deny.

It will require many more weeks yet to resolve all the different elements of the new organization for foreign exchange, to expand progressively the freedom enjoyed by industrialists and merchants in their transactions with foreign countries. But the

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fact to be kept in mind is that, henceforth, a mechanism has been established which will have the two-fold advantage of

1. providing an instrument of equilibrium between imports and exports;
2. furnishing a public barometer of the reciprocal value of currencies.

It would be petty to interpret these measures only as means of stimulating French exportation. The real scope of these measures lies in their effort to bring the stability of the franc closer.

It may seem paradoxical to strive for stability and to begin by establishing instability in allowing the rate of exchange to fluctuate according to offer and demand. It is, however, the only procedure that can bring about a stability based not on fiction, but on economic reality.

It would have been a wise policy on the part of the International Monetary Fund to support this new French experiment with less reticence. Either the role of the International Fund will be to aid in the restoration of truth with regard to money or it will serve, at most, to cover, by its communiqués, the violations unavoidable in international obligations contracted without sincerity. In the latter case, its authority will suffer a severe blow.

Already, a few months ago, in expressing its ill-humor with regard to free markets in gold, the Fund caused anxiety to those who hoped to find in it the best instrument for the inevitable monetary

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adjustments. Henceforth it must take the initiative courageously in these adjustments, and, in any case, not hamper them.

But no matter what happens, a step has just been taken toward the return to an international money which no one any longer doubts will be based once more on the free circulation of gold, at least in the relations of countries with one another, if not in internal transactions.

Let us hope that nothing will happen which will cause a step backward. Only restored confidence will give to the new franc in circulation the climate which will permit it finally to find its true place.

*The Blocking of  
5000 Francs Notes*

(Letter to Mr. Courtin, editor-in-chief of *Le Monde*,  
January 31, 1948)



There is still in the minds of many people a vague idea that the suppression, at any moment, of a large number of bank notes can effectively influence the level of prices and the rate of foreign exchange. Just as inflation, they believe, undoubtedly makes prices rise, so deflation, meaning the reduction of the number of bank notes, must lower them. This reasoning seems to possess irrefutable logic. Nonetheless, it has been contradicted by the facts every time that the experiment has been attempted, and among these experiments I include the Belgian experiment, of which more later.

There is no example of a direct deflation of paper money which made its value rise. This is true of

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England after the Napoleonic wars, of the United States after the Civil War, of France in 1871, of the countries of South America, whose experiences of this type are so numerous and so instructive, and, closer to us, it is true of Czechoslovakia as well as of England, of France, and of Germany immediately after the last war. In all these cases, the efforts to curtail the quantity of money used have been futile, the money removed from circulation having immediately found substitutes in credit, or when the curtailment has been effective the resistance of prices has soon made it necessary to cease the curtailment of money and restore means of payment to the public. The classical example is that of Czechoslovakia after 1918, where prices resisted firmly all the efforts of the courageous minister Raschin, and where the downward trend, moreover under disastrous conditions, did not commence until the rise in the rate of Czechoslovakian exchange occurred, under outside influences.

What is the basis of this phenomenon, which contradicts so persistently the ideas of the old economist Ricardo, ideas which are supported unknowingly by reformers who believe themselves well informed, and who would do better to look to an economist like the Frenchman Aftalion, or to an American like Irving Fisher, to modernize their conceptions?

There is an essential difference between inflation and deflation of money. When the state issues bank notes to pay for services, it is at one and the same time creating revenue and new means of payment.

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When it destroys bank notes its action is felt by the treasuries: it suppresses means of payment but it leaves the revenues intact. But, it is the amount of revenue which influences prices.

In the present case and supposing that we suppress definitely three hundred billion bank notes, shall we at the same time lower the railroad fares, the price of coal, the price of gas, of electricity, workmen's salaries and the price of the raw materials necessary to industry? If all these prices remain stable, do we believe that the prices of consumer goods will decline? Can we believe that the consumers and the treasuries of enterprises, deprived suddenly of three hundred billions, will not immediately find some form of credit to replace the missing means of payment rather than see their enterprises close and idleness everywhere? The modest consumers who had put aside a few five-thousand-franc notes toward large purchases of clothing or furniture, what will they do? They will postpone their purchases, which will not worry the sellers into reducing their prices, being sure that the buyers will return. On the other hand, the purchases will concentrate on the consumer goods, the demand for these being the same. Let us reflect a moment: what is a reduction of two hundred billions from a consumable income of four thousand billions? Hardly one-twentieth.

Experience shows that there is never a reduction in price (supposing, of course, that inflation has been stopped) except through *an increase in the*

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*offer of merchandise.* But, you will say: how do you account for the Belgian experience? Here I will refer the reader to the very convincing graphs published last Friday in *Une Semaine dans le Monde*, and to the article which accompanies them. What do these graphs show? During all of 1945, after the partial blocking of cash and deposits, retail prices continued to rise, and very rapidly. During the same year, the means of payment, so suddenly reduced immediately after the Liberation, were restored with astonishing speed and had attained in the course of a year a level scarcely inferior to that at the start. The reduction in prices—and it was very slight—made itself felt only at the end of the year, under the twofold influence of a rapidly increasing stock of merchandise and, particularly, of a really stable exchange rate resulting from important foreign claims accumulated by Belgium during the war and a financial policy entirely committed to budget equilibrium.

There is more. When the Belgian “amputation” (reduction in means of payment) took place, the inflation provoked by the invader *had not exercised its full action on prices.* It is this leeway which permitted the Belgian operation.

Everyone knows that the French situation is exactly the opposite. The increase in prices actually precedes inflation instead of following it.

The idea that it suffices to curtail the quantity of money in use to lower prices should be abandoned once and for all. Things are somewhat more com-

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plicated than that. England, where this idea took form, has never applied it for its own account. Lord Keynes, whose competence is now cited by so many people, has always combatted it.

Since I have just mentioned the name of Lord Keynes, let me mention a little-known fact. Two years ago, during the course of a debate with an American economist,<sup>1</sup> a debate which appeared in papers in the United States, Lord Keynes said substantially to his opponent: "My dearest wish, at the point where things are now, is to see the Bank of England return to the convertibility of its paper in gold." This is exactly what the present governmental policy aims at. Starting with balancing the budget, it aims at stabilizing the franc through freedom in the gold and currency market. This method comes closer to the concepts considered today as most modern than the obsolete methods which pretend that by a purely mechanical process they can control phenomena whose evolution depends above all upon men and their spontaneous behavior.

<sup>1</sup> Mr. Philip Cortney: The exact words used by Lord Keynes in his letter dated June 26, 1945, are the following: "And I can end up by most fully endorsing the last sentence of your preface—that 'in order of urgency the main objective to be attained is the free convertibility of the pound sterling.'" To Rist the word "convertibility" had no meaning if it didn't mean convertibility into gold. I happen to agree with him.

*Gold and Paper*

(*L'Opinion*, March 3, 1949)



Gold is once again in the foreground of public attention. It had to return there, in spite of all the efforts of the governments to banish its embarrassing presence.

The recent decision of South Africa to sell a part of its gold on the free markets has given the problem a new acuteness. The paradoxical situation may be summarized in the following manner.

On the one side, the public—in France, India, China, Libya, and elsewhere—shows its confidence in gold. A sort of immense international plebiscite is taking place today in its favor. This plebiscite is apparent by the growing importance of gold transactions in the free markets and the growth of these markets. Let us not say that there is here only a

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perverse appetite for a metal which, according to the quip made by Edison, is only good for gilding picture frames and filling teeth. If the public seeks gold it is because it is convinced that it is the most stable of the mediums of exchange and that one day or other it will become such again officially. The numerous authors who have discussed money are all in agreement on at least one point: it is that a currency is a means of exchange that *everyone desires*. It is this universal consensus that enables an object to become money. That there exists today a universal consensus in favor of gold one would have to be blind to deny.

Next to the consumers, the producers of gold. These know that their outlets are unlimited. As everyone desires gold at whatever price, they continue, therefore, to produce it. But here the difficulties begin. Officially they can sell only at the price fixed by the central banks. In the United States, this price is thirty-five dollars per ounce. However, at this price the mines do not cover their expenses, as the general increase in salaries, in machinery, etc., has increased all the production costs in terms of paper money. The producers, therefore, try to sell in the free markets, where prices are fixed by supply and demand, and where demand is willing to pay in paper all that it takes to obtain gold. This is what South Africa has just done. We are told that Mexico will follow. More modestly, the French colonial mines have already

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shown the way, to the great anxiety of governments and the Monetary Fund of Bretton Woods.

Why this anxiety? Simply because the free sale of gold has brought strikingly to the notice of all the reduction in the value of paper-money, all papers, including the dollar. Everyone knows about this reduction, but it is in bad taste to mention it.

Wisdom would counsel, on the contrary, to acknowledge the general bankruptcy of national paper moneys and by the legalizing of the free markets to prepare a return to the only possible international money, that is, gold. This is because as of now one can foresee the return to gold with the same certainty that one was able back in 1945 to predict the futility of the efforts of a few fanatics for the continuation of a price control that was soon made untenable by returning abundance.

An all-important consideration should bring all governments to favor free markets in gold until such time as the central banks themselves shall modify their purchase price. It is that present regulations tend to restrict the production of gold at the very moment when its increase would seem urgent and necessary.

A fall in prices expressed in paper-money is beginning in all the international markets at this moment. Within a few months the problem which will present itself to the governments—to all the governments—will be to check it. There could be no question of

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checking it by new issues of paper money, evidently. The public's distrust of paper money is too strong, and its increase in every country would only amplify the confusion of the exchange rates and the disorder in international commerce, at the same time as the social crises. The fall in prices can only be checked, therefore, *if it is accompanied by a general return to the only instrument of international payment which has the confidence of the public: gold.* But in order to do this, gold must be produced in sufficient quantity so that, in accordance with a well-proven phenomenon, its increase will support the prices which the increase in production of goods tends to lower.

The interest of governments today is to encourage by all means the production of gold. For the countries that do not produce any, their general interest suggests that they encourage importation. France finds itself in this latter position. Under these circumstances, will she continue her restrictions to freedom of importation? Or will she take advantage of these circumstances to restore her stock of gold, by all means possible, that is, restore her stock of international currency and thus prepare the stabilization of the franc?

*How to Bring Gold Back to Europe*  
(*La Vie française*, July 1, 1949)



There is a striking analogy between the situation of the American Federal Reserve banks at the present time and the situation of the Banks of France and England after the First World War. And this analogy enables us to conceive of a policy which in time will lead the stream of gold from America toward Europe by a contrary movement to that which took place after 1918.

We recall that at that time and until about 1925, an irresistible current carried gold toward the United States, while we accused them, and quite wrongly, of wishing to monopolize the gold of the world, whereas this influx, far from being agreeable to them, hampered their monetary policy considerably. Whence this disequilibrium? It proceeded from a very simple

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fact, the responsibility for which was due entirely to the Central Banks of London and Paris.

In spite of the depreciation of the franc and the pound sterling in relation to the dollar, these banks, in fact, continued the policy to buy gold at the same official rate as before the war. The Bank of France continued the policy to pay a price of five francs for the amount of gold contained in a dollar, whereas the paper dollar offered on the exchanges was being sold at about fifteen francs. Under these conditions, the producers of gold had an obvious interest in selling their gold to the United States and offering the dollars thus obtained on the French exchange, where they received fifteen francs for every dollar. The situation was the same with regard to the pound sterling. In consequence, the entire production of gold was being sold to the United States. The producers obtained dollars at the Federal Bank which were sold on the foreign exchanges and for which they received a much larger amount of francs or pounds than if they had sold gold directly to the Bank of France or the Bank of England.

Therein is found the secret of the "gold corner" by the United States, which gave rise at the same time to so many useless controversies and so many false interpretations. At the present time the situation is the opposite. A higher price in dollars is paid for gold in the free markets than is paid by the Federal Reserve Bank of the United States, the latter paying thirty-five dollars per ounce. In the free markets an

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ounce is worth forty or even fifty dollars. Gold has a greater demand than the dollar, as was the case with regard to the franc and the pound sterling after the First World War. Normally, then, the offer of gold in New York should stop and gold should be offered in the foreign free markets, whether in exchange for the dollars which circulate in foreign countries, or in exchange for lire, francs, or sterling, thus making possible the purchase of a larger amount of dollars per ounce of gold than would be obtained by selling in New York. In other words, the situation in the different markets is such today that instead of going to New York gold should go to the free markets, first to the European markets, where it would find in terms of national currencies a higher dollar value than if it were sold in New York.

Therefore, the conditions existing today are such that the newly produced gold should no longer be offered to the United States but in the free markets. For this reason the producers of South Africa claim the right to sell their gold at their price, and if one were to give this movement freedom to develop one would find that gold would be offered in the European markets, which now have an insufficient amount of gold. To the countries that have the greatest need of gold it would be the means of stabilizing their paper money, whose fluctuations disturb the movement of commerce and all financial operations.

Such a course, on the other hand, would be ex-

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tremely favorable to the United States, for the reason that the new gold would be used to stabilize European currencies instead of becoming lost in the reserves at Fort Knox, where at the present time it is buried, constituting a source of great worry to the American Treasury and an important element of inflation.

However, in order that such a course be established, and established to the advantage of the European nations, certain conditions are necessary. First of all, undoubtedly, the free markets in gold must be encouraged, especially in Europe, and the importation and exportation of the metal which she so greatly needs should be facilitated by all means.

A second condition is that the importers of gold, having obtained francs, for example, should not be tempted to convert them immediately into dollars, which would raise the rate of the dollar in the free markets. This condition will be fulfilled immediately if the importers are not frightened by the policy of inflation and find in the capital market investments which will provide profits and not losses. This is exactly what took place in France in 1926 and 1927.

Finally, a last condition in order that a movement so favorable to world economy should get started and develop, is that the Central Bank, especially in France, should itself be in a position to buy gold freely in the market, at the price which it wishes. It is this freedom, accorded to the Bank of France by M. Poincaré, on August 7, 1926, that enabled French

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money to recover under the direction of this wise President. It is really a paradox that this indispensable liberty should continue to be denied to our Central Bank by the International Monetary Fund which seems more anxious to interpret its statute juridically than to fulfill the object for which it was created, which is to aid in obtaining the international stabilization of currencies.

## *Change in Orientation*

(*Economie contemporaine*, January 1950)



If there is a striking feature of all the postwar periods following all the great wars which have been financed by paper money, it is the reversal of prices after more or less time has elapsed. This has occurred after the Napoleonic wars, after the Civil War, after the war of 1870-71, and after the war of 1914-18. If one were to go back further into the past one would find it also after the great wars of the eighteenth century. With notable regularity, the increase in prices, which necessarily occurs during the war and during the next few years after it, is followed by a decline, more or less sudden, more or less prolonged, but which is the normal consequence of the previous increase.

This phenomenon is so constant, and it has as-

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sumed in certain cases such proportions that the main preoccupation of governments following the Second World War was to prevent its recurrence. The fear of a deflation, or at least of a deflation as sudden and extensive as that of 1929 to 1932, has dominated all monetary and economic decisions during the last four or five years, particularly by the American and British governments.

The reason for the change in the trend of prices is very simple. War suspends production of civilian goods. Consumer requirements are reduced to a minimum; the requirements of the government dominate the markets, and these requirements consist of a small number of products necessary to the conduct of the war. There results a reduction of consumer merchandise, accompanied generally by an increase in the means of payment. When war is ended, civilian production starts again. After 1918, the cry was produce, produce. After the Second World War, the slogan was invest, invest. Everywhere, in all countries, governments recommended an increase in tools, an increase in agricultural production, whence an increase in the offer of merchandise on all the markets, especially in the international markets. The aim of all this was to push exports to the maximum. As of this date, the majority of the great countries boast of having attained records in exports far surpassing those before the war.

Inevitably, the pressure on the markets of an increase in offer must first of all halt the rise in prices,

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then tend more and more to lower them. If all the great periods of inflation are marked by an increase in the purchasing power as the essential motive power, all the great periods of deflation originate in the rapid increase of production of commodities of all sorts. Perfect equilibrium and stability of prices are purely idealistic notions which reality has never known.

The problem presenting itself today is that of knowing whether we will escape the general rule; whether the same factors that have operated until now will cease to operate today, or again, whether the arsenal of economic policies has been enriched and fortified in the last twenty years to the point of preventing the inevitable decline in prices that follows every great war.

Let us note that there exist in the world two great tendencies in this regard. In the United States a considerable section of economic thought is convinced that the might of the banking system, its capacity to provide the means of payment to maintain demand at an almost constant level (without, however, passing the point at which this demand becomes inflationary) will make it possible to avoid what is called a recession, and what we call more simply a decline in prices. Certain articles that have appeared recently, for example an article by Mr. Slichter, the distinguished professor at Harvard University, express considerable optimism in this respect. Calculating the probable demand for housing, furniture,

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automobiles, etc., and comparing these needs to those which existed after the First World War, he estimates their level to be such that no fear of a major reduction in prices can arise, and that (naturally if peace is maintained) relative stability, with some fluctuation of little importance, will characterize the level of prices, in the American and world markets, in the course of the next few years.

Of course, everyone would wish this thesis to be true. On the other hand, the might of American economy, the enormous place that a nation of more than 150 million inhabitants—all self-confident and desirous of increasing their standard of living by means of the most powerful and most ingenious methods of production known to date—occupies in world economy is such as to cast doubt on the conclusions that may have been arrived at until now through historical precedents. It is a new fact, so original and so important that we may expect from it a modification of conclusions that until now have seemed beyond question. And we can understand that their eyes being fixed on their own economy, the Americans may well deny the validity of past experiences such as Europe has known.

However, with all their power and ingenuity, I do not believe that the United States can avoid the effects of the great forces that continue to dominate the economic world, particularly the level of prices. And among these great forces, international competition is one of the most effective. It is on the inter-

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national markets, on the market for cotton, wheat, tin, copper, steel, and also on the markets for machinery, textiles, and other objects of universal consumption, that the trend of prices will project itself. And on all these markets, the production of Europe and that of other parts of the world surpasses, as a whole, the production of the United States. Whether we wish it or not, the international markets are supplied by sources that, taken together, amount to more than the capacity of supply of the United States. It is here that the decisive play will be made, and it is not necessary to set down columns of figures to show even now the tendency toward a fall in prices that has been increasingly manifest during the last year or two.

My prediction may be wrong. It is possible that the views I express now may not be confirmed. But when one reads, for instance, the recent report on the overproduction of steel in the world, a report emanating from a great international authority, one cannot help but think that the balance of forces inclines in the direction of a fall in prices that I mentioned in the beginning.

As to the means of halting this decline and its consequences, I have already expressed myself on different occasions. I think that the efforts of the United States alone to counterbalancing the tendencies toward a decline by an appropriate monetary policy will be insufficient. Only a return to the gold standard and an increased production of the precious

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metal which constitutes today the only possible international currency will enable us to halt the fall of prices and bring about a stabilization that will be beneficial to the entire world economy. Distrust of paper currencies has become such that the restoration of an international currency that is unquestioned is the only means of restoring normal commercial currents. But this international currency must be given sufficient elasticity and must be capable of increasing with sufficient rapidity to sustain and strengthen the demand for products at the moment when increased technical means tend to multiply the production of commodities beyond all that previous eras have known.

To bring about this state of things, I can see but two means. The first would be for the United States to intervene in all the free gold markets and supply them with such quantities of the precious metal as would be capable of bringing down the price to the level of the official price for gold in New York. This procedure would produce rapid invigoration of the moneys of various countries by restoring confidence, the absence of which at the present time constitutes the gravest menace to the regular development of international commerce. I am well aware that in order to do this the United States would have to modify some of its policies, or even some of the legal regulations established since 1933, the period of the greatest monetary crisis they have known. Such modifications might be possible within the frame-

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work of present legislation. That is too complex a problem to be dealt with here, but in my opinion it should be given attention by the proper authorities.

However, the return pure and simple of the price of gold on all the markets to a level corresponding to the legal gold parity of the dollar would not take place without some inconvenience. Countries which produce gold, like the Transvaal, consider this parity too low to permit them to expand their production, considering the enormous increase in production costs and the general increase of prices in the world. To forestall this objection, which is obviously important, the Transvaal has strongly suggested that the purchase price of gold in the United States be changed and that the Treasury fix a price that will make possible an increase in the production of the precious metal. It is the well-known question of the change in the price of gold in the United States, a question which it is undoubtedly indelicate for a stranger to discuss, but which is discussed now with the greatest freedom in the United States itself and which has obvious interest for the entire world. Quite recently, an excellent economist from South Africa, M. Busschau, examined this question with indisputable competence and great insight in a little volume entitled *The Measure of Gold*, which is singularly instructive reading.

I entertain no illusions as to the haste with which the world will turn toward one or the other of these solutions. I know, however, that "natural forces" will

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lead us undoubtedly and necessarily to envisage solutions that will bring us back to the only international currency known until now, and bring us back to it in such a way that this international currency will be produced in sufficient quantity to prevent the international level of prices from declining too rapidly under the pressure of a world production which according to all known indications will attain proportions incomparable with former levels.

## *Gold, International Currency*

*(Lecture delivered before the French Parliamentary Committee for Commerce, February 1950)*



Much is said today about the convertibility of currencies as a condition for the restoration of international commerce. (I am aware that I am addressing the French Parliamentary Committee for Commerce.) It is a strength or a weakness of our time to apply new words to old things. To aim at the convertibility of currencies is to seek for an international standard, though this comparison may cause protest.

Prior to 1914, there existed a common standard of currency, if not for all nations at least for the most important among them. The international community had an international currency. Today all the currencies have become national, and there results a distortion of the commercial currents. Each country

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tries to export its merchandise less where there exists a demand for it than where there is a chance that payment will be made in the desired currency. Let us suppose for a moment that France should still be divided into provinces (it is not so long ago that an attempt was made to do this), each having its own currency. Paris being the center of the arts and sciences and the center of culture, as well as of the greatest industrial and commercial activity, it is certain that the Parisian franc would be in greatest demand. Each province, therefore, would try to sell in Paris the maximum of merchandise and services. For example, before sending its steel to Bordeaux or Marseilles, Nancy would inquire if the francs from Gascony, Provence, or Lorraine, which they would receive, could be converted easily into Parisian francs, and Bordeaux would do the same before shipping its wines to Nancy. Thus normal exchanges would be a pretense. Establish one sole currency and immediately all this speculation and its difficulties disappear and commercial operations are restored in accordance with supply and demand.

This illustration is an exact picture of conditions obtaining today in international commerce. In Europe O.E.C.E. hopes to restore a currency community, progressively, region by region. But to what international currency shall recourse be had if gold is denied this role? Only two currencies could aspire to this role: sterling and the dollar.

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The pound sterling has suffered too many upsets, and since its last devaluation, which of course has not entirely dispelled all apprehension with regard to its stability, no one thinks any more of making it the international money. If prior to 1914 sterling played this role, it was for the simple reason that it was convertible into gold. Some contend today that it was not gold which sustained sterling, but the opposite. They call to mind a certain article I read in an English paper which said that unfortunately gold had just detached itself from sterling; while in another column nearby there was an announcement that fog in the Straits of Dover had also detached the continent from the British Isles. In fact, read again all the works, all the articles before 1914; everywhere it is stated that it is its convertibility into gold that confers on the pound sterling its character of international money.

And the dollar? It fulfills the function of international currency at the present time, but could we tie all the other moneys to it for a fairly prolonged period? It too has suffered upsets. One need only recall the the Civil War, the campaign in favor of silver at the close of the nineteenth century, and then, we have had the devaluation of 1933. I do not criticize it; on the contrary, I consider it a very wise and prudent action on the part of President Roosevelt, but it was bound to leave a doubt as to the future of this currency.

Furthermore, to select the currency of one country

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as international currency presents grave inconveniences. That country would constantly have to be a debtor with regard to the community of the other countries. In the case of the United States I do not see how this could be. And since the currency of a country is subject to such an extent to its financial policies, what nation, what group of nations, would accept for any prolonged time a dependence on the currency of another country, however great and respectable it might be? On the other hand, at the present time, a good deal of the demand for dollars is due less to this currency being considered as international money than to the fear of not having enough of it for future payments. It is the same kind of thing that we mentioned with regard to tobacco when it was rationed: it is an important lesson. I add that I believe that the international role of the dollar is due largely to the conviction, which I believe is that of all Americans, that it is convertible into gold.

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Under these conditions there remains only one possible international currency: gold. I will not tell you that it is a perfect currency. Nothing is perfect in this world. I will say simply that it is preferable to others, because it is liable to fewer accidents. First, I should say that there is a general demand for gold at the present time. It is mentioned as little as possible,

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but all the papers publish the quotations not only of the free market of Paris—since we are so fortunate as to possess one—but of the markets of Cairo, Hong-Kong, India, and many other countries. The first requirement in order that a currency may be stable is the confidence of the public. For gold this condition is present.

I know that back in the eighteenth century Berkeley said that gold was useless and proposed that paper money replace it. The same philosopher also said, it is true, that the outside world did not exist. I doubt that this last theory has remained valid; as far as I am concerned, I much prefer that you exist. In any case, regarding money, paper has undergone so many upsets that gold has always been found preferable. It has been said also that gold is a fetish, that it has no value. Undoubtedly. But the diamond is not useful either; alcohol, tobacco, are not only useless, they are also injurious. Nevertheless, there is a market for diamonds, for alcohol, for tobacco. In the same way there is a demand for gold, and primarily, for a very simple reason: it is rare, much more so than one realizes generally.

One of my friends has figured that if we were to melt all the gold now stored in the banks, we would obtain a cube of  $13\frac{1}{2}$  meters. Compared with the great masses of steel, tin, and zinc that there are in the world, is this not an infinitesimal amount? It is a fact that gold conserves its value. Had anyone in France thought of burying gold in 1914 and of

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offering it now on the free market, he would have found it a most profitable operation. We can say what we like, the public knows it.

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Why then, is there this desire to exclude gold that we find today—especially in the Anglo-Saxon countries, the most important countries from the monetary point of view? It is the great crises—in England that of 1929-31, in the United States that of 1933—which have created this distrust. It is a trace of these bad memories that we find in the documents of Bretton Woods and in the project of Lord Keynes. The war has accentuated this feeling. As soon as it was declared, all the countries forbade the exportation of gold, which means that they thought it could be useful. On the other hand, inflation provoked a state of mind in all governments that ought to be psychoanalyzed, and is due to remorse. It was realized that this policy was not very wise, but it was hoped that the public would not be too aware of its consequences, namely, that paper—francs, dollars, pounds sterling—does not have the same gold value as formerly.

Another reason for the distrust of gold is that there is a fear that the return to the gold standard will precipitate a deflation, similar to the period 1929-1931. It is the fear of a deflation which holds back governments in their desire to restore a stable currency. They would like, in fact, that the gold value

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would re-establish itself by itself, which accounts for the contradictory legislation. In France, for example, we have a free gold market, but the exportation and the importation of it are forbidden. If it is considered a luxury item, it would be desirable to export it; if it is a currency, to import: we have not been able to decide. The result is, therefore, transactions between the holders of gold, and private holders only at that, since there is but one entity in France that is prevented from buying gold on the market, at a convenient price, the only one for whom it would be essential to be able to do so: the Bank of France, which is bound by the Bretton Woods Agreements. I confess that I do not understand. Is it not scandalous that a country which wants to hoard gold should arrest and condemn the people who import it, whereas the Minister of Finance and the Bank of France can only approve *in petto* every time gold comes into France? You have probably seen in the papers that in order to set a trap for the traders, the Swiss police have issued bogus gold coins. You will admit that when a policy has this kind of results there is something rotten in the realm of money.

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The present ideas about gold are not without precedent. I could mention, in passing, Fouché, who died a millionaire—in gold francs—after working for the depreciation of gold and silver during the Terror, and supporting brilliantly recourse to paper to pro-

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mote the cultivation of the austere virtues of liberty. I prefer to go back to another doctrinaire, whose experiments cost our country dearly: John Law. Law was a great writer on economics. He committed one offense, that of writing in French, and works written in French are seldom read in England and in America. It is a pity, because his theories present striking analogies with those held today in those countries. First proposition: the value of gold and silver is due solely to the use of these metals as money—it is the theory according to which the monarch supports gold. Law forgot that the public does not demand all kinds of money indiscriminately. A currency in which the public has lost confidence it no longer demands. Everywhere one tries to substitute paper for gold; nevertheless the value of gold does not become less. There is a small free market in the United States where gold is worth forty dollars per ounce, while the official rate is thirty-five. There is no country in the world where the free price of gold is not higher than the official price in the United States.

Another idea of Law's, which was also an idea held by Montesquieu, is that gold has only a *representative* value. Recently a director of the Federal Reserve Bank was telling me that the Bank of Greece, wishing to stabilize the drachma, had applied in the United States for a gold loan for this purpose. He was told that the United States was ready to send wheat, flour, foodstuffs, raw materials, and machinery, anything but gold, which was useless. Like Law, our

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American friends, who have such great faith in their currency, do not take into account that it is almost as indispensable to have a money that can be relied on as it is to eat and drink.

One hears every day the classical argument used by Law even in his day, that paper money is the outcome of evolution through the bills of exchange and the check, which proves that the public no longer desires gold.

For my part, I do not think that it constitutes a recommendation for present theories to identify them with those of Law.

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I was saying, then, that we find an undefined feeling in all governments that one day it will be necessary to restore to gold its role as international standard of currency. This does not mean necessarily that people will use it in the form of coins. It can serve as a medium of payment while remaining in the Bank. How can we obtain this restoration?

One method which seems to me illusory is the one which consists in saying: let us first restore the balances of trade and then the gold standard. After the previous world war this system was tried with respect to the United States for some years: however the United States continued to sell more than it purchased. Today we see Great Britain and other countries curtailing their importations from the United States. Commercial transactions are not restored with

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statistics: the deficit will decline a bit, but it will not be suppressed, because the exports will decline with the imports.

Since Mr. Chairman has alluded to 1926, I remember that at that time there were two schools. Some proposed the method I just mentioned. The others—and I was among them—said, “Let us restore the currency first and we will find our balances of payments restored.” I am still of this opinion. Stability of the currency is the first condition.

A first means of increasing the stocks of gold in the world would be to open the free markets where the price of gold is higher than in the United States. Gold would flow to these in large quantities; it would no longer be absorbed by the banks of issue, and there would result a considerable increase of gold-hoards on which the Bank of France, for example, could draw to rebuild its treasury some day, by purchasing at a rate which it considers right (on condition that it is no longer bound by the shackles of Bretton Woods). It is precisely by this method that the United States attracted involuntarily the gold that filled its coffers after the First World War. It was much more advantageous at that time to sell one's gold in New York and obtain dollars which were sold on the foreign exchange markets, than to take the gold to the banks of France or England, which were absurdly obstinate in maintaining the prewar price. Today one would have to begin inversely, but on condition, of course, that the financial situation be

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such that everyone does not hasten to buy foreign exchange. The chances of success would increase still more if the United States itself would use its gold stocks in the free markets. For example, it has been suggested that the United States sell gold in India to keep it from continually quoting higher than the official gold-value of the dollar. It is also proposed by Mr. Bevin that America redistribute its gold.

Finally, there would be a second method. I hesitate to mention it, as I would not like to appear to meddle in the politics of a foreign country, especially a country for which we should feel so much gratitude: it would be that the United States consent to increase the price of gold.

This step, which has just been recommended in a very remarkable book by a South African economist, Mr. Busschau, would have the result, by spurring an increase in the production of gold, of bringing about the essential factor of any financial and commercial restoration: it is necessary indeed that the international money be available in sufficient quantity lest we have a deflation.

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It is not as a theorist that I have tried to talk to you. Monetary problems are not abstract. They affect immediately and most directly the interests of commerce, industry, and labor. And if the gold problem has assumed the urgency and acuteness which we find, it is because it controls the problem of the

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restoration of the economy. One must not overlook the fact that every commercial transaction comprises two phases which are equally essential: the shipment of the merchandise and its payment.

In the work of restoration which has become necessary, France can play a large role, for hoarded gold can help it to back up its currency solidly some day. I do not suggest that we decorate the hoarders, but when the financial conditions have been attained, they will be considered the saviors of the currency.

You will remember that in 1944 we were still subject to a very painful regimentation, which we all at one time recognized as necessary, but those authoritarian features, unfortunately, had seduced many minds. However, if one had studied to any extent the economic history of the world, it would have been possible to say, even at that time, that nothing would remain of this system today. And this is what has happened. Now I wish to make a prophecy which is just as certain. Minds of the greatest probity, who seek very sincerely the good of their country, think at the present time the return to the gold standard would be disastrous for the world. I dare to state before you that within a year or two nothing will remain, or hardly anything, of the exceptional regime which we have at the present time.

*The Distribution of Gold in the World*

(*L'Opinion*, April 13, 1950)



It is curious to see how certain economic doctrines which are true in peace time still retain their prestige when war conditions have rendered them inapplicable. This is true, today, of the doctrines concerning the distribution of gold in the world.

We can remember how much the British were concerned by the bad distribution of gold after the First World War. The accumulation of gold in the United States stirred their indignation. Yet, it was the English policy itself (imitated also by France) which forced the producers of gold to sell the precious metal to the United States, by refusing to modify the purchase price of gold by the Bank of England. The producers thus obtained dollars which, when sold in the exchange market, brought them an

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amount of sterling much greater than the Bank of England would have paid for the same weight of the precious metal.

Today, England and the United States, through the regulations of the International Monetary Fund, are committing the same error. They are doing everything to favor the accumulation of the newly extracted gold in New York, while the gold reserves of the American Treasury are already too plentiful.

Why is that? The English economic policy rests entirely on the idea that in order to reverse the gold currents one must first secure a favorable commercial balance, whence the great and courageous efforts of our neighbors to increase their exports and reduce their imports. In my opinion, however, it is completely useless to try to reach the desired goal by these means.

England has such an unfavorable balance of trade that it is out of the question to try to reverse it by a simple effort at restricting imports and forcing exports. The same impossibility exists for most of the European countries. The balances of trade of the more active countries among them were unfavorable long before the war, and these deficits were offset by all sorts of invisible exports, whose quantity at present is too low to be able to achieve the results of bygone days. It will remain insufficient as long as the capital movements have not been resumed, which assume a stable currency. However, in the universal system of paper money to which we are condemned

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for the moment, there exists another way of favoring the currents of gold, and by that the stabilization of currencies, completely independent of the balance of trade. We refer to a mechanism that was already used after the First World War, and by means of which the currents of gold are established without any link with the balance of trade.

Gold today has become a merchandise whose price, save in New York, where it has a fixed value, is established according to offer and demand of the precious metal on the free markets. Gold moves there where it is best paid in the currency of the country which imports it. At the present time (and notwithstanding the recent drop in the price of gold) the prices on the free markets, and particularly on the French market, are converted into an amount in dollars above that paid by the American Treasury to the importers of gold. We find here a principle of distribution which is different from, but still analogous to, that which was in force when the Western countries were all under the gold standard and tied to the convertibility of bank notes, and when gold currents were established according to the purchasing power of said gold in the merchandise of said country. Thus, thanks to the free markets, a new distribution of gold is being made, modifying the previous distribution which was too uniquely favorable to the Treasury of the United States. The latter can only rejoice in this.

Indeed, this new distribution of gold conforms to

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the actual needs of the different markets, that is to say, to the more or less intense desires of the populations to see the paper money replaced by a currency based on gold.

It is thus in accord with the best economic reasoning and prepares opportunely for the return to an international gold standard. The first concern of the International Monetary Fund should not be to prevent the creation of free markets in gold, but to encourage them in every way. By a strange aberration, its present policy consists, on the contrary, in reinforcing a too obvious maldistribution.

Let us add still this. In order that the gold sold on the free markets shall remain there, and that its price in paper money not be exchanged immediately for dollars, it is necessary and sufficient that these markets offer opportunities for investments which are both sure and profitable. If one considers the rates of interest offered in a market such as Paris at the present time, one will notice without difficulty that they are far superior to those prevailing in New York. The sellers of gold in Paris enjoy, therefore, an advantage in investing the francs they receive for the metal in French stocks and securities.

Thus, little by little, the normal play of the prices of gold on the one hand, and the interest rates on the other, is gradually causing a redistribution of the precious metal more in conformity with the aims pursued by the United States itself in its effort to integrate the continent economically.

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The representatives of France at the International Monetary Fund should press with all their authority for the restoration of the free markets. They should give their unstinting cooperation to the efforts being made by the representatives of South Africa in the same direction. These representatives, while appearing to defend primarily the interests of the gold mines of their countries, are really defending the interests of international commerce all over the world. It concerns the future of the gold standard which the International Monetary Fund was originally supposed to prepare, which alone will restore to those countries ravaged by inflation the first and the most indispensable kind of security: monetary security.

*Gold and a Return to the  
Ideas of John Law*

(Communication to the Academy of Political and  
Moral Sciences, April 24, 1950)



My dear fellow members, do not worry. The gold I want to talk to you about is not the gold whose hoarding was denounced, long before Lord Keynes and John Law, by our delightful La Fontaine and our stern and honest Labruyère. Like everyone else, I realize that neither gold nor greatness can make us happy. Like all my generation, I have listened to Richard Wagner proclaim in resounding music that gold should be buried in the Rhine in order that peace shall be restored to men. But I have also listened with no less attention to the words of his great adversary Nietzsche who, in his *Zarathustra*

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asks himself "How did gold acquire its high value?" His reply deserves reflection. "The value of gold comes from its being rare and useless and its sparkle brilliant and soft! Gold is offered as a gift." And he continues: "It is like a symbol of the highest virtue that gold has acquired its high value. The highest virtue is rare and useless; its lustre is brilliant and the highest virtue is a virtue which gives itself."

The gold that I want to talk about is not gold as a symbol or instrument of accumulation of wealth. The gold that interests the economist is the gold used as an instrument of payment within each nation and between one nation and another. You will agree, I hope, from the start, that in a world entirely based on trade, a common instrument of payment is of prime importance. We are witnessing today a great and historical phenomenon, the recreation of a common instrument of payment between nations. Like every creation, it meets with resistance and incomprehension. Whence the strange contradictions in the actual policies of all governments in regard to gold, contradictions about which I would like to speak for a moment.

During the war, all the belligerents forbade the exportation of gold, and many, France in particular, reserved for themselves its exclusive possession. What did that policy mean? Evidently a desire to conserve for the country the largest possible amount of gold. It was the obvious recognition of the importance of the yellow metal for the economy of each country

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The Germans, without doubt, proclaimed everywhere the end of the role of gold. It was one of the dogmas of Nazi economic policy. But, wherever they could put their hands on gold, in private safes, in occupied territories, or worse, even in the dentures of those deported, they hastened to seize it. Gold held a place of honor. Since the war the attitude of governments toward gold has become less simple. In principle, their preoccupation seems to be, just as during the war, to prevent individuals from buying the yellow metal, from trafficking freely with it, from exporting it. And yet, this attitude is not general. In France, after a period of interdiction it was decided two years ago to allow the free market in gold. At the same time, by a curious anomaly, its *importation* without authorization is forbidden, a fact which seems to indicate a certain fear that the gold stocks will increase while, apparently, the government desires precisely such an increase. From time to time, the papers announce with great noise the arrest of persons criminal enough to have brought in fraudulently ten millions francs worth of the gold metal. Ten million francs, that is to say scarcely a hundred thousand francs at the rate prior to 1914, the happy time when each entry of gold into France was welcomed officiously as well as officially, by cries of delight. The importers of gold today are treated more like traders in cocaine!

Another contradiction. There exists in France one private entity, and one alone, which does not have

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the right to buy gold on the market called free and as such open to everyone. This entity is none other than the Bank of France, that is to say, the only entity one would wish to see acquire the largest amount possible, in the general interest. But the International Monetary Fund, although entrusted by its statutes with the restoration of monetary stability in the world, by bringing us back to the gold standard—but which seems to have toward the very name of this metal a kind of physical dread—would frown severely if the Bank of France should venture into this immoral enterprise. Understand who may!

The same bad logic is manifest elsewhere. In the United States, for example, since 1933, private individuals no longer have the right to own gold pieces. However, they are allowed to possess gold nuggets, and a small free market even exists for nonmonetary gold. Importation is equally free. The government pays thirty-five dollars in paper per ounce of gold which the producers offer. This is the price which was fixed in 1933, when the devaluation of the dollar by President Roosevelt took place. It means that a paper dollar is equivalent to  $1/35$  of an ounce of gold. But at the same time, and by a strange scruple, the Federal government, which doesn't fear the inflation resulting from a budgetary unbalance, seems to fear the increase in the circulation of bank notes resulting from the purchases of gold. It instructs the Federal Reserve Bank to sell its bonds to the public for an amount equal in dollars to the amount

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which it has issued in exchange for the gold. Thus it reduces the circulation of paper money by an amount equal to its increase by what is called "the purchase of gold," a term which is singularly misleading. It is willing to acquire the gold, but on condition that the operation be deprived of its normal effect, which is the increase of the monetary means, an increase which, as everyone knows, is no longer obtained by the minting of the metal into coins, but by putting into circulation by the Central Banks an amount of paper money corresponding to the amount of gold received.

In Switzerland, a country which is always legally on the gold standard, the purchase, the sale, the exportation, as well as the importation of gold, are submitted to governmental regulations which are very liberal, for here it is the plethora of gold which preoccupies the monetary authorities, and it is the means of disposing of it that are being sought.

But the most striking paradox is that offered by the Transvaal. The Transvaal is a great producer of gold. This small country, like all the others, has been subject to an increase of costs on a world scale, particularly an increase in wages. The expenses of exploiting the mines have thus been increased, while the price which they receive when they send their gold to the United States remains always the same. The result is a restriction in the production of gold, at a time when that production would be most needed by the world. Therefore, it has been forced

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to plead with the International Monetary Fund for the right to sell gold in an industrial form, in the free markets. Not without difficulty has the Transvaal obtained this right for a part of its production. One sees today nuggets, coarsely shaped, sold on the free markets, at the price of these markets and, as soon as sold being changed into gold pieces or ingots easy to hoard.

Let us note that all these regulations have not prevented the creation of free gold markets everywhere. In a remarkable article that appeared in the *Revue d'économie politique*, M. Herbette has given a detailed description of this. The article shows once more this opposition, so often noticed, between the reality of economic life and the economic legislation which pretends to govern it, an opposition which makes up the thread of a good deal of economic history. At all times this history has followed a road quite different from that which the legislator believed he could map out for it, and always it is the legislator who had to yield ultimately.

From these wavering and contradictory policies we receive a common impression, which is that there exists on the part of governments an immense distrust of gold and its free use.

How can one explain this state of mind?

Reasoning by a logic that is a bit oversimple, and therefore always dangerous when we deal with social phenomena, the issue should be stated, it seems, in the following way: Either gold is considered by gov-

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ernments as merchandise, with all the qualities which distinguish it as such—beauty, scarcity, ornamental possibilities—or it is considered as currency, a currency, let us explain, that is not only national but international, sought and demanded for payments both within a state as well as between one state and another.

If gold is simply merchandise, there should be no hesitation. It is a luxury merchandise whose importation in a period of scarcity should not be tolerated at any price. It is inadmissible that we should import diamonds, gold, or pearls, when we lack wheat, coal, or copper. Countries should sternly forbid the importation of gold, like that of rare furniture or valuable paintings. Aside from some special cases of industrial use, the importation of gold ought not to be tolerated neither for individuals nor for the government.

In the second case, if gold is an instrument of payment, the governments should, on the contrary, facilitate by all means the importation of it from abroad, for themselves as well as for private individuals. The world aspires toward a stable currency. A stable currency is as indispensable to economic life as the merchandises themselves whose trade it facilitates. And if one may find partially substitutes for it in payments within the country, there exist none for payments outside the country. In fact, governments have not thought it necessary to choose between these two alternatives, and for the simple

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reason, which is that this dilemma has no relation with reality. Gold, actually, is at the same time a merchandise and a currency, even when it is not minted in the form of coins. It is *the* merchandise-money par excellence. It is money, and above all international money, because it is a merchandise. In international trade, a country accepts in payments only merchandise, that is, objects having an international demand and an international market. Among these objects, gold is particularly welcomed, by reason of its quality as a metal and because of its high commercial value in small volume.

That is precisely why the United States persists in "buying it," while refusing the same right to private individuals. They call it useless merchandise when private individuals demand it. They declare it international currency when they acquire it.

But why refuse to private individuals the use of this money? Here it is no longer logic but psychology that comes into play.

The governments had a bad conscience, and a bad conscience always leads to absurdities, as well as to error. Why do governments have a bad conscience?

Because all during the war they have created paper money, assuring the public that the new pounds, the new dollars, the new francs, the new marks, were worth as much as the old ones. When the war was over, this fiction had to be maintained, and as the natural effect of a superabundance of money is to provoke a rise in prices, all possible measures

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were taken to prevent this rise in prices—without success, however. For how could one maintain the same purchasing power for the dollar in relation to merchandise, when there were on an average four times more dollars in the pockets of private individuals? How maintain the same value for the pound when there were four or five times more pounds? How maintain the same purchasing power for the franc when there were in relation to 1939, ten times more at the time of the Liberation, and twenty times more today? It is as if one were to double or triple the quantity of carrots on the market and declare that their price will remain the same, and that one will continue to exchange the same weight in carrots for the same quantity of their goods as before.

In the middle of this brilliant international effort, someone came to trouble the feast. This someone was no other than gold. Clandestinely at first, openly later, gold markets began to open, in France, Italy, Egypt, India, and China. And what did we find then on these markets? The price of gold, expressed in paper money, rose proportionately very close to that of merchandise, and even more. What did it mean if not that gold had maintained in relation to merchandise the same purchasing power as before? The price of potatoes in francs was multiplied by twenty. But at the same time the price of a gold piece, Swiss or French, was multiplied by the same amount or more. To acquire gold coins, therefore, was to

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be insured against a probable rise in the price of merchandise. From there to desiring the resurrection of gold currency and the death of paper money was but one step. However, against such a sacrilegious desire, the governments had to guard themselves at all costs. Markets in gold were forbidden; forbidden also the free circulation of gold from country to country, and the new organization born of the Conference at Bretton Woods, the International Monetary Fund, extended its excommunication to all free markets in gold.

Here I would like to leave my statement of facts for a moment, to consider one of ideas.

It is rare that an economic practice does not try to build up a doctrine in order to justify itself. The history of currency is acquainted with this phenomenon. All sorts of arguments were readily found to justify the outlawing of gold. These arguments were naturally presented as new. It is somewhat as if an astronomer of today were suddenly to resuscitate the system of Ptolemy. When one deals with positive science, these reversions to the past are quickly condemned by scientific opinion. In social or economic matters, scientific opinion cannot serve as arbiter. All absurdities find believers if they are stated in a language sufficiently pedantic. The ideas that have been revived and that hold sway today in some very serious circles, in Anglo-Saxon countries, are none other than those of a certain personage who is totally forgotten in these countries,

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but whose name, on the contrary, is about the only name of a financier, after that of Saint Elois, that appears in all the manuals of history: John Law.

There are in the experiences of John Law two entirely distinct phases.

In the first phase, John Law proclaims the convertibility of the bank note into metal. The value of the note, its purchasing power, is not distinguished from that of metallic money.

In the second phase, John Law suspends the convertibility of the bank note in order to issue larger quantities. And immediately, in order to prevent the depreciation of the paper from being apparent in its exchange for the pound-silver, he forbids the possession of gold and silver by the public, exactly as was done by President Roosevelt in 1933. Law orders searches in homes, he encourages denunciations. Silver deposited with notaries and in saving banks is seized and replaced by paper money. Jewelers may not sell any item exceeding one ounce, or any table silver. "The state," writes Saint-Simon, "undertook the remarkable feat of persuading Frenchmen that, since the time of Abraham, who had paid in cash for the burial place of Sarah, the coarsest illusion and error had existed about currency and the metals out of which it is made." "Many obeyed, but a greater number exported their metal or hid it and the circulation of metal-money decreased in enormous proportions." (Carré, *Histoire de Louis XV*).

Justification of these measures is found at length

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in the letters of John Law, published in the *Mercure de France*, in 1720, which contain already all the arguments for propaganda that partisans of the paper-money will advance later.

First, the weightiest argument. Money is made to circulate. If one hoards it, the king (today we say the state) has the right to confiscate it:

“And, in truth, the king alone should possess species today, because he is the only debtor in silver, and private individuals owe each other only bank notes. The Bank, in relation to finances, is the heart of the realm, where all the money must return in order to begin again its circulation. Those who wish to amass it or to withhold it are like parts or extremities of the human body that would stop, as it flows, the blood that feeds and restores them. These parts would soon destroy the agent of life in the heart, in all the other parts of the body, and finally in themselves. Money is yours only by the right that you may have recognized by the government certificate to be used to satisfy your needs and your desires. Outside of this right its use belongs to your fellow citizens, and you may not deprive them of it without committing a public injustice and a crime against the state.”

And here is a comparison with the great highways that I heard made a short time ago by an American economist who was totally ignorant of the existence of his great predecessor:

“All the species of the realm belong to the state,

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represented in France by the King; they belong to him precisely as do all the main roads, not in order that he may enclose them in his private domains, but to prevent that anyone should enclose them in his; and as it is permitted to the king, and to the king alone, to alter the highways for the public convenience, of which he is the sole judge, it is also permitted him to change the species of gold and silver into other means of exchange which may be more advantageous to the public and which he accepts himself, as he accepted the others."

Note, in passing, the absurdity of this reasoning. The highways are established at the state's expense and belong to it. Gold currency is acquired by an individual in exchange for goods which he has provided. The state may well requisition the gold coins, as it does wheat or horses, but only under exceptional circumstances and against indemnity.

In reality, what Law intends to condemn is hoarding, still the nightmare today of the partisans of paper money, for whom money is made only to circulate and not to serve as a store of value.

Actually, in normal periods, when distrust of money does not exist, hoarding does not occur. Money is held just the time necessary between the moment when it is received and when it is again spent. This interval may be more or less long. It suffices that it should be slightly increased in order that the holding of currency be qualified monetary hoarding. So, in periods when money ceases to be convertible, one of its essential

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roles, that of *being a bridge between the present and the future* (a definition on which Simiand and Lord Keynes are agreed and which I have often employed myself) is threatened. And immediately the precious metal comes to fill this role, precisely because of the stability of its value and its physical inalterability. In other words, the precious metals are in demand not only as currency, when gold-currency is available, but also as an instrument of store of value, either in coin form or in the form of ingots, during periods of mistrust in national currencies. In this case, it is the metal itself which is in demand, and if coins are hoarded it is only because they constitute the form in which the metal is more accessible to the public. The hoarding of gold is the natural and legitimate reaction of individuals to the decrease in the value of paper money.

This is true today, as it was during Law's time.

Another of Law's arguments: Gold is not real wealth; it has but a *representative* value. Only consumable goods are real wealth.

"The only real wealth among men is foodstuffs and merchandise, and the only real commerce between them is the bartering of these articles of food or this merchandise. Gold, silver, copper, bank notes, shells, marked and threaded, used on certain coasts of Africa, these are but representative forms of wealth or the signs of transfer of the real wealth."

Excuse me for pausing an instant on this argument, because it is often repeated, although the great

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Turgot has protested against this idea. Very recently still another American observer, having seen for himself the disasters caused by the fluctuations of the paper drachma in Greece, proposed to the American monetary authorities that they send gold into Greece in order to stabilize the currency. The official reply was that the American government was ready to send foodstuffs, machines and raw materials, but not a useless ware such as gold. This reply reveals a state of mind which the great inventor Edison expressed in a witty way: "Of what use is gold but to fill teeth and gild frames?" What Edison did not perceive is that in an economic system built upon the division of labor and on trade, gold is useful and even indispensable as an instrument of payment, for an instrument of payment does not fulfill its role if it does not have a stable value. And no other metal has such a *stable* value, because being *rare* and desired, it is universally in demand. Gold does not have a representative value; it has a value all its own. It is the demand that confers value to objects. One might as well say that alcohol serves only to poison generations present or future, or that tobacco only clouds the brain and makes the air foul in your apartments! Or that diamonds serve only to adorn the crowns of kings, or to be exposed in a window to the eyes of passers-by. And yet, alcohol, tobacco, and diamonds have a value. Gold also is in demand, because it is an *admirable agent of preservation of value in time*, and traders really need such an agent.

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In fact, exclaim the enemies of gold, if gold is in demand because it serves as an instrument of payment, that is proof that its value is *artificial*, and it could be replaced by another instrument of payment on which one could confer this same artificial value. There, again, Law had foreseen the argument.

In his *Considérations sur le Numéraire* (p. 515), he said: "Let us suppose silver ceases to be employed as money in Scotland, the quantity of silver would remain the same and the demand much less: as a result silver may fall by two-thirds or more. . . . If England adopted another kind of money, this decrease in demand, together with the ordinary drop caused by the great quantity imported in Europe, would cause an extra drop of as much as 10 per cent."

This observation is partially true, and was confirmed when monometallism, gold, replaced bi-metallism. But it is true only on one condition, which is that the "other kind of money" of which Law speaks be *as good or better than silver*. It is not the substitution of *any kind of money* for gold or silver that will produce the effect mentioned by Law—particularly not the substitution of paper money. Experience shows, on the contrary, that every time, without exception, that gold has been substituted by paper money, the gold has been sought, hoarded, and valued above paper money. This is the phenomenon we find taking place at the present time,

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in a large measure, in the whole world, and even in the United States.

Notwithstanding these experiences, every time that necessity has compelled governments to resort to paper money, one finds theoreticians deprecating the use of gold. After the English crisis of 1931, when the pound collapsed, one of the best-known English experts, Sir Basil Blackett, expressed the hope that German national-socialism, so desirous of ridding itself of what it called the slavery of gold, would help England in its policy of liberation from this same metal! One can say, indeed, that ten years later national-socialism helped the English government singularly in multiplying the paper money! But before the war of 1914, English economists unanimously proclaimed that the universal demand for sterling came from the assurance that one had of its immediate convertibility into gold; and everywhere they attributed the superiority of sterling over the franc to the fact that the latter ran the risk of being exchanged at the Bank of France not against gold, but against silver.

Today similar pronouncements are made by men who are responsible for the monetary policy of the United States. Many among them assure us that gold has value only because it is convertible into dollars at a fixed price. Thus it would be the value of the dollar that would support the value of gold; in the same way after the First World War some English writers contended that the relative stability

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of the purchasing power of gold in the last quarter of the nineteenth century was due to the maintenance of stability of the pound sterling on the English market. These same persons assert that if gold were demonetized—in other words, if one could not freely convert it into dollars—the value of gold would fall immediately and it would thus be demonstrated that it is the paper money which supports the value of the gold, and not gold that of paper. To this it is easy to reply today that even in the United States the gold in the free markets is at a premium over paper. In reality, gold on the free markets brings more than thirty-five dollars an ounce, which is the official price paid by the American Treasury to the sellers of gold. If gold is at a premium over paper, if an ounce of gold is worth forty to forty-five dollars in the free markets instead of thirty-five, which is the official price, it is obvious that forty-five dollars are worth less than an ounce of gold in the minds of the purchasers, and that gold is worth more than the official price. If gold were to be demonetized at the present time, if America should decide to offer its demonetized stocks of gold on the world market, there might occur momentarily a decline in the price of gold below thirty-five dollars an ounce, but the universal hoarding of gold would rapidly bring the value of gold to a higher rate, while nonconvertibility would rapidly lower the purchasing power of the paper dollar.

In the countries accustomed to the constant con-

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vertibility of the bank note, one notices a singular misunderstanding of the intensity of the need felt by peoples shaken by the fluctuations of paper money to find at last a stable medium of exchange that will save them from the perpetual fear of depreciation of the currency. One of my good friends, François Simiand, a remarkable economist, who would certainly be seated among us if death had not taken him from us prematurely, used to say that gold, as well as paper, had only a fiduciary value. This statement has given satisfaction to all the partisans of paper money. And yet is it not clear that all property titles are fiduciary? In other words, they are based on the belief that their sale and purchase prices will remain in the future about the same as they are today? What would become of the value of the wheat-lands if one discovered the means of producing on a few acres all the wheat that France needs? What would become of the value of the coal mines if suddenly oil wells were discovered enabling us to completely substitute oil for coal as an instrument of heating? The public believes that the artificial manufacture of gold is at present impossible. Its faith in the durability of gold as a store of value rests wholly on this conviction. It is, one might say, fiduciary. Unfortunately, everyone knows that the manufacture of paper money is much easier than that of gold, and it makes a great difference in the appreciation of these two money titles, both of which one may call, if you like, fiduciary.

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It is amusing to note that at certain times the partisans of paper money have thought not that the value of gold was supported by that of paper, but that, on the contrary, gold was too rare, its value too high, and therefore too much in demand, and that it caused catastrophes like the depression of 1931, which theoreticians attributed to the increase in the value of gold, though it was due entirely to the inevitable large increases in the production of merchandise following the peace. A great cry arose in England protesting against the scarcity of gold. The conclusion, of course, was that one should have recourse to another currency, one that would run no risk of scarcity, and that other currency was paper money.

In all these arguments you will easily recognize the sophistry of John Law, and it was an English author who declared that in England there had always been friends, more or less disguised, of the great Scottish juggler.

There remains a final argument, familiar to all those who prefer paper money to gold. It is the historic argument. Law was not unaware of it. It is based on the observed fact that there has been spontaneously created, in the form of bills of exchange, bank notes, and checks, a paper money which, little by little, has eliminated gold from payments. The definitive substitution of paper money for gold only serves to consolidate, they assure us, an evolu-

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tion that has long been coming. This argument is stated at length by John Law.

“Ever since there has existed orderly commerce between men, the one who has needed money, or has not found the money he was required to pay, has given a promissory note, which has taken place of that money, and with which the creditor had to be satisfied. It is easy to see that this practice multiplies considerably the species that is needed and that would never suffice without credit.

“The System, in this respect, has done nothing more than make general, beginning with the king, something that nature, so to speak, the local movement, the necessity of things, had introduced among individuals. Therefore, instead of looking upon the System as an intolerable novelty, I am astonished that it has not established itself by itself a long time ago.”

We find this argument advanced also by all the partisans of paper money. It appears in the works of followers of Ernest Solvay, and even, I am sorry to say, in certain contemporary manuals of political economy.

It has no more value than most of the historical extrapolations, of which political economy knows too great a number. Whether dealing with predictions on the growth of population (theory of Malthus), on the inevitability of communism by reason of the class struggle (Marxist theory), on the un-

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avoidable decrease of profit resulting from the increase of capital (theory of the Saint-Simonians and of Keynes), on the necessary reduction of salary to the minimum of subsistence (theory of Ricardo), all these extrapolations have been revealed to be erroneous. This one has still much less value, for the simple reason that the inconvertible paper money has nothing in common (save the external form) with the instruments of credit, all convertible. Paper money is not a bank note carried to its maximum effectiveness. It is *something else* than a bank note, a money of necessity, as Galliani used to say.

The remarks I have just made bring me to the conclusion that there exists in the entire world an extremely strong desire to find an international currency with a stable value, and that this currency can only be gold.

If every country could isolate itself from the others, live by the products of its soil, find at home all the raw materials required by modern industry, one could very well conceive that any money, even paper money, might serve to effectuate all payments within each country. This is the hypothesis nearly always made by the Utopians. All the socialist and communist systems, that is to say, the systems based on the suppression of trade, all these systems are unconsciously nationalistic. They presume, without saying it and often without realizing it, that a country can be self-sufficient, and that consequently an international money has become unnecessary. In fact,

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however, the two great world wars, and especially the second, have shown us sufficiently to what a great degree peoples are dependent on one another for all the essential foodstuffs. I do not think that even concerning foodstuffs, after the ten years that have passed, a demonstration is necessary, at least not for Frenchmen. At this time the English are experiencing it in their turn. However, in the modern world the question is not merely one of food production; it is the entire industrial production that is closely dependent on the international economy, not only, as it is often said, for its raw materials: copper, zinc, tin, etc., but for semimanufactured products also, machines or machine parts, for the supply of which every country is obliged to look to foreign countries. Exchanges have been established in international commerce which are not the simple exchanges between industrial and agricultural countries. A division of labor has resulted which is infinitely more subtle. Industrial specialization has made it more and more indispensable to resort to the manufactured products of other countries, not for public consumption but for the production of merchandise itself. The entire evolution of the nineteenth century, by the incredible increase in the means of transportation, by the awakening of an ever increasing number of countries to economic life, has demonstrated that national economies are now nothing more than portions of a vast international economy. This is not a theoretical viewpoint resulting

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from a motive to establish free trade of whose practice everyone knows the difficulties; it is simply the realization of a fact which is very general and incontestable, and from which everyone may draw the practical conclusions he prefers. The development of protectionism is only the effort to escape from the immediate consequences of this great fact that protectionism is incapable of eliminating. However, an international economy cannot exist without an international currency, and as this international currency can only be gold, the most utopic of utopias consists in believing that gold can be eliminated from the present economy of the world. So long as there does not exist a world communism regulating the distribution of articles of food for the community of nations, trade, more or less regulated, more or less hampered, will remain at the base of international relations. Much has been said about barter during these last twenty years. It suffices to reflect for a second on the fact that all barter systems, particularly the international, rest on an evaluation of the merchandise exchanged, and that this evaluation itself supposes an international currency. As for barter within the country, it suffices to recall what happened during the last war, when this system was established under the pressure of circumstances, to realize what so-called accommodations it offers.

The present world being what it is, that is, a world of exchange—and only the visionaries can believe that it will cease to be so—the return, sooner

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or later, to an international standard, which can only be the gold standard, may be considered as a certainty, because this return is an economic necessity. However, this return can be more or less facilitated by the monetary decisions that will be taken during the coming years.

How, in fact, return to gold as international standard? Here I am not sure to have your entire adherence, and yet, the opinion that I would like to express has become almost a classical thesis. I should remind you that it was defended brilliantly before your company, after the First World War, by our colleague, Mr. Colson, with whom even then I was entirely in agreement.

It is clear that a gold basis is indispensable for national currencies if one wishes to insure their regular interconvertibility. But this basis should be in proportion to the national money in circulation. It constitutes, if you wish, the cash balance of each country, just as in every industrial or commercial enterprise there is a cash balance with which to meet bills that come due. This balance, of course, must bear a certain relation, experience shows, with the total of claims that may be made and be proportionate, therefore, to the total commerce of each country.

Let us suppose now that, by a sudden phenomenon, the turnover of an undertaking is multiplied by four or five, that instead of a billion, for example, it becomes abruptly equal to five billion, while its

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gold reserve remains the same. In order to recover its liquidity, that is to say, to be able to face all the payments that may be required of it, it would have to increase its cash balance, to triple or quadruple it. So it is with each country. If its turnover is abruptly multiplied by four or five, the bulk of immediate payments which it must face increases in the same proportion and it must increase its gold reserve by an equivalent amount. It is here that we meet a difficulty. In the course of the last two great wars the production of gold has not increased the world gold-stocks in the same proportion as the large countries have multiplied their national currency, in France by 15 or 20, in America by 3 or 4, in England by 4 or 5. The quantities of gold representing the national reserves, with the exception of the United States, far from having increased, have, on the contrary, decreased.

How, then, can the adjustment to which I alluded before be made, between the total international commitments of each country and the gold-reserve of this same country? There is only one solution possible, the solution that was in use in monarchical France and in many other countries, and that many countries have resorted to in the course of the last year, to wit: unable to increase its gold-reserve, *a country adjusts the nominal value of its obligations to the gold-reserve it owns*. One cannot multiply the gold-reserve at will, but one can divide the nominal value

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of commitments by the figure one desires. This is what is called devaluation. It consists in declaring that the gold value of a franc, a pound sterling, a dollar, shall henceforth be only the 20th, the 5th, or the half of what it was before the deluge of paper money.

I do not intend to discuss here the particularities of devaluation that still await us. I wish simply to note the following point. It is that devaluation is not a remedy, but rather the simple legal acknowledgment of an economic fact. It is the acknowledgment of a state of affairs created by the war and its aftermath that one cannot turn back: the creation of enormous quantities of paper money. If one refuses to recognize this, one thereby refuses to try to find for the paper money in circulation the only base which can restore the convertibility of the various currencies into one another by means of an international standard, which means gold. To recognize this fact is obviously not to find a remedy for all the difficulties we are facing; it is simply to eliminate an obstacle to the restoration of international trade. It is not the restoration itself. And this simple acknowledgment is not without difficulty, because the coefficient by which one must divide the nominal unity used at present in each country, in order to determine its equivalent rate in gold, can only be found gropingly and by approximation. However, the right choice of the new gold-parity is of fundamental importance, as once adopted in each coun-

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try, the economic life gets adjusted to it, and these adjustments may entail serious consequences and always cause painful frictions.

However, this is the difficult task facing nearly all the governments of the world. That this task has become an international one, that it supposes international comprehension of the repercussions of each national solution, is exactly the novelty and the difficulty of the problem now before the great economic entities of the world. Until now, during the course of history, the monetary problem has always been solved individually by each involved country. It would be a great historic novelty if it should be otherwise in the course of the following years. Will our times give evidence of an international monetary agreement by the restoration of the gold standard? If we are successful, a great hour will have struck at the clock of history. If we should not succeed, the gold standard will triumph by other means. What is certain is that it will triumph.

*The Price of Gold in the United States*

(*L'Opinion*, February 15, 1951)



Gold is again the order of the day. It will remain that so long as it has not been restored to its function as international money. Until then its price will continue to bring us surprises. Meanwhile, it is not idle to call attention to a few of the paradoxes caused by the strange situation in which it is placed both as merchandise and as money.

Let us remember, first, that there are two types of fluctuations of the precious metal that are not generally distinguished one from the other, which produce two rates of exchange: the exchange rate as regards various paper currencies, especially the franc, and the rate as regards merchandise, a rate which, for obvious reasons, is quoted nowhere, of which one hardly ever thinks, but which must never be lost sight of.

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The rate of exchange of gold for paper expresses today the relative degree of confidence felt by the public toward these two currencies. Every time that new threats of inflation appear at one of the sensitive points of the world economy, the price of gold expressed in paper money tends to increase. This is the expression, pure and simple, of the distrust or confidence felt by the public toward the official money. The duration of the Korean War having imposed a massive rearming on the United States, accompanied by the expenses that such rearming necessitates, instantly the fear of inflation gripped both the European markets and the American market itself. The rise in the New York Exchange at the present time expresses the anxieties of the American public regarding a possible inflation. In Europe these anxieties had an immediate repercussion on the gold market.

In former times, when bank notes and bank deposits were convertible into gold, there was no question of the primacy of gold over paper. The purchasing power of gold as regards merchandise, and the purchasing power of the representative moneys equivalent to gold alone attracted attention. Paper money or gold interested the public hardly more than as regards the amount of merchandise it was able to buy, its function as reserve attracting no attention because of its being taken for granted. Today the public is interested only in the price of gold in paper money, and this price is essentially determined

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by the public's concern to create reserves, paper money having lost the qualities apt to assure this essential function.

One of the fundamental needs of individuals in a normal economy is to create durable reserves for themselves. Economic man lives much more in the future than in the present. He has thus always made reserves with this future in mind, whether in accumulating real estate—lands, buildings, etc.—whether by acquiring securities—bonds, stocks, mortgages—or, finally, by simply accumulating money. The desire to create reserves is one of the fundamental needs of so-called civilized societies. This is more easily accomplished, naturally, by acquiring assets that are easily transferable, so long as their value can be expressed in stable money. Where there are no assets money serves as reserve. It is even the ideal reserve, being a general instrument of purchase, and constituting, therefore, the most general reserve for each individual, one which he can transform into any commodity or service, at any time.

When the purchasing power of money or investment assets easily “monetized” diminishes, the individual tries to find another reserve by acquiring objects whose value seems to him to be stable or increasing: objects of art, precious objects, rare stones and, finally, metals such as gold and silver, that do not deteriorate with age and for which, especially, there is a universal market.

In our time, a whole line of economists, following

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the German Knapp, claim to consider in money only its characteristic of "purchasing power." These economists forget that between the moment when money is received and when it is spent, there is always a lapse of time of more or less duration. If money varies in its purchasing power in this interval, its holder gains or loses. He suffers a loss if the purchasing power decreases (in other words, if prices rise). He gains if the purchasing power increases (if prices decrease). At such times the economic activity becomes slower. Stability of purchasing power is thus essential. And this explains why in the absence of governments capable of maintaining stable money, private individuals seek to assure it for themselves, hoarding a purchasing power more stable than that of any other merchandise.

Hoarding, or the creation of reserves, has always been a thorn in the flesh of the partisans of paper money. It was criticized before Lord Keynes's day. One need only refer to the writings of John Law, whose monetary experiments have had the well-known results, and whose modern imitators can only repeat his most characteristic arguments: "Money is only yours by the right that you have to receive it and use it to satisfy your requirements and desires. Beyond that, its use belongs to your co-citizens and you may not deprive them of it without committing a public injustice and a crime against the state, of which I do not consider you capable. Money bears the stamp of the ruler and not your own, in order

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that you may know that it belongs to you only because it circulates, and that you may not appropriate it in any other way. . . . It is on these occasions also that one feels the felicitous use of sovereign authority; law is necessary to save men from their own hands."

Thus wrote Law to defend his "system," on the point of crumbling.

Even today it is the hoarding of gold to which the partisans of paper money object. It is amusing also to observe that the partisans of paper money always choose the periods when governments have most abused paper money, have disorganized the entire price system by depreciating paper, to proclaim the capacity of governments to direct money and insure its stability.

In reality, those theoreticians dislike monetary stability, because they dislike the fact that by means of money the individual may escape the arbitrariness of the government. Stable money is one of the last arms that remains at the disposal of the individual to direct his own affairs, whether it be an enterprise or a simple household. It is certain that nothing so facilitates the seizure of all activities by the government as its liberty of action in monetary matters. If the partisans of paper money really desire monetary stability, they would not oppose so vehemently the reintroduction of the only system that has ever insured it, which is the system of the gold standard.

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The strongest argument of the Anglo-Saxon economists is precisely to have been able to accuse gold of being an unstable currency after the depression of 1930. Instead of blaming their own stubbornness in restoring the pound sterling to its old value, (in terms of gold) they have preferred to make gold responsible for one of the greatest monetary errors of all history.

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Besides the exchange of gold for paper money, there is yet another exchange to which no one gives thought today. It is the exchange of gold for merchandise. Let us forget the intervention of paper money for a moment. One may trace in the following manner what *would have been* the rate of exchange of gold against merchandise, starting with the war, if currencies had remained convertible into gold.

During the war, that is, from 1940 to 1944, one should have witnessed a rise in the price of merchandise in gold, for during this entire period, the quantity of merchandise diminished in the entire world. This scarcity ought to have been sufficient in itself to increase prices, even if there had not been a decrease in the production of gold. The offer of merchandise becoming more and more restricted and that of gold remaining stable, we should in all probability have seen a characteristic rise of the gold prices of all products. On the contrary, because of

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the almost total disappearance of gold in all the markets, we witnessed a spectacular fall in the price of merchandise in an over-valued gold. First contradiction.

On the other hand, once peace was restored, the rapid increase of production of merchandise, faced with a production of gold that remained about the same, should have caused a drop in the price of the merchandise, expressed in terms of gold; the rate of exchange of gold as against goods would have thus risen, bringing about a deflation which, of course, everyone feared. In fact, what happened? There again, special legislation applied to gold produced a phenomenon which is really curious and sufficient in itself to show the absurdity of the present situation in the gold market.

The only country where one may convert gold into paper money (the reverse conversion is, besides, forbidden) is the United States. An ounce of gold brought to the American Treasury is paid at the rate of thirty-five paper dollars. At the same time, the price of everything has undergone a considerable increase; an automobile, for example, costs double what it cost before the war. If I bring ten ounces of gold to the United States, they will continue, as before, to pay me three hundred and fifty dollars, with which I can only buy half an automobile. What does this mean if not that the rate of exchange of gold against merchandise has doubled, and that one requires twice as much gold than before the war

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to buy merchandise? Far from increasing, as the real economic facts warrant, the purchasing power of gold has decreased by half.

There is here a paradox that shows clearly the absurdity of the present system of maintaining unchanged the official purchase price of gold.

If the Monetary Fund had not imposed all sorts of restrictions on South Africa, it would long since be selling all its gold in the free markets, so as to obtain a number of dollars more in conformity with the real purchasing power of this metal.

Part of the renown and authority of the old economist Ricardo is due to the fact that, contrary to the official authorities of his country, who believed that the increase in pounds sterling of the value of the gold ingot, during the Napoleonic Wars, was due not to a decrease in value of the pound sterling, but to an increase in the value of the precious metal, he affirmed that the increase in the price of the ingot meant only the loss of value of paper money. This doctrine has become classic and its demonstration has contributed to the glory of its author. Today this same statement is considered a heresy. To affirm that gold has preserved all its purchasing power, while the dollar has lost its own, appears like a paradox.

The conclusion to draw from these observations is that it is impossible to maintain legally an artificial value to a merchandise or to a currency, while all the economic factors give it a real value which

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differs from its legal value. Some day an adjustment will have to be made between the one and the other of these values. If the United States were to decide not to return to the gold standard, to keep henceforth to the paper dollar, and if it were to stop buying, as it does today, all the gold that is offered it, the logical consequence would be that gold would be considered as a simple merchandise, and its price would be fixed freely, in the markets of the entire world, as happens with any raw material which is not indispensable to national defense. This freedom of action would be felt immediately—do not doubt it—by a rise in the price of gold expressed in paper money on all the markets, and there would be considerable private purchases of gold for hoarding.

If, on the contrary, the United States maintains the monetary character of gold, it will become indispensable not, as is currently said, to modify the price of gold in paper dollars, but, more correctly, to modify the price of the paper dollar in gold. We will then see that the gold now extracted from the mines is worth more than before and not less, in its exchange for merchandise, and a great step will have been taken toward the inevitable re-establishment of a true international money.

*Old Ideas on Money  
Which Have Become New*

(*Revue d'Economie Politique*, Sept.-Oct. 1951)



It is said that history repeats itself. One can say the same thing about economists. At the present time there is a writer whose ideas have been repeated since Keynes, without ever being cited by name. He is called John Law. I would be curious to know how many, among the Anglo-Saxon authors who have found again, all by themselves, his principal arguments, have taken the trouble to read him. In any case, this reading is singularly instructive. One will excuse the great number of quotations in the following. They are indispensable to my demonstration.

Here, first, are some reminiscences that are rather curious. One remembers the argument of Keynes

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about the gold mines that, according to him, one could replace by old bottles filled with bank notes:

“If the Treasury were to fill old bottles with bank notes, bury them at suitable depths in disused coal mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tryed principles of *laissez-faire* to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing.

“The analogy between this expedient and the gold-mines of the real world is complete. At periods when gold is available at suitable depths experience shows that the real wealth of the world increases rapidly; and when but little of it is so available, our wealth suffers stagnation or decline. Thus gold-mines are of the greatest value and importance to civilization.” (General Theory, p. 129)

I doubt very much that Lord Keynes had any knowledge of the text of the old Frenchman Saint-Chamans, who, in his *Nouvel Essai sur la Richesse des Nations*, published in 1824, stated the following:

“One could spend five years digging canals which

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one would spend the next five years filling, and wealth would have increased during these ten years. . . . Any employment of workmen (never mind if it is toward a useful or a useless work, as long as they have been paid), giving them enough to satisfy their needs, increases the amount of satisfied needs and the wealth."

But one century before Saint-Chamans, Law also expressed himself in the same way, in his *Considerations on Legal Tender* in which he tried to persuade the Scottish government to adopt paper money instead of silver:

"An increase of legal tender adds to the wealth of the country. As long as the money earns interest, it is used, and any use of money means profit, even if the one who uses it does so at a loss. Example: If one puts to work fifty men, to whom one pays 25 shillings per day, and the product of their work equals only, or is not worth more than, 15 shillings, the wealth of the country is nevertheless increased by as much; but as it is reasonable to suppose their work worth 40 shillings, it is that much added to the worth of the country; the contractor earns 15 shillings. One can imagine that 15 shillings is spent in maintenance by the laborers, who before lived on alms; they have 10 shillings left over their expenses."

Thus, in the opinion of our three authors, each of whom writes at a hundred years' distance, the way to stimulate production is to create new pur-

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chasing power, whatever it may be, and to put labor in motion. It is an idea that is familiar to us today since the great depression of 1930 and the policy of Doctor Schacht. That same idea brought Keynes in opposition to the British Treasury, when it refused and he urged the starting of public works in order to alleviate unemployment. Our national factories had recourse to this policy in 1848, but without using paper money.

In the passages I have just quoted, the creation of paper money, even for a "useless" expense, is offered as a means of reducing unemployment. But we find in Keynes something more, something that concerns particularly the monetary problem.

In the above passage Keynes does not relate the creation of paper money to the extraction of gold, but, on the contrary, the extraction of gold to the printing of paper money. And this goes back to another idea of Law: the limiting of the role of the precious metal to its exclusive role as purchasing power. Gold, in the terms of Keynes, is but another form of paper money. It has a purely monetary character and it is of interest to the economic world only as such. But this view goes against a fundamental objection: paper money buried in bottles *has no demand*, while gold has a world market resulting from its demand as a monetary instrument as well as a precious metal. It is because of this universal demand that sums (corresponding to its sales price) are spent in extracting it. It is not because gold

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*costs work*, as implied in the reasoning of Keynes, that it commands a price on the market; it is because *it is in demand on the market* that the necessary work is spent in extracting it.

There remains the question: *why is gold in demand?* That is the real problem found in the comparison made by Keynes, who asserts (page 129) that the type of drilling of holes known as extracting gold does not add anything to the real wealth of the world. If gold were only in demand as purchasing power, it might evidently be replaced by any object whatsoever having the same power. But gold is in demand because it belongs to a whole category of objects to which also belong precious stones, objects of art, all manner of museum pieces: the category of objects sought *without being either objects of consumption or objects used in production*.

Any object that is durable constitutes "purchasing power." A machine, a piece of furniture, a fruit, a house, these can always be exchanged *while they last*. They therefore have, temporarily, purchasing power. Gold is a product that lasts nearly indefinitely. Thus it preserves this power indefinitely. This is already a marked difference from other objects. But this does not mean that it is only sought after by reason of this purchasing power, no more than a jewel is bought merely to be exchanged. It is sought, *first*, because it is desired as a rare and beautiful object, and, *second*, on account of its purchasing power. If gold were as abundant as the pebbles on the high-

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way, it would cease to be in demand, in spite of its beauty.

*The economists, and especially the English speaking economists, should recognize once for all that economic goods are not limited to two categories—the goods used for production and the goods for consumption.* They are the only ones not to recognize that there exists a third category of goods sought after by reason of their scarcity, without being either goods used for production or goods used in consumption. They are in demand, first of all, because they please, and also because of their durability and incorruptibility, which renders them particularly suitable to serve as a reserve of value. Such is the case with precious metals like silver and gold, and many other objects which are in private collections and exhibitions of the Louvre, of the British Museum and other celebrated museums, and belong to the immense category of "art objects" which one enjoys looking at but does not "consume."

Keynes, in the above mentioned passage, overlooks it more or less voluntarily (for with him one is never sure that he is quite serious) and is in the company once more of John Law in the following passage from the great Scot:

"There is no real wealth among men, says Law, except foodstuffs and merchandise, and no real commerce between them save the bartering of these goods. Gold, silver, copper, bank notes, the marked and strung shells that are in use on certain coasts

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of Africa, these are merely representative wealth or signs of transfer of real wealth. Those who happen to be owners of lands where these foods or these merchandises are obtained, or those who obtain them on lands or in waters that do not belong properly to anyone; all these, when delivering these foods or this merchandise to those who desire them, have the right to obtain something in exchange. But as the latter often do not have anything that is desired by the former, they will give to the first some acknowledgment, which if it is indeterminate as to the nature of the object, is specific as to its price. For example, I think of a coin as a promissory note stating: 'Any seller shall deliver to the bearer the food or merchandise he may require, for an amount up to three pounds, representing the amount of food or merchandise which has been delivered to me,' and as signature has the effigy of the prince or any other public mark."

Thus gold or silver money is merely a draft on goods, a purchasing power, and, consequently, all these signs of purchasing power should be equivalent one to the other. It is exactly this that the public has never yet admitted, and that the economists who believe themselves modern ought to recognize with the public, as it is definitely the public and not the economist that fixes the value of the products on the market, as well as that of the different "currencies." And the public has discovered that all the "drafts" are not equally *sure* or *universal*.

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Here is another idea of Law, the more seductive that it is partially true, though it is true only under well determined conditions. The value of silver comes partly from the fact that it is monetized. The day when it should no longer serve as money, its value would immediately decrease. Let us quote first Law's own statement:

“Since its use as metal silver has acquired an added value. The new use to which it has been put having occasioned a larger demand for it, this new value has not been noticed because its increased quantity has made it fall more; but it has not dropped as much as it would have done if it had not been used as money, and if the same quantity had been introduced in Europe. . . .”

And, further:

“If England were to change its money, other countries might do the same; if Holland alone were to hold to silver currency, one can suppose that the price of that metal would decline immediately to 50 per cent by the decrease in demand for it as money, and that 200 pounds in Holland would not be worth more than 50 pounds in the new money of England, whether it be sent as species or as merchandise; and in proportion as other money might arrive in Europe, it would go still lower because of the increased quantity.” (Law, *Considérations sur le numéraire*, p. 516).

This idea is brought out again today by a great number of writers under the following form: What gives value to gold is not the demand for gold—it is

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the possibility that it offers of buying dollars through the Treasury of the United States; it is thus the demand for dollars that maintains the value of gold. If gold were to be demonetized, it would immediately lose its value—as was the case for silver when bimetallism was abandoned. I have met this idea in the conversation of numerous American economists. It is formulated in the same terms in the book-review made by Mr. Johnson on *The Measure of Gold*, the remarkable book by Mr. Busschau, the South African economist:

“There is no foundation for the statement that gold is the only international money. . . . International means of payment may be provided also by the means of institutions of credit such as the International Monetary Fund or the European Union of Payments. Finally, it seems that the international role of gold, at the present time, is due largely to its convertibility into dollars, and not, as Mr. Busschau would say, to the convertibility of the dollar into gold.” (*Economic Journal*, September 1950, p. 572).

This is an important thought, as it deals with the famous “shortage” of the dollar. Here, in my opinion, is how this shortage of dollars must be interpreted:

Right after the Second World War there developed a demand for dollars to meet the payments for merchandise which could only be furnished by the United States, apart from any consideration relative to the convertibility of the dollar into gold. Hardly anyone at that moment thought of buying dollars for any

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other purpose than to convert them into merchandise. The Dollar was in demand to obtain merchandise payable in dollars, whatever its relation to gold might be. The very fact that for an ounce of gold one could obtain only thirty-five dollars meant merely that the United States sold its dollar very dearly to the holders of gold. The idea that in the absence of these purchases one would have paid less than thirty-five dollars for an ounce of gold, which would have meant that the price of gold in dollars was too high, would not have occurred to anyone. Far from being overpriced, since that time gold was underpriced by the Treasury of the United States. The two markets—the gold and the dollar—were separate, and the former, far from being sustained, was restrained by the official price.

Very soon, however, another preoccupation appeared. This came not from the European importers, but, on the contrary, from the *exporters*, desirous of keeping in dollars the proceeds of their sales. This tendency showed a clear preference for the dollar in relation to other moneys—sterling, franc, florin. But this preference, if it was due in part to the conviction that the dollar would continue to rise for the time being (in terms of francs) was also due to the fact that the dollar was convertible into gold. For gold, from that moment, appeared to have not merely a stable value, but an increasing one. The preference for a gold currency was strengthened by the appearance, in the Far East, in the Middle

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East, as well as in Europe, of a tendency on the part of the public to acquire private reserves of gold, at prices far superior in dollars to the official American price.

In a third phase, finally, this current of gold purchases was given impetus by the realization, more or less general, of the loss of purchasing power of the dollar itself. As far back as 1948 and 1949, and especially since the Korean War, the conviction has arisen that the purchasing power of the dollar, in relation to gold, was excessive, that this purchasing power was bound to decline more and more, and that, consequently, the possession of gold was an insurance against the eventual fall of the purchasing power of the dollar. Far from appearing to support the rate of gold, it was the desire to obtain gold that caused the demand for the dollar.

Thus, aside from a first period when the need for American goods was the essential element of the demand for dollars, and as soon as the scarcity of merchandise no longer dominated the preoccupations of the buyers, and the desire for a stable money prevailed again, it is the convertibility of the dollar into gold that has partially determined the choice of this money by the banks of issue to which this convertibility was possible.

Here again, it is an idea of John Law, true in certain circumstances, yet false in the present, to which his modern adherents have returned. John Law has seen very well that the monetary demand for the

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metal serving as money increases or maintains its purchasing power. *At a time when one had the choice between gold and silver*, he called attention to the fact that silver would lose a part of its value if it was demonetized. But any value is relative. In Law's time, and later, in the nineteenth century, when silver was demonetized, *there was an alternative to the use of silver as money*, and that alternative was the use of gold. Abandonment of the coining of silver had to be in favor of gold currency, and in the nineteenth century, after the abandonment of bi-metallism, the fall of silver did take place, as John Law had rightly predicted.

But today we are facing *another alternative*: the use of gold money and *the use of paper money*. What appears in the markets, quite independently from the rate of exchange of gold against merchandise, is the preference given to gold, as an instrument of reserve, over paper money. Certainly, if money was but an instrument for the daily liquidation of the *total* of indebtedness against credits, there would be no preference for gold. But there are "balances" whose value should be stable. As soon as money is used to conserve the value between sale and purchase, the preference for gold makes itself felt immediately.

The idea that the value of gold is increased by its use as a monetary instrument has been expressed by the oft-repeated statement that the abandonment of gold as money would result in lowering its rate of exchange. I have kept in mind the conversation be-

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tween Lord Keynes and the American delegates at the Conference of Versailles, where the British expert even then threatened to inundate them with the demonetized British gold. Condemned to receive all the gold of the world, America would have undergone a formidable rise in prices, that would have rendered her foreign commerce next to impossible. Keynes only forgot that thus abandoned to itself, the pound sterling would have been immediately forsaken as international money, for the simple fact that it would no longer have the support of its gold base. It is still my conviction today, based on all the European experience, that the demonetization of gold by the United States would result in a formidable demand for gold in all the European markets and the abandonment of the dollar as international money.

At the present time, the European treasuries are trying to convert their reserves of dollars into reserves of gold, and nothing proves better to what point this much maligned metal has retained its prestige.

This is fearlessly expressed in a recent circular issued by the great gold brokers of England, Mssrs. Samuel Montague:

“The volume of ‘hot money’ which exists in the world at the present time is larger than it has ever been. An example of its presence is provided by the manner in which the gold reserve of England has fallen since before the devaluation of the sterling (2,241 million dollars in March 1948, to 1,340 mil-

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lions in September 1949, rising again to 2,756 millions in September 1950). This is the spectacle given by the gold reserves of the country that has the best exchange control in the world. Several countries in the sterling area, among them India and Pakistan, seek to accumulate independent reserves of gold in the form of deposits (balances) in London. Another country that has recently transformed its dollars into gold, and will continue to do so when occasion presents itself, is Egypt. The South American countries are seizing all occasions to create gold reserves for themselves, rather than reserves of dollars or sterling. The world may use international institutions such as the International Monetary Fund or the European Union for Payments to organize international payments; gold remains the supreme means of paying debts." (Circular of Messrs. Montague and Co., November 15, 1950.)

The enemies of gold have yet another argument; it is the historical argument: the entire monetary evolution leads to the replacing of metallic money by paper money! Of course, this argument is found at length in the works of John Law.

"The first use for credit is to represent silver by paper, and this practice can be taken for one of those popular institutions whose author is unknown or, better say, which have no special author. Ever since there has existed a regulated commerce among men the one who has needed silver and has not found the silver he must pay has made a promissory paper that

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has taken the place of the silver and that has satisfied the creditor. It is easy to see that this practice multiplies considerably the deficient species, which would not suffice without credit; in which case one may be sure that there are many more good and valid promissory notes in use in commerce than there is silver in the cash boxes of all the merchants put together. This use of paper has gone still further among the merchants, as their promissory note has gone from place to place, and has often permitted an infinity of transactions before returning to its source: so that their note has represented as many sums of silver that should have been in the hands of those who have transmitted it one to the other.

“Let us say that the system has in this respect only made general what, commencing with the king, nature, the local movement, the necessity of things, had already introduced among private individuals. Thus, instead of looking upon the system as an intolerable novelty, I am astonished that it did not establish itself a long time ago. It is certain, at least, that no country until now has been able to maintain itself more or less well except as it has, more or less, made use of it.” (Law, *Lettres sur le nouveau système des finances*, Ed. Daire, p. 673.)

Thus paper money is only a continuation and a development of credit paper. This thesis has often been discussed, especially in the writings of the Solvay Institute at the outset, where it is defended with remarkable persistence. When the franchise of

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the National Bank of Belgium was renewed, in 1900, in the large book which he has devoted to it, de Greef became the ardent defender of this conception. There are mixed in his mind themes developed by John Law, on the one hand, and by Proudhon, on the other. One finds at the same time an effort to assimilate the cash payment to the term payment (doctrine of Proudhon), and the historical argument that assimilates paper money to instruments of credit redeemable in metallic currency (doctrine of Law). Here are a few particularly significant passages which I quote from his work: *Le Crédit commercial et la Banque National de Belgique*.

“When the basis of circulation ceases to be for the most part metallic and the proportion of business which is settled by means of various forms of paper or in clearings is larger than the business transactions which are settled in precious metals, then a great evolution has taken place; we leave the age of merchandise-money to enter that of credit-money. Then the instrument of exchanges becomes gradually different from the other functions of money.” (p. 47)

Elsewhere he writes:

“Today, whether we progress like England, or decline like Greece, our system of circulation can only tend more and more toward an unmetallic one; we arrive there by the progress in economic development and in monetary technique; we arrive there equally if we become impoverished; gold is only bought with products; an impoverished nation is

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incapable of procuring it in sufficient quantity; a prosperous nation does without it and derives a new profit from this economy." (p. 52)

"These considerations are, therefore, not purely theoretical; they are confirmed by experience; it is the banks that continue to don a metal armour that make themselves ridiculous; their place is in the museum of antiquities." (p. 61)

And he concludes in a lyrical outburst:

"That, in the admirable musical drama by Wagner, gold, and with it all the iniquities it represents, return to its first condition, and that it become merchandise once more, only merchandise; that by devoting itself, in the industrial arts, to the embellishment of collective life and its milieu, it make us forget the evils of which it was the involuntary cause, then shall we recall that it was itself a means of progress, in times past, and if it should succeed in making us appreciate certain exceptional qualities, perhaps will it become again, at least temporarily, a standard of merchandise, without, however, allowing this function which is purely one of comparison, to attribute to it any supplementary value whatsoever, nor the least supremacy on the circulatory organization." (p. 71)

Of course, the legislators and the Belgian government did not think for one second at that time of incorporating these ideas into the law, no more than would today the excellent governor that the National Bank of Belgium has the good fortune of having at its head.

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Already, in the *Bullion Report* and in the *Mémoires* of Mollien, one can note a certain difficulty in defining the difference between convertible paper money (convertible in gold) and the paper money that is inconvertible (legal right given to a paper to buy merchandise for an amount equal to the market price).<sup>1</sup> The same assimilation exists in certain recent manuals of political economy. There are, however, between these two monetary instruments, fundamental differences, and their assimilation is justly rejected by a traditional doctrine which, passing by Tooke, goes from Ricardo to Mr. Cassel, who writes in his *Theoretische Sozioökonomie* (p. 364) (and this quotation excuses me from the others).

“From the moment that a bank is freed from its obligation of redeeming notes in gold, bank notes are transformed into real money. The country then has a system of paper money: non-convertible bank notes, which are used in this system as means of legal payment, are legal tender. *Such bank notes no longer represent claims on gold, but are themselves money.*”

This power of the state to create paper conferring the right to buy merchandise, has given rise to the unthinkable notion of a so-called *abstract money*. It would be the franc, without any other definition that would constitute, under this doctrine, the money. The franc would not be merely an easy name to designate a coin having weight as well as value,

<sup>1</sup> See my “History of Monetary and Credit Theory” where one will find quotations regarding this particular point.

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but it would itself be an instrument of measure. In reality, the franc paper money is only the right granted by the state to whoever has it, to purchase merchandise already quoted in francs. When the state makes the bank note inconvertible, it practically transforms a claim on gold, into a right of pre-emption on merchandise, *that is already quoted in francs*. The word franc, under these conditions, has a meaning only insofar as all the objects have already a value expressed in francs.

What do we understand by "abstract money"? It is paradoxical to consider as an abstraction currency, that is to say an instrument that can be exchanged, bought, and sold. The word "franc" is not merely a word. It is always represented by a piece of metallic money, by a bank note, or by a credit at a bank. Each one of these instruments of payment has a rate of exchange either in relation to merchandise or in relation to foreign moneys. In itself the word franc has no meaning if it does not serve to designate a monetary instrument, itself defined by a certain amount of merchandise, of services, or other moneys.

"It is essential to understand well, as Mr. Allais has properly written, that in any kind of economy, *the unity of account cannot exist without a definition that relates it to reality* and that we shall call 'the condition of reference.' At each moment this definition consists necessarily in determining the nominal price of an 'item of reference,' constituted by a commodity or a group of commodities. This fixing,

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though arbitrary as well as *conventional*, is nevertheless indispensable; without it the unity of account would be but a word and would be void of meaning. The conception of a unity of account abstractly defined, independently of any relation with economic reality, would, in fact, be as absurd as establishing as unity of length an ideal length which one would consider sufficiently defined by calling it meter, without establishing it in a determined object." (M. Allais, *A la recherche d'une discipline économique*, t. 1, p. 66 and 67.)

A quite recent example was furnished us by the creation of a new money in China. This money bears the name of *yen*; it is paper money, but it was immediately defined by a certain quantity of merchandise to which was given the name of *fen*. The idea is very reasonable in theory. But how will one assure the constant convertibility of a *yen* (money) against a *fen* (merchandise)? There lies the real problem. It is not as easy of solution as that of the convertibility into gold. And I am really curious to know what the future will tell us on this score. Until now, it seems that it is the *fen* which serves as the unit, and they evaluate periodically, in *yens*, the merchandise represented by the *fen*, which subjects the *yen* to the variations in value.

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Of all the arguments against the gold standard, the one that has had the most weight with the Anglo-

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Saxon economists, is the variation in its purchasing power, as demonstrated by the depression of 1930. Law, also, had denounced the variation in value of silver, but it is the drop in value of this metal which preoccupied him. On the contrary, it is the rise in the value of gold that has troubled the Anglo-Saxon economists since 1930. But whether one speaks of rise or of drop, it is always the instability of the metal standard which serves to justify the plans to substitute a paper standard for the gold or silver standard.

English public opinion remains convinced, in great majority, that the depression of 1930, which brought about the devaluation of the pound, was due not to an error in English monetary policy, but to a sudden rise in the purchasing power of gold, which was reflected evidently in a catastrophic fall of prices. The pound sterling had weathered its most dangerous periods after the Napoleonic Wars; at that time the return to the gold parity of the pound had been effected after certain difficulties, but had nevertheless been effected, and the pound had maintained itself for a whole century without anyone having ever expressed the slightest doubt about its convertibility. All of a sudden, this secular tradition was broken, and the pound ceased to be convertible money to become simple paper money. The starting point of the crisis was in the United States, where a severe deflation of prices had started in 1930.

And what does the drop of prices mean? Simply, said the British economists, an increase in the pur-

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chasing power of gold, due to its insufficiency and scarcity. One remembers how the League of Nations appointed a Gold Committee, and how its conclusions, with the aid of a great number of statistics, affirmed the insufficiency of gold in the present and in the future. (See the article by Kitchin in the *American Encyclopedia of Social Sciences*, all of whose predictions have been contradicted by the facts.)

This theory rests on an unacceptable interpretation of the events of that period. The responsibility for the great depression of 1930 cannot be attributed to gold, but to the English and American monetary policies (especially of the first) in trying to maintain the former gold parity to a paper money whose quantity had doubled or tripled during the war. What had been possible following the Napoleonic Wars in a country still largely agricultural and disposing of enormous outlets for its manufactured products, became an untenable wager in an industrialized country, with a democratic constitution, and where the restriction of the outlets could not fail to create intolerable unemployment. This is what Keynes foresaw perfectly well in his pamphlet entitled "The Economic Consequences of Mr. Churchill." More comprehensible, but none the less regrettable, was the refusal of the United States to modify the gold content of the dollar, when the events had accumulated there a gold coverage that appeared sufficient to assure the indefinite convertibility of their currency. Nonetheless the level of prices had risen in

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such proportions and so abruptly in their country, that a rapid fall had to follow inevitably the equally rapid increase in the production of merchandise.

Be that as it may, these events have left in the minds of the Anglo-Saxon public, and even in the minds of many economists, the impression: (1) that the gold standard had led to economic catastrophe; (2) that the preponderance of the American economy constituted, by its fluctuations, a permanent cause of danger for the economies which depended on it, and in particular for the British economy. Hence the projects elaborated during the Second World War, which are all inspired by this dual dread.

It is the origin of the famous project of Keynes for an International Bank, a project which may be summed up thus: (1) In an organization of international inflation; (2) in a number of obligations imposed on the American economy, in case of favorable balances of payment, in order to protect the British economy. The naive way in which a few continental economists have endorsed the "Keynes plan" is rather surprising. All this evolution could have been avoided by the devaluation of the British money immediately after the First World War. They had forgotten at that moment a statement by Ricardo himself to the effect that if the depreciation of the pound had gone beyond 30 per cent, he would never have proposed the return to the ancient parity (V. Keynes, *Monetary Reform*), just as in France they had forgotten that the very classic Jean-Baptiste Say

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had formally counseled against the return of the pound to the parity, for that evident reason that the charge imposed on the debtor by the revaluation was no less unfair than the loss inflicted at the outset on the creditor by the depreciation.

The combination of these circumstances explains very largely the attitude of the Anglo-Saxon economists toward gold. It helps also to understand the work accomplished by them to rid the British economy of its dependence with regard to the international economy, as well as toward an international standard of prices. What has been called the automatism of the gold standard is in reality the internationalism of that standard. So long as the London market was dominant in relation to the monetary markets of the other countries, this internationalism did not trouble the British economy. But from the moment, on the contrary, when the monetary preponderance passed into the hands of the United States, the British market sought to become free and to obtain an Anglo-American cooperation through which the fluctuations of prices and trade could be mitigated. This is the meaning of the proposals of Keynes at Bretton Woods.

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Must one insist still further on the similarity between the ideas of John Law and those that one hears upheld now every day against the use of gold as international money? A last analogy may deserve

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our attention. Among the greatest reproaches that one hears against gold must be mentioned the facility with which it lends itself to hoarding, which results in hindering the circulation of merchandise and giving rise to depressions. This same thought is stated insistently by John Law:

“All the species of the realm belong to the state, represented in France by the king, and they belong to him precisely as do the highways, not so as to enclose them in his domains, but in order that no one shall enclose them in theirs, and as it is permitted to the king, and to the king alone, to alter the highway for public convenience, of which he is the sole judge, it is permitted to him also to change the species of gold and of silver into other signs of transfer more advantageous to the public, that he shall receive himself, as he received the others; and this is the case of the present government.”

Most of today's banks of issue have met the problem of hoarding by rendering the convertibility into gold more difficult, and making bank notes legal tender. There should be no objection to that if the same countries would assume the responsibility of maintaining the stability of their currencies and assuring their convertibility in gold outside of the country. In such case hoarding would not be minded by the Banks of issue. Hoarding of gold takes place when the stability of the bank note or paper money seems threatened. *All efforts of the governments should aim at obtaining that the instrument of hoard-*

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*ing and the monetary instrument be identical.* At the present time, it is the separation of these two instruments that causes all the difficulties. The day when the currency, whichever it may be, is used again as a store of value, recourse will not be had to the gold ingot to fill this function, and it is toward making the two instruments coincide that the policy of today must tend.

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The economist McLeod noticed back in the middle of last century that there existed in British opinion a tendency to revert constantly to the ideas of John Law. This tendency is today more marked than ever, and one cannot help but feel surprised on seeing the admiration for paper money increase in proportion as the ravages of paper money issued during the war seem greater. Besides, the same persons who defend paper money are the very persons who are afraid of an increase in the production of gold as leading toward inflation. Those persons accept an inflation of paper money, while fearing an inflation of gold! All this shows an extraordinary confusion of mind, as well as a return to ancestral ideas that make of gold the source of all evils.

At a time when gold was leaving Great Britain to concentrate itself in France and America, Keynes recommended the nationalizing of the currencies, and asked himself, in his *Monetary Theory*, if an international money was really necessary. I think that after

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the ten years which we have just passed, there is no need to dwell on the convenience of an international money. I even think that Keynes, if he were alive, would be the first one to do so.

But it is not of that great problem that I wished to speak here. I wanted simply to point out that the economists who think themselves as the most modern are, in reality, only rediscovering very old ideas. It is a pity that the works of John Law are no longer read; they are extremely suggestive and full of talent. But John Law wrote in French. The Anglo-Saxon economists, therefore, neglect to reread him, as they have so long neglected to reread his great adversary Cantillon, who also wrote in French.

The preceding pages have had only one aim, that of reminding the economists of today of a name that many among them have forgotten, and also of an experiment deserving reflection by all those who, at the present time, reject with so much passion the very idea of a return to the gold standard. In reality this standard would be the most dependable guarantee of the independence and liberty of international transactions. I cannot help but think that it is precisely this independence and this liberty that make so many people uncomfortable.

*About Gold for Europe*

(*L'Opinion*, November 1, 1951)



A book by Dr. Schacht could not go unnoticed. The one whose translation has just appeared under the title *Gold for Europe* is of course primarily destined for Germany. But the mechanism it suggests would be of interest to any other country of Europe.

Here is the resume:

The American government lends to the Bank for International Settlements a billion gold dollars without interest. This gold is deposited to the credit of the B. I. S. in the American Federal Reserve Bank in New York. Thus the gold does not leave the United States. Likewise, the B.I.S. issues in Germany certificates based on the gold and equivalent to the gold, under the name, for example, of gold thalers.

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These thalers are lent at an interest rate of  $3\frac{1}{2}$  per cent, allowing an amortization of thirty years of the debt contracted by the German borrowers. The amortization will be carried out in American dollars, deposited at the Bank for International Settlements.

With these dollars, the B.I.S. buys gold in the United States and thus creates a fund that can amount to a billion gold thalers. The B.I.S. will therefore be in a position at the end of thirty years to reimburse the gold lent to it by the American government and deposited in the Federal Reserve Bank, creating at the same time an equivalent gold fund by its gold purchases in the United States. This new gold fund will serve henceforth as the basis for circulation of gold thalers, which of course will be kept in Germany. Thus will be created, thanks to a long-term loan without interest, a gold basis for the German monetary system.

This is the monetary aspect of the solution. But it has another: that is the reconstitution of a long-term capital in Germany itself. The gold thalers lent by the B.I.S. to German industrialists will serve exclusively to facilitate the foreign commerce of Germany. These thalers will be furnished to industrialists or exporters, preferably those sending their products to the United States, since the profits will be realized in American dollars in order to allow the B.I.S., which will collect the interest from its loans in dollars, to buy, thanks to them, the gold which will constitute

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little by little a new metal coverage for the gold thalers that are in circulation.

Such is the machinery imagined by Dr. Schacht. Obviously, the intervention of the B.I.S. in this circuit is only a means of giving the operation an international character. In reality, the gold would be lent to Germany under the control of the B.I.S. and credits would be granted according to the suggestions of the Bank of issue in Germany. The initial operation, the lending of gold without interest by the American government, would be in reality a gift for thirty years of part of the American gold holdings in order to permit the reconstitution of a gold-reserve in Germany.

In order for the transaction to be used immediately for the stabilization of the paper money circulating in Germany at the present time under the name of Deutsche Mark, it would obviously be necessary to establish a rate of exchange between the new gold thaler and this money. The task of maintaining this currency as stable as possible would be left to the Bank of issue in Germany. At the end of a relatively short time all contracts would be stipulated in gold thalers, so that in practice the Germany currency would be equivalent to gold.

Such is the project of Dr. Schacht. He presupposes as an essential condition that German foreign trade would develop sufficiently to allow the dollar loans to be paid back regularly.

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Thus if such a project were to extend to all European countries it would imply for each one of them, in spite of increased competition, the possibility of acquiring sufficient dollars to pay the interest.

It would thus be necessary for the United States itself to have an unfavorable balance of payments in its transactions with the European countries as a whole.

Hence, the monetary problem goes hand in hand with the commercial problem. But, inversely, the commercial problem cannot be solved without a solution of the monetary problem, and at the present moment it is the latter that takes precedence over the former.

Why? Because the monetary problem, once it is solved, would make possible the return to international exchanges of capital on a short or long-term basis, without which it is inconceivable that the international accounts can be balanced. The hope of obtaining the stabilization of exchange-rates thanks to the sole balance of imports and exports of merchandise is futile. The English experience bears this out. And that is why the monetary problem and its solution must precede all others.

And this problem cannot be solved without recourse once again to the support of the United States.

Is it ready to give it?

*Prices Quoted in Gold*

(*La Vie Française*, November 9, 1951)



Once more we find the problem of money acute, and not only in France. Great Britain, in turn, asks herself if her reserves of dollars and gold will be sufficient to maintain the present rate of sterling, while the countries in the sterling areas seek to transform their sterling into gold. The most disquieting feature of the present situation is that the governments themselves, confronted with this alarm, do not seem to know in which direction they should turn.

For the moment, while toying with the idea of escalators, they seek to control the level of prices. Too many attempts in the last six years have demonstrated the futility of these efforts and the public shows its skepticism once more by buying gold.

Has not the time come for governments to take a

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position clearly and courageously in regard to the return to gold? To recognize, without equivocation, that no monetary stability is possible without restoring the only known international money, and to turn firmly toward its reestablishment?

For nearly twelve years, the governments have of one accord treated gold as an international delinquent. It is stopped at the frontiers; those who carry it are punished. Its sale, as well as its purchase, is forbidden to private individuals, as if it were cocaine. The most daring (also the wisest), like the French government, have authorized a free market within the country. Switzerland, though gorged with the yellow metal, still controls its entry and exit. Meanwhile, wherever it can do so without danger, the public shows clearly its desire to possess gold.

The urgent step to take is first to restore to gold its normal status as a precious metal. Gold is a merchandise which, like iron and steel, wheat and cotton, should be able to enter and leave according to its price, to be sold where it is best paid. This is the only way to prepare its future return to its monetary status. The government that at the present time would allow gold to enter and leave freely, would allow the price of gold to establish itself freely in paper money, that would authorize its bank of issue to purchase gold in the market at the price it might wish (and perhaps also sell it), whether directly or through a special agency, and that would, finally, permit that prices be quoted in gold as well as in

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paper money, such a government, by showing its willingness to return to the only stable money, would immediately reassure the public, and would have no trouble in maintaining a more or less constant rate between paper money and gold.

The mere fact of declaring this willingness would serve as an example to the other countries, and would gradually restore monetary confidence.

In France, such a policy, accompanied by the abolition of the estate-taxes in direct line (which is an additional pretext for the hoarding of gold) and backed, of course, by maintaining a strict budgetary equilibrium, would put a rapid end to these flares of alarm which appear periodically in the gold market, as well as on the Stock Exchange.

The devaluation of money, of which one hears again, could not give in the circumstances any tangible results. Exports have reached their maximum, according to all appearances, and can hardly be increased.

As to limiting imports, we have seen by the efforts made in the last five years in Great Britain, that this cannot restore the balance of payments.

One can no longer conceal the fact that the International Monetary Fund has clearly failed in its mission. Instead of bringing us closer to an international monetary standard (which was its true mission), it has organized a supranational monetary management based on maintaining paper moneys and proscribing gold. The futility of these efforts

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showed itself a few weeks ago when the gold-producing countries obtained permission to sell their production at a premium. Can one appeal to the Fund to obtain a reversal of its policy? I do not believe so. It is up to each country, therefore, to take the most efficient measures to protect itself against the occurrences of monetary crises.

An old prejudice caused certain minds to fear the simultaneous operation of two series of prices, the prices in gold and the prices in paper. This fear can be explained and is justified in the case of a purely local depreciation of the money. But the depreciation of the paper moneys has become universal. The dollar itself is worth, in merchandise, only half of what it was worth ten years ago. Maintaining the purchase price of gold at thirty-five dollars per ounce by the Treasury of the United States no longer deceives anyone and is a hindrance to all.

To come back to reality, one must allow gold to find its price in paper money in all the great markets. The day that is done the rates at which the indispensable stabilization can be effected will be practically fixed. It will only remain to legalize them. And if, to maintain them, the aid of the United States should still be necessary, it can be granted without trouble, as its re-evaluated gold reserves will largely suffice to assure the convertibility of the moneys.

*The Paradoxes of the  
European "Payments Union"*

(*L'Opinion*, December 13, 1951)



What is happening at this moment at the European Payments Union is very significant and demonstrates to the blindest the error of trying to revive international commerce while refusing to restore the only known instrument of international payments, gold.

Belgium is a country whose monetary policy has always deserved the praise of the entire world. Yet Belgium sells in Europe, to the other members of the E.P.U. more merchandise than it buys from them. This growth of exportation is a contribution to world economy and to European economy that should be encouraged. But by doing this, Belgium becomes a creditor of the E.P.U. and its credits must

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be paid part in gold, part in dollars. The amounts thus received enable Belgium to pay for the merchandise she buys in the United States, for like all Europe, she imports more from the United States than she exports to it.

However, the other members of the European Union for Payments do not have enough gold and dollars to pay their debts to Belgium.

Here the paradox begins: instead of finding for Europe the stable means of payment necessary to satisfy Belgium, she will be asked to modify her commercial currents. Belgium will be asked to buy more in Europe and less in the United States.

The distinguished men who direct the E.P.U. are certainly entitled to the esteem that is due experts in charge of a particularly difficult, if not impossible, task. But do they realize exactly the incredible paradox of such a suggestion?

Instead of looking for a remedy for the present strange situation, by creating stable means of payments, they ask Belgium to reorient her commerce. Having proclaimed *urbi et orbi* that they want to re-establish international commerce, it is international commerce that they try to submit to the convenience of unstable moneys. The countries belonging to E.P.U. must not regulate their commerce any longer according to the offer and demand for merchandise or according to the needs and resources of the different countries, but according to the insufficient resources in acceptable means of payment which

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these countries possess. Thus the exchange of merchandise is made subordinate to a system of payment whose precariousness has not been rectified.

Nothing shows more vividly the absurdity of the course they have taken, believing that the present difficulties could be solved by putting off until later the solution of the monetary problem.

Certainly, immediately after the war, when the production of all European countries was reduced by more than half, one had to be content with an artificial system of payment. But today, when production has reached and even passed its prewar level, maintaining these makeshifts retards the restoration of international commerce instead of facilitating it.

As long as we shall try to regulate commercial exchanges in order to adjust them to the uncertainty of currencies instead of putting an end to monetary instability so as to allow commercial exchanges to adjust themselves, we shall be on the wrong track.

This system of expedients could be excused if there were no way out of monetary difficulties, but it is no longer possible to say that all avenues are closed.

There are two methods that would permit a return to normalcy of payments among the most developed industrial countries.

The first would be for the United States to continue to provide Europe gratuitously with part of the products asked of it. This is what it has done until now. Such a system, however, could be only

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temporary. It could only serve to leap one difficult step. The other method would be a return to the use of gold as international money.

Let it not be said that gold is too rare. It would be enough for the United States to put an end to the paradox of maintaining an unchanged dollar price for gold while American money has lost half of its purchasing power.

The devaluation of the dollar would soon remedy the present scarcity by increasing the stocks of gold available in all countries and by stimulating production of the metal.

I am not unaware of the psychological and political obstacles to both of these solutions, especially the second. It is, however, the only one that can bring us tangible and lasting results.

That is why we must not cease to proclaim its necessity for Europe, even if this should offend some susceptibilities and precipitate a few storms.

*Progress in Monetary Conceptions*  
(*L'Opinion*, January 10, 1952)



In the contest between those who would return to gold and those who favor management (*dirigisme*) by paper money, one has to keep the score each time that the occasion presents itself. In this regard the end of 1951 brings some good news.

First, the abolition by Canada of its exchange controls. The privileged situation of that country, where capital flows in, makes it possible to restore freedom. That is a most enviable situation and one that has given Canada the opportunity to shake off the shackles of Bretton Woods. A good example to follow.

A second interesting measure is the relinquishing by the Bank of England of her monopoly of exchange operations, which henceforth may be carried on by

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approved banks with a wider margin than before in relation to official parity. Let us not exaggerate. It is merely a little more flexibility which has been introduced into the exchange market. From this point to carrying out the recent suggestions of Sir Frederick Leith Ross, with a view to bringing the English system closer to the more liberal Italian and French systems, there are still many steps to take and many obstacles to overcome. Nevertheless, it is a bit of elasticity which is introduced into a control whose rigidity has become a burden to all the world.

Thirdly, starting December 15, Switzerland abrogates all measures of control in the commerce in gold. The importation and exportation of uncoined gold, that is, in any form other than in coins, are allowed. Only the importation and exportation of coined gold remain subject to control.

Thus is gold restored to its normal status as metal. As I have mentioned elsewhere, this is the first step to take toward a logical organization of the gold system. One should begin by recognizing it as a metal, and restore to it, as a metal, all the liberties which other metals enjoy on the international market.

Shall we say that the situation in Switzerland is exceptional, like that of Canada? During the war years and the postwar years, Switzerland enjoyed a continuous influx of gold. Her reserves are not only sufficient, but overabundant. Far from desiring more gold reserves, Switzerland seeks to get rid of the

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excess of the yellow metal with which she is threatened.

The importance of the new measure is nevertheless very great. The conspiracy organized by the paper money theorists to banish gold from the normal transactions comes to an end, insofar as it concerns Switzerland. To transport gold in Switzerland is no longer considered a crime against the state, an offense against public morals. To import or export gold does not constitute a different operation from that of importing or exporting laces or chocolate.

Will the National Bank of Switzerland itself sell gold? The answer to this question is in suspense. It is extremely probable that it will be brought to this one day or another. For the moment, let us simply say that gold in Switzerland has become a metal like any other, accessible to all who desire it.

Finally (and this is perhaps the most significant event, since it concerns the United States) the National City Bank of New York devotes in its monthly circular of December 1951 (a circular which is read attentively by all economists and bankers of America), four pages to the drop in value of the dollar. It states that since 1939, the dollar has lost about 50 per cent of its purchasing power and that this drop preoccupies Americans. The person who saves, it says, compares with concern the 2 to 3 per cent earned by government bonds with an annual loss averaging about 5 per cent in the value of his

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money. In consequence, recognizing henceforth that the dollar has a decreasing value, the public looks for investments in real estate or stocks, as a protection against inflation in prices and the loss of the purchasing power of the dollar.

The conclusion which the Bulletin of the National City Bank draws from these considerations is particularly interesting. "It is gold," it says, "which for centuries has had the best record as a store of value. Paper money has been good as long as it was issued by banks legally obligated to maintain its convertibility into gold at the loaner's will. The worst recollection is that left by the paper money issued directly by the national treasuries, but the paper money created by a bank of issue is just as bad if the bank is exempted from its obligation of converting it into gold." And the article concludes: "The simplest way for the government to restore confidence in money would be to revive the law of 1934 on the gold reserve, so as to reaffirm and strengthen the present bond of the dollar with gold, and to put an end to the dangerous notion that the principal function of the Federal Reserve banks is to provide the government with a money both cheap and progressively depreciated."

The formula of the American writer remains a bit vague. It limits itself to asking for the return to the convertibility of the dollar into gold. He does not mention changing its price. But this position taken by one of the largest American banks against main-

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taining the system of paper money, this new insistence on the continuous depreciation of the dollar, until now not mentioned, marks an advance in the opinion of competent men.

No doubt that one swallow does not make a summer, but three or four swallows, at the beginning of 1952, already is not too bad.

*The Failure of the  
International Monetary Fund*

(*L'Opinion*, June 5, 1952)



In economic matters, the most important phenomena are not always those that are talked about the most. On the contrary, those which escape public attention are often destined to play the essential role. Here is an example.

It is known that the policy of the International Monetary Fund has consisted, for some years, in prohibiting free markets in gold, in order to reserve to the central banks or to the government treasuries all the new gold produced by the mines. The aim is to concentrate the gold—the new as well as the old—under the guardianship of the monetary officials of the different countries, and to make this sacred metal inaccessible to the public.

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Since the Korean War, however, that is since the second half of 1950, the new production of gold, far from precipitating itself toward the official treasuries, has been disappearing, on the contrary, into the hands of the hoarders. During the second half of 1950, out of 438 millions of dollars produced only one hundred entered the official monetary reserves. The remainder, or 338 million dollars, has been absorbed by industry and by private individuals. (See the Twenty-first Report of the Bank for International Payments.) For 1951, the figures are still more significant. World production rose to 840 million dollars (not counting USSR), of which 180 million only have been absorbed by the official reserves. The remainder, or 660 millions, has "vanished" into industry or into the hands of private individuals.

It is difficult to imagine a more complete failure of the policy of the Monetary Fund.

And yet, nothing is more natural than this phenomenon. In spite of all that the doctrinaires may say and think about monetary evolution leading everyone to abandon gold in favor of paper, the public continues to desire gold. Undoubtedly, in the opinion of the doctrinaires, these private individuals are ignorant, barbarians or fetishists. But for a long time, Mr. Everyone has had more sense than Mr. Voltaire. This is more true in monetary matters than elsewhere. There are also old economic laws which have not been discarded, Lord Keynes notwithstanding. One of the best known consists in the fact that mer-

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chandise goes to the markets where it is best paid. Gold is no exception. Being better paid in the free markets than by the central banks or the treasuries, it finds its way to the free markets.

This is a small fact that should provide food for thought for the doctrinaires, if the characteristics of a doctrinaire were not precisely to remain blind to the most obvious facts.

Let us say, on the other hand, that it should be greeted with joy by the doctrinaires themselves if they would only reflect. The events of the War of 1914 and their results, added to the short-sightedness of governments, have produced a phenomenon that will be considered by the historians of the future as one of the outstanding events of monetary history: it is the concentration of gold in the United States, a concentration which, to a large extent, is responsible for the monetary troubles since that time. But what is happening now is that the natural movement of merchandise-gold is turning from the American market toward the markets of the rest of the world. This is an extremely felicitous circumstance that should please everyone.

Far from opposing it, the Monetary Fund should aid it in every way.

In the face of these facts, the objections of the adversaries of gold, who like to point out all the inconveniences of this hated metal, can only make us smile. John Law, too, when he declared his notes to be legal tender, consecrated numerous and brilliant

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pages to demonstrate that metallic money was the most variable of the standards, and that it was to the interest of the state to replace it by paper money. It is true that the Anglo-Saxon writers never reread the works of John Law, for the very simple reason that he made the mistake of writing in French, and that political economy, as one knows, is a science that has never been understood on the continent, with the exception, however, of Montesquieu, who Lord Keynes, for some reasons unknown in France, considers the greatest French economist.

It is the same doctrinaires who reproach Mr. Pinay for having based his loan on gold, a fact that seems to indicate, wrongly in their eyes, a faith in the stability of the metal which they prefer to forget or not to mention.

This is not the only point where the policy of the Monetary Fund has met with a serious defeat. Following a war that was accompanied by such a formidable paper inflation in all the belligerent countries, the first object of a rational policy should have been to facilitate in every way an increase in the production of gold. It would have been the only way of providing a broader base for the paper moneys whose purchasing power could only progressively decline, and thus prevent the unavoidable reaction that the increasing production of merchandise would necessarily provoke in prices, a reaction of which even now one can note the first symptoms.

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The annual world production of gold in tons of pure gold is the following for the years mentioned:

1937	919
1940	1,123
1949	726
1950	750
1951	734

One sees that in no year has the prewar production been reached. In other words, the production of gold in the world is less than it was formerly, when it should be much more.

One of the most curious arguments of the doctrinaires is that the production of gold and its monetary use constitute a phenomenon of inflation, and that, therefore, the increase of the production of gold, or eventually the increase in the purchase price by the control banks, incurs the risk of increasing inflation, whereas all the efforts of governments today tend toward reducing it.

One can only repeat here what was said more than a century ago by the old economist Newmarch, that in comparing the increase in the production of gold with that of paper money, there is no common measure, one contributing to the increase of prosperity and the consolidation of credit, and the other provoking monetary distrust. The argument in question reminds me of the story of the morphine addict who, on being cured at last of his illness, or his weakness,

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with all the inconveniences attached to it, complained that the suppression of the morphine did not prevent him from catching head colds. No one has ever maintained that the value of gold in relation to merchandise did not fluctuate, but these fluctuations, compared to paper money, are insignificant, and they have never started the waves of distrust and of monetary hoarding which characterize essentially the paper-money systems; nor have they caused all the social and financial disorders we know.

I would not be surprised if in a short time we will not be glad to have recourse to this inflation of gold to alleviate the effects of a crisis that is starting. If the decline in prices should become accentuated and if unemployment should result, there would remain one way to check it, the way which President Roosevelt used in 1933: to increase the official price of gold. The increase of the reserves of the central banks and of the mining production which would result from this would greatly benefit world economy.

*The Gold-Guaranteed Loan and Saving*  
(*L'Opinion*, June 19, 1952)



The Pinay gold-guaranteed loan has provided occasion for a great many dissertations on the relation between saving and inflation. Saving had already given Lord Keynes and his partisans an opportunity for sophisms devoid of good sense. Notwithstanding the aridity of the subject, I would like to say a few words about it here.

First of all, contrary to what is currently affirmed, increase in savings does not reduce consumption. Let the reader not jump to conclusions. He will agree with me, I think, that in our progressive societies, an increase in savings is made more generally *on supplementary revenues*. The sum of savings created in a country, at a given moment, (with certain exceptions, all personal) results from *increases in*

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*revenues*, of which part is "set aside" but with no reduction in previous consumption.

It suffices to reflect on the manner in which the prosperous corporations, which are, at the present time, the greatest source of savings in a country, proceed. They begin by deducting from their gross profit, every year, the sums to be set in reserve, and it is the difference between the gross profit and these reserves which they distribute to their stockholders. It is in this manner that all those who benefit, for one reason or another, from an increase in revenue operate: artists, doctors, inventors, etc. In general, they divide this revenue into two portions; they set one part aside for future expenses or investments, and they use the remainder, so that any increase in revenues means simultaneously an increase in consumption, as well as in saving.

In societies which are normally progressive, where production increases regularly, there are constantly and simultaneously two parallel currents issuing from the common source which is the revenue: the current of consumption which offers itself on the market as goods for consumption, and the current of saving which offers itself in the investment market. The second of these currents is not increased by drawing on the first, save in certain cases which, for evolved societies, are exceptional. The idea of *privation-saving* in the sense of a reduction in previous consumption is contrary to the economic reality. This does not mean, of course, that many persons do not

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“deprive” themselves, meaning by that that they deny themselves a great number of useful items of consumption which are agreeable or even necessary, for fear of going beyond their income. But the term “to deprive oneself” does not in any sense mean subtracting something from previous consumption.

Let us draw our conclusions from this fact:

1. The claims that borrowing means a reduction of consumption are false. They are false concerning private individuals as well as the community.

Even if there is no increase of income, individuals will withhold the sums put into loans from their normal margin of savings. This means that the subscription to the government loan will be to the detriment of other *investments*, but not to the detriment of consumption.

It is evident, on the other hand, that the loan being immediately spent by the government which receives it, it is translated into a simple distribution of revenues to those paid by the government. The loan is a simple transfer of revenues. The total amount of the revenue distributed remains the same.

2. The principle of the loan has met with objections. It has been said, for example, that all available moneys having already been placed in Treasury bills, the loan could only be subscribed by asking from the government the repayment of these bills, so that the government would provide on one hand the money which it would receive on the other. This is an old concept which (under the Poincaré Ministry)

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was that of my old friend, Robert Wolff, who unfortunately died in the course of the last war, and who was opposed, in the name of this theory, not only to the loan, but also to taxation. My answer to him at that time was that in a country such as France, many revenues were conserved under different forms than Treasury bills and that, especially, the reimbursement of Treasury bills was offset constantly and automatically by the very play of monetary circulation.

Another objection that has been made to the loan is that the sums hoarded (in particular under the form of gold) once poured into the loan, would increase the total of monetary means in circulation and would, consequently, make the prices rise. The loan would thus be a form of inflation. Such reasoning does not take into account an essential factor, one on which it is important to insist at this time.

There is a fundamental difference between issuing bank notes guaranteed by gold and notes without such guarantees, in a country where distrust in regard to the money has already attained a certain degree. The increase of prices, in a country where monetary distrust exists, results less from the increase of the instruments of payment than from the increased rapidity of circulation. People buy so as not to conserve money. On the contrary, as soon as money represents gold, about which there is no distrust, the reasons to be rid of money no longer exist, and purchasing slackens. In other words, the rise of prices

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which might be due to the acceleration of circulation drops, and this suffices to prevent the rise of prices. In other words, the slowing down of the rapidity of circulation largely compensates for the rise in prices which could result from an increase in the means of payment. That is what we have seen take place in 1926 and the following years, when the increase of bank notes covered by gold and currencies did not provoke any rise of prices and when, on the contrary, the drop in the whole world since 1929 took place in France as well as abroad.

We hear it said often today that inflation is produced by excess of purchasing power over the goods offered on the market. This is not untrue, but it is incomplete. Inflation may come from simple distrust in the money, without any increase in quantity. And, in this case, increase in the products offered is quite powerless to prevent a rise in prices. One can say that the Anglo-Saxon countries, which persist in seeing in inflation merely the effect of an increase in purchasing power, close their eyes voluntarily, or involuntarily, so as not to see the essential and fundamental difficulty of the paper money systems, which consists in the distrust toward paper as an instrument of store of value. It is because they refuse, by a strange blindness, to recognize this phenomenon, that the same writers distort all the controversies resulting from the international monetary situation, by obstinately considering only the quantity of money and the quantity of merchandise, instead of considering

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the psychological attitude of the one who receives money in payment.

With them it is, besides, an old tradition. It goes back to the Napoleonic Wars. Even then Ricardo and his friends made insistently an essential difference between paper money as it functioned on the Continent and the paper of the Bank of England which, they said, had never aroused any doubt about its reimbursement. Which did not prevent old Rothschild, of London, testifying before a parliamentary commission (more realistic than the economists) from declaring that the pound sterling fluctuated according to the opinion of foreign countries.

I should ask my readers to excuse me for having theorized a bit here, if so many abstract reasonings launched daily on the market did not justify a little incursion into a domain generally reserved to the "specialists" of abstraction.

*An American Opinion on the  
Gold Clause of the Pinay Loan*

(*L'Opinion*, August 14, 1952)



I am pleased to submit today to the readers of this journal an American opinion that in my eyes deserves the greatest attention.

I refer to a passage in the monthly circular of the National City Bank, one of the two or three most important American banks. This circular is respected in the entire economic world for its prudence and sureness of its appreciations. It is looked for with impatience by the men in business and those in the government. It concerns itself this time with the Pinay loan, and especially with the gold clause that is its principal characteristic, and here is what it says about it. I quote textually.

“These last two decades have been a period of

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confusion and of doubt in regard to gold. More and more there has spread the sophisticated opinion that gold was a relic of the past, that the belief in its utility was superstition and a myth worthy at most of coarse and primitive peoples, but unworthy of advanced societies. This feeling has been reinforced by the closing, during the war, of the gold mines of the United States and of Canada. Some have declared that it was the prosaic end of an object which came right after love in the list of human desires, but had no longer any use save to fill sick teeth.

"Yet," continues the circular, "the absurdity of these opinions [the English word "non-sense" is still stronger than the French word "absurdity"] has been brought to light at one stroke by the offer in France of a loan with a gold guarantee. It is not through simple affection for the yellow metal that the French authorities have linked the new securities to gold, but for an eminently practical reason. By that the Pinay government hoped to induce the French public to lend its savings to the Treasury, thus avoiding other inflationary types of financing that would risk reducing still more the value of the franc."

The American author thus dismisses at the same time the critics of the gold-clause, who considered it reactionary homage to obsolete ideas, and those who stated that it had nothing original, being but a variety, like any other, of indexed loans.

He replied in advance to those who, taking as a criterium of the success of the loan the quantity of

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gold it would bring to the Treasury, easily triumphed when that quantity proved modest.

I have always thought, for my part, that the importance of the choice made by Mr. Pinay resides less in the amounts of metal recovered by the Bank than in the affirmation, at a particularly opportune time from a national and international point of view, that the only valued standard was gold, by reason of its stability in relation to merchandise and its universal acceptance.

But the article of the National City Bank does not concern only France. One may suppose that this position, following the meeting in Mexico of the International Monetary Fund and the Bank for Reconstruction, is aimed also, and even more, at Anglo-Saxon opinion which, once more, will have to revise its doctrines on the subject of the best means for returning to this famous convertibility of the currencies, of which everyone speaks now, but whose conditions so few people sincerely accept.

Let us hope that the article which we have just quoted will awaken in them salutary reflection.

*Has the Free Price of Gold Rejoined  
Its Official Price?*

(*L'Opinion*, October 23, 1952)



One of the readers of this paper has asked me the following question: "Since the rate of gold in the free markets is very close to the official American rate of thirty-five dollars per ounce, is there still any advantage in asking for an increase in the price of gold in the United States? Is the official rate at which the United States continues to buy gold not confirmed by the free rate of gold?"

I would like to reply in the simplest way possible to this question which observation of the rates of gold must raise quite naturally in the minds of a large number of persons.

Let us state, first of all, that the prices of gold in the free markets continue to be quite artificial. They

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should not be considered as representing the price which gold would bring *if the demand were entirely free*. I say "if it were entirely free" because, in fact, the number of markets in which the gold is freely quoted is extremely restricted.

In the speech, so full of sense and good sense, made in Mexico by the Minister of Finance of South Africa, Mr. Havenga justly pointed out that one could not draw any conclusions from the prices in the free markets, because the demand is still impeded by numerous restrictions, while the offer in the premium markets has become more and more abundant. Mr. Havenga added that besides, and notwithstanding this double movement, the premium for gold, calculated in dollars in relation to the official price, was still about  $7\frac{1}{2}$  per cent above the latter. If, therefore, he concluded, the demand could exercise itself as freely as the offer, it is logical to suppose that that figure would be considerably higher.

Let us not forget another important fact, which it is well to recall to the minds of those who talk about an inflation of gold in case of a rise in its price: the number of countries that would like to put gold in reserve today, either in their central bank, where they have one, or let private individuals hoard it is greater and greater.

Fifty years ago, when a considerable number of countries were under the silver standard or the double standard, the demand for gold was much less than it is today. The potential demand of all the

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Asiatic, African, American, and European countries desirous of restoring their monetary systems at the present time, is enormous. In Europe, it suffices to consider Italy or Germany, whose mark, by a kind of miracle, is maintaining itself in the absence of any gold reserve. Outside of Europe, the countries of South America and Africa are very avid for gold. The official world demand would by far exceed that of former times if the markets were free and if the banks of issue again bought gold at prices closer to economic reality.

But there is still another argument, the most important of all, in my eyes. After the orgies of paper money to which many governments have resorted under the pressure of circumstances, and due also to their own thoughtlessness, what the public now clamors for is a money whose value will be as stable as possible. What international commerce needs is a common and unquestioned money to which all the international prices can be pegged. The strength of the great monetary systems prior to 1900 came from the fact of their resting on a common gold basis whose stability was more or less assured. Actually, it is not the quantity of money that is insufficient—it is superabundant, on the contrary—it is the amount of *sure* money. This sure money, at the present time, is only constituted by gold. To restore to the paper money in circulation the security which it lacks today, it is indispensable to encourage and to stimulate the production of gold in the world. Therefore, one must

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assure to the producers of gold a remuneration that will encourage them to increase the existing stocks of the yellow metal. Since 1944, that is to say since the end of the war, the annual production of gold has remained stable, instead of increasing. The increase of the quantity of gold is nevertheless a vital necessity for all the great economies, as well as for relations between these different economies. At the present time the cost of extracting gold continues to increase, while the official purchase price of the largest gold purchaser remains stationary. Therefore, the production of gold is discouraged while it should be encouraged by all means possible.

I know that two objections are currently made to this. The first consists in saying that the increase of gold stocks constitutes inflation. In replying, I will limit myself to quoting a sentence from the old economist and monetary expert Tooke, in his work on the history of prices. That sentence goes back one hundred years. It is still good for meditating.

“Between the stable and active demands due to the new influx of gold and the increase of demand which may result in any country using a system of paper money which is legal tender, there is, one might say, no common feature.” Paper money has no intrinsic value and the point is soon reached at which the restricted area where it may alone circulate makes any new issue react immediately on the prices to the full extent of the increased amount. *The precious metals, on the contrary, are the object*

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*of universal desire, and constitute the instrument of circulation between all nations. The increasing demand for merchandise and services which they occasion is diffused in a circle that becomes wider every day* and it is supported by causes that make new regions benefit from advantages initially reserved to only one locality.

A second objection hardly deserves considering. One cannot ignore it, however, because it is often brought forth. It is that gold has no utility, while coal, iron, apples or prunes are of a general utility which is universally recognized. This argument, which attracts many superficial minds, comes up against a psychological fundamental fact: man has need, rightly or wrongly (but who would pretend to find a reasonable reason for all the deeper instincts of the human soul?) of objects in which the products of his work and of his savings are preserved automatically. That is why, in all periods, and still today, precious stones, art treasures, and rare metals have been the object of his desire. To imagine that, from one day to the other, the governors of the banks of issue and the ministers of Finance will appear to the great public as sufficient guarantees of monetary stability and as equivalent themselves to gold, this is an illusion on which it is useless to dwell, whatever degree of respect one might feel for these great personalities.

*How to Evaluate the New Price of Gold*  
(*L'Opinion*, October 30, 1952)



It is perhaps to abuse the patience of readers of this journal to speak to them again about the price of gold. However, it is not needless to recall again how the problem presents itself from the point of view of economic logic. That is what I shall try to do here, while excusing myself in advance for the rather austere character of these considerations.

When gold serves as a monetary standard and the paper in circulation is freely convertible into metal, the rate of exchange of gold against commodities establishes itself in the simplest manner. Any increase in the production of gold sold to the bank of issue automatically increases the amount of paper money. By a well-known process, this increase tends to raise the level of prices of merchandise. In other

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words, the purchasing power of gold, like that of the convertible paper, decreases.

On the contrary, when the production of merchandise increases at a more rapid rate than the increase in the production of gold, we see a decline in the general level of prices, that is, a rise in the purchasing power of gold.

These formulae that contain what is wrongly called the quantitative theory of money, appear obsolete today to a great number of economists, who are startled by its mere mention. I believe, however, that they have been confirmed by the entire history of prices in the nineteenth and the beginning of the twentieth centuries.

Besides, they were confirmed when the formidable influx of merchandises in the world markets, after 1930, brought about what is called "the great depression." The interpretation of this crisis, far from being a sort of mystery, is, on the contrary, most simple and conforms perfectly to the data of economic experience.

It is quite different when the paper in circulation is no longer convertible into gold, but constitutes itself the monetary standard. Gold, whether coined or not, has henceforth a variable price in paper money, like that of merchandise. It has itself become a commodity that may be bought and is sold in the market, like any other commodity.

As for commodities, their prices are no longer in

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relation to the gold produced, but in relation to the paper money issued. There is no longer any relation between the production of gold and the prices of commodities. Another relation arises, between the issue of paper money and the price of merchandises, gold included.

This accounts for the lack of equilibrium which we note today and to which is added a supplementary imbalance. While the price of commodities expressed in dollars in the United States has practically doubled, that of the gold sold at the Treasury has remained the same. Why? Because we are dealing with a single buyer, a monopolist who arbitrarily fixes the price of gold, all, or nearly all, the other outlets having been closed by the prohibition of the free sale. There results this paradoxical consequence that the same weight of gold, transformed into dollars by the Treasury, can now buy only half of what it bought formerly. The purchasing power of gold has been practically reduced by half, exactly as if the amount of gold produced annually in the world had been greatly increased, whereas it has remained identically the same.

When it is proposed to increase the price of gold expressed in dollars, we propose, in reality to bring the purchasing power of gold closer to what *it would have been* if gold, instead of paper money, had been increased in quantity. In other words, one tries to come closer to what might have been if the paper

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money in circulation had evidenced an increase in the production of gold, which, in fact, has not been the case.

One can imagine another procedure which, on the contrary, would consist in bringing the price of merchandises closer to what it would have been if the production of gold had continued to remain stable in the face of a rapidly increasing amount of commodities. This is the phenomenon we witnessed between 1875 and 1895, a long period of continuous decline in prices. In this case, in order that the prices of commodities might meet the rising purchasing power of gold, it would evidently be necessary that the *level of prices be lowered* to a point where this increased purchasing power would be sufficient to restore the equilibrium.

However, this last solution, the one which consists in allowing all the prices to fall, meets with violent opposition, withal justified, on the part of all governments. This is the phenomenon we have witnessed since 1929, which in economic history is called by the name "great depression." Such a decline in prices carries with it a dangerous reduction in economic activity, unemployment, and loss of earnings so fatal to the well-being of the most impoverished classes, that no one can think for a moment of deliberately accepting a policy that would lead to it.

There is, therefore, no other way of constituting a solid base for the paper money and an inter-

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national monetary standard, than that which consists in adjusting the value of gold to the new value of the dollar in merchandise. The point is, in fact, to recreate a new unity of prices in gold, having no reference to the old unity.

How can we solve the problem?

On the one hand, the production of gold having remained the same, there is no reason that its real purchasing power should have varied since 1940. An ounce of gold continues to be worth the same quantity of merchandise and of services as in 1940. (There are even reasons to believe that it is worth more, given the enormous increase of commodities.) However, at the same time, the amount of paper dollars in circulation has increased in such a way that one dollar buys only half the merchandise and services which it bought in 1940. Therefore, a paper dollar does not represent more than half the gold it represented formerly. If one wishes to render it convertible into gold, one must fix its price in gold at half of its former price—and, consequently double the price of thirty-five dollars per ounce, which amounts to fixing the dollar at  $1/70$ th instead of  $1/35$ th of an ounce.

This calculation, one may say, is rather rough. I only give it in order to show concretely the reasoning by which one arrives at the inevitable conclusion that the price of the gold in dollars must be increased.

One may present the problem under another form

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and ask by how much the physical quantity of monetized gold should have been increased to cause the doubling of prices which we have seen. As this physical increase is not possible, it suffices, in order to obtain the same result, to multiply by a certain coefficient the value, expressed in dollars, of the existing gold.

Can we base ourselves on previous experiences? Can we calculate what should have been the increase in the quantity of gold so that the purchasing power of the dollar would fall to its present level and, in consequence, apply this percentage of increase to the quantity of gold existing today?

The only example that we have is the considerable increase in the quantity of gold produced after 1900, which had for effect the important rise of world prices between 1900 and 1912. But it is dangerous to lean upon historic precedents in a matter in which all the circumstances, technical, financial, psychological, have undergone changes as profound as those we have witnessed since the First World War.

Another example is the devaluation of the dollar in 1933. There is no doubt that this devaluation, so criticized and attacked still today, in the United States, has however had the result of arresting the depression of 1929 and setting this great country back on the road to prosperity. The devaluation at that time was 35 per cent. It certainly helped to control the decline of prices and restore to the American economy its power of expansion.

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In any case, and whatever may be the methods adopted to arrive at how much one should devalue the dollar, or, more exactly, what weight in gold one should assign to the new dollar, there will necessarily be some uncertainty and chance in this operation.

It is understood, under these conditions, that responsible governments hesitate and fear the hazards in all such decisions.

It remains no less true, however, that the present situation is contrary to all monetary logic and that it tends to perpetuate the insecurity in international commerce, and the lack of equilibrium in the balances of payments, with all the grave inconveniences which this lack of equilibrium entails.

There is more. If, as many signs indicate, the entire world is headed toward a period of decline in prices, the only way that we can see to prevent this decline from becoming catastrophic is precisely by increasing the production of gold to a point where it will suffice to sustain the prices at the level where the results of the war and the universal creation of paper money have unfortunately brought them.

*Drop in World Prices*

(*La Vie Française*, November 28, 1952)



Are we at a turning point of the world's economic evolution? Having maintained an almost uninterrupted upward trend, will the trend of prices reverse itself? Will the drop now begun be continuous or transitory, severe or moderate? Such are the questions that are asked to some extent everywhere, in Europe as well as in the United States, by economists, businessmen, and even by politicians.

The readers of this paper know by the graphs which are presented from time to time, the progress of the facts. I have no intention of approaching this problem by its statistical aspect. No one ignores the fact that the prices of the important raw materials, industrial and agricultural, have dropped in the last six months in relation to their level two years ago.

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Whether it is lead, tin, rubber, cotton, cereals, steel, potash, the trend of the prices of all these materials is downward. These fluctuations, of course, are like the teeth of a saw. They may be upward for one or two months, but their general direction is obvious.

It is not Mr. Pinay's policies that are responsible. We are referring to world products whose markets are in New York or in London, and over which French policies exert no influence. Neither is it the election of General Eisenhower that can alter the course of things, or the choice of remedies which America will use to fight a depression if one should occur.

### *A Universal Phenomenon*

The profession of prophet is singularly hazardous. Nevertheless, I remain convinced that the coming months will continue, and perhaps for some time, to interrupt the rise in prices due to the war.

Why? My reasons are of a quite general order. The first is that a world rise in prices could not maintain itself today unless a certain amount of inflation in the purchasing power maintained constantly a higher level of demand for merchandise than the level of offer. It would suffice, in fact, that the inflation be curbed while production continues in progress for the prices to incline downward. It

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is a fact that is confirmed by all the experiences of the past.

On the other hand, the signs of a reversal always appear first in the markets for raw materials. After the First World War, the fall of the raw materials began in 1925, while the depression itself did not appear until 1929. At the present time, all the statistics continue to show a rapid and universal increase in production. The figures of 1952 all show progress in relation to those of 1938. But, at the same time, the inflation is systematically combated by the finance ministers of nearly all the countries, because no one has longer any doubt about the economic and financial disorder that results from the artificial creation of paper money.

A general increase in the offer of merchandise and stabilization of the demand; it is the very situation which must bring normally a change in the direction of the prices.

A great financier, who has since died, used to say after the First World War: "I have rarely been wrong in my predictions." But he hastened to add: "save as to the dates." Today, still, one can predict without great risk of making a mistake that a period of declining prices is ahead for the entire world. It is difficult to fix exactly the duration of this decline, but what we can state without too much risk is that it is unavoidable.

## *The Remedy: Increase in the Price of Gold*

A few readers will conclude from what I have just said, that the remedy for such an eventuality can only be the continuation of inflation. I reply simply that there are two kinds of inflation: the inflation of paper money and the inflation of gold. The first no one wants, and with reason. Of the second, one can say that it has all the advantages of the first, without any of its inconveniences. It would suffice to increase the official price of gold in order to accomplish it.

In a recent, brilliant article, Mr. Raymond Aron, considering the economic policies which the Republican Party would perhaps have to adopt in the United States, in case of a general depression, enumerated the various financial measures which it could take.

He forgot (perhaps intentionally) to mention one: changing the price of gold. Less prudent than the distinguished contributor to the *Figaro*, I do not hesitate to say that it is in that direction that the chances lie of finding the best remedy for the depression, signs of which one begins to see a bit everywhere.

Examining the causes of the great depression of 1929, in the last volume of his *Memoirs*, published recently, former President Herbert Hoover declares that according to him, the monetary circumstances and, in particular, the return to parity of the pound

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sterling, had very little to do with it. Let us hope that the counselors of General Eisenhower will show more perspicacity in their views.

As to France, the worst error in policy which she might commit would be to attempt to raise her prices at a time when the trend in the international markets is downward. French exports would certainly decline. Those who speak lightly of a change in the Pinay policies would do well to think about it.

*Forecasts on the Convertibility of Currencies*  
(*L'Opinion*, June 17, 1954)



Every day the prophets ask themselves whether currency convertibility is to occur soon or in the distant future. Everyone knows that this expression "currency convertibility" is a pleasant euphemism to translate those three little words "a return to gold," these last having been banished from the language of the Anglo-Saxons as being in supremely bad taste, as they remind one much too vividly of the unseemly conduct of the yellow metal during the crisis of 1931.

The signs portending a return to gold which are mentioned most frequently are the following: the reopening of the gold market in London (despite its incomplete character); the strengthening of the

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gold reserves of various Western countries, particularly Great Britain, France and West Germany, not to speak of the national banks of Belgium, the Netherlands and especially Switzerland, whose gold reserves are constantly growing; the sales of gold being effected on Western markets by countries such as the USSR, which up to now had maintained an attitude of reserve; the relative stability of wholesale prices in the last two or three years; the return to a balanced budget in the leading industrial nations with the exception of France, etc., etc.

Against all these favorable factors, two elements persist which incline observers toward pessimism:

1. The official refusal by the United States to modify the price of gold, a refusal which was again underlined very recently, at the end of March, in the testimony given by Mr. Burgess, Under-Secretary of the Treasury, before the Committee of the Senate.
2. The psychological attitude peculiar to all Ministers of Finance, after the long-drawn-out period of anxiety through which they have lived, and which is the very natural hesitation of each of them to "cross the Rubicon," before making sure of every last condition assuring the success of such a step.

The report of the Bank of the Netherlands, just published, underlines that it is ready to resume convertibility, but that a small country such as Holland cannot undertake this venture all by itself.

I am not speaking, of course, of the uncertainty which still remains concerning the reestablishment

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of peace in the Far East, and until any such uncertainties cease to exist no Minister of Finance will feel able to make a final decision.

Under these circumstances, those who like myself, favor and have always favored, a return to gold, are limited to two or three elements on which to base their forecasts. The first, and the main one, is the general movement of prices. It is well known that, on this point, economists and statisticians have widely varying opinions: some declaring that a drop (in prices) is unavoidable; others, and especially the Americans, assure us that the "recession" which we have just witnessed is already ended, and that we are once more on our way towards a new era of rising (prices) which will be facilitated by a policy of liberal credit. Others, on the contrary, are convinced that the trend towards lower (prices) is written in all the economic conditions of the present. This last possibility seems to me to be infinitely more probable than the first one. Whatever the outcome, we are faced by two different possible situations:

In the first case, if we are really at the inception of a new era of rising prices, such an era will require, to assure its continuation, the necessary creation of means of payment which will keep step with the increase in production. This policy is advocated in the United States by a number of authorities. But, if such a policy is not accompanied by gold convertibility, it will lead us, in my opinion, to consequences

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which no one can contemplate without apprehension. It will, in fact, constitute a complete novelty in the monetary management of the world. It is thus an unprecedented adventure upon which the world economy will embark under the leadership of the United States.

In the second case, that of a regular drop in world prices, either the United States will maintain the present price of gold, or, on the contrary, they will give their consent to an increase.

If the price of gold is maintained, which seems more likely at present, the gold reserves of other countries will be increased almost exclusively through an improvement of their trade balances, exchanges of capital remaining necessarily limited and precarious. It will thus require a fairly considerable time for these governments to decide to "cross the Rubicon." If, on the other hand, the United States should consent to a change in the price of gold (and the drop in prices could serve here as a lever sooner than one thinks), the resulting increase in existing stocks as well as in the production of (gold) mines could give a strong impetus to the reestablishment of convertibility.

All that has just been said obviously concerns those countries which have pursued their financial rehabilitation to the point where they are secure against renewed inflation. This is not the case of France. With a budget deficit of 800 billion francs, the reestablish-

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ment of convertibility would again be a hazard. This is sad, but true.

The above predictions are based on a number of hypotheses, each of which merits a particular study. What I wish to underline is that all of them depend on the trend of prices during the coming years in the United States. It is a fact that the American economy constitutes in itself, because of its uniquely powerful character, a potent factor of incertitude.

## *Appendix*



*Remarks of ALLAN SPROUL,*  
*President, Federal Reserve Bank of New York*  
at the  
SEVENTY-FIFTH ANNUAL CONVENTION OF THE  
AMERICAN BANKERS ASSOCIATION  
San Francisco, California

November 2, 1949

As a native Californian—and a native San Franciscan—I have tried to think of something I might discuss which would be of special interest to our generous hosts at this convention. The fact that this is 1949, and that the whole State of California has been engaged in a two-year round of celebrations of the 100th anniversary of the discovery of gold in California, and of its immediate consequences, gave me an obvious lead. Gold is something in which we are all interested. Nor is this an untimely topic on other grounds. The recent wave of currency devaluations which swept around the world, following upon the devaluation of the British pound sterling six weeks ago, has fanned into modest flame the always smouldering fires of the gold controversy. In addition, I was eager to review the gold question because it is

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a good starting point for an understanding of the place of the Federal Reserve System in the monetary and economic life of the country. When I finish with gold, I shall want to say something more specific about the System, and about your relations with it.

As central bankers, of course, charged with responsibility for our monetary and credit policies, we have the question of gold under more or less constant surveillance. Most of the time, in recent years, we have been under attack from two sides because of our attitude toward gold. Those interested primarily or initially in the price of gold, and in what they call a free gold market, have fired from one side. Those interested primarily and eternally in gold coin convertibility—in a full and automatic gold standard domestically and internationally—have fired from the other. More recently, we have had a brief respite from attack while these two groups fired at each other, each group arrogating to itself responsibility for the only true gospel according to St. Midas. What I have to say will probably bring that brief respite to an end. The fire will again be concentrated on the monetary authorities, for whom I cannot presume to speak except as one individual engaged in the practice of central banking, but who will, no doubt, be blamed for my views.

Let me take account of each of these two groups separately; those who concentrate, at least initially, on a free gold market, and those who will have none of this heresy, but who want a fixed and immutable

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gold price and convertibility of currency—and therefore of bank deposits—into gold coin.

The first group, which includes the gold miners, makes its argument on several grounds, trying to combine economics and psychology with self-interest. Let me paraphrase their principal arguments as presented at hearings on bills to permit free trading in gold in the United States and its territories. In this way I may avoid the fact as well as the appearance of building straw opponents. The arguments most frequently presented in favor of these bills were:

1. In the face of rising production costs and fixed selling prices, the gold mining industry has been forced to curtail its operations, and to the extent that it has operated, its profits have been reduced. The higher gold prices which would presumably prevail in a free market would correct this situation. This is the “do something for the gold miners” argument at its baldest.

When this argument is embroidered a little, it is claimed that since the prices of all goods and services have increased so substantially during the past ten or fifteen years, it is necessary to open the way for an increase in the price of gold so as to be sure there will be enough gold to carry on the country's business; to bring the price of gold into adjustment with the prices of everything else.

2. A second group of arguments expresses concern over the unsettling effects of the “premium” prices

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which are paid for gold abroad, and claims that a free gold market in the United States, with no gold export restrictions, would cause these premium markets abroad to disappear, with beneficial effects upon world trade and international relations.

3. Third, there is an argument in equity—that gold miners should be allowed to sell their product at the best price they can obtain, as do producers of other products; and that American citizens, like the citizens of most other countries, should be free to hold or to buy and sell gold.

4. Finally, there were those who viewed and favored a free gold market as a first step in the direction of a full gold coin standard, and who held that even a free market would act as a “fever chart” of the economy and lead to reform of extravagant Government fiscal policies, remove inflationary tendencies fostered by a managed currency, and lead to sounder conditions, generally.

To take these arguments up in order, it should be pointed out right away that it is quite possible that a free market for gold in the United States would not result in a rise in the price of gold, if for no other reason than that the Secretary of the Treasury is required, by law, to maintain all forms of United States money at parity with the gold dollar which contains  $1/35$ th of an ounce of fine gold. This means that the Treasury should maintain the price of gold at \$35 a fine ounce in legal gold markets in the United States. To do this, if there were a legal free

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market for fine gold, the Treasury should sell gold to the extent necessary to maintain the market price at \$35 a fine ounce. We might, therefore, get what would be in effect gold convertibility by way of a free market, but not a rise in the price of gold. Aside from this possible outcome of the establishment of a free market for gold, what is it we are being asked to do? In effect we are being asked to do something to benefit the gold mining industry, to encourage a shift of productive resources, in this and other countries, into gold production, in order to provide gold for hoarding. This, I submit, would be a witless proceeding, in terms of the welfare of the whole economy, matched only by our bonanza provisions for the special benefit of the miners of silver.

As for the economic embroidery of this request for aid to the gold mining industry, there is no lack of monetary means of carrying on the business of the country, nor is there likely to be. It is the economics of perpetual inflation to argue that a rise in the commodity price level should be followed by an arbitrary increase in the price of gold and hence in the reserve base, thus permitting and, perhaps, promoting additional deposit expansion and a further upward movement of prices. Even on the basis of statistics, which are not always reliable or comparable, it is interesting to note that the increase in the price of gold in the United States, in 1934, raised the price of gold by 69 per cent, whereas wholesale prices in the United States are now only 60 per cent above

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the 1927-29 level. We have been plagued, if anything, with an oversupply of money in recent years, and the United States gold stock, at the present price, is large enough to support whatever further growth in the money supply may be needed for years ahead.

The second group of arguments has to do with the desirability of knocking out of business the premium markets in gold which have existed and still exist in various foreign countries. I share the general dislike of these markets because they are parasites on the world's monetary system and help to siphon into gold hoards the resources of people who need food and clothing and equipment—and who wouldn't need so much help from us if they didn't use scarce foreign exchange to buy gold for private hoards. But I don't think the soundness nor the stability of the United States dollar is actually brought into question by these premium markets. At our official purchase price for gold—\$35 a fine ounce—the United States has been offered and has acquired more gold than the total world production (excepting the U.S.S.R. for which reliable data on gold production, as on everything else, are not available), since 1934, the year of our devaluation. During those years—1934 to 1948 inclusive—estimated world gold production, valued at United States prices, was about \$13.5 billion and United States gold stocks increased \$16 billion. Most of the producers and holders of gold have been quite willing to sell us gold for \$35 a fine ounce despite the quotations of \$45 and \$55 and so on up

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in the premium markets. The fact is that these premium markets represent insignificant speculative adventures around the fringe of the world supply and demand for gold. They reflect mainly the urgent and often illegal demands of a small group of hoarders, together with some private demand for gold to be used in relatively backward areas, or areas where the forms of civilized government have broken down, and where the metal serves the needs of exchange—or hoarding—better than a paper note. I do not think there would be any appreciable stimulus to United States gold production, if we opened the doors of this largely clandestine trade to our domestic gold miners. But, by legalizing it, we might well create what we are trying to destroy—uncertainty about the stability of the dollar and our own intentions with respect to its gold content.

The third argument—that the miners of gold should be free to sell their product at the best price they can get—is probably the giveaway. It is the argument that gold should be treated as a commodity when you think you can get a higher price for it, and as a monetary metal and an international medium of exchange when you want a floor placed under its price. I would say that you can't have it both ways. If you want the protection of an assured market at a fixed price, because gold is the monetary metal of the country, you should not ask permission to endanger the stability of the monetary standard by selling gold at fluctuating prices (the gold producers

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hope higher prices) in a fringe free market. Under present conditions, the only real price for gold is the price the United States Treasury is prepared to pay for it. So long as that is the case, there is no sense in a "make believe" free gold market, in which possible temporary or short-run deviations from the fixed price of the Treasury might have disturbing consequences.

Nor is the argument that citizens of the United States should have the same privileges as the citizens of other countries, when it comes to holding or trading in gold, at all convincing to me. It is true that in a number of foreign countries the holding of gold by private citizens is legal, and in some foreign countries strictly internal free trading in gold is permitted. In many cases, however, this merely represents the shifting around of a certain amount of gold which is already being hoarded in the country, since in practically all of these countries the export and import of gold on private account is either prohibited or subject to license. And, in many countries where gold is produced, some percentage, if not all, of the newly mined gold must be sold to the monetary authorities, a requirement which further limits the amounts available for trading and hoarding. These restricted and circumscribed privileges in other countries are no reflection of a loss of inalienable rights by our people. They are attempts by these foreign countries to adjust their rules with respect to gold to their own self-interest and, so far as possible, to

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the habits of their people, all under the sheltering umbrella of a world gold market and a world gold price maintained by the Treasury of the United States. We have deemed it wise to maintain such a fixed point of reference, in a disordered world. We have decided by democratic processes and by Congressional action, that this policy requires, among other things, that gold should not be available for private use in this country, other than for legitimate industrial, professional, or artistic purposes. We have decided that the place for gold is in the monetary reserves of the country, as a backing for our money supply (currency and demand deposits of banks), and as a means of adjusting international balances, not in the pockets or the hoards of the people. If we want to reverse that decision, the means of reversal are at hand, but it should be a clear cut and a clean cut reversal, restoring convertibility. Providing a dependent free gold market, in which gold miners and a little gold group of speculative traders or frightened gold hoarders (such as those who now take advantage of a provision in the regulations to buy and sell "gold in the natural state") could carry on their business is not the way to meet the problem.

I do not propose to get in the cross fire of those who claim that a free gold market would be a step toward convertibility, and those who claim that a free gold market, without free coinage at a fixed price, would cause us to lose whatever modicum of a gold standard we now have and lead to monetary

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chaos. That is one of those doctrinal arguments in which the subject abounds. I will merely say here that I think authorization of a free gold market in this country, with no change in the present responsibility of the Secretary of the Treasury to maintain all forms of money coined or issued by the United States at parity with the "gold dollar", would probably lead indirectly to convertibility. The desirability of doing this is another matter, which I shall now try to discuss briefly and dispassionately. This is a hazardous attempt because there is no subject in the field of money and banking which so arouses the passions, and which so readily defies brief analysis.

Two groups of arguments for the reestablishment of a gold coin standard may, perhaps, be distinguished in the writings and speeches of those who propose it, one group relating primarily to the domestic economy and one to the probable effects on international trade and finance. In the first group the arguments run about as follows:

1. Replacement of our "dishonest", inconvertible currency with an "honest" money having intrinsic value would promote confidence in the currency, and encourage savings, investment, long-time commitments, and production.
2. Irredeemable paper money leads to inflation, whereas the upper limits imposed upon currency and credit expansion by a thoroughgoing

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gold standard serve as a restraining influence on irresponsible politicians and over-optimistic businessmen.

3. Present Government taxing and spending policies are wrong, and dangerous. The gold standard would put a brake on public spending.
4. As a corollary of the preceding argument, since the gold standard would hinder further extension of Government control and planning, it is a necessary implement of human liberty.

The second group of arguments, relating to the international advantages of a gold coin standard, generally make no distinction between the effects of a unilateral adoption of such a standard by the United States, and the multilateral establishment of an unrestricted gold standard by many countries, and of exchange rates fixed by such a standard. The arguments run somewhat as follows:

1. The existence of premium markets in gold abroad and the lack of gold convertibility at home creates—and is representative of—lack of confidence in the gold value of the dollar. In the absence of a thoroughgoing gold coin standard we cannot convince anyone that we may not devalue the dollar.

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2. Restoration of "normal" patterns of international trade is being retarded by the inconvertibility of currencies in terms of gold and, therefore, one with another. This inconvertibility has led to tariffs, quotas, exchange controls, and to general bilateralism.
3. Under a managed paper currency system there is always the temptation to solve national problems by devices which lead to international disequilibrium. This, in turn, has led to domestic devices restrictive of foreign trade. The international gold standard, by eliminating the need for restrictive commercial policy, would increase the physical volume of international trade, resulting in an improved division of labor and higher standards of living for everyone.

First, let me say that I perceive no moral problem involved in this question of gold convertibility. Money is a convenience devised by man to facilitate his economic life. It is a standard of value and a medium of exchange. Almost anything will serve as money so long as it is generally acceptable. Many things have served as money over the centuries, gold perhaps longest of all because of its relative scarcity and its intrinsic beauty. In this country we still retain some attachment to gold domestically, and more internationally, but to carry on our internal business we use a paper money (and bank deposit accounts)

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which has the supreme attribute of general acceptability. There is no widespread fear of the soundness of the dollar in this country, no widespread flight from money into things. The constant cry of wolf by a few has aroused no great public response. Savings, investment, long-term commitments, and the production and exchange of goods have gone forward at record levels.

Much of the nostalgia for gold convertibility is based, I believe, on fragrant memories of a state of affairs which was a special historical case; a state of affairs which no longer exists. This great period of gold convertibility in the world was from 1819 to 1914. It drew its support from the position which Great Britain occupied, during most of the 19th century and the early part of the 20th century, in the field of international production, trade, and finance. The gold coin standard flourished because the organization of world trade under British leadership provided the conditions in which it could, with a few notable aberrations, work reasonably well.

The ability of the British to sustain, to provide a focal point for this system has been declining for many years, however, and the decline was hastened by two world wars which sapped the resources of the British people. The heir apparent of Great Britain, of course, was the United States, but up to now we have not been able to assume the throne and play the role. And until some way has been found to eliminate the lack of balance between our economy

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and that of the rest of the world, other than by gifts and grants in aid, we won't be able to do so. This is a problem of unravelling and correcting the influences, in international trade and finance, which have compelled worldwide suspension of gold convertibility, not vice versa. The job before us now is to attack the problems of trade and finance directly. We should not deceive ourselves by thinking that gold convertibility, in some indefinable but inexorable way, could solve these underlying problems for us.

Nor is it true, of course, that gold convertibility prevented wide swings in the purchasing power of the dollar, even when we had convertibility. Within my own experience and yours, while we still had a gold coin standard, we had tremendous movements in commodity prices, up and down, which were the other side of changes in the purchasing power of the dollar. What happened to us in 1920-21 and 1931-33 under a gold coin standard should prevent a too easy acceptance of that standard as the answer to the problem of a money with stable purchasing power.

When you boil it all down, however, and try to eliminate mythology from the discussion, the principal argument for restoring the circulation of gold coin in this country seems to be distrust of the money managers and of the fiscal policies of Government. The impelling desire is for something automatic and impersonal which will curb Government spending and throw the money managers out of the temple, as

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were the money changers before them. To overcome the inherent weakness of human beings confronted with the necessity of making hard decisions, the gold coin standard is offered as an impersonal and automatic solution. Through this mechanism the public is to regain control over Government spending and bank credit expansion. It is claimed that whenever the public sensed dangerous developments, the reaction of many individuals would be to demand gold in exchange for their currency or their bank deposits. With the monetary reserve being depleted in this way, the Government would be restrained from deficit financing through drawing upon new bank credit; banks would become reluctant to expand credit to their customers because of the drain on their reserves; and the Federal Reserve System would be given a signal to exert a restraining influence upon the money supply. In this way, Congress, the Treasury, and the Federal Reserve System would be forced by indirection to accept policies which they would not otherwise adopt.

In effect, under a gold coin standard, therefore, the initiative for over-all monetary control would through the device of free public withdrawal of gold from the monetary reserve, be lodged in the instinctive or speculative reactions of the people. No doubt some people would take advantage of their ability to get gold. There would be many reasons for their doing so. Conscientious resistance to large Government spending, or fear of inflation, might well be among these

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reasons. But speculative motives, a desire for hoards (however motivated), and such panic reactions as are generated by unsettled international conditions or temporary fright concerning the business outlook or one's individual security—all of these, and more—would be among the reasons for gold withdrawals. The gold coin mechanism does not distinguish among motives. Whenever, for any reason, there was a demand for gold, the reserve base of the monetary system would be reduced. Moreover, if only the United States dollar were convertible into gold while practically all other currencies were not, hoarding demands from all over the world would tend to converge upon this country's monetary reserves. Circumvention of the exchange controls of other countries would be stimulated, and dollar supplies which those countries badly need for essential supplies or for development purposes would be diverted to the selfish interests of hoarders.

Even if a particular reduction in the reserve base did occur for useful "disciplinary" reasons, the impact of such gold withdrawals upon the credit mechanism is likely to be crude and harsh. Since the present ratio between gold reserves and the money supply is about one-to-five, and since some such ratio will be in effect so long as this country retains a fractional reserve banking system, a withdrawal of gold coins (once any free gold is exhausted) will tend to be multiplied many times in its contractive effect on bank credit and the money supply. In a business recession, the

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Reserve System might undertake to offset this effect as it does now in the case of gold exports but, if the gold withdrawals attained sufficient volume, the shrinking reserve position of the Federal Reserve Banks would eventually prevent them from coming to the rescue.

It was, in part, to offset such arbitrary and extreme influences upon the volume of credit, and to make up for the inflexibility of a money supply based on gold coins (in responding to the fluctuating seasonal, regional, and growth requirements of the economy), that the Federal Reserve System was initially established. During the first two decades of its existence, the System devoted much of its attention to offsetting the capricious or exaggerated effects of the gold movements associated with continuance of a gold coin standard. We had an embarrassing practical experience with gold coin convertibility as recently as 1933, when lines of people finally stormed the Federal Reserve Banks seeking gold, and our whole banking mechanism came to a dead stop. The gold coin standard was abandoned, an international gold bullion standard adopted, because repeated experience has shown that internal convertibility of the currency, at best, was no longer exerting a stabilizing influence on the economy and, at worst, was perverse in its effects. Discipline is necessary in these matters but it should be the discipline of competent and responsible men; not the automatic discipline of a harsh and perverse mechanism. If you are not willing to trust men with

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the management of money, history has proved that you will not get protection from a mechanical control. Ignorant, weak, or irresponsible men will pervert that which is already perverse.

Here, I would emphasize my view that the integrity of our money does not depend on domestic gold convertibility. It depends upon the great productive power of the American economy and the competence with which we manage our fiscal and monetary affairs. I suggest that anyone who is worried about the dollar concentrate on the correction of those tendencies in our economic and political life which have brought us a deficit of several billion dollars in our Federal budget, at a time when taxes are high and production, employment, and income are near record levels. I suggest that, going beyond the immediate situation, they address themselves to the difficult problem of the size of the budget, whether in deficit or surplus or balance. At some point the mere size of the budget, in relation to national product, can destroy incentives throughout the whole community, a dilemma which is even now forcing curtailment of Government expenditures by the Labor government in Great Britain. These are problems gold coin convertibility cannot solve under present economic and social conditions. Gold has a useful purpose to serve, chiefly as a medium for balancing international accounts among nations and as a guide to necessary disciplines in international trade and finance. It has no useful purpose to serve in the pockets or hoards of the

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people. To expose our gold reserves to the drains of speculative and hoarding demands at home and abroad strikes me as both unwise and improvident.

Perhaps before I let go of this subject, which has held me and you overlong, I should say a word about merely raising the price of gold, without doing anything about a free gold market or gold coin convertibility of the currency. This is something which has intrigued Europeans and others who are "short of dollars", has interested some of our own people, and has become a South African war cry. An increase in the price the United States pays for gold would have two major results. It would provide the gold producing countries (and domestic producers), and the countries which have sizable gold reserves or private hoards, with additional windfall dollars with which to purchase American goods. And it would provide the basis for a manifold expansion of credit in this country which might be highly inflationary.

We have been engaged in an unprecedented program of foreign aid for the past four years. The Congress has authorized this aid at such times and in such amounts as were deemed to be in the interest of the United States. This is much to be preferred, I suggest, to the haphazard aid which would be granted by an increase in the price of gold, which must be on the basis of a more or less accidental distribution of existing gold stocks and gold producing capacity. If we raised the price of gold, every country which holds gold would automatically receive an increase in the

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number of dollars available to it. The largest increases would go to the largest holders which are the Soviet Union, Switzerland, and the United Kingdom. Every country which produces gold would automatically receive an annual increase in its dollar supply, and its gold mining industry would be stimulated to greater productive effort. The largest increases would go to the largest producers which are South Africa, Canada, and probably the Soviet Union. That would be an indiscriminate way to extend our aid to foreign countries, both as to direction and as to timing.

The domestic results of an increase in the price of gold would be no less haphazard. This country, as I have said, is not now suffering from a shortage of money and it has large gold reserves, which could form the basis of an additional money supply if we needed it. An increase in the dollar price of gold would increase the dollar value of our existing gold reserves in direct proportion to the change in price. There would be an immediate "profit" to the Treasury. The "profit" could be spent by Congressional direction or Treasury discretion. This would provide the basis for a multiple expansion of bank credit which, unless offset by appropriate Federal Reserve action, would expose our economy to the threat of an excessive expansion of the domestic money supply. The arbitrary creation of more dollars in this way would certainly be inappropriate under inflationary conditions, and would be an ineffective method of combating a deflationary situation.

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At the moment, also, we should have in mind that there has just been an almost worldwide devaluation of currencies. Using the fixed dollar as a fulcrum, individual foreign countries have taken action designed to improve their competitive position vis-à-vis the United States, and to maintain their competitive position vis-à-vis one another. An increase in the dollar price of gold, which is devaluation of the dollar by another name, would undo the possible benefits of a venture in improved currency relationships which already has its doubtful aspects.

For all of these reasons it is encouraging to know that the Secretary of the Treasury has recently reiterated that the gold policy of the United States is directed primarily toward maintaining a stable relationship between gold and the dollar, and that for all practical purposes only the Congress can change that relationship. We have maintained an international gold bullion standard by buying and selling gold freely at a fixed price of \$35 a fine ounce in transactions with foreign governments and central banks for all legitimate monetary purposes. This has been one fixed point in a world of shifting gold and currency relationships. We should keep it that way as another contribution to international recovery and domestic stability.

This whole discussion of gold has been a long wind-up for what may now seem to you like a small pitch. I want to end my remarks with a few words about the Federal Reserve System and the relations

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of your organization and you, as bankers and citizens, with that System.

In my gold discussion I tried to emphasize what seems to me to be a fundamental proposition in the case of a country with the domestic and international strength of the United States. We can't have, or we don't want, both an automatic gold coin standard and discretionary control of the reserve base by a monetary authority. The existence of two independent and frequently incompatible types of control over the reserves of our banking system is undesirable. In the light of that finding we abandoned the gold coin standard as a control over the domestic money supply, and placed our reliance in monetary management by the Federal Reserve System. I think it has become established American policy that a principal means of Government intervention in the economic processes of the country is the administration of broad credit powers by the System. In this way a pervasive influence may be brought to bear on our economy, without intrusion upon specific transactions between individuals, which is likely to be the consequence of more detailed physical controls, and which would spell the end of democratic capitalism as we have known it.

I have thought it reasonable to assume that the public in general, and bankers in particular, clearly recognized the special place of the System in our economy. The fact that the development of a national monetary and credit policy is the responsibility of

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the Federal Reserve System should fix its place beyond question. This is not a function which can be split up and passed around. Many of the activities of other Government agencies engaged in making or guaranteeing loans, or conducting bank examinations, or insuring bank deposits, have a bearing on the way monetary policy works, but monetary policy, as such, is one and indivisible. It is only the supervisory and service functions performed by the Federal Reserve System which are comparable to the operations of these other Government agencies. The distribution of these incidental duties among such agencies can be largely determined by administrative convenience, historical precedent, and economy of operation, so long as there are arrangements for consultation to avoid unnecessary differences in policy and practice. But overall responsibility for holding the reserves of the banking system, and influencing the creation of credit by varying the cost and availability of those reserves, can only reside in the one agency designated by Congress as the national monetary authority. The Federal Reserve System is not just one of a number of Federal agencies having to do with banking. Its duties and responsibilities are unique; they range over the whole of our economy and touch the lives of all our people.

I was somewhat dismayed, therefore, by recent reports that the American Bankers Association seemed to hold a different or opposite view. It is reported to have recommended to the Congress the maintenance

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of parity of compensation of the three Federal bank supervisory agencies (Board of Governors of the Federal Reserve System, Board of Directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency), on the theory of equal pay for equal work; equal pay for sharing equally heavy responsibilities. I mean no disrespect of the Office of the Comptroller of the Currency, nor of the Federal Deposit Insurance Corporation, when I say there is and can be no such equality of responsibility. The bank supervisory duties of the Federal Reserve System are a distinctly minor part of its work. There is no desire to increase or add to those duties against the wishes of the banks or the best interests of the public. To represent the Federal Reserve System as just another bank supervisory agency, in the name of maintaining proper checks and balances in Federal bank supervision, seems to me to miss, and to misrepresent, the main reason for our being.

I mention this small but significant item first, because it cuts across the whole concept of the Federal Reserve System and, therefore, cuts across the whole range of our relationships with you. There are other points of apparent difference where we seem to be at odds, or not pulling together effectively, because of mistrust, or lack of proper consultation, or inadequate study of the broad aspects of the questions with which we are mutually concerned. I shall touch on a few of them.

*Concentration of Power*—The picture of a Federal

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Reserve System trying to arrogate power to itself, which at times you have painted, obscures the real picture. The real picture would show a Federal Reserve System trying hard to keep its powers in working order so that it can discharge its responsibilities as a monetary authority, with a measure of independence from the pressures of partisan political aims and the exigencies of managing a Federal debt which totals about 255 billion dollars and, unfortunately, is growing. To lump the Federal Reserve System with the other bank supervisory agencies at Washington, and to play one against the other, is not an attack on the real concentration of power; it is giving aid and comfort to those who would seize upon the failure of monetary and credit controls as a pretext for fastening more direct controls upon our economy.

*Organization of the Federal Reserve System*—I have been at one with many of you in my opposition to undue centralization of control of the Federal Reserve System by the Board of Governors at Washington. In testimony before Congressional committees and in public statements, I have affirmed my belief that we can have in the Federal Reserve System a wise blend of national authority and regional responsibility, of Government control and private participation. I think we shall do well to retain and to improve the regional characteristics of the System, both in matters of decentralized operation and, more important, in matters of national credit policy. I should like to see the bankers of the country, and this

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organization of bankers, give some more thought to this problem, and I should like them to offer some constructive suggestions concerning it. The climate may be right for its calm consideration.

*Reserve Requirements*—The Federal Reserve System is charged with the responsibility of formulating and administering national credit policy. It does this chiefly through its influence upon the cost and availability of bank reserves. This is a proper exercise of Federal power, and its point of incidence is upon the commercial banks of the country because only they, among all of our financial institutions, have the ability to add to or subtract from the money supply of the nation. I question whether there is good and sufficient reason for exempting any commercial banks from a minimum participation in this national undertaking. It only requires a moderately sharp pencil and a grammar school knowledge of arithmetic to figure out how you can save money by not being a member of the Federal Reserve System, as things now stand. But I don't think this country really likes "free riders," and nonmember banks, in that sense, are "free riders". I know the objections to compulsory membership in the Federal Reserve System, I recognize some of its dangers, and I think it is probably politically impossible. But it should not be beyond our ingenuity to devise appropriate powers of fixing reserve requirements, to be exercised within statutory limits by an appropriate body within the Federal Reserve System; reserve requirements which would

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be adequate for our national purpose, and which would apply to member and nonmember banks alike.

Here is another instance, I believe, where your theory of check and balance runs the danger of being all check and no balance. And let it be clear that this is no attack on the dual banking system. State member banks have lived within the Federal Reserve System for years, and submitted to its reserve requirements, without loss of identity. We welcome this continued relationship. Nor am I frightened by the existence of a fringe of nonmembers, and the ability of State banks to move from one group to the other. A mass exodus of State member banks from the Federal Reserve System seems to me to be so unlikely as to be outside the range of practical consideration. But I do think that all commercial banks have a common obligation and a common responsibility in this matter of reserve requirements, and that they should assume the obligation and share the responsibility.

*Correspondent Bank Relationships*—Somehow there has grown up a feeling in some places that we in the Federal Reserve System are out to undermine the network of correspondent bank relationships which you have built up over the years. Every time we suggest some change in the method of assessing reserve requirements, or make some minor improvement in our check collection system, or in our methods of providing coin and currency, or in some other detail of our operations, the question seems to be raised. I

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can assure you that these things are suggested or done in an effort to improve the efficiency and economy of our operations in terms of the whole banking system, the business community, and the general public. There is no hidden purpose. We recognize that there are some things which correspondent banks can do better than we can, and we are glad to have them perform these services. At the same time we would caution them against competition in providing services which really do not pay their way, and remind them that there are some things which, perhaps, the Federal Reserve System can do better than they. Surely here is an area, if our motives be reasonably pure on both sides, where there is no need for friction between us.

*Selective Credit Controls*—We have differed on the matter of selective credit controls or, more specifically, on the matter of control of consumer instalment credit. I have advocated the continuance of the control which the Federal Reserve System exercised, briefly, over consumer instalment credit. I would be concerned over the dangers of any further significant extension of selective controls, whether over the credit used in commodity markets, in real estate transactions, in inventory financing, or in other forms of business lending. Requests for further powers should meet two tests—is the power really needed and will its use still leave an effectively functioning private economy? I have argued and still believe that control of consumer instalment credit meets these

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tests. Your official position has been opposed to this view. I would ask you, however, whether you are happy about the way things are now going in this field of finance. I am not. I suggest that we might sit down together and reexamine the problem to our mutual advantage and to the advantage of the public which we both serve.

These are some of the matters which I think deserve your constructive attention. A negative approach has been and will continue to be effective in stopping the passage of individual pieces of legislation, which you happen to dislike, but it won't check the progress of the idea of Government controls and intervention, if you have little constructive to offer in the face of difficult economic problems. Over the years you will win a lot of battles but you will lose the war.

I recognize and share your dislike for Government controls and your distrust of too much centralized power. *But I recognize, as I think you must, that a certain amount of Government intervention is necessary to the preservation of our political and economic system.* The central problem in our country, and in all countries but Russia and its satellites, is *how far such Government guidance and control can go without destroying the effective functioning of a private economy.* In this country, with our traditions of individual enterprise, we have preferred to keep such guidance to a practical minimum, and to have it exercised largely through broad and impersonal con-

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trols—controls which affect the general environment. One cornerstone of such a philosophy *is a competent and adequately powered monetary authority which can administer* an effective monetary policy. In making monetary policy work to the limit of its capacity, we have one of the best defenses against control by Government intrusion in our personal and private affairs.

That is why I should like to see the American Bankers Association adopt an affirmative, constructive attitude toward the Federal Reserve System. If you don't like it, as it stands, put some real time and effort into the study of ways to improve it—its personnel, its powers, its organization, its functioning. In such an undertaking you will have the cooperation of all of us who are devoting our lives and our energies to what we believe to be a worthwhile public service. *In the struggle of ideas and ideals which now divides the world this is a minor front. But it is a fighting front. It is no place for a neutral.*

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