

## BOOK REVIEW

# The Gold Standard: Retrospect and Prospect

PETER C. EARLE AND WILLIAM J. LUTHER, EDS.

GREAT BARRINGTON, MASS.: AMERICAN INSTITUTE FOR ECONOMIC RESEARCH, 2021, 342 PP.

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*The Gold Standard* is a useful collection for those readers who want an evenhanded analysis of the monetary mechanism, in contrast to the casual dismissals that the gold standard currently receives even from professional economists. Put out by the American Institute for Economic Research (AIER)—an organization that historically stood for sound money—these essays strike a balance between accessibility to the lay reader yet with enough sophistication to be of interest to the researcher.

George Selgin's historical essay provides a detailed sketch of the development of the international gold standard, with a focus on the United States and (to a lesser extent) Great Britain. Along the way, Selgin makes intriguing demonstrations of theoretical points that are often at odds with the conventional "gold bug" narrative. For

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example, to illustrate that legal tender laws are neither necessary nor sufficient to uphold the government's official monetary standard, Selgin explains that even during the Civil War's (in) famous greenback era:

In California and Oregon...the greenbacks were themselves treated as a commodity rather than as money, thanks to merchants' refusal to either accept them or pay them out to their customers—a refusal informed by the prior prohibition of banks of issue in both states. The West Coast thus remained on a gold standard, keeping some \$25 million in metallic money in open circulation after such money had all but vanished from the rest of the country, avoiding almost all of the inflation that afflicted the rest of the country... (p. 21)

The chapter contribution from the book's editors explains the basic operation of the classical gold standard. This is arguably the foundation of the entire volume (as evidenced by the later essays' repeated references back to this early chapter). Earle and Luther hammer home the notion that under the classical gold standard, the monetary authorities were not "setting the price of gold" the way current central bankers might "target" the price of a basket of commodities. Instead, the U.S. dollar (and British pound, French franc, etc.) were *defined* as specific physical quantities of the yellow metal. Not only did this anchor long-run prices, but it effectively decentralized the production of money. This elementary observation is crucial for modern readers to understand the qualitative difference between a genuine commodity standard versus a fiat standard that happens to focus on price stability as a guiding principle. Here is how Earle and Luther explain the nuanced situation under the historical gold standard:

Since gold is money... anyone can, in principle, create money. Miners can dig up gold, or pan it from streams, and offer it as payment. In practice, however, unminted gold will tend to be discounted, as it is costly to confirm the weight and fineness of uncoined gold. Miners, therefore, are likely to take their gold to a mint, where it will be assayed and struck into standard-denomination coins...

While gold is money under a gold standard, many prefer to transact with redeemable gold claims rather than pack around gold coins.... [M]any will choose to leave their gold coins on demand at a bank or warehouse. (p. 55)

Besides explaining the theoretical operation of an international gold standard, the book's central contribution is providing a scorecard of the mechanism's results, contrasted with the later and more actively managed fiat standard. Essays from Thomas Hogan, Lawrence White, and Alexander Salter convincingly demonstrate that the glib putdowns—referenced above—of the gold standard, from not only pundits but even economists, are without merit. Hogan, for example, assesses three different monetary regimes from U.S. history (namely, the classical or market-based gold standard, the Fed-managed gold standard, and the most recent Fed-managed fiat standard), from the perspective of price stability and real GDP growth, looking at both average rates and volatility in both cases. Hogan finds that “the price level was more predictable prior to the creation of the Fed and the rate of inflation was lower. Real GDP growth was higher on the market-based gold standard, while the volatility of real GDP growth has been marginally lower under the post-war Fed” (p. 95).

Although the collection does an excellent job of marshalling theory and data to present a very respectable defense of the gold standard, some readers may find it a bit *too* antiseptic and understated. For example, consider the following quote (again taken from Hogan's essay):

The monetary system directly determines the price level and, hence, its rate of change (i.e. inflation) over the long run. It also determines the extent to which the price level is predictable. How the price level evolves over time is not a first-order concern. We are ultimately concerned with the real standard of living that individuals enjoy, not the level of prices. However, there are reasons to believe that a well-functioning monetary system makes us more productive, resulting in a higher standard of living; and that one can assess how well a monetary system functions by considering how the price level evolves over time. (p. 101)

These remarks are perfectly innocuous as far as they go, but one could read the entire collection and not fully grasp the basic point that a government-managed fiat standard represents a systematic transfer of purchasing power from the general public into the hands of the State and its immediate beneficiaries. If the community discovers that one of its members is printing authentic-looking \$100 bills from the laser printer in his basement, they do not need to run regressions on price data to determine if he has done something anti-social.

Besides dealing with the familiar historical controversies regarding the gold standard, this collection is fresh because of Nicolas Cachanosky's contribution on currency boards and Luther's essay on cryptocurrency (one of his research specialties). All in all, *The Gold Standard* is a worthwhile volume for both the lay reader and professional interested in the monetary institution that has gotten such an unfair verdict in recent decades.