THE CASE FOR GOLD

NIKOLAY GERTCHEV

This three-volume collection, edited by William Rees-Mogg and published in 2002 by Pickering and Chatto presents, in more than 949 pages, essays and excerpts from books written by 19 of the most remarkable monetary theorists from the sixteenth century to the present. Sir Rees-Mogg's selection begins with Malynes's "Treatise of the Canker of England's Commonwealth," includes works by most of the English classical liberals as well as by George Goschen, Stanley Jevons, Carl Menger, Ludwig von Mises, and Murray Rothbard among others, and closes the *Case for Gold*[1] with an interview, dated 1965, with the French economist Jacques Rueff. Contrary to the belief inspired by the title, only two of the texts, both written by twentieth-century authors, deal exclusively with the question why gold, rather than paper, should be the money of a free society aiming at peaceful progress. The temptation is huge, therefore, to acquire only the third volume, the texts being arranged chronologically. However, this would be a great mistake, because earlier economists do provide valuable arguments for commodity money, and much more. We will try to systemize the gist of these arguments and to present some inconsistencies in the classical-liberal thought, which may be used in support of paper money.

THE CASE FOR COMMODITY MONEY

It should first be noted that before the twentieth century money was, in large part, a metallic substance; paper was merely one form of bank credit, and it was generally convertible at will into money, save for extraordinary situations of suspension of redemption or particular historical developments, as in the case of late nineteenth century Austria, Russia, and India. John Stuart Mill clearly expresses this state of affairs, predominant in his time, when he asserts "These notes, therefore, perform all the functions of currency, and render an equivalent amount of money which was previously in circulation, unnecessary" (II, p. 136).

In these circumstances, economists did not have to justify why gold, or silver, or another metal, *should* be money, because it *was* money. Instead they endeavored to explain why these substances had been, and were actually, monies and what were the effects of bank credit, which they considered similar to, but distinct from, money. It does not mean, as it will soon become apparent, that the disastrous consequences of adopting fiat paper money remained unforeseen. Three main arguments in favor of commodity money, or rather against paper currency, may be identified.

NIKOLAY GERTCHEV is a Ph.D. student at the University of Paris II Panthéon-Assas. I would like to thank Guido Hülsmann for his comments.

[1]Cato Institute published the minority report of the U.S. Gold Commission, authored by Ron Paul and Lewis Lehrman, in 1982 under the same title.

THE QUARTERLY JOURNAL OF AUSTRIAN ECONOMICS VOL. 6, NO. 4 (WINTER 2003): 117–26

The Value Argument

The general case for commodity money rests on the evident truth that in order to fulfill the various functions of money, a thing must possess value.[2] And because metals do have value, and a note of paper does not, it is then natural for a metal, which is also endowed with a number of other qualities like being divisible, portable, recognizable, etc.[3] to be the money. Locke makes the case crystal-clear:

> Now money is necessary to all these sorts of men, as serving both for counters and for pledges, and so carrying with it even reckoning, and security, that he, that receives it, shall have the same value for it again, of other things that he wants, whenever he pleases. The one of these it does by its stamp and denomination; the other by its intrinsic value, which is its quantity. (I, p. 33)
>
> A law cannot give to bills that intrinsic value, which the universal consent of mankind has annexed to silver and gold. (I, p. 34)

With the marginal revolution in value theory, the content of the argument has changed, but its essence remains unshaken, as evidenced by Jevons's following statement: "Since money has to be exchanged for valuable goods, it should itself possess value, and it must therefore have utility as the basis of value" (II, p. 207).

It is true that a promissory note, or any form of bank credit, provides the same services as money does, but the explanation for this lies in the representative-of-money nature of the note, which, otherwise, would never be accepted in exchanges. The total consensus, on this point, among economists is astonishing. Malthus substantiates his own position by quoting Huskisson:

> Mr. Huskisson further states, that paper currency is so much circulating credit, that "whoever buys, gives such a quantity of pure gold, as is equivalent to the article bought or sold: or if he gives or receives paper instead of money, he gives or receives that which is valuable only as it stipulates the payment of a given quantity of gold or silver . . . that money alone is the universal equivalent; paper currency the representative of that money." (II, p. 37)

Ricardo elaborates, so to speak, the normative version of the same principled idea: "I should shew what is the standard measure of value in this country, and of which, therefore, our paper currency ought to be the representative" (II, p. 66).[4] He

---

[2]This line of argumentation is also that used by Benjamin Anderson in his famous criticism of the quantity theory of money. Although he first deems untenable "the notion that the money function alone can make an otherwise valueless money circulate," he concedes, "there need not be a physical commodity as the basis of the money" (Anderson 2000, p. 125). Anderson defends this awkward position on the basis of his theory of economic value, according to which "the value quality . . . is a complex of many individual mental activities, highly institutionalized, and including legal and moral values, hopes and beliefs and expectations, as well as the immediate intensities of men's wants for consumption goods" (p. 35). Nevertheless, even if conceded for the sake of argument that value is independent of the physical world, we do not see how a valued thing which is to become generally exchangeable may not be part of the physical world.

[3]Beauty too is emphatically mentioned by Jevons (II, p. 216) and Wicksell (III, p. 108).

[4]In his *History of Monetary and Credit Theory* (Rist 1966, pp. 140-49), which parenthetically analyzes brilliantly most of the texts included in this collection, Charles Rist accuses the English classical liberals, and in particular Ricardo, of falsly identifying bank notes and paper money (the original French text reads "L'identification, par Ricardo, du billet de banque [bank notes], du papier-monnaie [paper money] et de la monnaie métallique [metallic money]" showing

does not oppose paper currency *per se*, unless it represents no specie, and goes so far as to contend "a currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold, which it professes to represent" (II, p. 92). Indeed, classical economists saw an important advantage in paper currency, namely that it permits society to save the precious metal, which "is a barren thing, and produces nothing," according to Locke (I, p. 43). Thus, Malthus emphasizes that every increased usage of specie is "a return to a less advanced period of civilization" (II, p. 41). Mill summarizes this in his statement "the substitution of paper for metallic currency is a national gain" (II, p. 162). However, this "national gain" is possible only because the redemption of paper in money is preserved, so that the value of the metallic currency is, so to speak, imputed to the paper, which thereby becomes currency. This is the idea underlying Ricardo's plan for reform of the Bank of England, "which should gradually decrease the amount of their notes in circulation until they shall have rendered the remainder of equal value with the coins which they represent" (II, p. 82).

We must acknowledge here an important fallacy in the classical position, which consists in the defense of commodity money while advocating its substitution by paper, not only in exchanges, but in the bank vaults too. The commodity is needed to confer value on the paper, but once this value imputation is established in individuals' minds, it is left to the bankers' to determine the necessary amount of metals to be kept so the redemption promise is not compromised. Ricardo's conception of the "perfect state of the currency" is indeed self-contradictory since, if put into reality, it amounts to reduction of the currency to a nonexisting commodity money in which no redemption would be possible at all, for want of specie in the bank coffers.

Under Mill's pen, the value argument for commodity money achieves its most accomplished shape. If the paper currency is convertible at will into specie, then its value springs from the cost of production of the commodity money. The case of an inconvertible paper is utterly different, since its quantity is not determined by any cost considerations:

> The quantity of a paper currency not convertible into the metals at the option of the holder, can be arbitrarily fixed; especially if the issuer is the sovereign power of the state. The value, therefore, of such a currency is entirely arbitrary. (II, pp. 155–56)

Thus, the choice between commodity and inconvertible paper is that between determined or undetermined exchange value of the money. On these grounds, the option for commodity money is indeed the only possible choice, since any money must possess a determined value. In the same line of reasoning, Mill opposes any further increase of paper beyond the quantity of metallic money it replaces because "this is but a form of robbery" (II, p. 162).[5]

Classical economists rejected inconvertible paper money from the very beginning, because they thought it was lacking the most important attribute a thing must

---

thus an omission in the English translation). Although the clear-cut distinction between convertible and inconvertible paper, at least on the Island, does not appear before Mill, nothing supports the claim that "paper currency" for Ricardo means (inconvertible) paper money. We concede, nevertheless, that there is indeed identification between those three different media of exchange, but this identification springs from their identical effects on prices (cf. next section), not from a confusion of their economic nature.

[5]An important point is that Mill does not consider as robbery, but rather as a national gain, the disappearance of the metallic money from the bank vaults when substituted by paper. Rothbard consistently defends the contrary opinion, namely that the robbery begins at the moment even a portion of the metallic money exits the bank (III, pp. 301–06).

possess in order to provide the services of money, namely it was lacking value. In addition to this essentialist approach, and building their view upon a careful examination of the repercussions brought about by an increase of the stock of media of exchange in the economy, they developed an equally convincing set of arguments against any augmentation of paper currency, convertible as well as inconvertible.

The Consequentialist Argument

Prior to the analysis of the consequences driven by an increase of the stock of media of exchange is the very important, and quasi generally accepted, classical consideration that the given quantity of money is immaterial for the functioning of the economy. Hume is quite explicit when he states that "the absolute quantity of the precious metals is a matter of great indifference" (I, p. 121). Indeed, there is no optimum quantity of money which, when attained, makes the medium of exchange provide its services in the best way, as stated by Ricardo: "The smaller quantity of money would perform the functions of a circulating medium, as well as the larger" (II, p. 60).

Mill expresses the same idea, contending "there cannot, in short, be intrinsically a more insignificant thing, in the economy of society, than money" (II, p. 107). However, this principle that the quantity of money is of no importance whatsoever for the real well-being of individuals is not derived from some mechanical application of the quantity theory of money; it relies on the fundamental insight that money is not a capital good, and that therefore its quantity is not related to the final produce of the economy in whatever manner. Ricardo substantiates his own position on this question by highlighting Smith's observation that "money is neither a material to work upon, neither a tool to work with" (II, p. 79). Similarly, Mill extends the same argument to the case of credit, and thus to paper currency, which "being only permission to use the capital of another person, the means of production cannot be increased by it, but only transferred" (II, p. 128).

This fundamental part of the classical thought being presented, the primary, and most important consequence of an additional quantity of media of exchange, to which all the authors pay the greatest heed, is the subsequent rising of prices.[6] And because rising prices produce a series of detrimental effects on the economy, those should not be engineered artificially by more paper.

Following Hume, because paper currency makes things dearer, it hinders commerce, especially with foreigners who "will never accept" the "counterfeit money" (I, p. 114). The conclusion is then immediate, "it must be allow'd, that no bank cou'd be more advantageous than such a one as lockt up all the money it receiv'd, and never augmented the circulating coin, as is usual, by returning part of its treasure into commerce" (I, p. 115). Let us note also the idea, enunciated by Cantillon (I, p. 160) and Ricardo (II, p. 73) too, that paper currency, unlike commodity money, is of a serviceability limited to a narrow range of nationals, thus making it unsuitable for commerce with foreigners, thereby banishing the money from the country and restricting the benefits from a larger division of labor. And Hume continues, stating that great undertakings can be done conveniently only in specie, not in paper (I, p. 119).

For Ricardo, because paper currency arbitrarily depreciates the medium of exchange, which is to say that it distorts prices, the "equitable state" of the currency must be restored, if necessary even by "the total overthrow of our paper credit" (II, p. 82). Ricardo points out another harmful consequence of the depreciative power

---

[6]The strict version of the quantity theory of money, espoused by Locke (I, pp. 53 and 67) and Mill, stipulates that an increase in the stock of money provokes a precisely proportional loss in its exchange value, which, according to Mill, is a "property peculiar to money" (II, p. 113). Neither Hume, nor Cantillon put the accent on the "same proportion," although Hume once uses the phrase (I, p. 133).

embodied in the paper currency, namely that it introduces an uncertainty as to the future interest on public and private debts, potentially paid in a money of a lower exchange value (II, p. 83).

Thus, the instability and unpredictability of the future purchasing power embodied in paper currency, emphasized by most of the authors and in particular by Goschen (II, p. 176) and Robertson (III, p. 181), is derived as a consequence from the economic law that more credit in general, and more paper in particular, necessarily heightens prices. And Mill already warns that there is no limit to the depreciation of an inconvertible currency, when he affirms that "The issuers may add to it indefinitely, lowering its value and raising prices in proportion; they may, in other words, depreciate the currency without limit" (II, p. 157).[7]

To sum up the consequentialist argument against paper currency, we must say that because the quantity of money in the economy is irrelevant, and since each increase of the stock of media of exchange produces harmful effects, the quantity of paper currency should not be increased beyond what was defined by Mill as "the national gain." Besides, the opposition to fiat paper money stems from the insight that in such a system the harmful effects are more likely to occur, since interested groups push its producer to abuse his power, and to issue more money at others' expense. The third argument for commodity money is an elaboration of this last point.

The Property Rights Argument

A thorough examination of the personal (or group) advantages enjoyed by a paper money issuer leads economists to emphasize that the monetary system which does not allow for arbitrary, and moreover systematic, political interferences with the market economy is that of a commodity money.[8] Eighteenth and nineteenth century economists have already warned against the possibility, offered by paper currency, to privilege the particular interests of one special group and hurt those of others. That an additional issue of paper currency robs creditors is not in doubt for Locke (I, pp. 78-79). Examining the debtor's position, Cantillon alerts us that "a Banker with the complicity of a Minister is able to . . . pay off the State debt," by means of new bank notes (I, p. 182). The nineteenth century suspicion of those, and similar, corrupted practices must have been significant, for Malthus to express it so vividly: "In fact, what security have we, except in this integrity, that the Bank Directors may not agree to create and divide 24 millions in notes among them for their private fortunes?" (II, p. 44).

Malthus's greatest concern is caused by his awareness that a paper currency "which is not referable to any commodity of intrinsic worth for the correction of its quantity" may destroy contract engagements and individual fortunes (II, p. 43). Although the early classical economists rightly identified the power concentrated in the paper money issuer, they only partially recognized the institution that is most interested in capturing the opportunity to provide an economy with a medium of exchange. However, Ricardo and, especially Mill, do perceive that the state is the entity, which seizes this power and is most likely to abuse it. Observing that "experience, however, shows that neither a State nor a Bank ever have had the unrestricted power of issuing paper money, without abusing that power," Ricardo foresees the necessity for the public to be protected against "the indiscretion of the Bank" (II, pp. 83 and 91). Again, the only valid protection is a system of bank notes redeemable on demand in specie.

---

[7]It should however be noted that, caught in his strict version of the quantity theory of money, Mill is unable to grasp the hyperinflationist phenomenon.

[8]Which is not to say that a state that finances itself exclusively through taxation, under a commodity standard, could not interfere with the market economy, by granting privileges for example. However, it could not do it in a systematic manner, since it would be lacking the security of its assured financing.

Mill makes it clear that governments were those who first seized the opportunity to finance themselves through paper money, simply by "emancipating themselves" from the "unpleasant obligation" to redeem the bank notes in specie (II, p. 155), in other words, by breaking an established contract. And because governments will try to "pay off the national debt, defray the expenses of government without taxation" by the issue of inconvertible paper, Mill rejects this form of monetary organization (II, p. 159). Not only does he see that an issuer levies a tax "for his benefit" on the holders of currency through the depreciation of its value, but also points out that "the issuers may have, and in the case of government paper always have, a direct interest in lowering the value of the currency, because it is the medium in which their own debts are computed" (II, pp. 157, 163). Thus, Mill comes to the conclusion that a state issuing fiat paper money may be inclined to progressively inflate its quantity, but he does not grasp that "the natural tendency of the state is inflation," thereby omitting the systematic character of the abuse which Rothbard emphasizes so much (III, p. 298).

Indeed, Rothbard is the economist who unquestionably shows the fundamental reason why a centralized fiat money producer is enabled to systematically expropriate legitimate owners: "He [the producer of his own money] could consume without producing, and thus seize the output of the economy from the genuine producers" (III, p. 289).

This political seizure of others' property is rendered possible by a specific feature money possesses, which is to "assure control over every commodity to be had on the market," as Menger points out (III, p. 99). And because of this particularity—the control over this unique good assures the control over the whole of the market economy—its quantity should not be subject to the discretion of one producer,[9] and its physical substance should not facilitate its production, by making it costless or nearly so. A corollary is that a fiat paper money provides for an unlimited expansion of the state, and that a world of independent nation-states will be a world of independent fiat money producers. In this sense, and following Rueff, a gold exchange standard does thwart the growth of independent governments, but it does not prevent the rise of one internationally dominant state, that of "the key-currency country" which, because it "never feels the effect of a deficit in its balance of payments," can continue to expropriate foreigners (III, p. 324). Examining the same monetary system, Mises notes that a gold exchange standard is not a stable monetary regime, in the sense that sooner or later it evolves toward more interference with the market (III, p. 157). Thus, the choice between a commodity (gold) standard and any other mode of money production is indeed a choice between respect of property rights and institutionalized large-scale expropriation.[10]

THE ROOTS OF THE CASE FOR PAPER MONEY

The same classical authors who defend a commodity standard express some additional very subtle thoughts, which provide the justification for the present-day government involvement in the production of money. That is not to say that the case for

[9]Note that the monopolistic production of commodity money does not create any particular danger for the owners of property rights. A monopolist will not be able to engage in the seizure of producers' and consumers' goods through money, provided that producing the medium of exchange is not less costly than engaging in any other production, monopolistic or not.

[10]In his 1931 article the "Gold Standard and Its Opponents," Mises is no less eloquent: "Tying the value of the currency to the value of gold erects a dam against all endeavors to benefit particular sectors of the population at the expense of other sectors through the use of monetary policy" (Ebeling 2002, p. 174).

gold is invalid, but rather that the classical economists' thinking is more heterogeneous than is usually believed. The deviating positions are based on the two ideas that an increase of the quantity of money is beneficial for economic activity and that money carries on its function of the standard of value better when its quantity is administratively governed.

An Increase of the Stock of Money Does Matter

Hume considers that "the increasing quantity of gold and silver is favorable to industry," but he quickly adds that this is true only in the intermediate period between the increase of the stock of money and the consequent rise in prices, when an entrepreneur is able to attract additional labor and thus intensify its production (I, p. 116). The policy-oriented conclusion, which logically follows from this belief, is explicitly stated: "The good policy of the magistrate consists only in keeping it [the quantity of money], if possible, still encreasing; because, by that means, he keeps a spirit of industry alive in the nation, and encreases the stock of labor, wherein consists all real power and riches" (I, p. 117).

The only way to put into practice this advice, of course, is to endow the magistrate with the power to produce money, in fact paper money. There is no particular problem in Hume's line of reasoning, except for the false generalization that the new money "must first quicken the diligence of *every* individual" (I, p. 116, emphasis added). Given the sequential manner in which the new money enters the economy, which Hume describes perfectly well, it is evident that the attraction of factors of production by one entrepreneur prevents another entrepreneur from fulfilling his project, which means that there can be no general advantage in an increase of the quantity of money. Hume's argument would be valid only if there were unemployed factors of production in the economy, and their owners agreed to sell or rent them not because of a higher remuneration. After all, people are aware of the imminent rise in prices—but simply because there is more money in the economy. In short, psychology alone helps to quicken the economy, and it does not require further developments to prove that things may not happen in this, but rather in the opposite, way.

Other economists, like Malthus and Mill, favored an increase in the stock of the currency, because they saw in this operation a method for stimulating capital accumulation in the economy. Announcing the doctrine of forced savings, Malthus points out "that it is not the *quantity* of the circulating medium which produces the effect here described [an increase of the national capital], but the *different distribution* of it" (II, p. 49). What he advocates is "such a distribution of the circulating medium . . . as to throw the command of the produce of the country chiefly into the hands of the productive classes" in order to alter the proportion between capital and revenue, as defined by Smith, to the advantage of capital. Without any justification, Malthus claims that those effects are "similar but comparatively inconsiderable" if attempted by an increase of the stock of bank notes. Mill corrects this weakness and substantiates virtually the same doctrine in the following terms:

> The additional bank notes are, in ordinary course, first issued to producers or dealers, to be employed as capital; and though the stock of commodities in the country is no greater than before, yet as a greater share of that stock now comes by purchase into the hands of producers and dealers, to that extent what would have been unproductively consumed is applied to production, and there is a real increase in capital. (II, p. 129)

It is clear from those quotations that classical economists identified neither money nor circulation credit as capital; what they claimed is that increasing the quantity of media of exchange produces the conditions for a subsequent rise in savings, and therefore in the future stock of real capital. The version of the forced savings doctrine they presented remains by and large mechanical, not very convincing, and easily contestable.[11] Contrary to what classical economists' ideas imply, the choice is not between a situation with given quantities of money and capital and a situation with higher quantities of both. In fact, individuals have to decide whether, given the additional stock of money, they prefer to lower their present-day consumption in order to invest more goods and thus obtain more commodities in the future. Neither Malthus nor Mill demonstrated how increasing the stock of money modifies individuals' intertemporal consumption choices in this direction.

The complete classical position, then, appears to be exceptionally subtle. The absolute quantity of money does not matter, but increases of this quantity do matter. Indeed, this is a rather delicate statement, inviting the sovereign to practice inflationism, which is only possible, of course, if he is printing his own money. But one cannot claim that the quantity of money is irrelevant while showing the virtues, for the whole of the economy, of a still bigger stock of money without provoking suspicion about the consistency of his position.

The Stability of Money Exchange Value

Classical economists, inspired by the idea that money must conserve value and be a standard of value, initiated the quest for a medium of exchange whose exchange value is, if not constant, at least stable. Mill calls a "great evil" any alteration in the value of money: "All variations in the value of the circulating medium are mischievous: they disturb existing contracts and expectations, and the liability to such changes renders every pecuniary engagement of long date entirely precarious" (II, p. 157).

Although Mill adds that these variations may be greater in the case of inconvertible money, his statement can be used, by any government, as a justification for starting to print its own money, presumably with a more stable value than gold. Central bankers may even claim that they provide extremely useful services to the community, like protecting the future value of the contracts and decreasing the uncertainty of the future. Legal conflicts are thus reduced, and for Wicksell this is one of the most important advantages of the overthrow of the commodity standard. He considers that the inconstancy of the exchange value of gold is an extremely important problem, and suggests, that a solution could not be found "so long as metals are used as standards of value and free minting of the standard money on private account is permitted" (III, p. 129).

These conclusions also provide a rationale for designing and implementing different plans, like those of Irving Fisher or Henry Simons, all aiming at improving the quality of the medium of exchange.[12] One merit of the collection is that it contains an excerpt from the *Theory of Money and Credit* where Mises convincingly demonstrates the futility of such intellectually flawed constructs. Mises first questions the legitimacy of the quest for the "unattainable ideal of a money with an invariable objective exchange value," and acknowledges no practical problem. In addition, he exposes

[11]Mises gives a more economically developed, not to say plausible, presentation, putting the emphasis on changes in individuals' behavior after the additional money has modified their incomes (Mises 1998, pp. 545–47). Mises acknowledges that inflation may lead to an increased capital accumulation, but he emphasizes, that there is no necessity for this effect to occur, since psychology, and not praxeological laws, governs these causal processes. In addition, he remarks that inflation contains, too, some capital consuming tendencies and that the final outcome is more than uncertain.

[12]Other famous plans include Benjamin Graham and Frank Graham's proposal for the adoption of a commodity reserve currency and James Buchanan's popularization of Hardy's idea for a common-brick monetary standard. Cf. Yeager (1962, pp. 155–218).

the theoretical deficiencies in Fisher's plan for correcting this supposed imperfection in defense of his statement that money necessarily has a variable exchange value, if property rights are to be physically protected (III, pp. 155–71).[13] Thus, even though the gold standard does not satisfy this, and possibly many other requirements theoreticians may formulate in their abstract definitions of the perfect money, it remains the most efficient monetary system for all real-world situations.[14]

As a matter of fact, present-day governmental involvement in money production is based either on the belief that increasing the stock of money is good for the community, and therefore *targets* should be aimed at, or on the equally false belief that money's exchange value is to be stabilized, and therefore *rules* should be observed in the production of the media of exchange.[15] There could be no doubt for the reader of this collection that central banking and fiat paper money find both their *raison d'être* in the writings of those same classical economists who actively support the gold standard.

Beyond the Commodity-Standard Debate

The commodity versus paper currency debate is only one of the themes in this collection. The authors address practically all of the fundamental questions in monetary economics, and this is certainly a common feature of what was considered good economic writing in past centuries. To give the reader a general picture of what can hardly be accounted for here in any detail, the texts explore the role of money in the economy, its optimum quantity, the balance of payments and the formation of exchange rates, the relation between money and capital, the relation between money and interest rates, the connection between money and prices, the quantity theory of money, central banking, etc.

Present-day economists may disagree, sometimes on scientific grounds, with some of the authors, but there is one invaluable lesson they can learn, or recall, from this collection. And this is how economists conceived of and practiced their profession. Two striking features of all texts are their policy-orientation and their freedom from technical formalism. It is not to say that advice and criticism of the sovereign were arbitrary or self-interested. On the contrary, every policy advice was given on the basis of general economic principles, scrupulously discovered in the course of the analysis. As a matter of fact, economists placed the greatest importance precisely on the discovery of those principles, because they were convinced that no advice could be valid before the problem had been fully and truly grasped. Unquestionably, this quest for the greatest possible understanding accounts for the variety of themes the

---

[13]Each plan for the protection of the value, rather than the physical shape, of a thing in general, and of money in particular, is necessarily in contradiction with the "natural rights" theory and morally indefensible. Cf. Hoppe (1988a, pp. 127–44).

[14]In an article from 1924 entitled the *Return to the Gold Standard*, Mises acknowledges that gold is not the perfect money one would like to have, but reminds the reader that the only alternative to gold is governmental currency.

> We have only the choice between the gold standard and a currency manipulated by governments. With the gold standard we are dependent upon the accidents of the profitability of gold production; with an independent currency we are dependent upon the changing political currents. . . . The gold standard is not an ideal monetary system, but in the given circumstances it is the best one possible. (Ebeling 2002, p. 153)

[15]Incidentally, this philosophy receives the approval of all those who believe that capitalism is somehow anarchic and hostile to rules.

authors tackled and the absence of technical formalization. By the same token, one cannot find theorizing for the sake of theorizing, but only in response to a real-life problem. Economics is a science, and a science about reality (though this is sometimes contested today). This collection manages to convey this crucial idea, and for this too it deserves to be read.

The Collection Itself

It is beyond a doubt that the collection is precious, but the question arises whether this, mostly excerpt style of presentation, adds anything to the autonomously brilliant pieces. None of the pieces are given individual introductions, explanatory and/or bibliographical notes to, or a synthesis of the arguments advanced in defense of gold. Thus, the reader is offered significantly less than he can get from reading the corresponding complete works. This is not to say the collection is useless. But because of its anthological format, and being chiefly composed of excerpts, its natural public is that of students and economists specializing in other fields. And these readers are likely to appreciate some additional material on the authors and their works.

That is also what is lacking in the 10-and-a-half-page introduction. To be sure, introducing 20 or so masterpieces, within a limited space, is a difficult task. However, this does not mean that the introduction should not at least try to give a flavor of the chosen pieces. Articulated around the Jevonsian four-functions approach to money, and the Fisherian $mv = pt$ theory, by which "both gold-based and paper currencies are governed," Sir William Rees-Mogg's introduction prepares the reader for an intellectual framework which will not be found in the volumes (I, p. xvi). His introduction leaves the reader with the impression that, due to problems with defining, calculating, predicting and stabilizing the stock of money, the quantity theory of money applies somehow better in the case of the gold standard than under a paper currency, and that this is why gold is superior money. Those problems may be important, but they are certainly only a consequence of the much more general principles which lead sound economics to make the case for commodity money. Those principles, the core of the selected essays, are almost neglected in the introduction. Thus, failing to make a case of principle for gold, Sir Rees-Mogg does not surprise the reader with his last sentence: "An automatic gold standard has its own problems, but gold remains the money of last resort" (I, p. xix). What are those problems left unstated in the introduction? And if someone is really convinced that gold is superior to present-day fiat monies, should he not urge an active effort for change, rather than limit himself to admire gold as money of last resort?

References

Anderson, Benjamin. [1917] 2000. *The Value of Money*. Grove City, Penn.: Libertarian Press.

Ebeling, Richard, ed. 2002. *Selected Writings of Ludwig von Mises*. Vol. 2. Indianapolis, Ind.: Liberty Fund.

Hoppe, Hans-Hermann. 1989. *A Theory of Socialism and Capitalism*. Boston: Kluwer Academic Publishers.

Mises, Ludwig von. [1949] 1998. *Human Action: A Treatise on Economics*. Scholar's Edition. Auburn, Ala.: Ludwig von Mises Institute.

Rist, Charles. [1938] 1966. *History of Monetary and Credit Theory from John Law to the Present Day*. New York: Augustus M. Kelley.

Yeager, Leland, ed. 1962. *In Search of a Monetary Constitution*. Cambridge, Mass.: Harvard University Press.