



## THE FUTURE OF THE GOLD STANDARD

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It is a serious error, serious in that it blinds us to a much broader view of a complicated economic situation, to attribute all of our present monetary ills to the Great War. And yet this mistake is made frequently in supposedly authoritative studies dealing with the gold standard.

The fact is that gold production was slowing down even before the war. Our economic needs for gold were out-running the amount produced. Commodity prices, though rising rapidly from 1898 to 1900, increased but slowly from 1901 to 1914. Meanwhile, industrialists of every country, always on the alert for gain, were trying to reduce costs and widen markets. The strain became intense; especially in those countries, e. g., England and Germany, whose trade was on an international basis. The war followed. It seems clear, then, that our present monetary troubles cannot be attributed directly to the Great War, since the causes of the war cannot be understood apart from our monetary system.

There are two aspects of the gold standard to keep in view. First, gold production is not increasing with sufficient rapidity to satisfy monetary needs under our present institutional scheme. Prices are falling, and as they fall economic disturbances of many sorts follow. Depressions tend to come more frequently and to last longer. Unemployment is more severe than during periods of rising prices. Inflation is considered a panacea by many, and radicals urge revolutionary changes in government and finance. This is the long-run view.

But we must consider our problem from another aspect. The fact is that the war did seriously dislocate the distribution of gold among the nations of the world. For example, in 1913 the per cent of the world's gold held by central banks, governments, and in general circulation in the various countries was:

United States -----	26.2	but in 1931 (the gold	40.9
France -----	19.	in general circulation	20.4
England -----	7.	had been absorbed by	5.7
Japan -----	1.3	the banks during the	3.7
Germany -----	10.	war), these percentages	2.9
Russia -----	17.7	were:	2.4
Italy -----	5.4		2.5

Now we expect that in time gold will be distributed among the various

nations in accordance with their monetary needs as indicated by their internal price levels and the exchange rates. But this takes time. And it is true, also, that nations may place obstacles in the path of the free movement of gold. High tariffs, high discount rates, and laws preventing export of gold may prevent its dissemination for a time. Laws and acts having this end in view tend to engender animosity between nations. Many are objecting at present to the mercantilistic attitude of the French. There is some ground for belief that France is using her gold as a political weapon. The attitude toward gold in the United States has been quite different from that of France. We received enormous gold supplies during the war in payment for exports, but it has never been regarded as other than a temporary surplus that will, in time, be distributed among the nations.

Other countries have been unable to get and keep gold. First England and the Scandinavian countries, then Canada, have found it necessary to abandon the gold standard. If a nation cannot meet all of its obligations in gold on demand it cannot remain on the gold standard. And economic conditions, in England particularly, have been so depressed that retention of gold has been impossible.

Certain disadvantages follow necessarily an abandonment of the standard. First, business must be carried on with the medium of paper money or silver, both of which fluctuate rapidly in value. Second, the gain formerly accruing from international banking operations, i. e., in England, must be forgone. Third, the country loses credit in world estimation.

In spite of these hindrances and losses in trade and finance, England and other countries have abandoned the gold standard and others will probably follow. England, especially, must export goods in order to continue her enormous imports. Also, she must get gold, and it may be obtained by exporting goods. The abandonment of the standard is England's bid for an improvement in her economic conditions.

It seems clear, however, that this abandonment is not a step toward the immediate adoption of some other standard. Economic changes come slowly as a rule. Gold will probably be retained as the standard. But its uses must be economized. In our own country the present system of legal reserves might be changed to release some gold. Also, an international bank might act as a clearing house between governments and central banks, thus obviating movements of gold between nations. In time the gold of all nations might be pooled, and the world's monetary systems become merely credit instruments based upon the central supply.