# GOLD AND THE GOLD STANDARD

By EDWIN WALTER KEMMERER

In the judgment of many people, the financial crisis beginning in the fall of 1929 and the subsequent crisis and world economic depression are primarily a monetary phenomenon, attributable chiefly to the defects of the gold standard. Like the long period of falling prices culminating in the middle nineties of the last century, the recent price decline is charged by many to an alleged world shortage of gold.

Today I wish to examine some of the significant facts in the relationship of the gold standard to the present world economic crisis.

For a period of nearly a quarter of a century, ending in 1896, there was a pronounced and almost continuous decline in price levels in all gold-standard countries of the world—a decline that was due chiefly to a world scarcity of gold—in other words, to a failure of the world's gold production to increase sufficiently to enable the world's monetary gold supply to meet the increasing demands placed upon it. However, largely as a result of the great increase in gold production beginning in the early nineties, coming chiefly from South Africa, price levels in gold-standard countries began to rise about 2.4 per cent annually (compounded), the wholesale commodity price level in the United States in 1913 was about 50 per cent higher than in 1896, likewise the wholesale price levels of Canada and Germany; while those of Great Britain and France were about 40 per cent higher, and there were similar advances in all other gold-standard countries. Then, in 1914, the world was struck by the Great War, the gold standard was everywhere given up, and the prices of commodities, expressed in terms of gold, soared to unprecedented heights.

In the United States, wholesale prices rose 121 per cent from 1913 to 1920.

This extraordinary advance was due chiefly to two causes, which supplemented each other, one being of a permanent and constructive character and the other being of the nature of a serious, temporary evil, though possibly a necessary evil, which was one of the costs of the War. The first cause was the inflation incident to the establishment of the Federal Reserve System, and the second was the World War inflation itself.

### Federal Reserve System Increases Efficiency of Gold

Prior to 1914, our currency and banking system was cumbersome and inefficient. Its reorganization under the Federal Reserve Law made it much more efficient and, therefore, enabled a given amount of gold reserve to do a greatly increased amount of money and credit work. Federal Reserve notes with a legal gold reserve of 40 per cent were substituted extensively in circulation for gold certificates with a required 100 per cent reserve; and, more importantly, the actual amount of money required by law to be held somewhere as legal reserves against a given amount of member bank deposits was reduced by the Federal Reserve Law by 1917 to something like one fifth what it was in 1913. For several reasons, notably the accompanying expansion of Federal Reserve note circulation and the discontinuance of member banks' privilege of counting till money as part of their legal reserves, not all of this legal slack could actually be taken up, but a great part of it soon was. Bank note and bank deposit expansion were made possible on a large scale and the efficiency of our banking machinery in general was greatly increased.

### War-Time Economies in the Use of Gold

During the period of the Great War and the two years immediately following the Armistice, most of the world gave up the gold standard and went over to paper money. Gold coin was everywhere withdrawn from circulation and the world's monetary gold was largely piled up in the vaults of a few central banks, where it was not used. Enormous quantities of this gold, coming to the United States from Europe in the purchase of war supplies and in the transfer of capital fleeing here for safety, accumulated in our Federal Reserve banks. From August 1913 to August 1919, our stock of monetary gold in the United States increased by 65 per cent. In time of war, when nations are fighting for their national existence, they need food, clothing, armament and munitions much more than gold. During the period of the World War, a gold standard was a luxury that the belligerent countries of Europe could not afford. The demand for gold declined enormously, gold depreciated, and by 1920 the American dollar had lost about 55 per cent of its pre-war value.

## Post-War Deflation

With the close of the War, however, the world was determined to return to the gold standard as soon as possible after its long and painful experiences with managed paper currency. This would obviously mean a large increase in the demand for gold, and, in consequence, a great increase in the value of gold in terms of goods—in other words, a great fall in prices. There would be nothing like enough gold to go around if the world were to return to the gold standard at the high American price level of 1920. In late 1920 and early 1921 the expected price collapse came, and in one year our American wholesale commodity price level dropped about 44 per cent, representing an increase of approximately 57 per cent in the value of gold.

## Stable Commodity Prices and Rapidly Rising Security Prices

After the war-time gold inflation, culminating in 1920, followed by this inevitable post-war deflation of late 1920 and early 1921, the value of gold settled down to a long period of unusual stability between the spring of 1921 and the autumn of 1929. During the nine years 1921 to 1929, the extreme variations in the average annual figures for the value of gold in the United States as measured by its purchasing power over commodities at wholesale were only 8½ per cent, and from March 1921 to the end of 1929 the extreme range of variation in the monthly figures was only 14 per cent. For the same nine years the range of variation in the purchasing power of gold as measured by the New York Federal Reserve Bank's Index Numbers of Average Annual General Prices was less than 10 per cent.

During this period, however, of a comparatively stable commodity price level, the United States witnessed one of the wildest speculative booms in stocks and real estate the country ever saw. The experience is too recent to require discussion. Sufficient to note that the index number of the prices of 404 stocks, compiled by the Standard Statistics Company, increased 308 per cent between 1921 and September 1929, and that the number of stock shares sold on the New York Stock Exchange rose from 171 millions in 1921 to 1125 millions in 1929, representing an increase in eight years of 558 per cent.

### Crisis and Depression of 1929–1932

Then came the collapse. Prices of stocks and of real estate fell in the brief space of a little over two years from heights that now seem to all of us to have been fantastic to depths that in a few years will probably appear to be equally fantastic. Although commodity prices did not advance with the prices of stocks during the boom, when the break came they were dragged down along with the tobogganing security prices.

Between the highs of 1929 and the lows of March 1932, the Dow-Jones average for 30 active industrial stocks declined 81 per cent, that for 20 leading railroads declined 84 per cent, and the *New York Times* average of 40 bonds declined 29 per cent. From the high of 1929 in July to March of this year, the level of wholesale commodity prices in the United States fell by 32 per cent and we are now 5 per cent below the level of 1913. The purchasing power of gold over commodities at wholesale in the United States was 48 per cent higher in March of this year than it was just three years before; and in March 1932 it was 31 per cent higher than it was three years before, over goods and services of all kinds, as measured by the General Index Number of the New York Federal Reserve Bank.

Is this great decline in the wholesale price level, or, in other words, this great rise in the purchasing power of gold over commodities, to be explained, as claimed by many, on the ground of a permanent shortage in the world's stock of monetary gold, or on the ground of a maldistribution in this stock due principally to the gold-grasping policies of the United States? Let us look briefly into these two claims.

## "Shortage" of Monetary Gold

First, is there any evidence of a permanent shortage in the world's stock of monetary gold?

Here one must carefully distinguish between the question of a long-time shortage, upon which it is alleged we have already entered, and the question of whether the world is merely now facing a shortage in the not distant future. It is only the former question with which we are here concerned.

The principal grounds for claiming that such a shortage exists are three: (1) the great increase in the value of gold since 1929, as evidenced by the decline in commodity prices in gold-standard countries which we have just mentioned; (2) the fact that the world's gold production declined substantially during the years 1917–1922 and that, although there has been a considerable recovery since that time, the world has not yet gotten back to the high production level of the period 1908–1916; (3) the fact that the demand for gold increased greatly, during the eleven years following the Armistice, as a result of the growth of the world's production and trade and of the return of a large part of the world to the gold standard. Let us consider these reasons very briefly.

If the world were suffering from a permanent scarcity of monetary gold, this scarcity would be likely to be felt in a slow and continuing decline in prices, as it did in the period 1873 to 1896, rather than in a catastrophic drop like the one we have recently had following a long period of comparatively stable prices. The value of gold is a question of the world's total supply of gold in relation to the world's total demand for gold; and the world's total supply of gold is a very large sum, representing the accumulation of the ages, while the world's annual production of gold is a very small percentage of this total supply. The world's supply of monetary gold in the gold reserves of central banks and governments alone is today over eleven billion dollars, while the world's total annual production of gold is less than 4 per cent of this figure, and only a little over half of that normally goes into monetary uses. Slight changes in annual increments, which themselves represent only a little over 2 per cent of a total volume, affect that volume very slowly. In this connection, it should be noted that the comparatively stable commodity price level in the United States from 1921 to 1929 was a high level—averaging 41 per cent above that of 1913.

## World's Production of Gold

Although the world's gold production fell off considerably during the War and early post-war period, the world's supply of monetary gold has increased substantially and almost continually since 1913. The world's average annual gold production for the eight years ending 1913 was 21,514,000 ounces; for the eight years ending 1921 it was 19,354,000 ounces; and for the eight years ending 1929 it was 18,660,000 ounces. The average for the last two periods was only 11 per cent less than for the pre-war period—which was the greatest in the world's history—and the average for the years 1930 and 1931—20,815,000 ounces—was only about 3 per cent less than for this period of pre-war maximum. South Africa's gold production in 1931 was the largest in its history.

### World's Supply of Monetary Gold

Turning from the world's gold production to the growth of the world's supply of monetary gold, absolutely and relatively to the world's production of basic commodities, we find no evidence of a permanent scarcity of monetary gold. The Federal Reserve Board estimates the world's stock of monetary gold in the hands of central banks and governments at the end of 1921 at $8,023,000,000 and at the end of 1929 at $10,297,000,000. This represents an average annual increase (geometrical) of about 3.2 per cent. For the eighteen years 1913 to 1931, this world stock of monetary gold increased 127 per cent, representing an average annual increase (geometrical) of 4.7 per cent. The studies of Dr. Carl Snyder of the New York Federal Reserve Bank, covering the principal commercial countries of the world for the period 1865 to 1914, show a rate of increase in the physical volume of production of basic commodities—tons, bushels, yards, etc.—of approximately 3.15 per cent a year. For the sixteen-year period from 1913–14 to 1929–30, the annual rate of increase was only 1.86 per cent, and, for the nine years 1920 to 1929, it was 3.2 per cent.

The index numbers for the world's supply of monetary gold are shown on Chart I, those for the period 1896 to 1913 (Graph B) being the figures compiled by the League of Nations and those since 1913 (Graph D) being those of the Federal Reserve Board. Graph C represents the Snyder Index Numbers for the world's production of basic commodities. Graph B on Chart II shows the world's supply of monetary gold relative to the world's production of basic commodities. These figures give no evidence of a scarcity of monetary gold.

Under normal conditions, there would be no need of the world's stock of monetary gold increasing as rapidly as the world's production of basic commodities or physical volume of business, because, with continually improving currency and banking organizations, with increasing coöperation on the part of central banks, with increasing use of checks in business

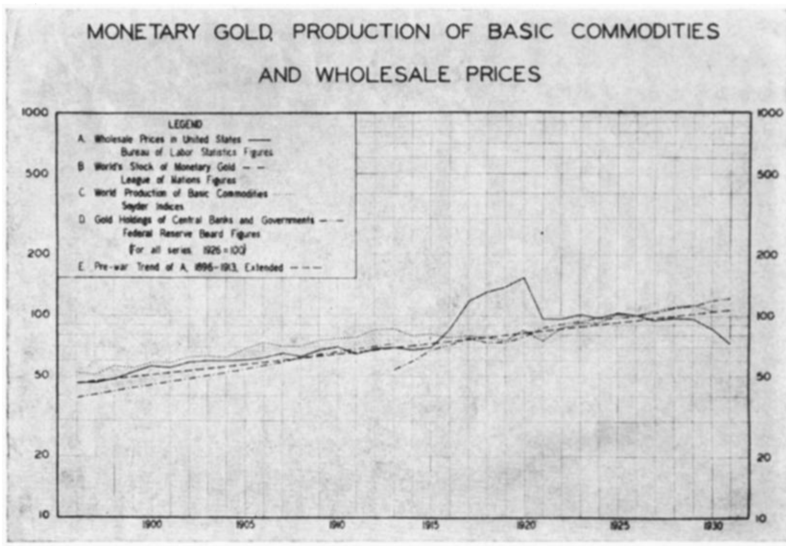



CHART I.

transactions in substitution for coins and notes, and with increasing rates of monetary and deposit turnover, the efficiency of monetary gold should be continually increasing.

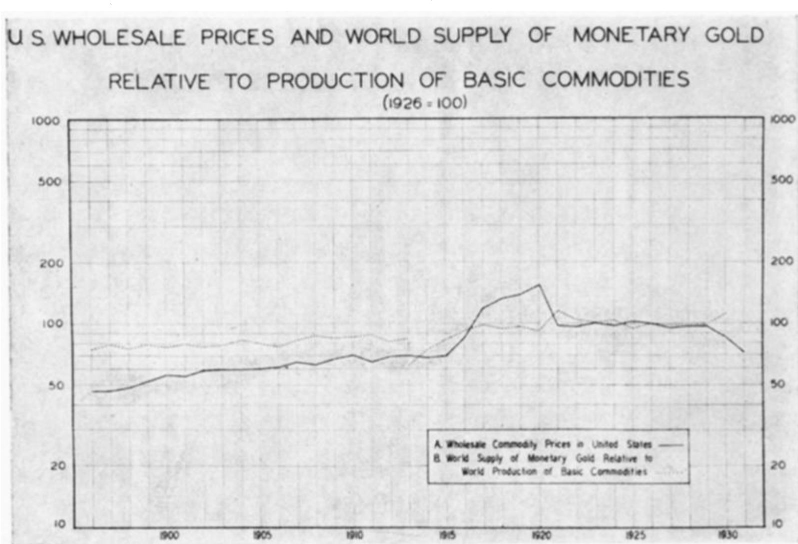



CHART II.

It may be reasonably concluded, therefore, that, for the approximately nine-year period from April 1921 to the end of 1929, during which commodity prices in the United States were fairly stable at a level averaging about 41 per cent above the pre-war level and during which the world's stock of monetary gold increased on an average of 3.2 per cent a year and the world's production of basic commodities likewise increased about 3.2 per cent a year, there is no evidence that the world was suffering from what could be called an enduring scarcity of monetary gold.

The world's stock of monetary gold in February 1932 was approximately 13½ per cent greater than it was three years before and the recent increase in the value of gold is stimulating gold exploration and production.

While it is true that during the decade 1921 to 1930 many countries went over to the gold standard, nearly all of these countries had been on the gold standard before the War, and their return to it did not represent an increased demand for gold as compared with the pre-war demand. Furthermore, a large number of these countries substituted the gold exchange standard and the gold bullion standard for the pre-war gold coin standard, with a resulting almost complete discontinuance of the hand-to-hand circulation of gold coin throughout the world, thereby effecting very substantial economies in the use of gold. Moreover, contrary to all expectations, gold is now being poured on the world's markets from the hoards of India in large quantities, over $100,000,000 having recently come from that source. Since the outbreak of the World War Russia has poured over $600,000,000 of monetary gold into the rest of the world.

### "Maldistribution" of Gold

Let us next consider briefly the question of the so-called "maldistribution" of the world's stock of monetary gold.

At the present time the stock of monetary gold held by central banks and by the governments of the leading countries of the world is approximately $11.4 billions. Of this amount the United States has approximately \$4 billions, or about 35 per cent, France has approximately \$3 billions, or 26 per cent, and the rest of the world has about \$4.4 billions, or 39 per cent of the total.

Is the charge true that we so frequently hear that the United States has forcibly drawn to itself an unreasonable proportion of the world's stock of monetary gold and has deliberately and selfishly impounded it here? The answer, I think, is clearly "No."

In the first place, no one has yet given a satisfactory answer to the question, "What proportion of the world's stock of monetary gold is the United States entitled reasonably to have?" Our stock of monetary gold in 1913 was approximately \$1.9 billions, or 22 per cent of the world's total. Our proportion was not then considered excessive. Our percentage of the world's stock has now increased from 22 to 35, but, in these intervening 19 years, the United States has had a great economic development. Dr. Carl Snyder estimates, as previously mentioned, that, since 1865, the rate of physical production of basic commodities in the advanced countries of the world, taken together and including the United States, has increased at a progressive rate of about 3 per cent per annum; while that of the United States by itself has increased at an annual rate of about 4 per cent. We were not so hard hit by the War as were the principal countries of Europe; we recovered more rapidly and our economic advance has been faster in recent years than that of most other countries. Our relative importance in the economic world today is large and much greater than it was before the War. We produce about two fifths of the world's coal, steel and cement, more than one half of its cotton and corn, nearly two thirds of its petroleum and about four fifths of its automobiles. In 1929, our share of the world's production of leading crops, according to Dr. Snyder, was 25 per cent, our share of the world's production of minerals and metals was 47 per cent, and our share of the world's production of all leading basic commodities combined was 33 per cent. With such a proportion of the world's business, it would hardly seem that 35 per cent of the world's stock of monetary gold is a very excessive proportion for us; although it is probably somewhat more than we actually need under our normally highly efficient currency and banking system.

### Our Stock of Monetary Gold and the Tariff

One common argument is, that we insist upon foreign countries paying us what they owe us and then, by imposing against them high tariff barriers, force them to pay us in gold. In this connection, particular stress is usually placed upon the so-called interallied debts. This subject is a big one and all I can hope to do here is to mention a few significant facts that should be taken into account in forming one's opinion upon it.

May I say, parenthetically, that, although, personally, I am not in sympathy with our American high tariff policy, I believe in "giving the devil his due" and I believe that the influence of our tariff is a small one on the world's distribution of gold.

The Hawley-Smoot Tariff went into effect June 18, 1930, in the midst of the current world depression, and it is, therefore, obviously impossible at this early date to pass a safe judgment concerning its influence on our foreign trade. The year 1931 witnessed a tremendous decline in the foreign trade of the whole world, the United States included.

The average rate of duty collectible on all imports, however, was not raised greatly by the tariff of 1930 and, according to the estimates of our United States Tariff Commission, was much lower than the average rate of our preceding six tariff laws beginning with the McKinley Act of 1890; the average for the 1930 tariff being estimated at 16 per cent, that of the 1922 tariff at 13.8 per cent, and that of the six tariffs ending with that of 1922 at 19.6 per cent.

The proportion of imports coming into the United States free of all duty is larger than that of most of the leading countries of the world. About two-thirds of our total imports during the fifteen years ending 1930 entered free of all duty. While the rates of duty on many classes of goods for these years were high, the average rate of duty on all imports for consumption for the ten years ending 1930 was only about 14 per cent. In fact, the average *ad valorem* equivalent of duties collected on imports into the United States is substantially lower than in most countries. Doubtless one reason for the large percentage of our imports that comes in free and for the low average duties on all imports is the fact that the importation of goods bearing high duties is greatly curtailed. In other words, it is the free goods and the goods bearing low duties that come in. Still, it is significant to note that, despite our tariff, our imports averaged 17 per cent higher for the five years ending 1930 than for the preceding five-year period. Furthermore, our percentage of the world's total imports increased from 8.3 in 1913 to 12.4 in 1929; while for some years now our American import trade has been the largest of any country in the world, except Great Britain.

## Interallied Debt Payments

Taking the interallied debt figures for the year 1930, which was a more typical year for these debt payments than 1929, and using trade and tariff figures for 1929, the last year before the world crisis, we find the following relationships between the amounts paid to the United States on interallied debts and the volume of foreign trade.

The total interallied debt payments to the United States were, in round numbers, $241,000,000, of which $54,000,000 were paid by France and $161,000,000 by England. The total interallied debt payments to us in 1929 were equal to only 5.5 per cent of our merchandise imports, or to 8.4 per cent of our non-dutiable or free imports. The interallied debt payments of Great Britain to the United States were equivalent to 4½ per cent of her total merchandise exports. Her debt payments to us were almost exactly equal to her non-dutiable merchandise exports to us. The interallied debt payments of France to us amounted to only 2.7 per cent of the value of France's total exports. They were just about equal to France's non-dutiable exports to the United States.

Of course, a debtor like England can pay debt obligations to the United States not only by increasing exports of goods and services to the United States and by decreasing imports of goods and services from the United States, but also by the more roundabout process of keeping her trade with the United States otherwise balanced and of making payments to the United States through the intermediation of other countries. England, for example, might pay us through exports of English cotton goods to Brazil, against the proceeds of which, payable in Brazil, Brazil would export duty-free coffee to the United States; or England might export woolens to France, the proceeds of which would be used up by American tourists in Paris.

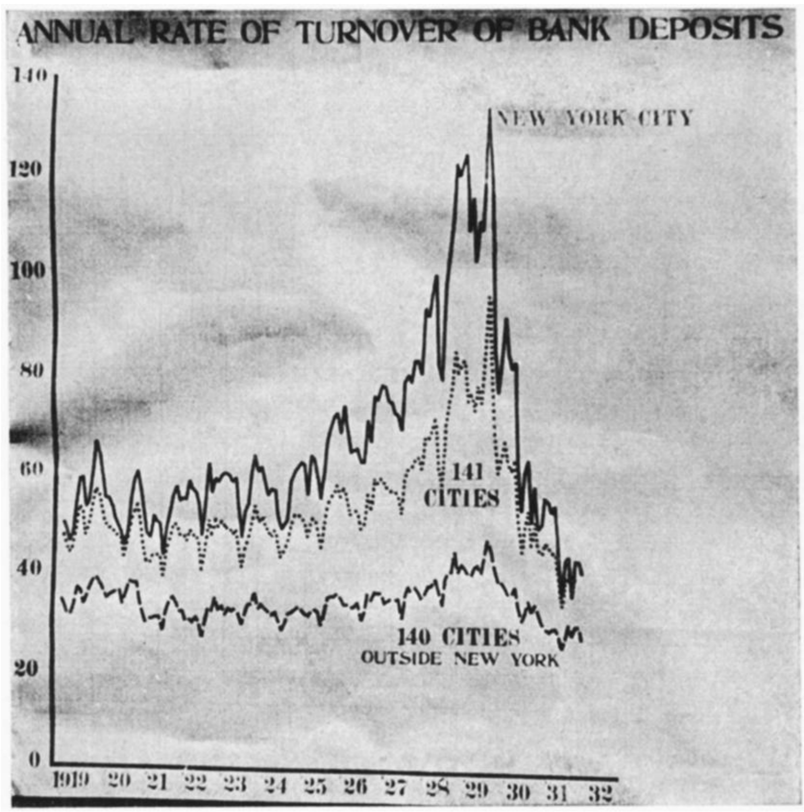
Our high tariff—as every other high tariff in the world—and there are many of them today—is doubtless an obstacle to international trade and to the ready flow of international debt payments; but, in my judgment, its importance as a factor in the recent widespread breakdown of the gold standard has been greatly exaggerated in current discussions.

## Flow of Gold to United States for Safety

One important reason why our stock of monetary gold in the United States is so large as it is at present may be expressed in the term "Safety first." Given the collapse of 1929–32, with its resulting losses and widespread bankruptcies, with its aftermath of unemployment, of social unrest, and of political revolution throughout the world; it is not strange that people everywhere have become scared and have converted their capital into gold or its equivalent—the only thing they could see whose value was rising—and should have done their best to get these gold values quickly in the safest places they could put them—namely, on deposit in the strongest banks they could find in the United States and France, and in bank acceptances, government bonds and other high-grade liquid securities in these two countries. Funds have flowed to the United States and France in very large quantities for safe-keeping. Furthermore, large amounts that flowed to the United States before the crisis, in connection with investments made here by foreigners for profit-making purposes during our boom speculative market, have remained in this country. This flow of investment funds has carried with it a flow of gold. The all-important consideration lately has been safety, not yield. Hundreds of millions of dollars of funds in the United States and France are serving as a storehouse of value for people all over the world, a function not greatly unlike that performed for the people of India by the numerous gold and silver hoards of that vast country. We did not seek this large supply of gold. Much of it was thrust upon us. Our Federal Reserve banks until recently maintained for some time the lowest discount rates in history, one reason being to prevent gold from coming to us in excessive quantities. Our federal reserve discount rates are still among the lowest in the world. Our gold market for many years has been an absolutely free one. Since 1919 the people of any foreign country (except Russia) having liquid assets in the United States have been able to convert them into gold at will and take the gold out of the country without restrictions. During the months of September and October last year, we gave up freely and without restriction to the rest of the world over $700,000,000 of gold—probably the largest commercial net outward movement of gold in two months' time from one country that the world has ever seen. Yet today our stock of gold is still the largest of any country in the world. Recent legislation, moreover, greatly strengthens our gold position and makes each dollar of our stock of monetary gold on the average much more efficient than formerly.

With business depressed and confidence lacking, the funds in many parts of the country have piled up in the banks. Savings deposits and other time deposits are large. Money in hoards is still estimated at high figures. Wholesale commodity prices were 32 per cent lower in March 1932 than three years before, while the index of the country's physical production was about 25 per cent less, the amount of money officially reported as in circulation was 15 per cent more and bank deposits of reporting member banks were only 16 per cent less.

The trouble is that the people who have the money, the bank deposits and the bank credit are afraid to use them. They are afraid because so many times since the 1929 crash the optimists have had their fingers burned. For some




years before the crash of 1929 it was the pessimist who usually got burned. Money in circulation is turning over very slowly; likewise bank deposits, through which, by means of checks, we normally do something like 90 per cent of our business. Demand deposits in banks that are not moving are analogous to money that is not moving, namely, to hoarded money. The average annual rate at which our demand bank deposits turned over in 140 leading cities in the United States, exclusive of New York City, declined, in round figures, from 42 for the year 1929 to 29 for the year 1931—a decline of 31 per cent. For New York City the corresponding two-year decline was from 112 to 46, or a decline of 61 per cent, and for all 141 cities the decline was from 78 to 41, a decline of 47 per cent.

Under such circumstances, a complaint that we have not enough money in circulation is analogous to a complaint that a country was suffering from a lack of freight car facilities at a time when the amount of freight to be carried was something like a fourth less than normal, when the number of freight cars was about a sixth greater than normal, the average speed at which the cars were moving was very much slower than usual and when a large percentage of the cars were being continually parked on the sidings.

## The Commodity Price Level after the Depression

If the world is not experiencing an enduring shortage of monetary gold, and if I am correct in maintaining that the recent heavy decline in the commodity price level is due chiefly to psychological factors and to economic maladjustments of a temporary character, we may expect that, within a short time, the fundamental forces which make for a fairly uniform rate of secular economic growth in the world as a whole will again dominate the situation. In that case, if the world continues to use the gold standard, as I believe it will, the commodity price level will probably rise to something like what it was during the 8½-year period of comparatively stable wholesale prices which ended with the stock-market crash of late 1929.

In this connection, it is interesting to note that the Graph for the movement of American wholesale prices between 1896 and 1913 rose at the rate of 2.4 per cent a year (geometric), and that if this graph were extended in a straight line to 1929 (as it is on Chart I, Graph E), it would be very close to the actual commodity price level Graph for the years 1921 to 1929. In fact, it would give an average price level for those nine years only 5.3 per cent higher than the actual price level. In other words, had there been no war, and had wholesale commodity prices in the United States risen on an average 2.4 per cent a year progressively from 1913 to 1929, which is the percentage rate of annual rise from 1896 to 1913, we would have had approximately the same average price level from 1921 to 1929 that we actually did have. This price level, moreover, like the actual price level, would have been (as shown on Chart I, Graph E and Chart II, Graphs A and B) very close to the level represented by the Graph for "the world's supply of monetary gold relative to the world's production of basic commodities."

The great fundamental forces which determine the long-time swings in the world's price levels have not been greatly changed during recent years. The world's population and the distribution of this population are practically unchanged. Human tastes, human wants and human capacity to labor are essentially what they were three years ago. There is no reason to believe that the world's annual rate of increase in the production of basic commodities—a rate of about 3 per cent a year—which has persisted for two generations has suddenly been changed permanently. Gold production has increased substantially since 1921, and since 1913 the world's supply of monetary gold has increased faster than the world's production of basic commodities; while the efficiency of gold as the basis of our credit structure is being increased continually through improvements in our currency and banking machinery. If, since our 8½ years of comparative stability in commodity prices ending in 1929, nothing has happened to change fundamentally and permanently the world's supply of gold and circulating credit and if, likewise, nothing has happened to change fundamentally and permanently the world's production of basic commodities, its system of fabrication and marketing, and the number and character of the human beings that handle its economic machinery, it would seem probable that a commodity price level something like that preceding the crisis would return when we once drag ourselves out of this slough of despond.

Moreover, the discontinuance of the gold standard recently by so many countries, with the resulting decline in the demand for gold, will tend to cause gold inflation—in other words, to stimulate a rise in prices in gold-standard countries. If a substantial part of the world should long continue off the gold standard, we may even witness a rise of commodity prices in gold-standard countries to a higher level than that preceding the crisis.

## The Monetary Standard of the Future

But will Great Britain, the Scandinavian countries and the numerous other countries that have abandoned the gold standard during the present world crisis return to the gold standard when the depression is over? The answer, I believe, is "Yes."

Many countries are still on the gold standard, including the United States, France, Belgium, Holland, Italy, Poland, Switzerland, the Union of South Africa, and (with some qualification) Germany; and all these countries declare it to be their firm intention to continue on the gold basis. Wherever the gold standard has been given up during the last three years, it has been given up, as it was during the World War, under the pressure of a great crisis, and not for the purpose of permanently substituting some other standard in its place. In every country that has suspended gold payments, the suspension has been looked upon as an unfortunate but only temporary emergency measure, and in every case the predominant expectation on the part of the governing authorities and of the public is that the gold standard will be reëstablished when the present world economic crisis is over. There is little sentiment in the world today for any other standard, such as the silver standard, the bimetallic standard, or some form of the tabular standard, permanently to replace the gold standard. Most of the agitation for a so-called managed currency standard contemplates a managed gold standard, and not a managed paper currency disconnected with gold.

With all its faults—and it has many—the gold standard in the judgment of the world is the best standard with which the world has had extensive experience. For the present, at least, and probably for many years to come, the world's expectation and best prospects for a reasonably good monetary standard lie in the improvement of the gold standard, rather than in any substitute for it that has yet been devised. In this connection, we can well subscribe to the conclusion of the famous Macmillan Commission of Great Britain, published under date of June 23, 1931, three months before England went off the gold standard, that, "There is, perhaps, no more important object within the field of human technique than that the world as a whole should achieve a sound and scientific monetary system. But there can be little or no hope of progress at any early date for the monetary system of the world as a whole, except as the result of a process of evolution starting from the historic gold standard."

The world, in my judgment, will slowly but surely return to the gold standard after this crisis is over, just as it did after the World War. In a few years' time most of the world will be as sick of managed paper currencies as it was twelve years ago. The main trouble will be that popular ignorance and lethargy, coupled with selfish special interests, economic and political, will, as in so many of the world's paper money experiences in the past, force politics into the management and the management into politics. This will spell inflation and currency breakdown. Politically speaking, the world is yet far from being ready for managed paper currency standards.

The gold standard has long been to some extent a "managed" standard and has been increasingly so in recent years. It will probably be managed even more in the future than it has in the past. All currency management has its dangers. But, taking human nature and present-day politics as they are, the world for a long time to come will have more confidence in a gold standard managed with the coöperation of the world's great central banks than in any form of managed paper currency disassociated with gold.