CHAPTER XII

*THE GOLD STANDARD—INFLATION—DEVALUATION OF THE DOLLAR

There is much discussion at the moment over the question of the effect of variations in the value of the currencies of different countries upon exchange, and the advantage or disadvantage to each country by virtue of these fluctuations, and most drastic laws have been passed by Congress vesting in the President dictatorial and plainly unconstitutional powers of legislation in reference to money.

The arguments advanced for these various changes are most confusing and vague. The argument for inflation of the currency seems to proceed upon the theory that there can be no recovery from the depression unless prices of commodities rise, and that inflation of the currency will cause this needed result.

Inflation Theory Fallacious

The first fallacy in this argument is the assumption that prices will not rise without inflation. There is nothing cited in the arguments from history to show that prices will not rise without inflation. During and

*This chapter is from a separate writing of Mr. Record found in contemporary papers.

after the Civil War the prices rose coincident with an inflation of the currency. The government issued vast quantities of irredeemable paper money which sold at a heavy discount, the price of the gold dollar finally reaching $2.60 in paper money.

During and after the World War prices rose rapidly in this country, but there was no inflation of the currency in the sense of an issue of irredeemable paper money by the government, nor did we go off the gold standard.

There is some confusion upon this point, because of the money issued by the government. The small bills are not payable in gold specifically, but in lawful money, but the larger bills are all specifically payable in gold, and the practice has been to redeem in gold paper money which is not specifically required to be redeemed in gold.

The primary cause of the increase in prices in each instance was the extraordinary demand for goods created by wars. We did not resume specie payments until 1879, which was at the end of the six year panic starting in 1873. During the last three years of that depression business slowly improved and prices rose somewhat, but not in any spectacular way. This is the only experience we have, and it does not sustain the assumption that prices can not rise at the end of a period of depression without going off the gold standard, or issuing irredeemable paper money.

Purchasing Power the Real Test

The analysis previously given herein of the cause of panics and the cause of the recovery from panics,

shows clearly the economic law that governs these occurences. When the exactions of the privileges hereinbefore discussed have been sufficiently relaxed, the effect is that the current rate of wages paid enable the recipients to purchase more of the necessities of life, with the immediate effect of an increase in the demand for goods, which in turn requires the employment of more men, and the increased wages thus paid result in a further increase of demand, and so on.

This naturally and inevitably creates a slow rise in prices, because those who purchase goods if they are operating without profit or at a loss, or at an inadequate profit, take advantage of the increased demand to slightly raise their prices. This will happen in effect no matter what is done about the currency.

It is this fundamental fact which is ignored by the advocates of inflation. In so far as inflation operates directly to increase prices, it is not an actual increase as would take place without inflation, but is a mere nominal increase, and carries with it a decrease in the purchasing power of wages, without increasing the demand for goods, or the demand for labor. **All that an inflation of the currency or depreciation of the currency amounts to is that it makes it necessary for those who deal in currency to ascertain by daily market reports the actual value of the currency, which is always under all circumstances measured by gold in the markets of the world. In that sense no country ever goes off the gold standard.**

The only effect of government issue of irredeemable money is to force into circulation a currency of uncertain value, and there is no possible act that would

justify the assumption that this process is a good thing for business. It does not create any additional demand for goods or services, and it does not in itself make any increased demand for labor.

If the government embarks in enterprises in order to employ idle labor, such as the construction of roads, the result is to increase temporarily the employment of labor, and that would be the inevitable effect if the government did not issue a single dollar of paper money, but left that function to the banks as it should, and collected either in taxes or by the sale of bonds whatever money was necessary to defray the cost of these public works inaugurated for the main purpose of increasing employment.

If this reasoning is sound the whole effect of inflation must be to create uncertainty in the value of currency and all such uncertainty operates to hamper and decrease trade.

If the government left to the banks the issuing of currency, redeemable in gold currency by the government, in accordance with the principles hereinbefore outlined for an ideal banking system, the end of the depression would come naturally and inevitably when the exactions of privilege have fallen so low as to permit the increase in the purchasing power of the wages actually being paid at the end of the depression.

This is the natural law and prices can not be raised except by the government actually paying more than the market price for commodities by some form of subsidy, and any such excess in the end has to be shifted to the consumer, or represented by government bonds, which in the end are paid by the consumer.

There is no instance that is cited from history in any

of the arguments which show that inflation has been either temporarily or permanently a good thing for the people. Purchase by the government of silver at other than its market rate is a form of subsidy paid to the producers of silver at the expense of the mass of consumers, or of the tax payers.

The colossal failure of the Hoover Farm Board is an illustration of this principle. In this case the government purchased wheat instead of silver at or above the market rate, upon the theory that the purchase would result in an increase in the market rate of the rest of the crop. This experiment did not increase the price of wheat, but resulted in a loss of more than a hundred million dollars to the people.

When it comes to the question of exchange the subject becomes more involved, and in the discussions in the press, periodicals and in Congress there is no clear and definite information offered.

Gold Standard Only Guarantee of Stability

We are informed that England by going off the gold standard and operating with a depreciated and daily fluctuating currency, has an advantage in international trade over countries with a stable currency or one based on the gold standard, and across the English Channel we have the great country of France clinging obstinately to the gold standard, and redeeming its currency at a fixed rate in gold, with the deliberate and avowed purpose of preserving an advantage in international trade by that process.

For hundreds of years trading has gone on between countries in every civilized section of the globe, with

the most diverse conditions as to local currencies, and as to the daily fluctuations thereof, and it seems to be true that in spite of these differences the price of exchange is so small that it does not materially affect the volume of trade or the direction of trade. One principle can be relied upon, and that is that the country which provides for the redemption of all paper money and all public obligations in gold, which is the universal standard of value in business, will, in the long run, profit exactly as a merchant known to be prompt in his payments and to live up to his contract as to the medium of payment, will in the long run be able to buy cheaper than merchants whose credit is uncertain, or whose delayed payments when finally made are apt to be in an amount less than agreed upon in the original contract.

The Gold Content of the Dollar

The reduction of gold in the gold dollar is the latest idea for which no adequate reason is advanced. It seems to proceed upon the assumption that exchanges of goods, not only within the limits of each country, but between the different countries, are hampered and lessened by the sheer inability to get enough gold together to pay for these exchanges. Not only is it impossible for exchanges in any country, to say nothing of between all the countries, to be actually settled in gold, but with the development of civilization this impossibility becomes greater and greater, and it is completely met by the development among banks in each country of the clearing house principle, and by the system of payments by checks, and the further

system of payments which are made by book entries.

We never hear of gold being moved from New York to Chicago to pay a balance for merchandise or services. We do hear of gold being shipped from one country to another, and this is supposed to be to pay debt balances. No shipment of gold is ever made to pay for a specific consignment of goods, but the gold flows back and forth in ships because of the fluctuation in the exchange market.

It is quite obvious that the progress of civilization will eventually find a way to dispense with this obviously wasteful process of transferring gold back and forth across the ocean. In fact we see now the development of this principle in the practice that has grown up recently of banks and bankers maintaining deposits of gold in foreign countries which is "earmarked," as the new phrase is, in the vaults where it is stored.

Government Guarantee of Money and Bank Deposits the Remedy for Financial Panics and Fear

The apparent necessity for storing of gold by governments and by banks grows solely out of the fear of a run upon the banks or the government. A run is the product of a fear on the part of depositors who become alarmed that their deposits will be lost. The obvious cure is not to diminish the value of the gold dollar, which will not have the slightest effect upon this policy, but to remove the possibility of any such fear arising among the people, by the simple expedient of the government guaranteeing the payment of every deposit in banks, and of all monies issued by banks,

and collecting the cost thereof from a revolving fund to be levied from time to time upon banks.

With this plan in force the government would never keep any considerable amount of gold on hand. No bank would keep any, except for minor uses, and the enormous expense of the accumulation of gold by nations and by bankers would be immediately done away with. Gold would be used in the arts and have no proper use in money except that it would continue to be the most reliable yardstick by which the price of commodities and services are measured.