

# ed Gold?

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## On Monetary Gold

by MITCHELL S. LURIO

WHEN a monetary system is detached from gold there has always followed a depreciation of the unit until the money system collapses and a new start is made with a new unit which has to be backed by gold to insure its acceptability.

Governments have the power to lower the gold content of the monetary unit just as they have the power to use the printing press and to issue, without consideration, additional quantities of paper money-notes ("cash") without gold backing. A change in the gold content of the dollar is an event of public, international significance. Members of the executive and legislative branches in democratic countries have to justify such a change and can do so only in time of crisis—and only then if there is no substantial public opposition.

If gold backing were eliminated and some agency were empowered to enlarge or reduce the supply of cash under some necessarily flexible formula purporting to meet the needs of the economy, changes made in the supply of cash would no longer be news and would not require public acquiescence. The first objection then, to removal of gold backing, is the relative ease with which changes may be made on the basis of questionable statistical prognostications and political expediency.

A more important objection is that no one has offered an acceptable or tenable principle on which to determine the "proper supply" of cash which would underly our banking system and affect the size of demand

deposits in commercial banks. The supply differs both in countries that are alike and unlike.

Some have suggested a constant ratio between cash supply and population. Others would have planners regulate the supply so as to maintain a constant price level as measured by indexes which are themselves subject to doubt, for products change from decade to decade and prices vary in different localities and within each locality. Should not prices fall with technological improvements? At what rate should they fall?

There is also the idea of adjusting the cash supply to avoid too much unemployment. Apart from the question of what constitutes too much unemployment, there is no correlation between the price level and employment, and theorists admit that the cash supply deemed necessary to maintain prices is not that deemed necessary to maintain employment.

Furthermore there is no agreement that cash control will always work to bring about sought-for results. The applications of monetary policy in the past have not generally yielded the predicted results—examples are government loans to business, artificially low interest rates subsidized by government, and dollar devaluation.

There is no need to repeat here the special attributes of gold that make it suitable as the monetary commodity, but in some inscrutable way, the supply of gold, old and new, has kept pace in such a manner as to give it a relative constancy in value in terms of labor. It seems to be entirely

fortuitous and accidental that over the centuries, gold has retained a universal and less fluctuating value in exchange than any other substance under all sorts of changing conditions and extremes.

The corollary virtue of gold is its independence of man's machinations defeated only when governments, by fiat, change the definition of the dollar by reducing its gold content and thereby defraud their people on the plea that it is done for their good.

If there is full convertibility of dollars into gold, any tampering with the monetary system will be immediately resisted by conversion. This forces governments to return to sound policy and is also the reason why monetary planners would do away with the gold standard. Political expediency exerts even greater pressure upon the gold standard when devices to defer temporary recessions may be employed only after removal of the restrictions on gold.

Practically every government has been guilty of repudiation of its monetary obligations, in part or in whole. Fortunately repudiation cannot easily be invoked against foreign citizens and nations. We, for example, do not permit domestic conversion but other governments and their central banks are permitted to convert their dollar claims into gold. To play safe, gold is "ear-marked," an arrangement which is in effect a fiduciary custodian agreement under which our agencies store the gold but do not own it. Thus another country protects itself against devaluation. It may repossess its gold and avoid the loss incurred by our citizens after devaluation.

The present flurry about gold is merely the attempt of money speculators to beat the gun and acquire gold before devaluation. In spite of the enormous rise in foreign claims upon our gold, it remains here, I

think—because it is safer here than in most other places—because of pressure exerted upon the claimants—because the collapse of our monetary system would have repercussions on some of the claimants, and because promises have undoubtedly been made that foreign claims will be honored on the present gold standard. There are instances of governments which have made such promises and repudiated them. There is also the possibility of a moratorium on honoring foreign claims and even on release of ear-marked gold, which is a polite form of repudiation and another indication of the immorality of governments and the implications in the phrase "our enemy the state."

Another reason for maintaining the gold standard pertains to the manner in which monetary systems have evolved. They never came into being by the arbitrary printing of a limited number of units of cash having no intrinsic value. They came into being in response to the forces of the marketplace, by means of receipts for gold left with goldsmith-bankers. It seems logical to conclude that since cash was not born in a vacuum, it would not be desirable at this moment to start with the present supply of cash as the proper one and manipulate it from now on in accordance with dubious and ill-defined concepts.

A sound monetary system will not solve our basic problems. These can be solved only by George's remedy, but the point of this article is that a sound monetary system must be backed by gold. Without gold backing, we will slip much more rapidly into the kind of economy that will hardly be any different from that in the Soviet Union.

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