F- pamphs- Money

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ON MONETARY GOLD

By M. S. Lurio

~~It cannot be denied that~~ 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 (~~what is known as "cash"~~) without gold backing.

Those who seek some form of gold standard cannot maintain that the effects of printing dollar bills or monetizing government debt to pay government expenses would be avoided if there were gold backing. Devaluation, or a reduction in the gold content of the dollar (using the word dollar to represent any unit) produces the same effects.

But to say that government can do the same things to the monetary system, with or without gold backing, is not to say that it is just as easy to do the one ~~xxxxx~~ as the other.

A change in the gold content of the dollar is ~~an international, as well as an national~~ event of public significance. Members of the executive and legislative branches of government in democratic countries have to justify such a change and can do so only in time of crisis and then only 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 ~~meed~~ the needs of the economy, changes made ~~in the supply of cash would no longer be news and require at least~~

in the supply of cash would no longer be news and would no longer require ~~at least~~ public acquiescence.

The first objection, then, to removing gold backing and substituting a flexible formula for the supply of cash, is the relative ease with which changes ~~may~~ be made on the basis of questionable statistical prognostications and political expediency.

The second and more important objection is that no one has ~~yet~~ been able to offer an acceptable or ~~even a~~ tenable principle on which to determine the "proper" supply of cash, which would then multiply ~~is underlies~~ our banking system and affect the size of demand deposits in commercial banks. The supply of cash is not only very different in countries ~~that are unlike, but is also different in countries that are alike.~~ ~~And~~ if the amount per capita varies with development of a country, how is development to be measured?

Some have suggested that the cash supply be based upon population, the assumption being that there should be a constant ratio between them. But this is [illegible] ~~not borne out~~ by the record.

Others have suggested that planners regulate the supply so as to maintain a constant price level as measured by indexes which are themselves subject to doubt. Products are unlike from decade to decade; prices vary in different parts of the same country and from day to day in each locality.

The question also presents itself as to the logic of seeking a fixed price level. Should not prices fall with technological improvements? At what rate should they fall?

There is also the idea of trying to adjust the cash supply ~~so as~~ to avoid too much unemployment. Apart from the question of what is too much unemployment, there is the further and acknowledged fact that there is no correlation between the price level and employment, and ~~that~~ theorists admit that the cash supply deemed necessary to maintain prices is not that deemed necessary to maintain employment.

There are other suggestions as to what the cash supply is to achieve but they all involve insuperable difficulties. Even more, 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 results ~~prophesied by~~ theory. Quick examples are government loans to business, artificially low interest rates subsidized by government, and dollar devaluation. There are many varied and varying factors that come into play to counteract interferences in the marketplace.

Compare the problems of determining the "proper" cash supply by fiat, without gold backing, with the cash supply that exists under a full, fixed and unchanging gold standard. It seems to be entirely fortuitous and accidental that over the centuries, gold has a retained a universal and less fluctuating value in exchange than any other substance under all sorts of changing conditions and extremes. When currencies falter, there is a flight to gold as the safest means of preserving values.

There is no need to repeat here the special attributes of gold that make it so suitable as the monetary commodity or the fact that the existing supply has always been large relatively to the amount newly-mined every year. 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.

When and if scientists discover how base metals may be cheaply transmuted into gold, then it will lose its utility as the money commodity. Until then it is the best that we have and we can do no more on this sphere than to use the best product to accomplish a given purpose.

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 peoples 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 government 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 may be employed only after removing the restrictions of gold to defer temporary recessions.

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.

All through history and very clearly in our own lifetimes, 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 own 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 ~~some~~ 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 ~~content~~ ~~standard~~ standards. 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 truth of the phrse "our enemy the state."

Another reason for maintaining the gold standard is 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 given 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 and premises.

I have not touched upon the kind of gold standard which is best, in my opinion, nor upon the manner in which demand deposits are created upon the basis of cash used as reserves. My purpose here is to show the much greater dangers and disasters that would probably follow upon the removal of gold backing. Only then is it possible to discuss the necessary and sufficient conditions for a fully sound monetary system.

M/ Lurie