

GOLD

Ten years off gold

The Economist, London, September 20, 1941, p. 347

The greater part of this article is devoted to a review of the economic situation in the past ten years. Benefits derived from cheap money must be counted among the advantages of leaving gold, the Economist believes. While the division of the world's currencies into blocs or groups is likely, greater freedom of trade within the groups may prove to be an offsetting advantage. The article concludes as follows:

"Ten years is perhaps too short a time, and the atmosphere of wartime the wrong occasion, to express a balanced judgment. It may be that, in a few years' time, when war has once more led to inflation, and inflation has given rise to a search for stability, the present popular judgment on the gold standard will be reversed. But for the moment any such reversal seems unlikely. There is a real alternative before the world, the choice between free exchanges and fixed rates with exchange control. But either alternative is only half of the classical gold standard; that regime of free exchanges and fixed rates now seems to be very remote.

"Indeed, now that we have ten years of varied experience to give some perspective, the departure from the gold standard seems to mark a much more definite epoch than was apparent at the time. It was the end of the Financial Age, the failure of the last attempt to restore the dominance of finance over economics. The foundations of a new order of ideas have been laid in the ensuing years, in Britain, in America and in Germany, and the war will carry the process much farther. The world is showing an unmistakable tendency to argue that, if a thing is physically possible, whether it be fighting a war, or removing unemployment, it must not be stopped by considerations of 'sound finance' alone. In war, finance is manifestly a mere camp follower, and the tendency is to reduce it to dependent status in peace as well. Whether the world will find more happiness than grief in this new order of ideas must be awaited with some scepticism; but that this is the trend of events is unmistakable. There is no place in such a system for the categorical imperatives of the gold standard.

"Does this, then, mean that the long reign of gold is over? In one sense, completely; the old popular reverence for gold as the one satisfactory form of actually circulating money is dead in Europe, and dying in America (where, after all, gold coin still circulated nine years ago). As an international standard of value also, the day of gold is done; the value of currencies is unlikely in the future to be measured by the number of grains of gold for which they will exchange. But, as the international precious substance, there may still be a use for gold. The decision rests with the United States Government; for in any foreseeable time, dollars will be sought after by the rest of the world, and so long as gold remains a sure means of acquiring dollars, gold will be desired by the whole world. No currency, not even the dollar, is now on the gold standard; but gold is on the dollar standard, and it is in the general interest, and specifically the British interest, that it should remain there. The Emperor has abdicated, but he still rules his St. Helena at Fort Knox, Kentucky, the pensioner of a stronger power. Ten years after Waterloo, there is no desire to see a return."