

Miller  
001 411  
Miller, Adolph C  
4/2/36

"THE RETURN TO GOLD"

by

ADOLPH C. MILLER,  
MEMBER OF THE FEDERAL RESERVE BOARD,  
1914 to 1936.

AN ADDRESS DELIVERED BEFORE THE  
ACADEMY OF POLITICAL SCIENCE,  
NEW YORK CITY,

THURSDAY AFTERNOON, APRIL 2, 1936,

AT THE HOTEL ASTOR.\*

Carded

( "WHENCE + WHITHER IN  
THE GOLD STANDARD" P. 10

\*The first section of this address, pages 1 to 9,  
was prepared for broadcasting and does not con-  
stitute an essential part of the paper.

Released for publication in the morning papers of  
April 3, 1936.

Copy filed 550.

XERO  
COPY

XERO  
COPY

XERO  
COPY

## MONETARY UNCERTAINTY AND CONFUSION

No one can look out upon the world today without being profoundly disturbed by the continued uncertainty and confusion which the monetary scene presents. More and more is it coming to be appreciated that the economic recovery of the world is being delayed by this continuing uncertainty.

How did this uncertainty and confusion come about?

The uncertainty has resulted from the all but universal suspension of the gold standard during the course of the depression.

After the suspension of gold payments countries fell back upon national currencies. These were paper currencies. Each country adopted the form of currency it thought best suited to its condition and needs. The result was monetary confusion, where before the suspension of the gold standard there had been simplicity and similarity.

How may an end be brought to uncertainty and confusion?

By a return to the gold standard, answers one school. By the establishment on a permanent basis of a new monetary regime, answers another school -- by currency management, as they call it.

Between these two broadly contrasted and competing points of view lies a gulf, but not nearly so wide a gulf, be it noted, as is frequently supposed when we get down to the substance of the matter. To a certain extent the contest is between an old or older point of view and a new or newer point of view.

To most men of the generation which came to maturity before the World War, sound money, good money, meant just one thing -- it meant

gold standard money, that is, money based on gold and redeemable in gold, money which was "real" and had a definite meaning, money that above all had the priceless quality of certainty.

There are people who think that this is all there is to the gold standard -- just so many grains of gold to the dollar if anyone wants to insist upon his pound of flesh -- but this is a narrow, technical, legalistic view, altogether too much so to fit the facts of our day, though it might perhaps have sufficed as an account of the gold standard a hundred years ago. That standard has, however, long since taken on a larger meaning than that of merely giving clarity and certainty to the "obligation of contract" expressed in terms of money. If it is a footnote to any philosophy it is to the philosophy of economic integration and monetary orderliness. It has become very much more than a mere footnote to the philosophy of contract. It became in the course of time, as will be more fully developed later, as it grew to maturity, a piece of monetary mechanism, international in its scope and influence, for giving to the world a common form of currency, thus facilitating trade and financial transactions and the flow of investment capital among the nations; a mechanism capable at the same time, through good operation, of meeting the requirements of good national or domestic currency. The so-called central banks which existed in nearly all of the gold standard countries were integral parts of the gold standard system. It was a part of their recognized responsibility to watch over the gold standard and, within such limits as were admissible under it, to

XERO COPY

XERO COPY

XERO COPY

intervene at times in its operation, so to speak, to temper the wind to the shorn lamb in order to reconcile domestic currency requirements and the international currency requirements with one another. It is a mistake, and a serious mistake, to think, as many still do, that that monetary mechanism is a purely automatic mechanism, or that the gold standard could safely be left to its own devices. There was therefore an element of management in it, and that element grew as the world grew, especially as the world grew more complicated in its economic structure. Nevertheless, in pointing out the broad differences between the gold standard system and the so-called managed currency system, it should not be overlooked that there were limits of tolerance within which management or discretion might be exercised which existed under the gold standard system. While these limits had a considerable degree of elasticity, they nevertheless existed, and thus broadly differentiated the gold standard system from the so-called managed or free currency systems.

There is neither time nor is there need of reviewing the record of the gold standard in this brief survey. It is enough to say that the fact that it endured as long as it did and won the esteem and confidence of the whole world is evidence that the old gold standard did a good job in its day. Let us turn, then, to managed currency, examine its nature and take a look at its recent record in the United States.

To many men of the generation which has come to maturity since the war the gold standard does not possess the magic meaning which it has

XERO COPY

XERO COPY

XERO COPY

for many of the older generation. By good money many people nowadays mean what is being called managed money, and by managed money they mean, of course, well-managed money, rationally managed money, money managed by men who know what they are about. The men to whom they would entrust the management of money are expected so to manage it as to insure perpetual prosperity by never putting out too much money, by never letting the public have enough money to go wrong in good times nor so little as to force deflation in slack times. Under this conception managed money might be described as "human nature money". Fundamentally that is what managed currency comes to. It means in practice, as its critics contend, that unless the men who do the managing are always wise men, and wiser men at least than those to whom our Government has usually committed the determination of its destinies, the money of the country might have a good quality under one administration and a poor quality under a succeeding administration -- might mean what has sometimes been characterized as "political money". Under this conception all would depend upon whether you or I were in command of the monetary mechanism. It might mean my stupidity today against your intelligence tomorrow; my good and easy-going nature against your prudent and careful nature; my poor judgment against your good judgment; my weak character against your strong character; in other words, money just as good and just as poor as the men who did the managing. Back of managed money lies, of course, a monetary philosophy, an interesting philosophy, an idea and belief that economic conditions can be

made and altered and human behavior on the economic plane governed and controlled through the skilful manipulation of the monetary mechanism of any country with a highly developed credit and banking system. That philosophy has supplied in some sort and to some degree the inspiration and the objective which have shaped currency management more or less in most countries during the past few years and, it should be noted, with evidences of remarkable success in some. Great Britain, among the larger countries, supplies a striking example of such success, as does Sweden among the smaller countries.

Let us take a look at our own experiment in managed money.

When it comes to our American experiment in managed money it is not possible to speak with the same confidence: opinions differ, and will probably for some time continue to differ, with regard to the success of the monetary policy which has been developed and pursued in our country during recent years. There were those who confidently predicted that if the country's money supply was sufficiently increased and sufficiently rapidly increased it would lift or float us out of the depression and lift prices up to the much favored 1926 level. The broad objective of our policy has been to raise the general level of prices and to ease the strain of private indebtedness by insuring an abundant supply of money to the country. The Federal Reserve System has, through the open market policy which it pursued with energy, that is, the policy of putting out new and additional money for the use of the country through the purchase of United States Government securities

XERO COPY

XERO COPY

XERO COPY

in the open market, made a large contribution to the increase of our national supply of money. Our revaluation of gold in 1934 not only increased the dollar value of the existing gold reserves but was followed by purchases of gold from abroad and from domestic mines amounting to more than three billion dollars, and under the Silver Purchase Act the country's supply of silver money has been increased by more than half a billion dollars. These huge accessions have given rise to what are called "excess reserves" of the member banks of the Federal Reserve System. Excess reserves are made up of the money which the banks have to their credit with the respective Reserve banks in excess of the reserves they are by law required to hold in order to carry on their business. They are, therefore, in the nature of surplus cash owned by the banks, and can properly be described as idle money.

The total effect of these policies and changes has been to bring about a condition of extreme "money ease", as it is called. Rates for borrowed money for commercial use have never been so low for those who could get it. Rates for money borrowed by the Government have been unprecedentedly low. So far as there is restorative virtue in cheap and abundant money, it looks as though the United States ought to have had the full benefit of the monetary and economic theories of those who insist that the cure of business depression is a superfluity of money.

The abundance or, better said, the super-abundance, has, however, not been without some effect in creating grave anxiety in the minds of

some as to the future safety of our currency. To date, as a matter of fact, neither the hopes nor the fears which have been occasioned by this great increase of money supply have been realized: both appear to have been greatly exaggerated. The inflation that was not only hoped for but confidently expected by some, and as confidently expected and feared by others, did not result -- at any rate has not resulted thus far. And why? Let us see!

Our recent experience has again demonstrated what the history of money and prices in the past had already established -- that increases in a country's money supply do not automatically raise prices and stimulate business activity. The country was not lifted out of the depression, nor were prices lifted to the 1926 level by the device of increasing the supply of money. It takes time for a change in the supply of money to exert its influence upon prices. Moreover, to what extent it will affect the course of prices depends upon a great many circumstances. Money affects prices and business only as it is used. Money does not possess the power of spontaneous activity. The dollar works only as someone puts it to work. Money is a tool: it has often been described as an instrument of exchange or a means of payment. Like other tools, it exerts no effect until it is used. Idle money, like idle labor or an idle tool, produces no effects. It is the money which is used and passes from hand to hand, not the money that is merely in the statistical picture, that counts in affecting the volume of business or the movement of prices. When the economic outlook of



the country is uncertain for any reason, when people are apprehensive for the future, they will hesitate to use their money; they will hesitate to buy or invest with the money which they own and they will also hesitate to borrow money, just as lenders will hesitate to lend. The leaven of faith in things present and future is what vitalizes and activates money. It is the ferment of enterprise that puts money to work. Where there is no peace of mind there will be no enterprise, and industry will drag. This world of ours, notably the economic and business world, moves forward only in the atmosphere of hope.

Broadly speaking, the net effect of our monetary policies as recovery-stimulants or depression-cures has not been noteworthy -- certainly not when set against the background of the promises confidently made by their sponsors at the time the policies were adopted -- but their effects in adding to and prolonging monetary uncertainty and confusion and the suspense of mind which these breed have been noteworthy.

The time is at hand, therefore, if not overdue, when the most competent thought we are capable of in the United States should be given to the question of how monetary uncertainty and confusion may be terminated in our own country, and the world at large as well as ourselves again given a monetary system enjoying an assured and incontrovertible position. Sober reckoning should be taken of what continuing monetary unsettlement is doing to keep alive the forces of doubt and hesitation. There is no other equally important contribution

XERO  
COPY

XERO  
COPY

XERO  
COPY

to economic restoration that can be so easily made as the termination of this monetary uncertainty. Shall it be by a return to gold in some form, or shall it be by going on with managed currency?

-----0-----

Because I believe that the way to monetary restoration and certainty leads back to gold, I propose: 1. to review briefly the gold standard as it was developed in the nineteenth century; 2. to comment upon its premature re-establishment during the years 1925 to 1928; and 3. to offer some suggestions on the problem of the return to gold in the future.

XERO  
COPY

XERO  
COPY

XERO  
COPY

WHENCE AND WHITHER IN THE GOLD STANDARD

I

The Gold Standard in the Nineteenth Century

The opening of the twentieth century had witnessed the all but universal adoption of the gold standard by the nations of the world. It was in a fair way of becoming one of the established institutions of the modern world. The word "institution" is used advisedly. The gold standard is imperfectly understood, if it is regarded merely as a piece of monetary mechanism. It is that, but it is also very much more. The countries that were tied together in the gold standard system represented to a not inconsiderable degree a community of interest in and of responsibility for the maintenance of economic and financial stability throughout the world. The gold standard was the one outstanding symbol of unity and economic solidarity which the nineteenth century world had developed. Implemented as it was by the central banking organizations which had grown up in most of the gold standard countries, any disturbance of an economic or financial character originating at any point in the world which might threaten the continued maintenance of economic equilibrium was quickly detected by the sensitive foreign exchanges. The processes of checking the threatened upset were set in motion and usually worked with such quickness and smoothness that only those whose business it was to keep in close touch with what was going on in the world of finance and commerce knew that anything had threatened. In this way, the gold standard system became in a very real sense a regime or rule of economic health, a method of catching economic disturbances in the bud and

preventing the accumulation of stresses, strains and maladjustments in the economic structure which, if unchecked, would grow to catastrophic dimensions.

It is a mistake, and a serious mistake, to think of the historic gold standard as a system whose one and only objective was the maintenance of the convertibility of a country's currency and the stability of its foreign exchanges. It was in its larger significance a method -- the most effective that the world has yet known -- for promoting and cultivating conditions conducive to the development and maintenance of a well-compacted and stable economic and financial order.

It should, however, be noted, and particularly by those who are today proponents of an early return to the traditional gold standard, that conditions in the nineteenth century were on the whole exceptionally favorable to the efficient operation of the gold standard. Anyone who is well acquainted with the nature of the gold standard knows that it is not suited to all climes and conditions. It is, in a way, an aristocrat, and must be surrounded by satisfactory conditions. Of itself it cannot create those conditions, nor can it restore them when they have become badly deranged. Its business is the maintenance of good conditions when they already exist rather than their restoration when they have become bad.

The gold standard, it may not be overlooked, originated and developed under economic conditions which were highly competitive, and it

functions best in such conditions. Such was the economic society which existed prior to the World War. In an economic world in which competition is the shaping influence and ruling force, the economic structure is flexible, things tend to find their level and industrial readjustments made necessary by monetary or other changes take place without long delays and painful dislocations. Under such conditions external prices and internal prices are kept in close adjustment with one another: so also are internal prices and costs -- that is wages and other forms of income; and thus, in the language of the economists, the price-cost structures of the different countries are kept in proper relationship with one another and purchasing power parities of the currencies of the different countries maintained. Such conditions are favorable both to the achievement and to the maintenance of economic balance and therefore to the efficient operation of the gold standard. It should be emphasized that it does not work as satisfactorily in a society whose economic structure is losing flexibility -- the problem of achieving and maintaining balance then becomes a much more difficult one, and so does the business of successfully operating the gold standard.

It is considerations of this character which make the question of the return to the gold standard in the world of today and under the conditions of today a problem which is far from being as easy of solution as too many of those who are impatient for its immediate or quick return assume.

The problem of monetary restoration confronting our country and the whole world today is at best a difficult one, and one not to be lightly approached or in a mood of merely sentimental attachment to ancient loyalties and moralities. The problem calls for the exercise of sustained objectivity, severe realism, and the patience and tolerance which proceed from understanding.

The mistake of premature restoration of the gold standard which was made ten years ago must not be repeated. Its consequences would not only be disastrous to the future of the gold standard, but might easily prove a tragic economic disaster for the whole world.

Such was in the high period of its historic renown in the nineteenth century the nature and working of the gold standard, at any rate in its larger and more significant lineaments. Let us now inquire how it fared when the attempt was made after the war to restore it.

## II

### The Restoration of the Gold Standard in 1925 to 1928 and Its Breakdown

During the years 1925 to 1928, under the leadership of Great Britain, most of the countries of Europe and many in the over-seas world undertook to hasten the economic and financial reconstruction made necessary by war by restoring the gold standard. Country after country, aided by Great Britain and the United States, re-established its currency system on a gold basis, each acting more or less

independently of the others and without much regard to the effect that its action would have upon others in fixing the gold content of its monetary unit, and apparently without any serious inquiry as to whether conditions of economic equilibrium in the world had been restored to the degree necessary for any enlightened decision as to the relative values of the different national currencies which were to be defined in gold.

Events soon proved that the world was not yet ready for the restoration of the gold standard. It was with difficulty and only with the liberal assistance of the United States that the newly restored gold currencies of Europe and elsewhere were able to maintain themselves. The much complained of maldistribution of gold, the excessive amount of the world's financial funds held in the form of short-term and migratory money seeking a hide-out first in one country then in another, to the embarrassment no less of the country in which it took refuge than of the country it had forsaken, may be cited to show how seriously out of joint the world still was. The world was still too disorganized, both on the economic and financial side, to provide the conditions essential for the satisfactory operation of the gold standard. The history of these and the subsequent years of deep depression and distress which has not yet ended show convincingly that the world had not yet recovered its economic balance, had not yet become a world suited to the regimen of the gold standard -- in a word had not yet again become a gold standard world.

XERO COPY

XERO COPY

XERO COPY

Monetary systems almost universally were still managed. In meeting the succession of economic strains and financial difficulties which were encountered even before the crisis of 1929 the old gold standard simply could not, and therefore did not, operate. It had to be managed, and managed mainly to keep itself from breaking down in many countries where from the beginning it at best enjoyed only a precarious position. The economic consequences which followed from this hybrid monetary regime are a matter of too recent history to require more than passing reference. It may be well to recall, however, that the train of antecedents dating back in the United States to the year 1924, particularly our great adventure in 1927 in helping to keep the weakened gold standard in Europe from falling, which finally culminated in the economic and financial catastrophe of 1929 with its legacy of tragic consequences, is not to be charged to the gold standard, but rather to the way in which that standard was perverted and managed. During the whole of this critical period the practice of the gold standard was more honored in the breach than in the observance, and under the supposed protection of the gold standard the monetary systems of gold standard countries, almost without exception, were being managed to a degree and in ways utterly foreign to its nature. Events have since conclusively proved that the world had not yet sufficiently recovered to submit its monetary and economic life to the discipline of the gold standard and by force of similar circumstances has been throughout the whole of the post-war period on a managed currency



basis. The world of today is a managed currency world and will continue so until the healing forces of nature and a large-minded statesmanship is brought to bear on the problem of helping the forces which make for economic integration in the world and hindering those which make for further disintegration. The philosophy of the classic gold standard is the philosophy of economic integration. Its goal is a world which is integrated, not only as to each of its component parts, but as to all of these in their relations to one another. Until the world returns to such a position monetary systems will continue to be managed money systems in one degree or another, such as is the case today. The world will be fortunate if these systems are managed with a return to gold as their constant objective.

The mistake made by the premature restoration of the gold standard in Europe and elsewhere after the war was in thinking that monetary restoration through the gold standard could accomplish economic restoration. Events of past history and those of recent history to a poignant degree have shown conclusively that when the economic structures of the world and its leading countries have become badly disorganized and disintegrated and monetary systems demoralized and debauched, economic restoration must precede monetary restoration, or they must at least proceed hand in hand. Such situations require far more flexibility in the monetary mechanism than is consistent with the gold standard. The adjustments and readjustments in the process of helping the recuperative powers of nature require temporizing,

compromise and management. Under such conditions, the flexibility of a managed currency system has advantages which the rigid form of the gold standard system does not possess in requisite degree. It would be short-sighted, therefore, to expect that in the present economic state of the world the gold standard system as it was in the days of its pre-war ascendancy could be re-established and put into full operation in the near future, if ever again.

Such, in brief, is the tale of the unhappy career of the gold standard in the first attempt at its restoration after the war.

### III

#### The Return to Gold in the Future

In the return to gold, and particularly in judging when conditions are propitious for the return, the attitude of Great Britain will be most important. It may be well to recall that England was the birthplace of the gold standard. She gave it to the world. She built it up into a universal monetary system through the genius with which it was administered by her from the last third of the nineteenth century to the outbreak of the World War. During that period the gold standard developed into one of the great institutions of the modern world. England was its financial center: all roads led to London. The pound sterling became the universal unit of international settlement. The Bank of England, through its far-sighted and skilful management, made the gold standard the balance-wheel of stability and the

symbol of international financial order and certainty. With the outbreak of the war, to repeat what has already been said, the gold standard broke down. Great Britain led the way back to its restoration in 1925. Later events proved its re-establishment to have been ill-advised at that time. It led a precarious existence. After a desperate struggle, in the year 1931 Great Britain led the way off the gold standard. She suspended gold payment, i.e. the sale of gold by the Bank of England at a fixed price, and left the value of sterling to the determination of circumstances and the judgment of the monetary authorities to whom she entrusted the management of her money. With such consummate skill have the Bank of England and the British Equalization Fund handled their problem that Great Britain presents to the world today the most striking instance in history of a successful enterprise in exchange and currency management on a large scale and under highly difficult conditions.

The United States suspended gold payments and a free gold market early in 1933, but did not abandon the gold standard except for a short space of time. It was not many months after suspension when the gold dollar was revalued and gold bought and sold at a fixed price of \$35 per ounce. Since then the dollar internationally has shown a high degree of stability.

Considerable progress has therefore already been made toward the stabilization of the world's two principal currencies and has brought us appreciably nearer the day when de facto stabilization may end and

a complete and assured stabilization of the currencies of the world's leading countries be contemplated and prepared for and eventually attained through the return to gold in some form suited to the circumstances of the world today.

The problem is now mainly one of bringing the two great countries of the English-speaking world into an accord in a determination and an endeavor to further monetary stabilization by preparing and testing the ground so that when the moment for restoration will have arrived gold parities, not only for their own currencies but for at least those of all the larger countries, may be ascertained and established, which the course of subsequent events will show to be truly adjusted to economic conditions and circumstances.

These conditions and circumstances, it must be recognized, have changed in many ways, in some ways profoundly, in the almost twenty-two years which have elapsed since the world last witnessed the successful operation of the gold standard. These changes may not be overlooked in devising the ways and means of effectuating a return to gold, nor the safeguards to which they point as suitable and necessary to the successful operation of the gold standard of the future. The economic and social structures of nearly all countries of the Western World have been losing flexibility since the World War, some of them to a degree that would perhaps better be described by saying they show signs of increasing rigidity. Such has been conspicuously the case in Great Britain, and such is also coming to be the case to no mean extent

in the United States.

Monopolies and other forms of capital control, labor-organization control and the multiplying forms of Government control, both economic and social, trade barriers, tariff discriminations, import quotas, subsidies and bounties may be cited to indicate the spread of the stiffening process which is creeping over the body economic of our own and many other countries today. These devices, which would have been described by the economists of an older day as interferences with the free play of competition, are symptomatic of far-reaching changes in political, social and economic outlook which the twentieth century has brought. The pressures which the World War and the great depression have exerted have, of course, greatly accelerated and intensified this drift, but it probably would have occurred in any case. The Western World had entered the "Age of Welfare" even before the war, but happenings since then and notably in the last few years have set countries, including our own, far ahead on the new course. The student of monetary science may not overlook the significance of this drift or trend in affecting not only the future of the gold standard but the whole problem of monetary organization and control in the future as well. The gold standard of the future will of necessity have very much less of an automatic, self-regulating character about it than that of the last century, because the economic world in which it will operate will also have very much less of a competitive and self-adjusting character. The operation of the gold standard in an economic society whose joints are stiffening presents a different and

much more difficult problem than its operation in the flexible world of the nineteenth century highly competitive society. As economic structures become more rigid the gold standard itself must become less rigid. It must develop the capacity to adapt and adjust its operation to a degree never in contemplation before the war. The gold standard of the future must lay aside the habits of the aristocrat and cultivate those of the democrat. It must learn to adapt itself to new surroundings and their requirements and not regard itself as its own end. While continuing to perform, as before, the function of providing the commerce of the world with a common currency of indubitable character, it will also and at the same time have to perform the function of supplying national currencies adjusted to domestic circumstances, in order to meet the reasonable requirements of the economies of the different countries operating under the gold standard system. The application of the gold standard will have to be tempered at times and firmed at others. Implementation and guidance will play a far larger and more important part in the administration of the gold standard of the future than in the past. The central banks in Europe and the Federal Reserve System in the United States will be tied in very closely with that administration. They will perforce operate the gold standard of the future. They will be its guardians, ministers and masters. A high sense of purpose and responsibility, deep understanding, wisdom, skill and statesmanship will be called for from them, and not least in the preliminary trial period when the ground for a return

XERO COPY

XERO COPY

XERO COPY

to gold is being made ready and proved. The enterprise and responsibility with which they will be charged will be partly national and partly international, but always directed to a common end and to that extent, at least, a common enterprise. Its end will be the furnishing of the world and the several countries belonging to the gold standard system with a currency and a form of currency control that will do all that may be reasonably expected of the monetary mechanism toward keeping the economic systems of the several countries and the world economy in which they each have a profound stake in a going condition, i.e., as nearly as may be in a state of continuous functioning. Such an enterprise or endeavor must obviously follow the lines of mutual understanding and accommodation. No prescribed formula can be laid down in advance, least of all by any one country for the others.

That the gold standard can be re-created into an institution of both national and international monetary and economic service; that the gold standard of the twentieth century, when it finally takes shape and is given the support both of the peoples and the governments of the world, will again become a great institution not only of monetary certainty and safety but also of financial order and economic stability, and again give to the world a much-needed spirit of community of interest and responsibility I do not doubt. That is why I am for the return to gold as the only secure foundation on which to rebuild the monetary systems of the future.

The time has come to end the period of monetary experimentation and hesitation and to begin the work of monetary reconstruction. Our own Government has recently spoken; we are ready to proceed. The world now awaits a sign from Great Britain. When she has spoken the way will be open for the rebuilding of the old gold standard system into a twentieth century institution.

XERO  
COPY

XERO  
COPY

XERO  
COPY