

G O L D

1. Charles Dickens, Nicholas Nickleby Chapter XVI (1838-1839)

Mr. Gregsbury, M.P., after giving Nicholas Nickleby a long list of qualifications that a secretary to an M.P. must have and duties he must discharge continues ---

"Besides which," continued Mr. Gregsbury, "I should expect him now and then to go through a few figures in the printed tables, and to pick out a few results, so that I might come out pretty well on (tariff) timber-duty questions, and finance questions, and so on; and I should like him to get up a few little arguments about the disastrous effects of a return to (the gold standard) cash payments and a metallic currency, with a touch now and then about the exportation of bullion, and the Emperor of Russia and bank notes and all that kind of thing, which it's only necessary to talk fluently about, because nobody understands it. Do you take me?"

"I think I understand," said Nicholas.

2. W. A. Brown - two volumes to cover 20 years of the operation of the gold standard.

(a) Hard to know what to exclude

(b) Must be ~~more dogmatic than is my wont~~ *stick to fundamentals*

3. Creation of the International Gold Standard *Some advantage to defer questions on qualifications till the end. Even so, well to spend a few minutes on history*

Created in that nostalgic, Victorian era - the second half of the 19th Century.

A century ago currency systems with few exceptions - U.K. - were on silver or bimetallic standards.

England got on gold standard by mistake.

study of *Reconnaissance* 1696 Report of John Locke, Sir Isaac Newton and Lord Somers to fix legal ratio at 16:1.

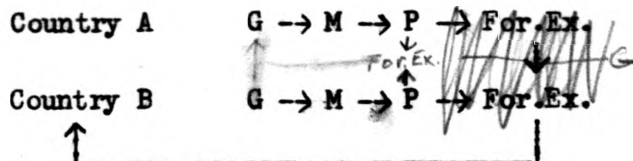
values of silver In other countries, ratio was $15\frac{1}{2}:1$.

England lost gold In 1816, Lord Liverpool concluded that England was "naturally a gold country", adopted the gold standard, and closed the mints to the free coinage of silver.

Gradual adoption by other countries until widespread by 1914. *attachment*

4. Rationale of the Gold Standard

(a) Distribution of monetary gold.



*The meaning of an
int. system
= 2 way adjustment*

(b) World supply of monetary gold.

G → M → P → Gold Stocks - Production / Consumption

"automatic"

(c) An abiding faith in the benevolence of this mechanism.

5. The First World War

Viewed as temporary aberration.

Faith remained.

Return to normalcy.

6. Restoring the Façade

attachment

(a) England

(b) France

7. World Depression and Second Collapse:

Reexamination and Loss of Faith

(a) It operated in a century of peace & industrial expansion

(a) Major miracles that enabled the gold standard to work at all.

Aleatory character of industry.

California and Australia when world adopted standard.

Alaska Klondike and Rand.

potassium
Cyanide process.

(b) The G/M ratio

*Really didn't work very well
crisis 1847*

As little as 2-3% in England.

A very thin gilt.

Domestic hoarding.

$$G = M, \text{ not } G = \frac{M}{R}$$

57
66
90

(c) Role of management

Bank of England aided five times by Bank of France before First World War.

(d) Greater demands made of monetary system

Depression and unemployment.

Elimination of domestic convertibility.

~~(e) So much for the economists~~

~~Now enter nuclear physicists!~~

8. General Conclusions : *Actual gold standard is a series of miracles, mistakes, and management.*

(a) The 1920's

A rigid international system is fragile.

Cost of international stability may be too great in terms of domestic instability.

(b) The 1930's

Nationalism is chaos.

The rest of the world initially, eventually the country itself, loses.

(c) What is needed is a ^{"stable"} flexible international system.

The International Monetary Fund.

The International Trade Organization.

Establish rules of game.

not as natural, automatic, benevolent mechanism but

9. The Bevin Proposal in the Light of this Discussion

(a) Gold for domestic use (?)

So long as there is no domestic circulation of gold, domestic value of currency is determined by quantity in circulation uninfluenced by the amount of gold reserve.

(b) Gold for international use (?)

Then don't want gold but what it will buy.

(c) Sudden statement by believer in short and long-run planning!

(d) Basic international need of Britain *is production (goods)*
not dollars.

10. What of the Future of Gold?

(a) We should eventually try to acquire some goods and services for part of our gold stock.

(b) We should be prepared for an influx of Russian atomic physicist gold.

Needn't worry about solvency of Federal Reserve Bank.

(c) We should develop positive monetary standards

Prices

Employment

It is not the long-haired economist but the atomic nuclear physicist who delivered the coup de grace to the automatic gold standard