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The attached article has been prepared in response to a request by the Associated Press for a statement concerning the significance of the restoration of the gold standard in Great Britain.

I understand the Associated Press will use it for publication in morning papers of May 24th.

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RESTORATION OF BRITISH GOLD STANDARD: WHAT IT MEANS.

(A. C. Miller, Federal Reserve Board.)

Sterling exchange is at gold par! What does this mean? In a merely technical sense it means that the English paper pound has a value in the exchange markets of the world equivalent to the English sovereign. In terms of American gold currency this means that it is worth \$4.866. In other words, the English pound now and henceforth has a definite gold value by reason of its interchangeability at the Bank of England with the gold sovereign. But the attainment of par by the English pound has much more than a technical significance. It is in itself one of the most important steps achieved since the Armistice toward world economic restoration. More even than that, it is an illuminating and gratifying sign of how far toward completion the whole process of post-war readjustment has run its course.

Ever since the Armistice agriculture, trade and industry the whole world over - in the United States as well as elsewhere, in one degree or another have been struggling against the handicap of currency disorganization and exchange derangement. "Back to normal" has been a longing of the distraught mind of the peoples of Europe, and to them the restoration of their currency to a gold basis has become the symbol and the goal of "normal". How to get their affairs securely back on a gold basis has not, however, been clear to all of them. Such has been the mental confusion and moral devastation produced by the war! Time has, however, made it clear that there are no short and easy cuts. History has repeated itself

again in this instance. Mere man-made laws may sometimes be successfully interfered with, but economic law is as inexorable as fate and exacts its strict fulfillment. Germany learned this when, after a debauch of her printing press currency to a degree unparalleled in the history of great trading nations, her currency became literally worthless and she decided by a stroke of the pen to wipe it all out at whatever sacrifice and make a fresh start. Under the Dawes Plan and with the assistance of American gold the gold standard has been restored in Germany. And with its restoration Germany is going forward with firm and steady steps to economic recovery and financial solvency.

For six years England has been working to put herself on a gold basis. From a low of \$3.19 the pound has now risen to a par of \$4.866. This has been accomplished not by devaluing or wiping out her currency notes but by steadily building up the gold value of her currency in the markets of the world. Adhering to banking and monetary tradition and never forgetting the lessons of experience, England with dogged persistence has held to her course and today sees her reward in the achievement of par for her exchange.

The importance of this achievement, whether it be looked at from the point of view of the world's interest or of our national American interest, cannot easily be exaggerated. The action recently taken by the British Parliament in ordering a restoration of the gold standard and the reestablishment of London as a free gold

market was promptly followed by similar action in the self-governing commonwealths of the British Empire and by countries in Europe that were awaiting England's decision. The result is that there are now only three of the larger nations, to wit - France, Italy and Russia, that have still to swing into line in making the gold standard practically universal and restoring it to the primary position it occupied before the war as an international regulator of money and exchange.

Before the war the gold standard was well-nigh universal among the trading nations of the world, and London was the most important of the world's free gold markets and financial centers. Its position was unique. The pound sterling had attained a position of primacy as a monetary unit of international accounting and payment. It is not too much to say that the successful maintenance and the effective operation of the gold standard in pre-war days was largely due to the skill and the success with which London conducted her monetary and banking affairs in maintaining a free gold market and thus buttressing the gold standard in other gold-using or gold-exchange-standard countries.

By reason of the great changes that have come about in the world of commerce and finance in the past ten years the United States has become the world's greatest gold center and the world's leading free gold market. But events have demonstrated pretty conclusively that the United States could never expect to get the

full benefits of the steady influence on her affairs of the gold standard until international gold flows resumed a normal course through the reestablishment of London as the most important outside free gold market.

This position has now been virtually attained. The gold standard is now in effect in four-fifths or more of the commercial world. The fantastic vagaries which a certain school of economists on both sides of the Atlantic have embraced in their efforts to find a substitute for the gold standard have given way before the world's resolution to tie its fate in monetary matters in the future, as in the past, to something more objective and less capricious than fallible human discretion. However interesting the various artificial devices, such as "managed currency," "price stabilization," etc., through credit manipulation might be as enterprises in celestial economics, they offered little practical comfort to a world wearied with sufferings from wobbling exchanges. They brought stones to a world crying for bread. The clouds of uncertainty and confusion which have rested over the world's monetary horizon for a decade were not to be lifted by such devices.

With the gold standard in practical operation international trade and finance can again be conducted without the uncertainties and risks attending fluctuating monetary units. Few things add more to the hazards of trade or give it more of a speculative character than fluctuating exchanges. Exchange derangement discourages and diminishes trade. The reestablishment of the pound sterling as a

dependable monetary unit of international payment may, therefore, be expected to give a substantial boost to international trade from which we in the United States may expect to be great gainers. International trade can now proceed in a more orderly and normal fashion and have less of the speculative character it has had in recent years. Anything that promotes the trade of the world by giving it a safe and stable basis in the foreign exchanges will ensure to our advantage, for ours is the greatest foreign trade of any country. Everyone in the United States, whether engaged in agriculture, commerce, industry or finance, will in time feel, though he may not be aware of it, the stimulation that will come with the restoration of the world's international machinery of exchange to the firm and secure basis assured by the restoration of the gold standard.

It may also be expected that, with the removal of the dams which have obstructed the natural flow of gold from country to country, credit will be loosened and afford stimulation in healthful and safe ways to trade among the nations and industry within them.

With such an undoubted and important interest at stake in the restoration of the gold standard, the United States clearly has an interest in promoting and assisting its reestablishment. And as the largest single holder of the world's stock of monetary gold, we in the United States not only have an interest in the

restoration of the gold standard but a duty to assist in its restoration and maintenance wherever conditions give definite promise of success. It is for this reason that our Federal Reserve Banks have arranged to let the Bank of England have some of their gold, should it be needed by the Bank of England in the first stages of England's resumption of gold payments and the practices of a free gold market. It does not seem likely at this time that the Bank of England will have much or frequent occasion to draw on our gold supply, but past experience shows that difficulties may be encountered in the early stages of gold resumption and that it is, therefore, inadvisable not to be prepared to meet them. The Bank of England and the British Government have, therefore, acted wisely in arranging for American gold credits to be drawn upon in case of need. It was particularly thought advisable to have an American credit of impressive amount for the purpose of discouraging in advance and beating off and defeating any speculative drives that might be made by operators anywhere in the world against sterling exchange, if such drives should be attempted.

By cooperating with England in her endeavor to put the gold standard into effect in her money market the United States has again supplied a constructive factor of the greatest consequence in helping to place the economic and financial affairs of the world on a solid and safe basis.

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