March 1961 No. 2

AMERICAN INSTITUTE
for ECONOMIC RESEARCH
Great Barrington, Massachusetts

ECONOMIC EDUCATION BULLETIN

Advantages of Returning To the Full Gold Standard

Preventing Further Depreciation of the Dollar

The advantages of returning to the full gold standard with the Nation's currency redeemable in gold on demand are many. Redeemable promises to pay presumably would not be issued as recklessly as irredeemable promises might be, in fact usually have been. Throughout the course of history, governments relieved of fulfilling their promises to redeem currency on demand sooner or later have taken advantage of such an invitation to reckless irresponsibility.

The fixed amount of gold in each dollar has a relatively stable purchasing power in the long run. Specifically, when not disturbed by the inflating or deflating of other purchasing media, the exchange value of gold has remained remarkably stable for generations. Changes in prices based on gold usually have been gradual rather than seriously disruptive.

When prices continue rising in a country on the gold standard, gold tends to move out from the reserves securing currency and bank deposits, thereby limiting or preventing the further expansion of credit and the subsequent rise in prices.

The experience of 20 principal nations since 1790 reveals that managed currency experiments always have failed.

Avoiding a Flight From the Dollar

The scare buying in July-August 1950 and January 1951 provided a slight indication of what a real flight from the dollar might mean. A more hectic business boom attributable to loss of confidence in the dollar and a rush to buy before prices rose further could be expected to result in complete collapse. This is what has happened after every such flight from a currency in recorded history.

The United States has experienced many business cycles, but

You can help to promote correct understanding and wise decisions in the present crisis by distributing this bulletin; extra copies, 5 for one dollar ($1).

none of the business declines that occurred while the gold standard was firmly established remained long at low levels. The Nation's few extremely severe and prolonged depressions occurred when the gold standard had been suspended or its continuation was seriously in question. (In this connection, it is important to note that economic recovery in 1932, measured by the index of industrial production, began in August and by December was well under way in spite of the uncertainties engendered by the political campaign of that year.) The record of history suggests that firm adherence to the gold standard can be more helpful than any other monetary means of restoring prosperous business conditions. (Of course, no monetary standard can prevent a readjustment if economic equilibrium has been disturbed by excessive speculation, overexpansion, or other maladjustments; but firm adherence to the gold standard apparently has always facilitated business recovery once the maladjustments have been corrected.)

Gold is universally accepted as a medium of exchange. Even when practically all nations of the world have been "off the gold standard" as far as domestic redeemability was concerned, they have sought gold; and the people of the world, whenever there was widespread fear of monetary depreciation, have done likewise. Gold is universally recognized as a valuable substance that does not deteriorate in storage. The fact that a currency is convertible into gold should assure for that currency virtually the same value in exchange and acceptability as gold itself. Such was the Nation's experience for the several decades during which the United States adhered to the full gold standard.

Inhibiting Unwise Fiscal and Banking Policies

If redeemable currency were restored, the wiser and more far-sighted of the Nation's citizens who saw the dangers in unsound fiscal or banking policies could demand gold, and Treasury and bank officials ordinarily would act with awareness of this fact. A possible resulting outflow of gold would force the Federal Reserve authorities and the Government to reconsider unwise policies.

Instead of depending on the wisdom of a selected few who might err disastrously (and who did err disastrously in 1927-29), the Nation would provide freedom of action for the many hundreds of thousands of its wisest citizens who presumably can best foresee the probable effects of unwise policies and so act as to counteract those policies. In the absence of the combined judgment of a multitude of keen and experienced observers, there may be no effective check on unwise policies until they have resulted in serious disaster. No truly wise monetary authority or fiscal policy maker should wish to be without such an important guide to policy any more than a sensible automobile driver would discard the speedometer and brakes. For the 93 years

from 1821 to 1914, by closely watching the gold indicator and adjusting policies accordingly, the Bank of England contributed greatly to the stability and prosperity of England.

Preserving the Integrity of Long-Term Contracts Including Life Insurance and Social Security

Although the buying power of the dollar may be distorted temporarily either by unsound credit expansion (inflation) or the collapse of such unsound credit expansion (deflation), in the long run the exchange value of gold varies relatively little; no other medium of exchange as yet has proved to be so stable.

When both parties to a contract have a fixed standard unit as the measure of their respective obligations, they can judge the risks involved far more accurately than when their contract promises are stated in the necessarily vague and fluctuating terms of a managed currency.

Continued depreciation of the dollar at the rate of the past two decades would virtually destroy the value of life insurance benefits and other such forms of family protection within the lifetime of the average individual. This is what has happened in France since 1915, and in important respects the monetary policies followed since 1933 in the United States have paralleled those of France. Only a firmly fixed metallic standard has been found satisfactory as a means of assuring the real worth of such benefits. Such is the verdict of history to date.

Already, the thrifty citizens of the United States including holders of life insurance and those who have savings deposits and United States savings bonds have lost a total of nearly $200,000,000,000 in purchasing power since 1939.

Preventing Economic Delusions and Encouraging Investment

An inflation-stimulated boom is not sound prosperity. There have been several such booms in the Nation's history, and all have been followed by severe depressions. Never have the managers of a "managed irredeemable money" been able to create a sound and lasting prosperity.

The creation of deposits and currency based on Government debt and noncommercial bank loans does not create real wealth. Such a procedure only deludes those who strive to measure and exchange wealth and invites overspeculation; fancied gains are lost in the inevitable depression aftermath.

Insofar as the depreciation charges of business are based on prices lower than those currently prevailing and are therefore inadequate for the replacement of capital equipment, business profits

are in part illusory; they reflect a hidden consumption of capital.

Taxes based on illusory gains are destructive of real wealth. They hamper the sound growth of the economy, the continued growth that seems to be essential to survival.

When assured of the future value of their savings, men have confidence and are willing to invest. Such confidence and the resulting long-term commitments facilitate orderly progress. When they have a fixed standard and a redeemable currency the future of which is not being questioned, men can judge when "bargains" are available and act accordingly. Probably this accounts in part for the apparently invariable tendency of firm adherence to the gold standard to hasten recovery from business depressions.

When there is no fixed standard and redeemable currency or its future is in question, men have an inadequate basis for judging accurately when "bargains" are available. Consequently, they hesitate to make commitments; and while potential employers hesitate, the unemployed wait in government-induced idleness. Such was the Nation's experience during the money-juggling years of the 1930's after 1932.

"To Promote Maximum Employment, Production, and Purchasing Power" *

The experience of history shows that an irredeemable currency endangers the economic system that uses it. Innumerable instances testify to the truth of this assertion, and none refute it. A fixed standard facilitates the achievement of equilibrium among the economic factors of production, the only sound assurance of optimum employment and production, without which there can be neither full employment nor the optimum output of products to purchase.

Only if labor has a fixed and simple standard of value free from the misconceptions attributable to a depreciating currency can labor judge the real value of its present gains and possible future pension benefits. All the efforts of those who labor to obtain Social Security benefits and company pensions will be fruitless if the depreciation of the dollar continues at the rate of recent years.

Lord Keynes, who was a leader among the advocates of a so-called "managed irredeemable currency" openly avowed that his scheme was a means of deceiving those who labor and who neither pretend to understand nor are in a position to take advantage of the vagaries of "managed" irredeemable money. Only the shrewd speculator and the man of great wealth can expect to profit in the long run from "managed" irredeemable money.

In the absence of a fixed monetary standard and a redeemable currency the pressure for continued inflation tends to rob those who have the least economic power, depleting the only resources they have. The widows and orphans, the elderly and the ill in health, are

* The declared purpose of the Employment Act of 1946.

virtually defenseless against the ravages of a depreciating dollar that diminishes the buying power of their savings and depreciates the values of life insurance and annuities.

Technological progress, given a fixed monetary unit and sound fiscal and banking policies, ordinarily would result in a gradual lowering of costs and prices that would benefit all consumers. Especially beneficial would this be for those whom most men strive hardest to protect, their potential widows and their children.

Minimizing the Need for Controls

Although all money-credit systems require some control, if only to prevent abuses, the automatic features of the gold standard give early warning of abuses or unsound procedures and therefore facilitate corrections by a minimum of management. Because it minimizes the excuse for controls, the gold standard is especially disliked by those who seek to enmesh the economy in a network of socialistic controls.

The Federal Reserve Board should be free to act when there are warning signs of unsound developments. An independent agency to provide the minimum degree of appropriate control has been proven by long experience to be the only effective means of managing a nation's money-credit system.

Confidence in the future worth of the dollar is essential to long-term financing. Experience has shown that a nation that meets its promises to pay enjoys the best credit standing. When the United States resumed specie payments in 1879, one immediate and striking result was the reestablishment of the Government's credit standing. Government bonds could be floated at a substantially lower cost in interest rates.

Virtually all authorities agree that redeemable currencies are freely convertible and an aid to international commerce. Only general use of a common monetary metal can provide such free redeemability. By joining the leaders, our Nation would both encourage the rest of the world to follow and strengthen the base for such action.

Exchange restrictions and other rigidities, necessarily incidental to the management of irredeemable currencies but a hindrance to the flow of commerce, would tend to disappear.

Alleviating Depressions and Expediting Recovery

There is strong evidence supporting the view that firm adherence to the gold standard both alleviates depression difficulties and expedites business recoveries. The evidence is available in two forms, which are independent and confirm each other.

The National Bureau of Economic Research has compiled a huge volume of statistical series extending back to 1854 (on a monthly or

quarterly basis). After extensive analyses of these data as well as published reports of business developments, successive peaks and troughs of business activity were selected by the National Bureau.

During a period of 100 years, 22 cyclical declines and recoveries are recorded. Of the 22, only three were of unusually great duration and these occurred when the Nation was "off" the gold standard, in whole or part.

More specifically, the durations from peak to peak for all except the three exceptionally long ones already mentioned ranged from 19 months to 68 months. The three long declines and recoveries extended 101, 95, and 92 months, respectively.

If war years are excluded, the average duration of 17 peacetime cycles was 40 months. In sharp contrast, two of the very long cycles, also in peacetime, were 101 and 95 months respectively (1873-82 and 1929-37). In each instance the Nation was off or partly off the gold standard during most of the two long depression periods.

The course of industrial production provides additional interesting evidence. Unfortunately, extensive reliable data for the entire period are not available on a monthly basis, but use of annual figures makes possible the summary shown in the accompanying table.

Noteworthy is the fact that industrial production was seriously retarded and failed to increase above the long-term trend for three prolonged periods, 1873-1880, 1892-1901, and 1929-1941. The Nation was still off gold after the Civil War until 1879; retention of the gold standard was seriously in question from 1893, through the Bryan-McKinley campaign of 1896; but was unqualifiedly reaffirmed by the passage of the Gold Standard Act of 1900; and the rumors of Mr. Roosevelt's intentions to abandon the gold standard became widespread late in 1932, were confirmed in 1933, and the Nation returned only to the present incomplete gold standard in 1935. Several more years passed before emergency powers to alter the standard were finally allowed to lapse.

We do not assert that the gold standard can prevent a depression if there has been unsound banking and distorted business expansion facilitated by inflation of credit.

Certainly the burden of proof is on those who argue that firm adherence to the gold standard would worsen or prolong business declines and that abandonment of the gold standard or "managed money" can alleviate or shorten depressions. The available facts suggest that the situation is otherwise, that perhaps the best possible means for alleviating and shortening business setbacks is firm adherence to the gold standard.

How Can the Gold Standard Ameliorate Depressions?

The factual evidence available strongly suggests that the cyclical depressions experienced in the United States during the past 100 years

DURATIONS OF DOWNTURNS IN INDUSTRIAL PRODUCTION

(Until Recoveries to Long-Term Trend)

1865 - 1951

Period From	Period To	Number of Years Duration
1869	1872	3
1873	1880	7 *
1883	1886	3
1888	1890	2
1892	1901	9 †
1902	1905	3
1907	1909	2
1910	1912	2
1913	1915	2
1917	1920	3
1920	1923	3
1923	1925	2
1927	1928	2
1929	1941	12 ‡
1943	1947	4
1948	1951	3

* Off gold; resumption in 1879.

† Free silver and Bryan campaign, gold standard threatened 1893-96; Gold Standard Act, 1900.

‡ Off gold after 1932.

have been ameliorated whenever the Nation has chosen to remain firmly on the gold standard. Temporary suspensions of specie payments have occurred on several occasions, apparently without markedly affecting the depth or duration of cyclical recessions; but in each of the few instances when the gold standard either was abandoned in large part (as in 1862-79 or 1933-?) or was seriously in question (as in 1893-96), the cyclical recessions were prolonged as serious depressions for years.

Also noteworthy is the fact that the most severe business contraction on record (greatest decline in shortest period) occurred in 1937-38 when the Nation was partly on and partly off the gold standard. Similarly noteworthy is the lack of any record of a rapid and lasting recovery from depression levels when the Nation has been partly off gold or the gold standard has been seriously in question.

Before we attempt to suggest how the retention of or departure from the gold standard may be related to these developments, the fact that the gold standard is not considered a panacea for all economic ills should be emphasized. Serious departures from equilibrium conditions, whether in the form of overexpansion of plant and equipment, overspeculation in commodities or inventories, or rampant speculation in real estate or in stocks—all such departures from orderly equilibrium conditions have in the past been followed by drastic readjustments. Such readjustments usually included recessions of business activity and sometimes severe depressions, more or less prolonged.

Now there is much reason to believe that anyone who thinks such readjustments can be prevented, without first preventing the distortions and maladjustments, is simply deluding himself and anyone who takes him seriously. Certainly, there is no suggestion here that the gold standard, however helpful it may be in limiting the extent of such maladjustments, can possibly prevent or make unnecessary the readjustments required to restore equilibrium.

Nevertheless, the factual evidence clearly suggests that firm adherence to the gold standard invariably has ameliorated depressions. What is the precise form that such amelioration has taken?

In the first place, careful scrutiny of the statistical data available reveals no consistent tendency for recessions to be less severe, measured by the total percentage decline of industrial production, when the gold standard is retained. Evidently, serious maladjustments are followed by depressions of great depth whether on or off the gold standard.

Second, however, the recoveries apparently are more prompt and more rapid when the gold standard has been adhered to. In other words, the amelioration provided by the gold standard appears to be in the form of shortening the duration of depressions and expediting the recoveries from depression levels.

For example, if we refer only to the cyclical depressions since

1900 (for which reasonably accurate monthly data are available) we find the following: in six instances, the decrease in industrial production was severe in that it exceeded 25 percent (1903-04, 1907-08, 1913-14, 1920-21, 1929-32, and 1937-38); in four instances, when adherence to the gold standard was not even in question, the recoveries to levels above those of the preceding boom occurred in 13, 16, 9, and 15 months respectively; in the two other instances, both during the period since 1933, the recoveries required 43 and 26 months respectively, and the latter apparently was shortened by the huge purchases of armament by foreign nations.

Such interesting facts do not of course prove beyond any question of doubt that firm adherence to the gold standard tends to shorten depressions and expedite recoveries. But we may well ask, if the suggested relationship does exist, how can one account for it?

During the period when business is receding, severe curtailment of activity resulting from serious maladjustments that have developed during the preceding boom should not be surprising. At such times, prices fall and part of the decline apparently is attributable to the extent of the maladjustments and to unreasoning fear.

As long as individuals including businessmen have a well-known and established standard to judge by, they can estimate when bargains become available. Those businesses and individuals that have avoided overexpansion or other unwise dissipation of resources are in a position to act, provided they can be sure the bargains are genuine.

For example, a builder of residential housing who has prudently conserved his funds instead of losing them through unwise real estate speculation, presumably would be eager to start constructing new houses whenever the prices of materials and other costs have declined to bargain levels. He knows from experience that there will be buyers for the bargain houses he can offer. The same is true in most other fields of economic activity, but there must be a standard of value firmly adhered to; otherwise such individuals will lack a basis for sound economic judgments. In such circumstances, they will hesitate to act, they will hesitate and postpone, and while they, the usual initiators of recovery, thus hesitate, recovery falters and drags over years instead of months.

Probably related to these developments is the factor of trust in the fulfillment of contracts. When the standard of values itself is in question, or possibly even abandoned, men lack a sound basis for new contracts. Yet business activity necessarily involves the initiation and fulfillment of innumerable contracts. Any influence that retards the making of contracts, especially those of longer duration, inevitably must hamper the progress of business.

Significant, perhaps, is the fact that all the attempts to ameliorate the prolonged depression that continued after 1932 proved fruitless until the wartime boom. In no year after 1932 until 1940 was the average number of unemployed less than 7,700,000, and in 1939 the

number of unemployed still averaged over 9,000,000. The evidence suggests that all the pump-priming, all the efforts to expand purchasing power through various means, could not counterbalance the adverse effects of departure from the standard of value and its subsequent partial rather than complete restoration.

This explanation of how firm adherence to the gold standard may ameliorate depression at least "makes sense" when one considers how men usually conduct their business matters. Moreover, the available facts support, if they do not prove this explanation. Certainly it is difficult to imagine any contradictory explanation, any argument that adherence to the gold standard would worsen depressions, that would seem equally reasonable and equally well supported by the available data.

Was the Gold Standard Responsible For the Great Depression?

Many observers seem to believe that, because the Nation was on the gold standard in 1929, the gold standard was the cause of the Great Depression.** However, the available evidence suggests otherwise. Apparently, the gold standard tended to limit the extent of the maladjustments that preceded the Great Depression on the one hand; and, on the other hand, subsequent departure from the gold standard unnecessarily prolonged the Great Depression. The grounds for these assertions are discussed in the paragraphs that follow.

The Great Depression included much of two complete business cycles. The first extended from the 1929 peak, through the 1932 or 1933 trough, to the 1937 peak of business activity. The second extended from the 1937 peak, through the 1938 trough, and through part of the recovery phase to the next peak. †

The business cycle that extended from 1929 to 1937 was the second-longest in the Nation's history. As measured by the National Bureau of Economic Research, its duration was 95 months compared with 101 months for the business cycle that extended from 1873 to 1882. From

** We have included the entire period from 1929 to 1941 as the years of the Great Depression for the following reasons:

(a) Not until 1941 did industrial production again move above the calculated long-term trend, and

(b) Even in 1937 the average number of unemployed was 7,700,000, and as late as 1939 the average number of unemployed exceeded 9,000,000.

(c) Thus, for 11 years after 1929, unemployment remained as serious a problem as it had been during the Nation's earlier severe but brief depressions, and industrial production failed to increase above its estimated long-term trend.

† The next peak was not reached until early in 1945, but the recovery had brought business activity to a level well above its calculated long-term trend by 1941, the year when the prolonged period of subnormal business activity and severe unemployment ended.

the viewpoint of the present discussion, the interesting features of this comparison are as follows:

(a) The longest business cycle in the Nation's history began when the Nation had been off the gold standard for several years. The same is true of the third-longest business cycle in the Nation's history, that from 1937 to 1945.

(b) In the 100 years after 1854 there were 17 peacetime business cycles, during all of which the Nation was on the gold standard, and their average duration from peak, through trough, to subsequent peak was only 40 months.

Those who argue that the gold standard was responsible for the Great Depression therefore should consider these questions:

(1) Why were the cyclical recessions or depressions that occurred when the Nation adhered firmly to the gold standard all so much shorter than those when the gold standard was abandoned?

(2) How did it happen that two of the three most prolonged cyclical depressions began, in each instance, when the Nation had been off the gold standard for several years?

(3) Why, if being on the gold standard was a primary cause of the Great Depression, did not that depression end, when or soon after the gold standard was abandoned in 1933, instead of persisting for several more years?

(4) Why, if the gold standard tends to cause depressions, did the most rapid and most prolonged increase in industrial production that the Nation ever experienced occur during the decade and more following resumption of the gold standard in 1879?

But of course it is not enough to show some of the important reasons why the assumption that the gold standard causes depressions seems to be unsound. Were there other and more plausible reasons for the Great Depression? In view of the fact that whole volumes have been written on this subject, we cannot expect to cover all aspects of the problem in this brief discussion, but we can point out certain facts that seem to be highly significant.

Beginning about 1924, and continuing until 1929, there occurred one of the great real estate speculations in the Nation's history. The Florida boom, with its hundreds of thousands of participants throughout the Nation, was one of the more striking features of this great speculation. But there were other, perhaps more serious, aspects from the viewpoint of the economy as a whole.

In nearly every city and even the larger towns, the availability of "easy money" for mortgages on new building fostered a wave of speculation in large hotels, luxury apartments, and skyscraper office buildings. The promoting and financing of such enterprises became highly profitable, for the time being, as eager investors bought mortgage bonds promising what they expected would be "safety and 6%."

By these actions the economy became seriously distorted in that huge amounts of labor and capital were diverted to the construction

of such facilities far in advance of actual needs. Much of the funds provided was in the form of inflationary bank credit, with resulting excessive stimulation of business generally and support of prices at relatively high levels. Instead of the gradual lowering of prices that otherwise would have accompanied the great technological advances of that period, prices of finished goods were held up on a high plateau by the excess demand made possible by continuing inflation.

The speculative fever also spread to the securities markets, which by 1929 had become a gambler's paradise. The increasing bank loans to finance the mounting speculative activity became the inflationary source of huge gains, gains that soon appeared in the markets in the form of demand for fur coats, expensive cars, fabulous houses, and other luxury items.

Not for 200 years had there been speculation in securities comparable to the boom of 1928-29. We must go back to the Mississippi Bubble days in France (when John Law's easy-money scheme brought widespread ruin) and to the South Sea Bubble in England, a similar situation, to find a comparable period.

In the light of the exposures since 1929 of developments during the boom years, it should not be necessary to belabor the point that serious maladjustments occurred. The frenzied finance of the Insulls, the Kruger & Tolls; the general conversion of leading commercial banks to purveyors of dubious bonds; the prostitution of the banking system generally to the services of speculation via the reckless expansion of real estate, security, and accommodation loans; surely most observers, in the light of hindsight, would agree that all these developments were serious maladjustments, unsound distortions, that had to be corrected if destruction of the economy were to be avoided.

From the experience of history we learn that failure to correct such maladjustments has more than once resulted in a complete disruption of economic activities with virtual paralysis of business and in many instances with an overturning of the existing government. Such was the case after the Mississippi Bubble burst in France; such was again the case when the inflationary paper currency, the assignats, fostered similar distortions nearly a century later; such was the case in Germany in 1923; and such was very nearly the outcome in France a few years later.

In our own country, we had experienced great speculations similar in some respects, if not so severe, on several occasions. Reckless real estate speculation, unsound banking, and widespread bank failures had been prominent features of several great "booms and busts."

What part did the gold standard play in the Great Boom that preceded the Great Depression? At least it provided a standard of value by which a few saner citizens could judge the extent of the distortions that developed. If their wiser actions did not prevent the "bust," they surely tempered it. Even at the worst of the decline in industrial production, reached in the summer of 1932, such production was still

about two-thirds of the estimated long-term trend. Bad as this situation was, it was far better than the virtually complete cessation of business activity that presumably would have resulted if the Great Boom had carried on until the distortions had become even more serious.

Nor was adherence to the gold standard the cause of prolonging the depression, as is sometimes maintained. It was the domestic banking situation that must assume that responsibility. With the public's confidence in the banks at a low ebb and with sporadic bank failures initiating depositor runs on other banks in the vicinity, it is little wonder that even the sound bankers gave more thought to strengthening their cash positions than to serving the community in normal fashion. Thus, even applications for sound loans were apt to be refused and many banks sold bonds in a falling market to bolster up their cash in order to be able to meet possible deposit withdrawals. With accommodation at the banks extremely difficult to obtain and with an exceptionally weak market for securities, there was little chance of business recovery until many of the boom-time maladjustments had been corrected.

It may well be that inadequate measures were taken to restore the public's confidence in the banks and thus hasten business recovery. However that may be, it was the unsound banking situation, not the gold standard, that accounted for the severity of the depression.

Moreover, the recovery that began in late 1932 and was interrupted by the bank moratorium of early 1933 was resumed with great speed until the definite abandonment of the gold standard in the summer of 1933. Then followed more than 18 months of indecisive fluctuations in business activity until the Supreme Court's "gold clause" decisions were rendered early in 1935. Not until then were doubts about the partial return to the gold standard resolved for the time being. A prolonged upward surge of industrial production followed for two years.

Thus it would appear that those who blame the gold standard for the Great Depression do so in disregard of the evidence provided in that and earlier periods. It is much as though an inebriate lying in the gutter were to blame the sound constitution that enabled him to survive his excesses instead of his own unwise actions for his resulting unfortunate condition.

The Freedom of American Citizens

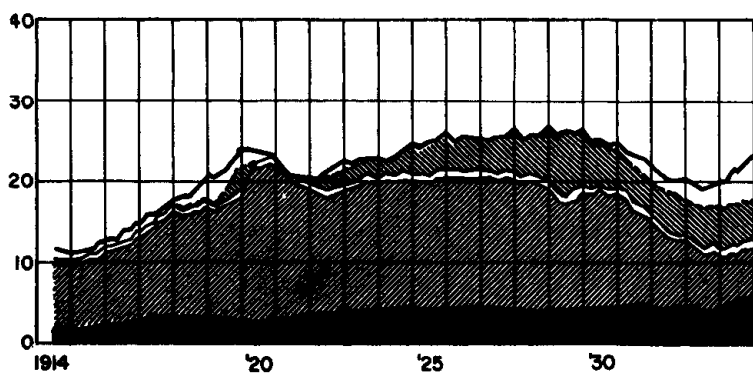
Foreign governments and central banks can obtain gold on demand in exchange for the Government's promise on our paper currency to make such payments; but American citizens cannot obtain from their Government fulfillment of its specific promise to pay on demand. All Federal Reserve notes, most of our present currency, carry the unequivocal pledge that the United States "will pay to the bearer on demand" the number of dollars indicated. Instead of giving to the bearer

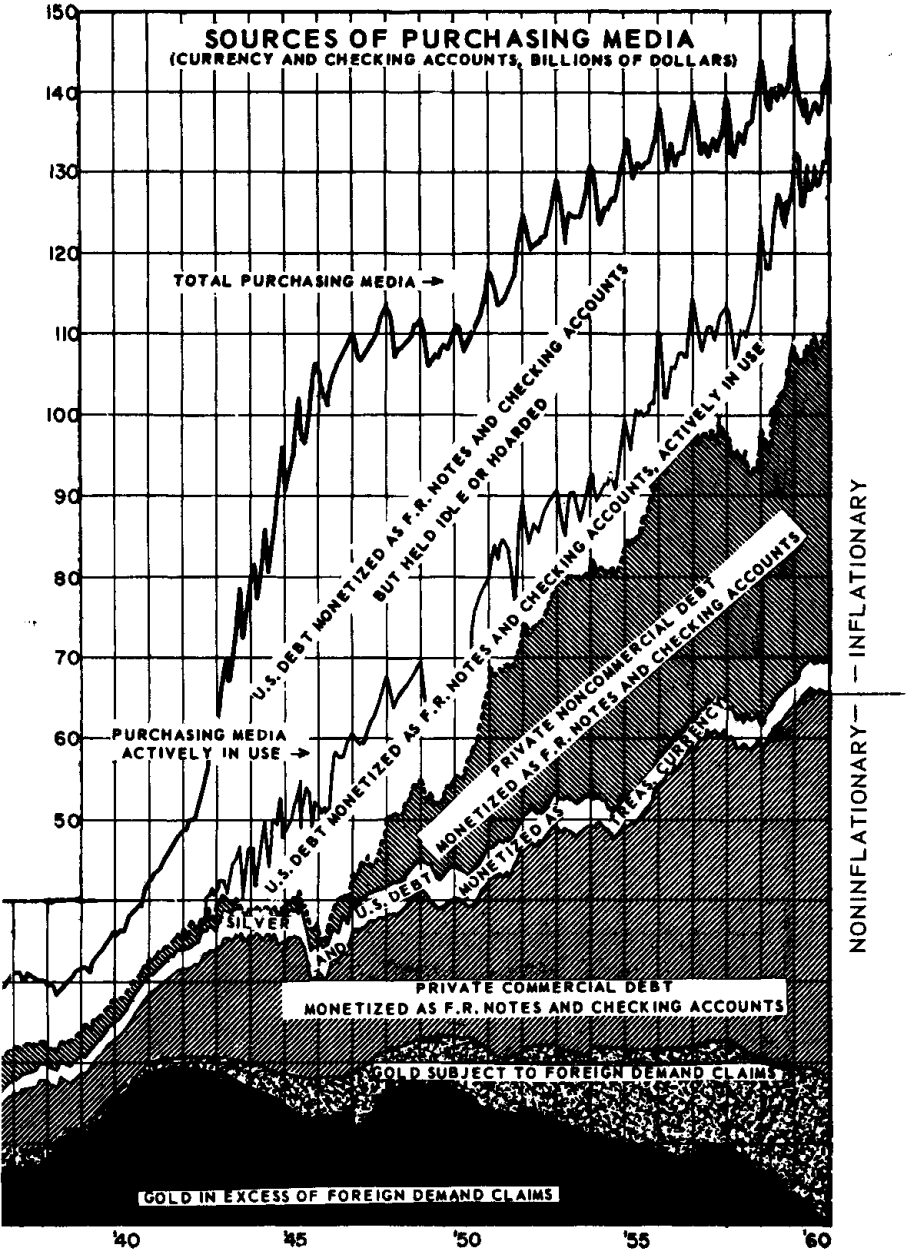
on demand the dollars promised, the Treasury in recent years has given more promises to pay dollars. Such subterfuge, the substitution of promises for promises instead of the thing promised, is unworthy of a great Nation and of an honest people.

A fully redeemable currency would restore to the people some degree of control over unsound banking and spendthrift government. Since the departure from the gold standard in 1933, the people of the United States have lost, in large part, their control over the public purse. The full gold standard would prevent the subtle embezzlement that continuing inflation effects. It would help to preserve the system of free enterprise and free markets that has made the Nation the leading industrial power of the world. Better assurance that this Nation would continue to grow stronger than its enemies is difficult to imagine.

SOURCES OF PURCHASING MEDIA

This chart shows the Nation's money-credit record since 1914. Clearly evident are the World War I and World War II monetizations of Federal debt with the resulting creation of excess or inflationary purchasing media. Also apparent are the private credit inflations that followed each World War. Not only was the monetization of Federal debt proportionately greater during World War II than it was during World War I, but also the private credit inflation in subsequent years has been greater in the more recent period. Note the loss of gold since 1950.




SOURCES OF PURCHASING MEDIA
(CURRENCY AND CHECKING ACCOUNTS, BILLIONS OF DOLLARS)
150
140
130
120
110
100
90
80
70
60
50
TOTAL PURCHASING MEDIA →
U.S. DEBT MONETIZED AS F.R. NOTES AND CHECKING ACCOUNTS BUT HELD IDLE OR HOARDED
PURCHASING MEDIA ACTIVELY IN USE →
U.S. DEBT MONETIZED AS F.R. NOTES AND CHECKING ACCOUNTS, ACTIVELY IN USE
PRIVATE NONCOMMERCIAL DEBT MONETIZED AS F.R. NOTES AND CHECKING ACCOUNTS
U.S. DEBT MONETIZED AS TREAS. CURRENCY
SILVER AND
PRIVATE COMMERCIAL DEBT MONETIZED AS F.R. NOTES AND CHECKING ACCOUNTS
GOLD SUBJECT TO FOREIGN DEMAND CLAIMS
GOLD IN EXCESS OF FOREIGN DEMAND CLAIMS
'40
'45
'50
'55
'60
INFLATIONARY
NONINFLATIONARY

ECONOMIC EDUCATION BULLETIN
A.I.E.R., Great Barrington, Massachusetts

Second Class Postage Paid at
Great Barrington, Mass.

To mail Economic Education Bulletin *without an envelope, put a 4-cent stamp over the line referring to second-class postage rates and mark it "First Class Mail."*

Economic Education Bulletin is published four times a year by American Institute for Economic Research (a scientific and educational organization) at Great Barrington, Massachusetts.

Use This Convenient Check-list to Order

PUBLICATIONS of AMERICAN INSTITUTE for ECONOMIC RESEARCH

(Include your mailing address above and your check or cash. You may send currency at our risk.)

AMERICAN INSTITUTE for ECONOMIC RESEARCH, GREAT BARRINGTON, MASSACHUSETTS

Enclosed is $. . . . for the items checked. If not completely satisfied, I understand that I may return the books, and my money will be refunded.

- ☐ **How to Avoid Financial Tangles,** Kenneth C. Masteller. $1.00
- ☐ **Life Insurance and Annuities From the Buyer's Point of View,** William J. Matteson. $1.00
- ☐ **What Will Social Security Mean to You?** William J. Matteson. $1.00
- ☐ **How to Invest Wisely,** C. Russell Doane and E. C. Harwood. $1.00
- ☐ **Investment Trusts and Funds From the Investor's Point of View,** C. Russell Doane and Edward J. Hills. $1.00
- ☐ **What Would More Inflation Mean to You?** by the Editorial Staff. $1.00
- ☐ **How to Make Your Budget Balance,** Helen Fowle and Margaret Blodgett. $1.00
- ☐ **The Rubber Budget Account Book.** 25 cents
- ☐ **Current Economic Trends,** by the Editorial Staff. $1.00
- ☐ **Cause and Control of the Business Cycle,** E. C. Harwood. $2.00
- ☐ **Useful Economics,** E. C. Harwood. $1.00
- ☐ **Twentieth Century Common Sense and the American Crisis of the 1960's,** the Editorial Staff. $1 each (three copies for $2, ten copies for $5)
- ☐ **Reconstruction of Economics,** E. C. Harwood $1.00
- ☐ **Economic Tides and Trends, Their Effects on Your Lifetime Plans,** the Editorial Staff. $1.00
- ☐ **The First Quarter Century and Plans for the Future.** A report of the Institute's activities. Free on request
- ☐ **Economic News.** Published nine times a year. $1 per year, $2 for 3 years, $3 for 5 years
- ☐ **Research Reports.** Weekly reviews of economic developments. $6.50 per quarter, $25 per year
- ☐ **Investment Bulletin.** Issued twice monthly. Includes recommendations for the three basic plans. $10 per year
- ☐ **Annual Sustaining Membership.** Sustaining members receive all Institute publications including new or revised editions as published. $9 per quarter, $35 per year

Additional copies of Economic Education Bulletin: 5 for one dollar ($1)