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To: Subscribers and Supporters Who Have Purchased Institute Publications:

For your information we are reprinting below the summary of my testimony during the Senate hearings on the Gold Redemption Act of 1934. Because I am convinced that sound money is essential to the survival of our Nation as we have known it, I consented many months ago to head a special research group that was to develop the scientifically grounded views for and against restoration of the complete gold standard including a currency redeemable in gold on demand.

This research group functioned under the sponsorship of the American Economic Foundation. The task was completed last February, and the results have been made available to the Congressional committees concerned with the problem.

The material assembled includes the history of attempts (never successful for long) to manage irredeemable currencies during recent centuries and a vast amount of other pertinent information that would fill several volumes. Consequently, the testimony that follows is only a distillation of the essence, so to speak, of all the material. We here at the Institute believe that you will find it of interest.

In appearing before the Senate Committee, I spoke only as an individual. The Institute cannot, of course, undertake to spon-

sor or seek to influence legislation; but, as individuals, we are all free to do what we consider advisable. In any event, my own belief is that your Congressmen are far more interested in knowing what you as individuals think about such a matter than they are in the views of any pressure group purporting to represent you. Therefore, I not only feel it would be improper for the Institute to urge legislation, but also I feel sure that your personal urging of legislation would be far more effective.

If you would like to have more information on this subject, I suggest that you write to the Gold Standard League, Latrobe, Pennsylvania. They have literature available and can suggest how you can be helpful. The National Chairman of the League, Mr. Philip M. McKenna, has given unstintingly of his time and energy for several years in order to help restore to the American people a sound currency. His efforts deserve at least a personal "thank you" from every citizen who can understand the importance of stopping the depreciation of the dollar and who has learned history's lesson that unsound money is perhaps the most effective means of destroying economic freedom and substituting a socialistic economy.

E. C. Harwood

Advantages of Returning to The Full Gold Standard with the Nation's Currency Redeemable in Gold Coin on Demand

1. *To prevent further and indefinitely prolonged depreciation or loss of the dollar's buying power:*

a. 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.

b. The fixed amount of gold in each dollar has a relatively stable purchasing power in the long run. Specifically, when not disturbed by wartime inflations, 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.

c. 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.

2. *To obtain the best available insurance against a flight from the dollar with a resulting distorted boom on the one hand and against severe and prolonged unemployment on the other hand.*

a. 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 collapse. This is what has happened after every such flight from a currency in recorded history.

b. The United States has experienced many business cycles, but none of the business declines that occurred while the gold standard was firmly established were prolonged for several years 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. See SUPPLEMENT A for supporting data.

3. *To preserve confidence in the dollar.*

a. 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.

b. Gold is universally recognized as a valuable substance that does not deteriorate in storage.

c. The fact that all 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 that the United States adhered to the full gold standard.

4. *To inhibit unwise fiscal and banking policies that might jeopardize the future of the Nation.*

a. 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.

b. A possible resulting outflow of gold would force the Federal Reserve authorities and the Government to reconsider the unwise policies.

c. 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 would be no effective check on unwise policies until they had resulted in serious disaster. *No truly wise monetary authority or fiscal policy maker should wish to be without such an impartial guide to policy any more than a sensible automobile driver would discard the speedometer and brakes.* For 93 years, by closely watching the gold indicator and adjusting policies accordingly, the Bank of England contributed greatly to the stability and prosperity of England.

5. *To assure equitable treatment to both parties to long-term contracts.*

a. 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.

b. When both parties 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 irredeemable currency.

6. *To assure that life-insurance benefits, pensions, and Social Security benefits shall have some real worth comparable to the sacrifices people make to obtain those benefits for themselves and their dependents.*

a. Continued depreciation of the dollar at the rate of the past decade would virtually destroy all 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.

b. 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.

c. Already, the thrifty citizens of the United States including 88,000,000 holders of life insurance, plus those who have savings deposits and United States savings bonds have lost a total of \$158,000,000,000 in purchasing power since 1939.

7. *To assure all those who labor that higher wages will be higher in real buying power rather than a monetary illusion.*

a. 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.

b. 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.

8. *To tear away the veil of the "money illusion" and facilitate the economic calculations essential to ordered progress.*

a. 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.

b. The manufacture of deposits and currency based on Government debt and noncommercial bank loans does not create real wealth. Such procedures only delude those who strive to measure and exchange wealth and invite overspeculation; fancied gains are lost in the inevitable depression aftermath.

c. Insofar as the depreciation charges of business are based on prices lower than those currently prevailing and are inadequate for the replacement of capital equipment, business profits are in part illusory; they reflect a hidden consumption of capital.

d. Taxes based on illusory gains are destructive of real wealth. They hamper the sound growth of the economy; and such continued growth seems to be essential to survival.

9. *To encourage investment and assure a rapid re-emption of investment whenever savings are accumulated.*

a. 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.

b. 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 what appears to be the invariable tendency for firm adherence to the gold standard to hasten recovery from business depressions.

SUPPLEMENT B explains how the gold standard ameliorates recessions and hastens business recoveries.

10. *To assure to all segments of the population the benefits of increased productivity.*

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

b. Technological progress, given a fixed monetary unit and sound fiscal and banking policies, ordinarily would result in 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.

11. *"To promote maximum employment, production, and purchasing power," the declared purpose of the Employment Act of 1946.*

a. The experience of history shows that an irredeemable currency endangers the economic system that uses it. Innumerable instances testify as to the truth of this assertion, and none refute it.

b. 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.

12. *To end the discrimination against American citizens and in favor of foreign governments and central banks.*

a. The latter can obtain gold on demand in exchange for the Government's promise on our paper currency to make such payments; but

b. 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.

13. *To minimize the need for elaborate controls.*

a. 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.

b. 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.

14. *To reinforce the independence of the Federal Reserve Board.*

a. That agency would have to be free to act when there were warning signs of unsound developments; and,

b. 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.

15. *To facilitate the sound and long-term financing of the public debt outside of the banking system.*

a. Confidence in the future worth of the dollar is essential to such financing; and

b. 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 re-establishment of the Government's credit standing. Government bonds could be floated at a substantially lower cost in interest rates.

16. *To facilitate foreign trade.*

a. Virtually all authorities agree that redeemable currencies would be freely convertible and would aid international commerce.

b. Only general use of a common monetary metal can provide such free redeemability.

c. By leading the way, our Nation would both encourage the rest of the world to follow and provide a firm base for such action.

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

17. *To bulwark the freedom of American citizens.*

a. It 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.

b. It would prevent the subtle embezzlement that continuing inflation effects. Losses suffered by owners of life insurance, United States savings bonds, Social Security reserves and savings accounts from the depreciation of the dollar since 1940 already total nearly \$158 billion.

c. 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. It is difficult to imagine better assurance that this Nation would continue to grow stronger than its enemies.

SUPPLEMENT A

Firm Adherence to the Gold Standard Alleviates Depressions and Expedites Business Recoveries

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 the period of 100 years that has elapsed, 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. These were 1873-82, 1929-37, and 1937-45.

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 below.

DURATIONS OF DOWNTURNS IN INDUSTRIAL PRODUCTION

(until recoveries to long term trend)

1865-1951

Period	Years	Duration
1869-1872	3	3
1873-1890	17 (off gold; resumption in 1879)	7
1893-1895	2	3
1898-1899	1	2

1892-1901	9 (from silver & Bryan campaign, gold standard threatened 1893-96; Gold Standard Act, 1900)
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 (off gold after 1933)
1942-1947	4
1948-1951	3

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 unquestionably 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 1933, were confirmed in 1935, 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.

I 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.

SUPPLEMENT B

How May 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 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 1929-33 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 attempting 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 more or less 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 de-

pressions. 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:

a. In six instances, the decline in industrial production exceeded 25 per cent, (1903-04, 1907-08, 1913-14, 1920-21, 1929-32, and 1937-39).

b. 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.

c. In the two other instances, both during the period since 1933, the recoveries required 43 and 96 months respectively, and the latter apparently was shortened by the huge purchases of armament by foreign nations.

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

During the period when business activity is receding, after a boom during which many maladjustments had developed, it is not surprising that such serious prior maladjustments should result in severe curtailment of activity. At such times, prices fall greatly, and part of the decline apparently is attributable to the extent of the maladjustments and to unreasoning fear.

As long as individuals, including business managers, have a well known and firmly established standard to judge by, they can estimate when unusual bargains become available. Always some businesses and individuals have avoided overexpansion or other unwise dissipation of resources and are in a position to act when bargains become available, 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 a large number, perhaps most of the 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 it self 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 1933 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.