# THE GOLD STANDARD

**Remarks by Professor Roy W. Jastram,**
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**to the**
**Security Analysts Society of San Francisco**
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Let me start with some startling statistics.

From the time the United States went off the gold standard in 1933 the wholesale price level has gone up by 760%. Since England abrogated the gold standard in 1931 her price index number has risen by over 2000%.

Before that the two countries had a combined history of 350 years of long-run price stability. The price level was the same in the United States in 1930 as it had been in 1800. In England the price index stood at 100.0 in 1717 (the first year of her gold standard) and it was at that figure again in 1930.

I am here today as an analyst, not as an advocate of a single point of view. I do not believe that a return to a gold discipline would be a magic cure for all economic ills. Nor do I take the opposite extreme of blaming on a Gold Standard every economic ill that humanity was heir to during its tenure. Instead, I would like to take some time to sum up, very briefly, the conclusions I have reached based on my years of research leading to two books on the precious metals, **The Golden Constant** and **Silver: The Restless Metal** (John Wiley & Sons, New York).

Let me state first my position on monetary reform:

**1. There must be a discipline over the money supply.**

Nearly everyone agrees with this in the abstract. Disagreement arises over the question of **at what levels** and **how** to exercise the discipline.

**2. Attempts at monetary discipline when managed by men have not worked.**

I am not referring solely to the history of the United States. The same observation can be made for England, Germany, France, Italy and Japan. The **only** exceptions were draconian measures ending brief periods of crisis.

**3. Therefore I believe there must be management by law, not by men.**

An example of what I mean by "**law**" is that currency must be convertible into precious metal at a price fixed by law, with a legal reserve in place to guarantee conversion.

One example of managerial judgment by **men** is when a governing board selects target interest rates or target growth rates, in selected definitions of money supply and make continuing judgments of appropriate open market operations to try to hit these targets.

(Here I am not singling out our **present** Federal Reserve Board. I believe they have the best record of restraint in this country in modern times.)

**4. Those monetary laws that worked best throughout history have been based upon the discipline of the precious metals.**

Notice that I am not saying that whenever the system was based on precious metals it was stable; I **am** saying that when in history we find long-run stability of prices we find precious metals standing behind it.

**5. The precious metal that has had the most successful experience in stabilizing price levels is gold.**

Based upon everything I have said up to now my conclusion is:

The American public and the world at large would be well served by monetary reform that would include:

a. Some form of a gold standard based on law,

b. arrived at in consultation with our trading partners,

c. accompanied by extensive fiscal reforms including budgetary policies to preclude over-spending.

The **first** of the five points I made at the beginning I think we can take as widely accepted - that discipline is needed - so I would like to discuss the other four a little more fully.

I want to give you evidence from history that a rule of law is better than a rule of men in the ability of a monetary system to stabilize prices. I will draw upon England. Please look at Chart I before you.

In one form or another, England was on a gold standard from 1717 to 1931, except for the Napoleonic Wars, when she was off between 1797 and 1821. Please mark on charts.

From 1717 until 1797 currency was convertible with gold at a steady price of 3 pd 17 shillings 10-1/2 pence. The supply of money adjusted accordingly, and wholesale prices moved along a level plane. It was a rule of **law** in monetary affairs.

Then in 1797 England went off the gold standard, due largely to wartime events. The official money supply was then solely the responsibility of the Board of Directors of the Bank of England. It was a rule of **men**. The wholesale price level rose by 50%.

In 1821 England returned to the rule of **law** at the old gold-convertibility of L 3,17s, 10.5c. And long-run stability returned to the commodity price level for 110 years.

It was a return to what Sir Robert Peel called, "That ancient standard of England." To him, the pound was a definite piece of metal, effectively fixed by the proclamation of 1717. Common honesty, he said, dictated that England should return to it.

A century later, following WWI, Winston Churchill made the same appeal on the same grounds. But the re-entry price then proclaimed was no longer in keeping with the economics of the times.

In 1931 the rule of law was rescinded and the rule of men returned. The catastrophic result was to allow the price level to soar to 2,235% (1930 = 100.0) by January 1981.

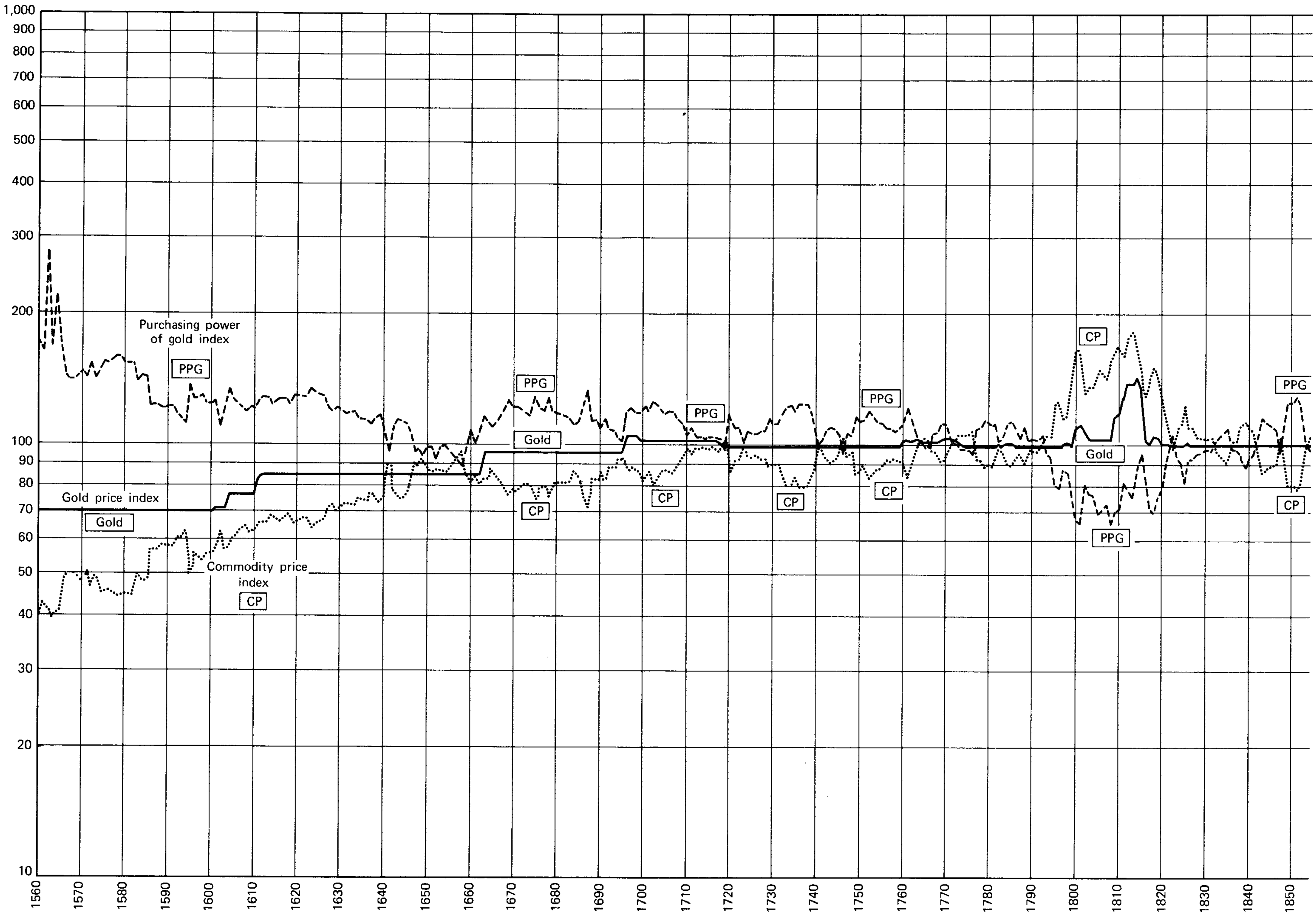
An observation much closer to home illustrates point 5: the stabilizing effect of gold. Please look at your American chart. In the United States during the gold standard years of 1834 to 1861 (up to the Civil War) and 1880 to 1914 (up to World War I), wholesale prices move along a horizontal plane, rising and falling with changes that finally average out to zero.

We can see our charts wholesale prices moving along a horizontal plane for a combination of nearly 350 years while England and the United States held gold convertibility of their currencies. **AND** we can see what has happened in both countries since the gold standard was abrogated.

Our present inflation has lasted almost fifty years at one rate or another. It may astonish some people that a monetary system once existed such that if prices turned up for awhile they were expected to turn down.

I would like to conclude on a **positive** note. We are certainly aware by now of the tremendous concern in this country for the return of a trustworthy currency. A gold Commission has been formed by an Act of Congress and I have testified before it. Economists in and out of government are working on a gold solution. The prestigious National Bureau of Economic Research is holding a four-day conference in March devoted solely to the gold standard. All this ferment leads me to believe that a way toward trustworthy currency will be found. It is my personal opinion that gold will play an important part in the solution.

Chart I **The English Experience:** Indexes of the Price of Gold, Commodities, and Purchasing Power, 1560–1976: 1930=100.0



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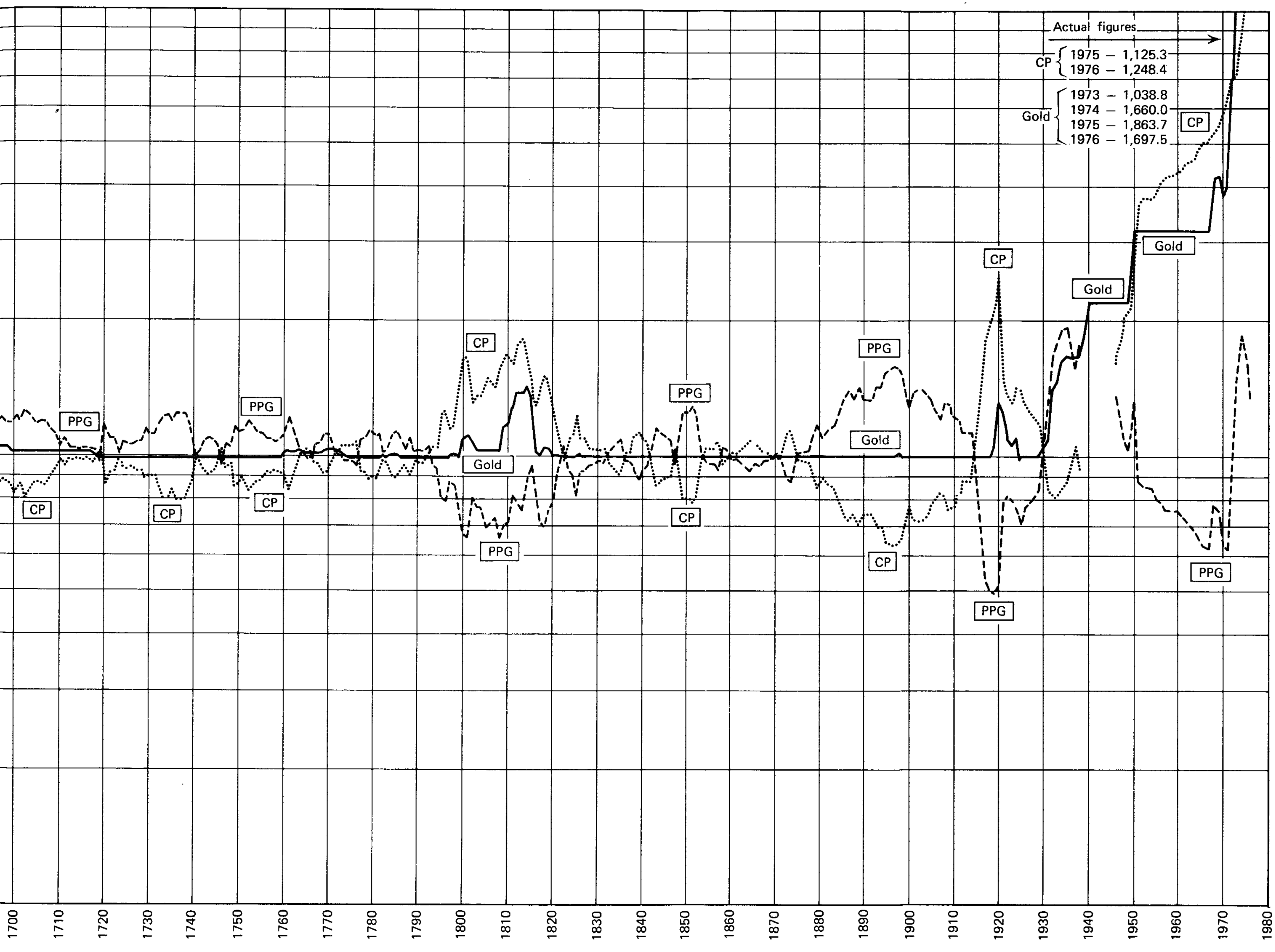

Actual figures
CP 1975 – 1,125.3
1976 – 1,248.4
Gold 1973 – 1,038.8
1974 – 1,660.0
1975 – 1,863.7
1976 – 1,697.5
CP
Gold
Gold
CP
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1980

Chart IV **The American Experience:** Indexes of the Price of Gold, Commodities, and Purchasing Power, 1800–1976: 1930=100.0