The Gold Standard in Academic Literature – A Survey

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Abstract:
This paper seeks to present a survey of modern academic literature on the gold standard to discern how the economics profession addresses this crucial subject. This paper first examines sixty-five undergraduate level principles of economics textbooks on how they present this topic, including what level of information was provided, what facts and theories were emphasized, and whether there was any discernable bias in the presentation of the material by the authors. Following this, the paper conducts a brief survey of monographs specifically written on the gold standard, addressing similar questions, finally, concluding with an Austrian critique of the relevant issues and considerations concerning sound money and a gold standard. This paper finds that the profession has done a very poor job presenting the relevant issues and corresponding facts through its pedagogical materials. Poor use of topical organization, scant levels of information and facts provided, and bias revealing comments plague most of the texts surveyed and expose a near-profession wide bias against and confusion over the principles of sound monetary regimes and the historical gold standard.

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Introduction

Throughout much of modern history, gold served as the commodity that most widely facilitated free exchange.¹ While its virtues as a medium-of-exchange have been clear to people of previous eras, gold has currently fallen out of favor, both in its actual use and in the esteem in which it was once held among academics. It used to be the case that gold, the gold standard, and the various other iterations it took over its many years of employment saturated the study of money and economics, but now it is often hard even to find substantive references to it in modern textbooks. Just what is the prevailing thinking and understanding today on the subject of the gold standard? The world is now a generation removed from any semblance of a gold standard and well over a century from its heyday. With little or no practical experience with it, almost all dialogue about it exists now in the fringes of the academic community. The minimal emphasis they place on a gold standard is reflected in the scant attention placed on it in modern principles of economics and monetary textbooks.

This paper presents a survey of sixty-five modern post-WWII undergraduate economics textbooks on how they address the subject of the gold standard, looking at the level of information provided, the quality and organization of their argumentation on the topic, and any underlying bias that might be reflected in their treatment of the gold standard.² Then turning to modern monographs on gold, it will conduct a brief survey of how popular academic thought has sought to address this topic, comparing this with the most common methods employed in the

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¹ Silver and other precious metals and commodities have also often served as a common media-of-exchange, however, not nearly to the extent that gold did.
² The Sixty-five texts were selected from the Auburn University Library. Auburn University had a Ph.D. program in economics until 1999. They still have a Ph.D. program in applied economics in their Agricultural Economics department. This survey is based on the assumption that this is a representative sample of what would be found in other contemporary U.S. research universities. All the texts were undergraduate level general economics or money and banking textbooks. In most cases, the most recent edition available of the textbook was used. In the few cases where there was a large time gap between early and later editions, the earliest and latest editions available were examined in tandem. In almost all of these cases, no relevant or significant changes were made to how they approached the subject of our examination.
textbooks. Finally, this paper will conclude with an Austrian critique of the issues and arguments for a gold standard.

1. Modern Economic Textbooks on the Subject of Gold

Austrian economists have always been quite reserved in their praise of textbooks, arguing that they often fail to present the study of economics as one integrated and cogent system, rather, presenting different topics and concepts in isolation of each other. In one review of a popular textbook, Murray Rothbard, dean of the Austrian School, criticized it as a “swollen and elephantine grab-bag” of current economic thought (Rothbard, 1973). It should then be of little surprise to most readers familiar with the Austrian School that the problems plaguing textbooks as a whole should manifest themselves when it comes to how these books present the topic under discussion. The concepts of gold as money and the gold standard are not uniformly handled in every textbook. It is rare to find a clearly marked and systematically argued presentation of the issues surrounding it in modern textbooks. A greater majority of them, particularly those from the 1980s to the present day, do not even present this topic under a dedicated subheading, but tend only to pepper a few paragraphs with tidbits and opinionated statements on gold amidst broader discussions of what they would deem to be more “relevant” topics. A few of the most modern textbooks scarcely address gold in their main body texts, reserving discussion of it to inset textboxes or the margins with all the other relics of economics science that are now considered to be of only trivial importance.

Finding references to the gold standard can often be difficult. Nearly a quarter of all the textbooks reviewed did not even list any terms related to this precious metal in their indexes. No textbook had a unique chapter assigned to gold. The most frequent references to it were found in chapters dealing with the creation of money, banking, the Federal Reserve System, international
trade, and international monetary systems. Within these chapters, the variety of information provided was diverse, with few standardized methods of presenting the topics from one textbook to the next. While there were a few conventions that appear with high regularity, like the use of the story of enterprising goldsmiths to explain the development of fractional reserve banking, even the presentation of these stories varies considerably. While a majority of texts presented the goldsmith story as a true historical account of the development of banking, others denounced it as “apocryphal” and mere myth.

The amount of information provided is also considerably small. The average textbook from 1950 to 1980 reserved between ten and fifteen combined pages for subjects related to gold, while the average textbook from 1980 to present, only about three or four combined pages. It is also interesting to note that the average length of textbooks from the earlier period was around 600 pages while the textbooks from the more recent period averaged over 800 pages. The easiest way to explain the discrepancy in time spent on the gold standard between the two periods of texts is that the earlier books usually emphasized a clear presentation of the mechanics behind the gold standard when it came to international trade and the Bretton-Woods system. The newer textbooks usually reserve that space for what they see as the more relevant issues of international trade and somehow manage to explain how the standard functioned for over a century in a couple of paragraphs.

Aside from a few pleasant and welcome instances, nearly all the texts, without regard to period, failed to adequately differentiate between the diverse incarnations of the gold standard.

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3 See for example: (Colander 1995, 313).
4 One important consideration, which this paper does not address, is the how textbooks present alternative monetary systems. Since these systems ideologically compete directly against the gold standard, this would be a very relevant area for further study. Many authors, who largely ignore the gold standard and fail to clearly present the arguments for it, are strong advocates for other systems and the only real way to decipher their ideological bent, would be to see what issues they raise when comparing the various more recent and mainstream suggestions for monetary reform.
These texts conflate the core components of all the different systems into one, allowing the author to construct a convenient “straw man” gold standard that rarely withstands the tailored arguments thrown against it and be easily dismissed as a “barbarous relic” whose fate was assured by the inescapable progress of civilization. Not a single author of any of the texts reviewed positively presented any ideas for shifts in the current monetary system toward a gold-based system. Roughly one-third of the authors offered systematic arguments for and against such a standard and expressed relatively positive statements about its effectiveness while in use. The other two-thirds of the authors presented the topic in a non-systematic method and made pronouncements against it ranging from historical and theoretical arguments to simple snide and dismissive statements.

The next several sections of this paper will investigate these findings further as they relate to how the texts address gold and the gold standard in relation to the creation of money, the mechanics of the gold standard, inflation and price stabilization, theoretical and historical argumentation, and money and banking issues. Since few authors made sufficient use of clear systematic argumentation, there may be some inevitable overlap within these categories. It is also, in many instances, interesting to note the trends and significant differences between texts of differing time periods, and this paper addresses those when they were deemed sufficiently consistent or relevant.

1.1 Gold as a Historical Money

Most textbooks first introduce the concept of gold in a section on the creation and development of money. This section tends to be about one-quarter the way into most texts and is usually either a separate chapter or an introductory section in the chapter on money and

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5 A famous quotation by John Maynard Keynes. Quoted here from the introductory sentiments in lse (1950, 327).
banking.\textsuperscript{6} The basic fundamentals of exchange and market transactions have typically already been covered. The typical section on the creation of money is between five and ten pages in length, of which the discussion of gold can run anywhere from a solitary mention of it in a long list of other common goods that have been used as a medium-of-exchange to a multi-page discussion. The most typical setup, especially in the more recent textbooks, rarely spends more than a paragraph talking about gold in this section. However, it is important to look at how it is presented.

Earlier period texts rarely editorialized in their discussion of the origins of money while many modern authors’ frequently used critical language whenever referencing anything having to do with gold. One text describes the varieties of commodity monies in this manner, “Primitive economies have used everything from precious metals and polished rocks to strings of seashells, wives, and slaves” (Reynolds 1966, 20). Many authors continually referred to gold as “primitive” or being part of “less organized societies.”\textsuperscript{7}

Most modern texts spent far more time on obscure instances of commodities developing into money than the development of gold. The most common commodities focused on were the Stone of the Island of Yap\textsuperscript{8} and cigarettes in concentration camps during the World Wars. Particularly in modern texts, these examples frequently constituted the bulk of their discussion, with gold receiving only scant mention.\textsuperscript{9} One text focused almost exclusively on the use of cows as money, pointing out the etymology of terms such as \textit{pecuniary} and comparing a cow-based

\textsuperscript{6} Though in a few books, the properties of money are not discussed until the very end. See for example: (Stiglitz 1993, 870-886).
\textsuperscript{7} See for example: (Baumol 1994, 718).
\textsuperscript{8} Famed large stones of lime that were rarely moved when they changed ownership on this primitive island community.
\textsuperscript{9} See for example: (O’Sullivan 1998, 553). See also: (Ekelund 2000, 653).
monetary system to our gold-based system, resulting in one of the odder discussions encountered,

…just as some people of an earlier period probably continued to think that gold and silver served as money only because they were ‘backed’ by cows, so some people continued for years to believe that demand deposits and bank notes were not ‘real’ money, but only valuable because they were ‘backed’ by gold (Suits 1973, 249).

Another author used a similar, but hypothetical, example of a corn-based economy to walk the reader through this lengthy section, using corn to demonstrate inflation and Gresham’s law, without clearly enlightening the audience that these concepts originally and most closely apply to a discussion of metallic currency (McEachern 2003, 654).

The most common explanation provided for gold losing its popularity as a money was the inconveniences of transporting and measuring units of it. This naturally led to issuance of paper certificates, with most authors usually ignoring the role governments played in this process, including the introduction of legal tender laws and providing legal protection to banks. 10 These sections rarely used any form of adequate historical dating. According to these texts, Gold was used, like all the other commodity monies, in the past and fiat currencies in the present. Paul Samuelson (1980, 263) cautioned the “modern student” not to be misled, “as were earlier generations of students by some mystical belief” that gold inferred any value to money and then went to the trouble of cataloging all the groups of people who still harbor an eccentric and somewhat malevolent interest in holding gold, including, “Footloose refugees, underworld interests, tax evaders, opponents of welfare state, …those foolishly confident that ultimately gold will be restored to a central place in the official monetary systems of the world, and shrewd and un-shrewd speculators, who bet that enough dupes believe the above case” (1980, 673).

10 See for example: (Stiglitz 1993, 870-886).
1.2 The Mechanics of the Gold Standard

The space each author devotes to discussing the basic history and the mechanics of how the gold standard functioned under each incarnation varies significantly depending on whether the texts were written while under the Bretton-Woods system or after. Logically, the earlier texts present a more thorough analysis of how the balance of payment mechanism functioned as well as relevant facts about the world monetary system and the gold exchange standard. The more recent texts do, on the whole, a very poor job of presenting the mechanics of the gold standard in any thorough or systematic method; most texts claim it is now only of historical significance.11 Many do not even precisely define the variant forms and time periods when the gold standard functioned. Some texts suggest it existed from the end of the Napoleonic Wars to the beginning of World War I12 while others posit it began around the American revolutionary period and lasted till either the great depression or the 1970s. Still others offer no real historical landmarks to guide the reader.13

Judging the whole corpus of economic textbooks, it is also virtually impossible to consistently find a thorough explanation of the differences between the classical gold standard, the gold exchange standard, bimetallism, the limited gold bullion standard, and the other relevant modifications actually seen in practice. It follows that all but a few texts completely ignore the many nuances that Austrians place a heavy emphasis on, such as principles of sound money, reserve ratios, and the different political motivations and levels of government intervention during these periods.

Many of the more modern authors chose to introduce the explanation of the gold-flow mechanism by repeating simplified arguments of a few classical economists of the eighteenth

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11 See for example: (Lipsey 1966, 466).
12 Ibid, 467.
13 See for example: (Byrns 1989, 223).
and nineteenth centuries and then offering their own explanations for how these simplistic and idealistic assumptions rarely played out in the real world. They ignore the fundamental distinctions between a completely market originating gold standard and one that has been partially coopted or obstructed by government intervention.

1.3 Textbooks on Inflation and Price Stabilization

The topic of the gold standard naturally leads to extended discussions on inflation and price stabilization. Here, a considerable amount of confusion results from authors arguing between what actually is best for society and which monetary systems are most likely to promote the welfare of society. Many of the authors say that proponents of a gold standard, often labeled “staunch conservatives,”14 are most concerned with stabilizing the price level. None of the texts reviewed made the distinction between the natural variation of prices in a market originating gold standard, with which most Austrians would not have a problem, and the desire of economic planners to use a gold standard to manipulate and maintain some artificial and arbitrary price level, which Austrians tend to oppose. Most authors conflated all supporters of gold as supporters of price stability and then proceeded to show how the gold standard failed to maintain price stability, and consequently, should be regarded as a failed endeavor.15 Nevertheless, a number of modern authors mentioned that many proponents of the gold standard see the central issue to be one of reducing or preventing government intervention.16

There is also considerable employment of vague and poorly reasoned argumentation as many authors fail to distinguish between historical events, economic realities, and the myriad of

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14 See for example: (Samuelson 1980, 263).
15 See for example: (Arnold 1989, 406). See also: (Byrns 1989, 155).
16 Though Samuelson puts it this way: “Staunch conservatives…and prefer the vicissitudes of mine discoveries rather than in fallible or allegedly corrupt governments.” (1980, 263).
unrelated concomitant conditions in existence. In one of the more egregious examples, Bach (1963, 240) argues that the gold standard is flawed because it did not promote price stability, stating, “But United States history illustrates clearly that the gold standard is no guarantee against sharp price-level changes. The graphs in chapter 6 show the great inflation that took place during and following World War I, the precipitous drop following that inflation, and the sharp drop from 1929 to 1933, all while we were firmly on the gold standard.” Here Bach blames the gold standard for failing to have an effect it was arguably never intended to produce, a stable price level; and further, he fails to take into account the government interventions prior to 1929 in the money supply that nullified all of the stabilizing effects that a gold standard could infer.17

When it comes to inflation, most of the discussion relates around two questions, what are the effects of inflation under a gold standard and can the gold standard actually prevent inflation? The first question opens the door to social planning. Every textbook assumed some level of government intervention could bring about an increase in social welfare, though their views on what the optimal policy varied.18 One author harshly criticized inflation because the redistribution it brings about “isn’t on the basis of income levels, number of dependents, or other socially acceptable economic criteria. Instead, it is haphazard and inequitable in a manner unrelated to society’s objectives” (Spencer 1993, 146). Another author explained that “a closer

17 It is also misleading to blame the classical gold standard when it was abolished by the warring countries in Europe. This caused an influx of gold to America and permitted more monetary inflation than otherwise. Furthermore, the gold exchange standard was abandoned in 1931 by Britain. For a thorough analysis of the monetary issues related to the Great Depression, the most authoritative resource is Rothbard’s *America’s Great Depression* (1972). While most texts failed to clearly demarcate what the actual supply of money contained at certain times, one text offered this rare definition which goes a long way, compared with other texts, to clarifying what is taking place, “Any reference in this chapter to the gold standard relates to a monetary system based on gold, but containing sizable elements of fiduciary money. If the monetary circulation consisted of nothing but gold coins, no monetary authority would be able to exercise a deliberate impact on the size of M” (Kortewg 1959, 77).

18 Quite a few texts don’t offer rigorous defense of social welfare, rather, they briefly present all the different models and seem to assume an argument *ad numerum* that the prevalence of models suggests that a social criterion of some kind must exist.
look at who benefits and who loses from unanticipated inflation suggests that there are probably more gainers than there are losers” (Stiglitz 1993, 968).

It is generally accepted by nearly all the authors surveyed that the world experienced far less inflation while under the gold standard, in their words, often causing a “nostalgia”\(^{19}\) for this bygone era, yet few authors seem to think this is an important or consistent enough attribute to warrant serious reconsideration of the merits of the gold standard.\(^{20}\) Many authors mention that the era of the gold standard put the economy into a “strait-jacket”\(^{21}\) that forced it into considerably higher unemployment and far more price variability than experienced since World War II.\(^{22}\) Still, many authors argued that the supposed golden calf of the gold standard, price stability, was elusive and furthermore, that the gold standard was no guarantee against inflation. The most commonly cited cause of inflation and price level changes during the classical gold standard was changes in the quantity of mining and new discoveries of gold. Government intervention, typically presented as a necessary step in times of war and crisis was the second most frequently cited cause.\(^{23}\) Only a few authors added the crucial caveat that during these times, governments habitually suspended the essential operations of the gold standard. However, overall, most authors give the gold standard its due for helping to restrict inflation.

1.4 Authors’ Arguments and Perspectives on the Gold Standard

Few authors have approached the topic of gold using uniform categories or systematic argumentation. In approximately half of the textbooks, the best method for distilling their

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\(^{19}\) (Fischer 1983, 658).

\(^{20}\) While many authors agreed that it produced less inflation, this was not universally accepted as a significant positive argument for the gold standard. As Stanley Fischer (1983, 659) comments, “The chief advantage [of the gold standard] is the low average rate of inflation that would likely to result…but we should not be too influenced by the experiences of the nineteenth century…the gold standard was not an infallible bulwark against inflation.”

\(^{21}\) (Sickle 1954, 292).

\(^{22}\) (Fischer 1983, 874).

\(^{23}\) A more detailed examination of these arguments can be found in the section labeled “The Vicissitudes of Mining” and “The Effects of the Great Depression and the World Wars.”
perspective on the topic of gold is to glean it from pithy comments and incomplete arguments, almost always derogatory, scattered throughout their books. Chapters on the origins of money, international monetary systems, and money and banking were the likeliest candidates for these brief expositions. In another quarter of the texts, the writers presented a semblance of systematic argumentation, both pro and con, though it was rarely comprehensive and usually sided with the mainstream interpretation. In the final quarter of the material reviewed, the writers presented a simple working version of the classical gold standard and then proceeded to spend as much or more time offering all the arguments against it. Several of these expositions would likely leave an uninitiated student wondering how such a flawed system could ever have been coincidental with such a long period of peace and prosperity.

Another common feature is the considerable use of passive voice where the actors should have been identified or where the identification of those actors would impugn them. A common example is the statement, “The dollar was devalued” (Lipsey 1984, 951), however, it is highly unlikely that this devaluing was due to the Fates colluding against mankind, but rather the necessary effect, whether anticipated or not, of actions, in the specific case mentioned by the author, of the government. Similarly, in another section, Lipsey stated, “In the period after World War I, the gold standard failed and was abandoned” (1984, 479) ignoring the relevant question of who was pushing for its abandonment and what their motivations for considering it “failed” might have been.

The next few pages will focus on how the textbooks address or construct arguments proving or disproving the viability of the gold standard, including mining and the supply of gold,

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24 See for example: (McEachern 2003). See also: (O’Sullivan 1998).
25 See for example: (Arnold 1989). See also: (van Sickle 1954).
26 See for example: (Case 1999).
hoarding, the domestic vs. international tensions a gold standard creates, the effects of the First World War and the Great Depression, and the role of banking.

1.4.1 The Vicissitudes of Mining

For a disturbingly high number of authors, mining seems to be the lynch pin by which the whole gold standard rises and falls. Many authors offered practically no other assault on the viability of the gold standard except that it was subject to these vicissitudes. A slight tinge of contempt can be detected in the tone of many when they talk about the owners of mines and the gold-exporting countries, as if the gold standard wrongly endowed these sinister businessmen and countries with unchecked monopoly power over the rest of the world—the recent antitrust clash with Microsoft comes to mind (Dilorenzo 2001). The argument that the gold standard is inequitable because it benefits the gold-producing nations at the expense of all others for no reason beyond the random endowment of natural resources is used rather frequently. One commentator goes so far as to cite this argument as the primary motivation for President Reagan deciding against returning to the gold standard in the early 1980s (Case 1999, 860).

As a matter of historical fact, the large discoveries of gold in South Africa and the Klondike are often mentioned as clear reasons why the gold standard could not insulate an economy from rapid changes in the money supply. However, aside from simplistic comments of this nature repeated ad nauseam, extremely few texts offered any kind of statistical data to show the severities of the fluctuations during these periods and almost all ignored the fact that the actual periods when the gold standard was temporarily abandoned rarely coincided with spikes in the physical supply of gold but rather sizable changes in the supply of fiduciary media. The

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27 See for example: (Ekelund 2000).
28 As Rothbard (1991, 57) argued: “National fractional reserve systems are the real source of most of the difficulties blamed on the gold standard.”
language used to explain the effects mining can have is telling. One writer opined that a fundamental problem with the gold standard is that it placed the world’s commerce “at the mercy of the gold discoveries” (Baumol, 915). Another stated, “Discovery of new gold sources or improvements in the technology used to extract gold from existing mines would likely bring about rapid inflation” (Ekelund 2000, 815). Others frequently used adjectives to describe the potential changes in the money supply including “chaotic” and “tumultuous.”

1.4.2 Effects of Gold Hoarding

Hoarding was occasionally cited as a serious problem for the stability and functionality of the gold standard. This argument comes down to little more than a complaint that people act differently than the observer or the government thinks they should. “Hoarders” are frequently de-personalized into a sinister alliance of misers that are actively trying to thwart society’s welfare. Having earlier stated that gold’s main use throughout history has been hoarding (1984, 261), Samuelson argued that when FDR outlawed the private ownership of gold, that “this was done so that holders or hoarders of gold could not make a 67 percent profit from the devaluation of the dollar” (1984, 263). But as Ludwig von Mises observed in many of his works on money, hoarding represents just another demand for money and does not affect the demand structure in any unnatural or particularly destructive way.29 The real problem here is that these “hoarders” are not acting in a politically expedient manner for those currently in power.30

29 Mises (1998, 399) states: “What is called hoarding is a height of cash holding which—according to the personal opinion of an observer—exceeds what is deemed normal and adequate. However, hoarding is cash holding. Hoarded money is still money and it serves in the hoards the same purposes which it serves in cash holdings called normal. He who hoards money believes that some special conditions make it expedient to accumulate a cash holding which exceeds the amount he himself would keep under different conditions, or other people keep, or an economist censuring his action considers appropriate. That he acts in this way influences the configuration of the demand for money in the same way in which every “normal” demand influences it.”

30 Guido Hülsmann (2003, 53) clarifies, “‘Hoarding’ is a pejorative expression for an increase in the demand for real cash balances. Let us first remind ourselves that quantities of money are ‘hoarded’ because each single money unit
1.4.3 The Interests of Domestic Versus International Affairs

One of the more serious arguments focused on in many textbooks is the concept that the gold standard removes control over the domestic monetary situation from a country’s government and often places a its domestic policy and international interests at odds. These texts argue that the expansive aggregate monetary policies needed for domestic prosperity— inflation—is precisely opposed by the desire of net exporters to decrease the domestic stock of money to lower prices and give them a competitive edge on the world market.31 Wonnacott (1990, 219). argued,

The biggest problem with the gold standard, then, is that it does not provide a steady and measured restraint. Rather, it exerts restraint in the form of a threat of disaster…as long as the authorities are lucky, with gold flowing in steadily from mines or from foreign countries, and as long as they follow farsighted policies that prevent any crisis of confidence, it is possible that the system may work reasonably well.

The crucible term of this argument is “farsighted policies.” The complaint here is that the gold standard forces governments to irrationally restrain themselves by not pumping faux money into their domestic economies in an attempt to reap short-term political gains. Consequently, this argument is not really one so much against the gold standard as it is in favor of government intervention, which is hindered by the “strait-jacket” that an effective gold standard demands.

Government intervention is subject to the same economic laws that all other actions must report to. That a gold standard is flawed because it holds a government responsible for the necessary effects of its actions is not an economic argument but a political one. Any time a change in market conditions takes place, adjustments will be made. Economic laws cannot be avoided and attempts to do so are misguided. The argument that the gold standard forces nations

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31 See for example: (Wonnacott 1990, 343).
to “accept domestic adjustments in such distasteful forms as deflation, unemployment, and falling incomes, on the one hand, or inflation, on the other” (McConnell 1972, 757) is a catch 22. Regardless of the monetary system, changes in the supply of money will result in either inflation or deflation; there is no other option. One cannot escape fundamental economic realities. What this author is really interested in is finding a monetary system whose relative elasticity allows a nation to avoid culpability for its actions for the longest possible interlude.

1.4.4 The Effects of the First World War and the Great Depression

A few authors clearly state that the real reason the gold standard was abandoned during the depression of the 1930s was that it limited the government’s ability to inflate the money supply\(^\text{32}\)—though even this limitation is not universally seen as positive. Many, however, do not present the situation quite so clearly. Most notably, numerous texts claim that this period was really the first time people began seriously considering that the gold standard may not, in fact, provide the optimal quantity of money for the new emerging brand of growing, full-employment economies. As authors Sickle and Rogge noted in 1954,

> The revolt against the gold standard is an outgrowth of the Great Depression of the 1930s and of the experience of World War I when national economies, divorced from gold and stimulated by enormous government spending, were able to provide continuous employment for all able and willing workers. These two experiences also led to a revolt against the traditional view that market forces tend to keep a competitive private enterprise economy operating at the full employment level (Sickle 1954, 364).

While most authors, who claim that the Great Depression was the “straw that broke the back of the gold standard” (Arnold 1989, 806), recognize and point out that this was caused by the monetary expansion during the first World War, few place the key emphasis on the link between these two phenomena. Paul Wonnacott, responding to serious considerations in 1979-80 of returning to the gold standard, (without addressing possible government action that may

\(^{32}\) See for example: (Gitlow 1962, 654).
have caused in the first place the adverse effects so often blamed on the gold standard) states that the present attempt to return to it “would be a mistake. The gold standard contributed to the depression of the 1930s; it can make the economy unstable” (Wonnacott 1990, 220). Similarly, Bach (1963, 240) states that the changes in the money supply during this period occurred while we were “firmly on the gold standard.” The clearly intended inference for the reader to make is that the gold standard was the contingent cause of the changes in the money supply. Fortunately, most authors aren’t as blatant as Bach, but still fail to appropriately disaggregate the conditions present during that period. They end up, either intentionally or unintentionally blaming the gold standard for many of the problems of that era.

Few texts offered any systematic discussion of the monetary actions that were undertaken by the belligerents in the World War I, even fewer pointed to the creation of the Federal Reserve in 1913 as a key event in allowing the United States to adopt inflationary policies. Many authors simply stated the position that the War caused the participating countries to abandon the gold standard in order to “safeguard their metallic reserves.” They rarely explained why such reserves would need to be safeguarded, namely that these countries were heavily inflating their money supplies to fund wartime efforts. No textbook extensively analyzed the monetary changes throughout the period from the World War I to the Great Depression and the worldwide abandonment of the gold standard.

1.4.5 The Role of Banking and Fractional Reserve Practices

Gold has played an important role in influencing the development of money and consequently, banking. Most writers acknowledge the unique historical role gold once played. While the topic of banking is usually initially introduced as dealing directly with gold, these

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33 See for example: (Fairchild 1954, 257).
discussions tend to quickly shift to the fresher and more useful machinations of the monetary establishment, namely fiat paper currencies. Approximately two-thirds of the texts reviewed introduce the concept of banking with the goldsmith story. There is some variability on whether the authors posit this as the authoritative historical development of banking or simply a useful allegory.

Most texts began explaining, albeit briefly, that gold, being cumbersome for actual exchange in most transactions, was increasingly left in warehouses while the receipts for redemption of the gold became frequently used in its stead. Some portrayed these goldsmiths as “enterprising” while others portray them as absent-minded shopkeepers who one day happened to “observe” that the physical stock of gold did not vary much from day to day and month to month. In either case, they came to realize that they could print up a small amount of extra receipts for the gold in their warehouses and either spend it themselves or lend it out with interest without substantially effecting their solvency. This realization birthed fractional reserve banking.

At this point, having just explained that true banking began when someone first issued claims on gold that actually belonged to someone else, a few authors felt it necessary to warn any uninitiated readers against considering the practice of fractional reserve banking as dishonest. However, just when one might expect an exposition on its morality or a clarification of what really takes place, the best we get is an argumentum ad populum of sorts, appealing to fractional reserve banking’s widespread use as sufficient authority to allay any concerns of ethics. From

34 See for example: (Spencer 1993). See also: (Fischer 1983).
35 See for example: (Baumol 1994, 722).
36 See for example: (Byrns 1989, 227). See also (Colander 1995, 313).
37 Most texts saw deposit creation as being at the heart of the role of banking. See for example: (Gill 1978, 248).
38 See for example: (Case 1999, 616).
this point on, nearly all texts assume fractional reserve banking as standard practice\textsuperscript{39} and only a few even acknowledged that there are people who are opposed to such an institutional arrangement on ethical or practical grounds.\textsuperscript{40} None of the material under review ever mentioned or referenced any concept of property rights in this regard.

Invariably, during the discussion of the creation and evolution of modern banking, the topic of bank runs comes up. While there is some variety on how this topic is covered, the vast majority of the texts present the problem as being now one of only historical interest because the present central banking system has ended any concern over irredeemably. However, historically, quite a few texts present the fear of irredeemablility as being even then somewhat irrational. The claim is that the only thing that the people \textit{really} should fear is fear of bank runs itself. Instead they should see bank runs as unfortunate in that they often arbitrarily interrupted periods of great prosperity and expansion. Many authors resorted to chiding bankers of old for not being shrewd enough while acknowledging that the real solution would later be found in institutional change.

1.4.6 Government Intervention into Banking and the Management of Money

Why did governments get involved in market produced banking?\textsuperscript{41} Explanations range from the danger of having “profit-oriented bankers [who] might otherwise provide the economy with a gyrating money supply that dances to the tune of the business cycle” (Baumol 1994, 735),

\begin{itemize}
\item\textsuperscript{39} The following quotation typifies how many authors explain, if they explain at all, the present contentment with such an arrangement. “Our current monetary system has evolved over hundreds of years during which commodity money was first replaced by full-bodied paper money…finally we arrived at our present system… Like a hesitant swimmer who first dips her toes, then her legs, then her whole body into a cold swimming pool, we have “tested the water” at each step of the way—and found it to our liking. It is unlikely that we will ever take a step back in the other direction.” (Baumol 1999, 719).
\item\textsuperscript{40} See for example: (Bach 1963, 223).
\item\textsuperscript{41} All the textbooks did an appallingly poor job of tracing the historical development of this institution. They left out the effects of legal tender laws and other government interventions necessary to institutionalize a fundamentally bankrupt practice. Furthermore, they rarely even mentioned, let alone explored the concept of free banking and how it is relevancies for today.
\end{itemize}
to the vast benefit a centrally managed money supply can provide in promoting a growing, full-employment economy.

While every text incorporates a thorough explanation of how the Federal Reserve functions, many authors sympathize with a sort of rational ignorance on the part of the readers and the general public concerning the complicated affair of money creation. Paul Samuelson comments, “The public neither knows nor cares—and need not know or care—whether its currency is in the form of silver certificates, Federal Reserve notes, or copper or silver coin. So long as each form of money can be converted into any other at fixed terms, the best is as good as the worst” (Samuelson 1980, 261).

With the presence of the Federal Reserve System firmly established, this literature turns its attention to various issues of managing the money supply. The level of reserves, particularly under the Bretton-Woods system, is a frequently occurring topic. Some authors express bewilderment at the government’s stubborn policy of maintaining high reserves, particularly during the earlier half of the twentieth century. One compared this scenario to the fable of King Midas who would later discover that he could not eat his gold.  

Other authors expressed frustration at the disutility and high costs of mining gold only for it to be reburied in Fort Knox. For them, this irrational fascination with gold “was the center of a ‘religion’ of money” (Bach 1963, 660).

The other reoccurring problem that mismanagement of the money supply can bring about is inflation. While all texts acknowledged the higher levels of inflation compared to previous eras, few offered a side-by-side comparison of inflation under the gold standard versus the

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42 George Leland Bach (1963, 241) stated: “During the 1930s we got nearly $20 billion of gold from abroad, giving foreigners in exchange goods, services, and investments in American industries and government bonds. Then we carefully buried the gold in Fort Knox and paid soldiers to guard it. The fable of King Midas, who finally found he could not eat his gold, looked uncomfortably close to many observers.”

43 See for example: (Byrns 1989, 223).
Federal Reserve System, tending to deal with inflation under each system separately. A majority of the materials, especially the more modern ones, expressed contentment with how the Fed has managed the money supply.\footnote{Ekelund (2000, 815) put it this way: “In the United States, the Fed has amply demonstrated its willingness to gradually reduce the inflation rate during the 1980s and 1990s. This would appear to take some of the steam out of the argument for a return to the gold standard.”} In either case, few authors acknowledged the existence or viability of any alternative systems, focusing only on strategies for better central management.

2. In Comparison: Monographs on the Gold Standard

The subject of how monographs have addressed the various topics surrounding the gold standard and its other iterations is in many ways, a far more difficult and complex topic than the preceding one. While there exists a great deal of uniformity amongst the modern general economics textbooks on how to address topics and what information to cover, when we venture into the specialized literature,\footnote{In this paper, the term “specialized literature” refers only to monographs written specifically on the gold standard. It does not refer to the journal articles or other sources of academic literature.} there exists no such necessary demarcation for what an author should or should not include. Some of this can be attributed to topic specialization. Entire books are written on small topics, brief crises, or nuances that scarcely receive passing reference in modern textbooks. Some authors prefer highly theoretical analysis, while others focus on a purely historical interpretation. Part of this variability can also be attributed to the diverse backgrounds of the various authors. While a majority of the textbooks examined were written for an American audience by American professors and academics, the same is not true for all the specialized literature. Ideological backgrounds also vary significantly, ranging from avowed statistists and communists\footnote{See for example: (Anikin 1978).} to the monetarist doctrines\footnote{See for example: (Friedman 1963).} currently in vogue to laissez-faire
champions.\textsuperscript{48} It is virtually impossible to discern a book’s contents or bent simply by reading its title.

For these and other reasons, this section does not claim to be a comprehensive survey of monographs on the gold standard. Rather, it is meant to briefly demonstrate the breadth of the literature and categorize some of the most frequently employed methods and arguments for defending or criticizing the gold standard. By far, the most common feature in monographs on this issue is an extremely thorough and highly technical analysis of the international mechanism of the gold standard and how it functioned during specific periods.\textsuperscript{49} While this is an important topic, it is not particularly relevant to our task at hand and furthermore, is too intensive to be adequately addressed in limitations of this paper. It would be a good subject for additional study, however.

The first apparent difference between textbooks and the body of literature on the gold standard is that while most textbooks marginalize the gold standard and present a very small set of facts, virtually no facet of the monetary history and use of gold has been left unexplored to some degree in the latter. The topic of gold as the most historically significant medium-of-exchange is well documented in many works.\textsuperscript{50} It is interesting to note that the literature explicitly on the gold standard, especially those emanating from the early half of the twentieth century, is far more sympathetic to this system than the average textbook. Though the higher percentage of positive accounts of the gold standard in the specialized literature should not be interpreted as being consistent within the entire economics profession.

Similar to the situation with “grab-bag” textbooks that cover all relevant economic topics, if this literature review were to be extended beyond the limited discussion of the gold standard to

\textsuperscript{48} See for example: (Palyi 1972).
\textsuperscript{49} See for example: (Quadrio-Curzio 1982), (Bordo 1999), (Bordo and Schwartz 1990).
\textsuperscript{50} See for example: (Vilar 1976), (Kemmerer 1944, 3-52).
the broad scope of monetary schemes, one would find a greater majority of it is implicitly anti-gold by virtue of either completely ignoring it, focusing on more relevant monetary regimes, or relegating it to only historical interest. It should be noted that the literature, pro and con, on the gold standard is only a very small percentage of all the writing on monetary issues. If this fact were not remembered and one looked only at books specifically on this topic, it would be easy for someone to believe that the profession was evenly split between sympathizers and antagonists of the gold standard ideology, since the specific literature is rather evenly split between these two camps.

The vast majority of the literature dates the gold standard era from the end of the Napoleonic wars to sometime in the first third of the twentieth century. Many of the same arguments about this period that were found in the textbooks surface in the literature as well, though they are now dealt with far more. One thing that clarifies many of these discussions is a far better description of what is really happening to the money supply. The “gold standard” is rarely mentioned without a clarification of the different quantities of gold and money substitutes at any given time, though this is not universal. The next several sections will address how individual topics are discussed compared to modern textbooks.

2.1 The Effects of Mining

One of the clearest areas to see the discrepancy between textbooks and the specialized literature is the issue of the mining of gold and its effects. This topic was frequently cited as a significant deterrent against the gold standard in textbooks. While it appears with similar frequency in the specialized literature, it is here dealt with in far more detail and many authors offer arguments both for and against the effects of mining, while in the textbooks, it was usually

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51 See for example: (Bordo 1990, 1).
52 See for example: (Friedman 1963).
only brought up when the author was showing a defect in the gold standard system and was otherwise completely ignored.

The specialized literature was still biased in favor of the destabilizing effects of changes in gold production, though there were a few outspoken voices that correctly disaggregated the proximate and ultimate causes of the violent swings in the money supply. Melchior Palyi, in his work, *The Twilight of Gold*, explains,

> It is an economic myth, frozen to dogma, that the “long waves” of price level fluctuations under the gold standard have been determined solely or mainly by the ups and downs of gold production. Critics have used this dogma to discredit the gold standard as an inherently unstable system. Suffice it to remark that the determining monetary factor in major price level changes was the “use and abuse of credit” rather than changes in the volumes of gold reserves. The fact is, as could be clearly traced in South Africa, that the local banks “immediately” responded to gold discoveries by expanding their credit facilities (1972, 130).  

### 2.2 Government Policy

The specialized literature places far more time and emphasis analyzing the role governments played in influencing the stability of the gold standard. Only a few of the texts attempt to clearly and extensively explain the incentives governments may have had for interfering with money supply. Edwin Kemmerer explains, “The temptation was great for governments to resort to monetary and credit inflation for fiscal purposes. This policy, whenever extensively adopted—as it was widely—broke down the gold standard as it would have broken down any other stable money standard” (Kemmerer 1944, 206). Market confidence in the gold standard was quite high throughout much of this period. It was only the government’s continual policy of undermining the monetary regime that caused the eventual collapse and disillusionment with the gold standard. Oskar Morgenstern states, “[In 1914] Monetary standards in most

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53 Palyi (1972, 13) also explains: “The rapid expansion in the use of bank notes in lieu of, and in addition to, gold coins, followed by the even more significant spreading use of bank deposits and other credit instruments, multiplied the inflationary and deflationary potential of gold movements.”
countries were firmly established on gold and no economic crisis occurred that would have given rise to the belief that a country might be “pushed off gold” by badly functioning price systems. Doubts about the gold standard came only from…political propaganda…but not from a belief that the gold standard mechanism could not cope with whatever difficulties one was accustomed to foresee” (1957, 17).

Truly, as Palyi points out, a complete revolution in the thinking behind both the monetary and fiscal policies of government had to occur before the public could accept this new regime of soft money. However, by the time the government planners were through, this change was, according to many authors, irreversible. As Gustav Cassel notes, “After what has happened in America there will be no possibility of restoring such a legal order. No new law, however solemnly proclaimed, will be able to restore confidence in the right of the individual to obtain gold for his currency. Everybody will be convinced that any rights asserted will be annihilated as soon as the authorities in power find this to be in the public interest” (1936, 128).

However, while it is far easier to trace the steps of government intervention in the specialized literature, most authors still place primary blame on the system itself, believing government intervention was necessary to keep the somewhat “arbitrary” (Requena 1933, 21) gold standard afloat for so long. Again, many authors opposed to the gold standard cannot help

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54 Palyi (1972, 1-2) lucidly states: “The public attitude toward money has changed so fundamentally during the past half-century that it is hard for us to appreciate that only a generation or two ago public policy was actually influenced, if not determined, by monetary restraints. Wars were avoided, or terminated, because governments did not have the necessary funds, namely gold, to finance the military expenditures. The immensity of the First World War, and the intensity of the feeling on both sides, forced most of the governments to disregard monetary restraints, and to finance the war through credit inflation…the idea that credit and the printing press might be substituted for genuine savings was ‘unthinkable.’ ‘Sound money’ ruled supreme, supported by the logic of the free market. The majority accepted the Ricardian viewpoint, that tinkering with the metal content of a currency amounted to defrauding the creditor.” This is also picked up by many who vehemently oppose the gold standard. As Barry Eichengreen (1992, 21) opines: “It was not only the gold standard as a set of institutions that posed an obstacle to economic recovery, however, but also the gold standard as an ethos.”

55 Cassel (1936, 6) states: “We shall find that these defects are of such essential importance that the gold standard system must be said to suffer from an inherent and irreparable instability.” Another argument frequently circulated is that the gold standard rests on such a peculiar balance that it required many governments to contort and coordinate
but throw in little jabs at the proponents of the gold standard, saying their arguments are not based on logic or evidence. Jastram Roy states,

There exists a romanticized nostalgia about the gold standard that leads people to say, “things weren’t like this when our money was tied to gold.” This is demonstrably erroneous. There were both serious unemployments and pronounced inflations in England and the United States when the classic gold standard prevailed…This lyrical laissez-faire never did hold, and would not now (1977, 182).

2.3 The Effects of the First World War and the Great Depression

The cataclysmic events of World War I and the Great Depression are seen by many authors as administering the deathblow to the gold standard. Even within the specialized literature, there is a considerable amount of confusion or obfuscation over the different roles played by governments and monetary regimes. A typical justification for intervention explains that during the war, “urgent” obligations had “forced” many governments to pursue violently inflationary policies. Yet, few openly acknowledged the dangerous path they had gone down, causing them to fail to take the necessary steps to return to a sound money. This had disastrous consequences. As Gustav Cassel wrote in 1936,

In every country, even in Germany, it had been denied that the rise in prices had anything to do with a deterioration of the currency, and every effort had been made to make the public believe that the rise in prices was exclusively a result of war-time curtailment of the supply of commodities…the price that official ignorance and complacency had to pay for this refusal to recognize the truth was the post-War orgy of inflation (21).

Though many authors place appropriate importance on the effects of governments breaking the “rules of the game” when they inflated the currency, many chose to begin their analysis of the downfall of the gold standard in the interwar period, after the inflationary policies of World War I. In this epoch, only strict and complete adherence to the principles of sound
money could have restored order to the monetary system. But while most major countries made an effort to return to the gold standard, this was rarely followed by a reduction of government activity necessitated by the ethos of sound money doctrines. Governments refused to surrender their newly acquired power and after some time the inflationary and interventionist mindset required to support its spending had finally begun to take hold (Palya 1972, 1-5).

This watershed transition in ideology is seen by many authors as a positive step and crucial to the consideration and adoption of progressive monetary theories that could never have been realistically considered earlier. As Barry Eichengreen relates, “In part, there was little perception [prior to the War] that policies required for external balance were inconsistent with domestic prosperity. There was scant awareness that defense of the gold standard and the reduction of unemployment might be at odds.” He continues, “There was no well-articulated theory of how supplies of money and credit could be manipulated to stabilize production or reduce joblessness, like the theories developed by Keynes and others after World War I” (Eichengreen 1992, 6).

These authors once again blame the Great Depression largely on the lingering effects of the gold standard and openly advocate the Keynesian policies that supposedly kick-started the economy, chief among these, the panacea (for government) of currency depreciation. “Depreciation was the key to economic growth. Almost everywhere it was tried, currency depreciation stimulated economic recovery. Prices were stabilized in countries that went off gold,” asserts Eichengreen, “…the advantage of currency depreciation was that it freed up

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be hazardous, “the ‘fault’ with the gold standard to begin with was the government’s violation of the gold standard’s rules of the game. It had printed up so much money that its ability to maintain gold redemption for its obligations had become problematic.”

57 “The gold standard of the 1920s set the stage for the Depression of the 1930s by heightening the fragility of the international financial system. The gold standard was the mechanism transmitting the destabilizing impulse from the United States to the rest of the world.” (Eichengreen 1939, I).
monetary and fiscal policies. No longer was it necessary to restrict domestic credit to defend convertibility” (1992, 21).

3. The Austrian Critique of the Gold Standard

The Austrian School of economics has long held as its core values the view that a free and open market economy, private property, and sound money would maximize economic freedom and prosperity. It attempts to construct and point to the merits of a non-coercive organization of society and show the deleterious and necessary effects of arbitrary intervention into that society. These themes were dominant in nearly all the social sciences before the rise of the centralized and total state of the twentieth century. Indeed, these are pillars of classical liberalism. As Ludwig von Mises, the most famous Austrian economist explains, “Defense of the individual’s liberty against the encroachment of tyrannical governments is the essential theme of the history of Western civilization” (1980, 454). The preference for the gold standard among Austrians is not born out of nostalgia for previous eras or a belief that gold is the perfect money or a cost free monetary alternative, but quite simply, that historically, gold freely arose as the preferred choice of market participants. Its voluntary selection time and again throughout history supports that it is the most suitable medium-of-exchange available in the world.58

There are a few basic propositions which Austrians hold about money. First, that in a market economy free from forceful intervention, the tendency will be for one or at most a few suitable commodities to begin to serve as a common medium-of-exchange. Second, that these commodities will tend to have certain characteristics that make them particularly suitable for this

Historically, gold has proven to be most suitable for this purpose, with silver having similar qualities, but to a lesser extent. As Murray Rothbard explains,

> it is no accident that this has been the invariable success story of precious metals, which can be partly explained by their superior stable nonmonetary demand, their high value per unit weight, durability, divisibility, cognizability, and the other virtues described at length in the first chapter of all money and banking textbooks published before the U.S. government abandoned the gold standard in 1933.\(^60\)

When Austrians defend the gold standard, they are really only defending the right for people to voluntarily direct their own affairs. They are merely upholding the fundamental tenants that underlie all peaceful social cooperation (Mises 1998, 168). Supporting the gold standard is supporting the veracity that voluntary exchange is beneficial to all parties involved and that coercion cannot produce a more socially beneficial arrangement. It is completely wrong to believe that the gold standard was rejected by the market or somehow failed. It did not fail. It was violently abolished by governments because it did not serve their inflationary schemes (Mises 1980, 461).

Indeed, the principles of sound money have always stood firmly in the way of government machinations that can only be brought about by deceptive means. As prominent Austrian economist Richard Ebeling explains,

> looking over the broad sweep of history, it [is] absolutely clear…that the history of money [is] nothing less than one long tragic account of incessant state debasement of the monetary unit and an accompanying disruption of economic progress and social development. From the coin clipping of ancient kings and princes through the tidal wave of paper money inflations to the manipulative subterfuge of modern central banking, political influence or control over money and banking had brought in its train nothing but economic havoc and social conflict.\(^61\)

This is the single greatest merit of the gold standard, that it immunizes the market from disastrous state intervention. The benefits of this alone far outweigh the trivial technical or resource cost arguments against the gold standard (Rockwell 1992, xii). The frequently cited real costs that a gold standard implies, like the mining and transportation of gold, are not accurately measured by the proponents of these arguments. Simply measuring the costs of mining gold versus the costs of printing and managing the money supply is not relevant. Each system must be reviewed as a whole, including all costs and benefits. As Roger Garrison states, “Ultimately, the cost of any action, commodity, or institution is the alternative action, commodity, or institution forgone. The opportunity cost is the only cost that counts.” The complete true costs of centralized monetary systems should include both the apparent costs of printing and managing the money supply and the far more relevant and costly effects of the instability associated with these systems. When viewed as a whole, the benefits of a gold standard over other systems are apparent.

Governments have long understood that their interests and those of the people under them do not frequently coincide. That is why they have had to resort to subterfuge to bring about their schemes. Inflation is really a hidden tax that only benefits the government and whatever social class it chooses to favor with any given policy. Inflation cannot create jobs or wealth, it can

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62 Many mainstream academics attempt to calculate a real figure to determine the costs a gold standard would impose on the economy. Typical estimates range from 16 percent to 50 percent of the annual growth rate of national income. Roger Garrison warns against such incorrect calculation. “Propponents of the gold standard would be ill-advised to respond with a cost figure of their own. If the true costs of a gold standard could be calculated at all, it would have to take into account the monetary instability associated with alternative standards and the consequent loss of output. …An appreciation of these benefits, but not a precise quantitative estimate, can best be gained by comparisons of historical episodes which are illustrative of economic performance under a gold standard and economic performance under a paper standard.” Roger Garrison, “The Costs of a Gold Standard,” in Roger Garrison, “The Costs of a Gold Standard.” In: (Rockwell 1992, 62). 67-75.


65 Mainstream economics is inured with the benefits that inflationary schemes can supposedly provide. Arguments abound that inflation spurs economic growth, reduces unemployment, cures monetary disequilibrium, and can
merely redistribute them, and by virtue of the necessity of force, which contradicts voluntary exchange, it must create a less socially beneficial outcome. Policies, which could not be undertaken absent inflation, lull the people into thinking that governments possess some “magical powers to turn stones into bread.”  

Political leaders favor inflationary policies because they hide the real costs of their programs until after they have seized greater control or have left power. These political leaders, as Mises pointed out, can only pursue these extremely popular policies by misleading the people and undermining “the democratic way of persuading the majority. They arrogate to themselves the power and the moral right to circumvent the will of the people. They are eager to win its cooperation by deceiving the public about the costs involved in the measure suggested.  

…Inflation is the fiscal complement of statism and arbitrary government” (Mises 1980, 468).

It is for this reason that most Austrians support a 100 percent gold standard as the only system fully compatible with the free market and the defense of property rights. Any standard that allows banks or governments to expand credit beyond the observed preferences of market participants creates fraud and instability. As Rothbard notes, “leaving the government and its central bank power to fine tune the money supply, but abjuring them to use that power wisely in accordance with various rules, is simply leaving the fox in charge on the proverbial henhouse.”

4. Conclusion

This paper has attempted to survey, primarily, how modern economic textbooks have addressed the various topics surround the gold standard, and secondarily, to analyze how the 

provide a stable money. All of these arguments have been systematically refuted in the Austrian literature. For further reading on these subjects, see the following resources. Monetary disequilibrium: (Cochran 2001), (Horwitz 1996). Stable Money: (Dorn 1987), (Herbener 2004).

specialized literature and the Austrian school have addressed these same topics. This survey shows that the situation in modern American textbooks is really quite unbalanced. Their failure to provide adequate information about the gold standard is only exceeded by their failure to recognize the relevant facets of a gold standard and provide systematic argumentation for and against them. Regrettably, the situation with the textbooks is somewhat understandable given the ideological bent of modern economics.⁶⁸

The most persistent problem preventing these texts from systematically and honestly presenting their arguments is that long before they arrive at the subject of money and the gold standard, a goliath expansionist and interventionist government has already been assumed as necessary or beneficial for society. As Mises stated so succinctly in his *Theory of Money and Credit*, “It is impossible to grasp the meaning of the idea of sound money if one does not realize that it was devised as an instrument for the protection of civil liberties against despotic inroads on the part of governments. Ideologically it belongs in the same class with constitutions and bills of rights” (Mises 1980. 454).

While the situation is better in the specialized literature, it is far from fair and unbiased. A great deal of the literature, instead of acknowledging all the arguments on both sides of the issue and responding to them, simply ignore the key arguments and evidence for a gold standard. It is extremely rare to find a work that completely engages the issues surrounding the gold standard in an even-handed manner. This is one area where the Austrian literature really stands out. They have gone to great lengths to fairly rebut the alternative arguments and systematically rework their arguments to respond to the major claims against them.

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⁶⁸ Today, most economists live off the state, whether through its subsidization of the public university system or its own hiring of economists in an attempt to support or legitimize its policies. It should be of little surprise then that the twentieth century saw the profession transformed from its laissez-faire roots to the statist doctrines that rule the day now. Many of its chief practitioners are merely creatures of the state rejecting thorough, systematic, and honest academic work in favor of the subterfuge of statist and collectivist ideologies.
The Sixty-Five Textbooks Surveyed:


Works Cited (Excluding Textbooks):


