

(January 15, 1934)

Synthetic Gold

BY B. K. SANDWELL, B.A., F.R.S.C.

CHAIRMAN ARSCOTT:—We have as our guest today Mr. B. K. Sandwell. Mr. Sandwell was born in England. He came to Canada very early in life and I think he is almost a Canadian now. He received his early education at Upper Canada College and graduated from the University of Toronto. He was for some years on the editorial staff of the *Toronto News*. He then became Associated Editor of the *Montreal Herald* and later Editor of the *Financial Times*. In 1919 he was appointed Assistant Professor of Economics at McGill University. From 1923 to 1925 he was head of the English Department of Queen's University. He then returned to Montreal where he devoted himself to lecturing and writing and became Editor of *Saturday Night* in the Autumn of 1932. His service to Canadian Education and Letters is recognized in 1925 in his election to the Royal Society of Canada. Mr. Sandwell has won for himself a very unique and outstanding position in Canada. He has chosen as the subject of his address to us today "Synthetic Gold," and I am sure what he has to say will be of great interest to us. Mr. Sandwell.

MR. SANDWELL:—Mr. President and gentlemen of the Canadian Club of Toronto, my friend, Mr. Christopher Morley, who was in this city last week, brought with him a fund of new stories, some of which I should not dare to narrate to this audience, but some of which are within your range. One of them appears to me to lend itself very aptly as an illustration of the situation in which we find ourselves today and the subject about which I propose to talk to you. It is a personal experience of Morley's. He

went down some few months ago—I don't know why he should do it—to visit a certain famous penitentiary in the United States which has the great advantage for a penitentiary of being equipped with an electrocution chamber. And they invited him to examine the electrocution chamber. And he gazed at it with great interest, and they offered to fasten him into the electrocution chair, in case he wanted to find out what it felt like to be electrocuted and he refused. And they took him into the little room where the real guests of the chair spent the last hour or two of time before they were ushered into the execution chair. And he examined this room with great care. It was very comfortably fitted. And it had a shelf of books in it and he glanced over the books and he said, "I see you have a collection of the prayer-books of the various kinds of religion with which to console the last moments of the victim." "Oh, no," said the guide, "these are works on practical electricity."

We have been more or less electrocuted as business men during the last three or four years by the misbehavior of the monetary institutions of this world and, while waiting for the finishing stroke to come on, we have had to apply ourselves to the study of the science of those misbehaved monetary institutions and I cannot imagine anything more miserable under such circumstances than the science of money. Nevertheless, we have had to study it. We shall have to go on studying it for some time to come. And I make no particular apology for addressing you this afternoon on the subject of gold, synthetic gold, or any kind. I may get around to the subject of Synthetic Gold. I am not sure. It depends upon how time lasts.

I make no apology for talking to you upon the subject of gold. Everybody is doing it, which reminds me of the good old darky song, "Everybody talking about Hebben ain't goin' there." And everybody talking about gold ain't got none. But I have rather special rights in the subject, because I have been talking about it longer than most of the people who are talking about it—I do not mean talking about it longer at any given speech, but I have been talking about it quite a large number of years. When I began talking about it, I found myself becoming very

unpopular with certain valuable and important sections of the community. Particularly I found myself becoming more unpopular—and it was most uncomfortable to me—with my good friends the bankers. Because I was trying to convince them and the rest of the Dominion and world at large that the gold standard was not sacred and it might be necessary at some future date to try and get along without it. At that time that idea was extremely repugnant to my good friends the bankers, who have assured me frankly that if Canada ever abandoned the gold standard her credit, her place among the nations, her dignity, her repute, would be gone forever. Civilization would be at an end and we should go back to live in caves and dye ourselves with woad and eat raw meat and to throwing bones over our shoulders. Well, Canada has gone off the gold standard and a week or so ago in this magnificent hotel I attended what I suppose was the most magnificent luncheon I ever attended, given by some of these great banks, and I did not see anybody eat raw meat, or throw bones over their shoulders, and I have a strong suspicion that next year I may be able to attend an even more elaborate luncheon with these same gentlemen and be able to have it in even more civilized a manner. So, as one of my friends and colleagues in the business of denouncing the gold standard, pointed out to me, we anti-gold-standardites are in rather a different position from a year or two ago. A year or two ago we were heterodox and the gold standard people orthodox. But now we are orthodox and the people who approve of and want to restore the gold standard are in a sense heterodox. There is no gold standard here, in the United States, or Great Britain, or in most of the great and important countries of the world. And therefore, when I meet a banker now and he talks to me on the gold standard, I hasten to assure him he is on the wrong side of the fence, a side no banker should be on, because orthodoxy is the most priceless asset a banker can possess. It is more or less essential to the conduct of his business. I say all the countries of the world. There is of course one important exception, France. France still continues, that is she did until this morning's newspapers came out, on the gold

standard. How long she can continue into the future I don't know. In fact the whole position of France is a great puzzle to me. Why a gold franc should be sacred at its present weight when ten years ago it was not sacred at five times that weight is a very strange and incomprehensible matter. It seems to me when you have once clipped something you can usually clip it again. There are, I realize, exceptions. There are some clipping operations which cannot be repeated. The operation of circumcision presents itself.

May I very briefly ask you to consider the history of the gold standard, not in any great detail but very rapidly. The gold standard, meaning by that the attachment of a fixed weight of gold to the unit of currency, is not, of course, as old an idea as the history of the race. It had its birth, and its birth can be fairly accurately placed in a period of time three hundred years ago. The Royal Society of Canada, of which I have the honor to be a Fellow, was celebrating a year or two ago the Tercentenary of the birth of John Locke, and Locke was among other things, the father of the doctrine, which always commends itself to the classes which possess a large amount of power not derived from the government, that the government is the best which governs least. It is an idea I wish we could cling to but it presents difficulties at the present time. However, it flourished for a long time under Locke and it was Locke who had most to do with establishing it and keeping it flourishing. It is, as I say, a doctrine which always commends itself to those classes possessing a large amount of power not derived from institutions of government.

The period of Locke, meantime, was the period of the dawn of the European bourgeoisie in England, of the propertied classes, owning new forms of wealth in land, capitalistic forms, which were not held under feudal tenure. Locke was their philosopher. He was the type of philosopher of the City of London, business men, bankers, cloth dealers, merchants generally, who were rising into power on the strength of their possessions and monetary credit but had not yet acquired the assurance, that they

now possess, of an ability to make governments do what they want governments to do, and they wanted at that time a unit of currency which would be absolutely free from any interference of governments. Now a unit of currency must be defined somehow. If it is to be redefined from time to time that redefinition must be by the government, and the bourgeoisie at that time did not feel very confident of their ability to make the Stuart Kings do exactly what they wanted them to do. They had therefore to establish the doctrine that the unit must never be redefined, that it is immoral to say that a shilling which was ninety grains of silver yesterday shall be eighty grains (or for that matter one hundred grains either) tomorrow. In the great controversy over the reform of the English coinage in the last decade of the seventeenth century, Locke did succeed in establishing that doctrine to such an extent that it remained unshaken as the ideal of monetary conduct for over two hundred years and has only been overthrown by the worst monetary crisis that the world has ever experienced.

But Locke, while a most able and original thinker, and the inventor of a concept of human society which was admirably suited to a bourgeois civilization, was in no sense a specialist on monetary economics. A university nowadays, to be properly equipped, has to have professors of political economy—it needs at least forty of them on different little territories of the subject. In those days a man could be professor of philosophy, economics and a dozen other things at the same time, but it is very difficult to be perfectly sound and perfectly scientific on all these subjects at one and the same time. And Locke was no exception. He was, as a matter of fact, not very good on monetary economics although he was an excellent philosopher.

Perhaps Locke's most fallacious argument is the following in reply to Lowndes's statement that the proposed lower-weight coinage would pay as much debt and purchase as much of commodities as the coins then in use.

"I would have it well considered by our English gentlemen, that though creditors will lose one-fifth of their principal and

use, and landlords will lose one-fifth of their income, yet the debtors and tenants will not get it. It will be asked, who then will get it? Those, I say, and those only, who have great sums of money (whereof one sees not a piece now in payments) hoarded up by them, will get by it. To those, by the proposed change of our money, will be an increase of one-fifth, added to their riches, paid out of the pockets of the rest of the nation. For what these men received for four shillings they will pay again for five. This weight money hoarded up Mr. Lowndes, p.105, computes at one million and six hundred thousand pounds. So that by raising our money one-fifth, there will three hundred and twenty thousand pounds be given to those who have hoarded up our weighty money; which hoarding up of money is thought by many to have no other merit in it, than the prejudicing our trade and public affairs, and increasing our necessities by keeping so great a part of our money from coming abroad at a time when there was great need of it."

Very true, but you see the extraordinary error he has fallen into. He has failed to take into account the fact that change in the value of a unit of currency affects not only those who have actually coins, units of currency, in their possession, but all those who have a claim, a promissory claim, a contractual right, to those same units, so the whole creditor class is affected in exactly the same way, in which he describes quite rightly the owners of weighty money being affected. But he has grossly under-estimated one of the consequences of the revaluation of the currency which he is denouncing. I am only mentioning that to show that Locke's authority as a monetary scientist is not deserving of absolute respect. It was his authority as a philosopher, the vogue of his general philosophy, which led to his monetary theories being accepted at their face value and remaining current for a matter of over two hundred years.

The London bourgeoisie of Locke's period wanted a currency standard which would be above all possibility of manipulation by their own government, because they themselves had but little political power in that government; they had not developed the modern technique of acquiring seats in the Lords and the Commons in exchange for cash. By the nineteenth century they would, I think, have been perfectly willing to accept a government-regulated currency standard for Great Britain, because they themselves were practically the government; but by that time they had

developed a new reason for upholding a self-regulating standard. They had acquired enormous creditor interests in other countries, and they desired a world wide gold standard as a limitation on the power, not of their own government, but of other governments in which the creditor interest might not be quite so influential. In other words the gold standard became a part of the internationalist philosophy of the nineteenth century, of which Cobden was the representative type. That internationalist philosophy broke down in practice about the end of the nineteenth century, although its philosophers did not know it at that time. Its collapse was brought about by the rise of tariffs, which put nationalistic impediments in the way of the international movement of every conceivable commodity except gold; and when this restriction of movement of goods began to exist side by side with an international debt situation which required the movement of unprecedented quantities of value from one country to another, the result was to put upon the one free moving commodity, gold, an impossibly high valuation, which it still possesses. The result of this situation was a further extension of nationalist action and governments, in addition to impeding the entry of goods into their territories, began to prevent the exit of gold away from those territories. That is the stage at which we find ourselves today.

So far my task has been very easy. It is not particularly difficult to review past history. But when one has done a little prophesying in the past and been moderately successful, the habit becomes ingrown and the temptation to do a little more, irresistible. This time I shall probably be wrong, but by the time you know whether I am wrong or not you will have forgotten it, so there are no serious consequences to be apprehended. I wish your lunch had been tomorrow instead of today, because by tomorrow we shall know considerable more about the future of gold than today. Mr. Roosevelt is engaged today in making large changes in the whole world situation on that subject. But whatever those changes may be I feel prepared to tell you, in my belief, in this year of grace 1934 the Lockian concept of the eternal moral duty of governments to maintain

redemption of their currency units at an eternally fixed weight of gold has completely broken down. That does not mean that governments may not—they probably will—fix from time to time a certain weight of gold for which they will exchange their currency units. But the idea that that weight must never be altered has gone, and gone for keeps, and will not be revived. Other things besides the great increase in the power and efficiency of national governments have helped to break it down, notably the rise of the study of average price levels or price indexes, which has revealed the surprising fluctuations in the value of the gold unit, and has provided a measuring rod by which intelligent and honest governments may hope to attain greater price stability with a managed currency unit than with a fixed metallic one.

But the idea that that weight must never be altered has gone and gone for keeps and will not be revived; and if any of you are still orthodox enough in the orthodoxy of the early part of this century to think it ought to be revived, you had better go away and despair for the future of civilization.

But this change in the method of the use of gold as basis for a national currency is surely likely to have some effect upon the demand for gold as such a basis. So long as it was a moral duty to keep the currency unit freely exchangeable for a fixed amount of gold, it was necessary to keep in one's possession a sufficient amount of gold to see one through any reasonably probable demand for redemption. Under a managed currency, it should be possible to get along with a much smaller reserve in proportion to the volume of money employed by the country. The beginnings of an outflow of gold, in such circumstances, are an evidence that goods within the country are too dear in terms of gold, in comparison with goods in other countries. If it is desired to check the outflow, all that is necessary is to reduce the gold equivalent of the currency unit. This will at first put up the internal prices only of imported goods, the consumption of which will be checked, and it will put down the gold prices, while not altering the internal prices, of exportable goods. The

gold reserve will thus be strengthened and it will usually be possible to restore the former gold value of the currency before the reduced value has had any appreciable effect upon the domestic price level.

But even a complete suspension of gold payments is far less alarming, to a country with a well managed currency, than it seemed before the experience of the past few years. It is well recognized by now that when creditor nations refuse to accept payments in goods, no moral responsibility rests upon debtor nations if they find themselves unable to make payment in gold; and the credit of a country otherwise well managed will not in future be seriously impaired by such cases of failure.

For these and other reasons it seems to me that the rise of managed currencies and the proof now established that it is possible to get along comfortably without any kind of currency convertibility at all should eventually lessen greatly the demand for gold for national currency reserves. This means a substantial reduction in the present high purchasing power of gold for all other commodities; and in the event that the nations generally resort to a system of nationally managed currencies aiming at a stable purchasing power, it means also a substantial reduction in the amount of such currencies obtainable for a given weight of gold.

I should not, however, like to alarm my gold-mining friends with the idea that this reduction is imminent in the next few weeks. It would be, I believe, if the world were in anything like a condition of stable and durable peace. In that event there would be none but economic motives for the accumulation and retention of gold reserves which, for several of the greater countries of the world, now vastly exceed all possible requirements for the ordinary security of the currencies based upon them. It has to be remembered that the reserves of the countries which have depreciated their currencies have never been revalued in terms of the present gold value of the currency; they are still estimated in pounds and dollars as if the pound were one hundred and thirteen grains and the dollar twenty-three and a quarter. They are capable of sustaining with-

out the slightest risk a much larger volume of currency of the present gold value than is now based upon them.

True, I presume the United States will shortly require and be able to supply itself with a considerably larger amount of currency than it is now using, but even so, I still think there will be a very substantial surplus of gold left over in the United States which that country can lend, if it won't spend, upon foreign countries which are in urgent need today for their own domestic situations.

I don't know much about the foreign policy of the United States but I doubt whether the accumulation of gold in the reserves of the United States has any military object. I should not like to make that assertion about the accumulation of reserves of gold in some European countries. We have to face the fact that the world is by no means in a peaceful frame of mind, and that gold is a useful thing with which to buy munitions, that modern war is an expensive affair, that it uses up a lot of material not always available within the territory of the war-making powers, and that therefore gold is of very substantial value as a sort of subsidiary ammunition. And while the present condition which we have continues, I imagine that there will be a considerable tendency to the accumulation and retention of gold reserves with that object largely in view, but I would ask you to remember this, the accumulation and retention of gold reserves has been a profitable operation during the last few years. During every year the purchasing power of gold has been on the increase, an increase which I suggest is near its end. It will become a highly unprofitable operation as soon as the purchasing power of gold begins to diminish and countries which are actuated by purely economic considerations will have considerable inducement to get rid of that portion of their gold reserves which is not necessary as a foundation for currency and credit system. That, against which you can print little pieces of paper and lend them to people, is a precious asset. You get interest for little pieces of paper. Gold, which is not needed as a security for your little pieces of paper, is a dead and unproductive asset. It is losing interest. It also loses value, purchasing power, at

a rate of 1, 2, 3, 4 or 5 per cent. per annum. The penalty of carrying any large quantity of it is going to be rather severe.

I wish I had time to discuss with you the present situation in the United States about which I know nothing, which, consequently, would enable me to discuss it; and you know nothing; it would be over our heads, so we could discuss it with almost perfect freedom. There is, however, one point I should like to make. The United States is embarking upon managed currency in rather a peculiar way which was never contemplated by the original inventors of the idea of currency management. Those of you who have read Irving Fisher's book on Stabilizing the Dollar will remember he carefully safeguards matters by delimiting the extent to which the dollar can be managed in one way or other in a given, limited, period of time.

He says if it is desired to change the buying power of the dollar by not more than five per cent. within a year, one way or the other, it can probably be done. He is not favorable to the idea of changing it by as much as ten per cent. in two years, taking your whole five per cent. in the same direction for two successive years, but if it is desirable to change the value of the currency, if it is desirable to relieve either the debtor or creditor classes of an unjust burden resulting from a past change in the value of the currency by more than five per cent. in a single year, the method of revaluation of the currency should not be adopted; that it is better in such a case to actually write down, if it is the debtor, and of course, it is always the debtor, (no creditor ever wants relief), rather than attempt to alter the position of the debtor by changing the currency. The United States has embarked on a process which, we are assured, is intended to restore the price level of 1928, which means a rise in prices of fifty or sixty per cent. by revaluation of the currency; and one reason why that operation has not so far been entirely successful is the fact that you cannot get the credit system of a country functioning properly, so long as its currency system is subject to so great insecurity as regards the public that it will not part with a dollar of its money, which is worth such and such an amount in gold

or purchasing power, in exchange for a promise of a dollar of next year's money, if they have reason to suppose next year's money is going to be worth ten or fifteen or twenty-five per cent. less; and since the whole credit structure of any community consists of a mass operation of the exchange of present dollars for future dollars, the operations of the credit structure in the United States have been very largely paralyzed by this state of uncertainty as to future movements of the dollar.

Mr. Fisher so fashioned his proposed change of not more than five per cent. which would only take place to offset a corresponding change in the value of commodities. It would not take place in such a way as to change prices of commodities only when it was necessary to retain price levels of commodities at the position which it originally held. He would fashion an amount of change which would not seriously impair credit. I think he is probably right. But a change to the extent to which the United States has been manipulating it, is another matter. I earnestly hope and believe President Roosevelt will be able to say to the people of the United States: your dollar has now been reduced to where we want it to be and it will not be reduced further. If and when he is able to say that, I am confident that the optimism and faith of that great country to the south of us will instantly rally, and credit will immediately be reestablished, and our upward climb to prosperity will begin at the same time as that of the United States.

MR. ARSCOTT:—Mr. Sandwell, you have given us a very interesting talk. You have presented the subject-matter of your address in a most delightful manner and brought out a number of highlights that demand thoughtful consideration. I want you to know we appreciate the great amount of trouble you took to prepare your address and I express the hope that we may have an opportunity of hearing you again at some later date. I extend to you our sincere thanks.