Barbaric Relic or Rational Money - Ray Vicker, The Realms of Gold

By Lewis E. Lehrman

John Maynard Keynes and his disciples buried the gold standard, we might say, in the tomb of the "barbaric relics". There, its tribal bones have remained to this day, for most policy makers, economists and intellectuals. In order to replace the gold standard, fashionable Keynesian policy makers and debarbarized monetary theorists bravely ushered in the postwar Bretton Woods era of the "gold exchange standard" and countercyclical fiscal policy, followed in the 1970's by the familiar contemporary regime of managed floating currency systems.

The stability of an advanced money-exchange economy need not be based, the neo-Keynesians and some monetarists argued, on the indissoluble principles of a free and open market, budgetary equilibrium, and a convertible monetary standard. On the contrary, only the "stabilizing" intervention of the state, the Keynesians opined, could ensure economic equilibrium and full employment. Only the impartial arbitration and intervention of an economically well-informed state bureaucracy, the "guardian elite", in Keynes' phrase, could provide that incremental investment demand required to balance the "declining marginal propensity to consume" within the employed working force. Moreover, only a discretionary national monetary policy (supplemented by a countercyclical international monetary policy, that is to say, the IMF), could provide that margin of credit elasticity needed to finance the state fiscal policy, the goal of which would be to amplify, and therefore to stabilize at full employment levels, the deficient demand of the private sector. The old era of gold gave rise to the new era of managed currencies. Indeed, the "barbaric relic", the Gold Standard, has been securely entombed in the darkness of a bygone era. The Keynesians, a new priesthood, now hold forth their new testament, "The General Theory", to show the way for a new gospel. From the new priests, in exchange for a barbarous relic, Western Civilization has received a comprehensive new mythology.

It is in this context that we must consider Ray Vicker's fine book, The Realms of Gold. For it is he who makes clear the ancient mystique surrounding the role of gold in economic history. Mystery has too long enveloped the mundane utility of the gold standard. During the development of our advanced industrial economy in the West, the functional simplicity and rationality of gold's economic role has been obscured, from time immemorial, by its symbolism – and totemism. Vicker tells us in his first chapter: "Since the dawn of time, gold has awed commoners as they beheld it on royalty, the metal gleaming and shining as if sovereigns possessed some inner heavenly glow." It would seem that even Mr. Vicker's book itself has been illuminated by this glow. For the author's prose alternates between the gorgeous rhetoric, appropriate to the sovereign mysteries of the ineffable metal, and the succinct narrative of a no-nonsense journalist describing the irreducible economic functions of history's oldest international currency.

Vicker's book has an encyclopedic character to it. While it does not pretend to be a comprehensive history of the use and abuse of gold throughout history, the book provides us with an overview of the many roles of gold in the civilized societies of the past five thousand years.

Vicker chronicles the royal and sacerdotal uses of gold, relates quite carefully its unique physical properties. He develops the thread of monetary history from the first chapter, where we are told that "Gold is the first metal mentioned in the Bible." His story is artfully woven into a rich tapestry of gold vignettes concerning coinage, mining, monetary theory, the stock market, war, treasure hunting, and the diplomacy of contemporary international monetary policy. Vicker is at his best with the vignette, for the theme of the book, the invincibility and historic endurance of gold, is best illustrated by ransacking the past and the present for those stories which illuminate the abiding presence and purposes of gold since the Stone Age.

More credibility might have attached to certain of the author's quotations and references, had their sources been noted; but the lack of an academic apparatus detracts only a bit from the storytelling. It might have been useful to his readers had Mr. Vicker included his own bibliography on the subject, which has certainly served the author quite well, as he displays a sure grasp of the subject. The book is well-edited, even if on the bottom of page 191 World War I is permitted to stand in for World War II. One might have hoped also for a more rigorous approach to the theoretical and policy debates which arise over domestic and international monetary issues. But such an effort was only a small part of the author's more encyclopedic purposes.

In this short space we cannot do full justice to Vicker's exposition. But one point he makes takes on increasing relevance as time passes. The author declares on page 198, "The gold standard contains…automatic disciplinary features which politicians do not like." In these words Vicker identifies the underlying reason for the rejection of a true Gold Standard. Men resist impartial discipline when they can bend reality, through force, to their wills. Statesmen, too, have labored for two generations to create not a world which would endure, but one which would please them and their indulged constituents. They have succeeded. The final traces of discipline have now been purged from the domestic and international monetary system. As a result, the world has staggered, as Vicker vividly describes, from one monetary crisis to another, from the defective gold exchange-standards of the inter-war years and Bretton Woods to our contemporary era of managed floating rates. The decision taken at Bretton Woods to dilute, and then in 1971 to reject, monetary discipline were decisions for inflation. As we have sown the seeds, so we have reaped the whirlwind.