

The Goal of Monetary Reform*

By

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* Paper delivered at the Austrian Scholars' Conference of the Ludwig von Mises Institute, March 25, 2000, Auburn, Alabama.

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I have been asked to write on the subject of monetary reform. I will immediately state my overall conclusion, which I expect to be quite controversial. Namely, *the proper ultimate goal of monetary reform is the establishment of a 100-percent-reserve gold standard.*

The essential reason that a 100-percent-reserve gold standard should be the ultimate goal of monetary reform is that it would secure the economic system against the evils both of inflation and of deflation/depression. In addition, it would be consistent with the fundamental moral-political principle of the absence of the initiation of physical force and thus the positive presence of individual freedom. Indeed, by virtue of the safeguards it imposes against inflation and deflation/depression, it would secure the individual’s freedom against the state better than any other monetary system.

These are propositions for which I supply far more extensive support in my book *Capitalism: A Treatise on Economics* than it is possible for me to supply here.¹ Here I will concentrate on the proposition that such a gold standard would be a guarantee against deflation/depression. The security it affords against inflation is relatively obvious and far less controversial and is thus much less urgently in need of explanation.

Indeed, the very success of gold in safeguarding against the rising prices that so prominently feature in inflation is what has been made the basis for believing that gold implies deflation/depression. This happens for no other reason than that the typically modest increase in the quantity of money and volume of aggregate spending that takes place under a gold standard is accompanied by actually *falling prices* whenever greater

¹ See Reisman (1996), pp. 21–27, 510–517, 569–580, 762–776, 813–818, 825–826, 954–959.

increases in the production and supply of ordinary, i.e., nonmonetary, commodities take place. Such falling prices occurred in the United States in the generation prior to the discovery of the California gold fields in 1848, and again in the generation following 1873. Because of the fall in prices in these two generations, prices in the United States are estimated to have fallen by half over the 19th Century as a whole. The fall in prices, of course, would probably be significantly more pronounced under a 100-percent-reserve gold standard.

As I say, such falling prices, the result of increases in production and supply exceeding the increase in money and spending, are typically described as deflation and are thereby made to conjure up the specter of depression.²

Essential Propositions The 100-Percent Reserve Gold Standard Versus Deflation

The essential propositions I want to establish this morning are: (1) Falling prices caused by increases in production and supply are *not* deflation. (2) Deflation is a decrease in the quantity of money and/or volume of spending in the economic system. This, not falling prices per se, is what causes the symptoms of depression. (3) A 100-percent-reserve gold standard, is the best possible guarantee against deflation thus understood, because once new and additional gold money comes into existence, it does not, for all practical purposes, go out of existence. Instead, its quantity tends continually to increase, at a modest rate. Moreover, its modest rate of increase serves to avoid situations of an artificially induced decline in the demand for money for holding, which then set the stage

² Regrettably, this usage of the word “deflation” is present even in the very excellent little book *Less Than Zero* by Selgin (1997), which independently confirms much of my analysis of the actual effects of falling prices caused by increases in production and supply. To their great credit, the writings of Mises and Rothbard represent prominent exceptions to this usage. See, for example, Mises (1966), pp. 422–424, and Rothbard (1962), p. 864. These authors’ ideas concerning the meaning of the closely related subject of inflation are equally atypical.

for a sudden need to rebuild cash holdings later on, with an ensuing contraction of spending.

Falling Prices Caused by Increases in Production and Supply Are Not Deflation

I will now elaborate on my first proposition, i.e., that falling prices caused by increases in production and supply are not deflation. Such falling prices are not deflation, because they result neither in a reduction in the average nominal rate of profit on capital in the economic system nor in any generally greater difficulty in repaying debts, which are two essential symptoms of any genuine deflation. In a genuine deflation, profits are sharply reduced, perhaps even wiped out altogether, and, at the same time, debt repayment becomes so difficult that widespread insolvencies and bankruptcies occur. Neither of these phenomena occur as the result of falling prices under a 100-percent-reserve gold standard.

Indeed, I will show that the falling prices that take place under a 100-percent-reserve gold standard are actually accompanied by some significant *rise* in the average nominal rate of profit on capital and a correspondingly greater *ease* of repaying debt. The rise in the rate of profit and greater ease of repaying debt results from the fact that the 100-percent-reserve gold standard is accompanied by a continuing production of gold and addition to the stock of gold money, which serves to increase aggregate spending, sales revenues, profits, and money incomes of all kinds and to make the earning of any given sum of money correspondingly easier. The fall in prices that accompanies it is the result of the increase in production and supply exceeding this increase in the quantity of money and volume of spending.

In other words, the increase in the quantity of money and volume of spending

exerts a positive effect on the rate of profit and the ease of repaying debt, *alongside the fall in prices*. Under a 100-percent-reserve gold standard both phenomena—falling prices caused by an increase in production and supply and an elevated rate of profit and greater ease of repaying debt caused by an increase in the quantity of money and volume of spending—exist together, side by side, at the same time.

Falling Prices and Constant or Rising Profits

To understand the effect or, more precisely, lack of effect of increases in aggregate production and supply on business profits, let us begin with the assumption that the quantity of money has become rigidly fixed and that it serves to support no more than a fixed dollar amount of aggregate business sales revenues for newly produced products. In order to minimize the use of zeros and the corresponding waste of brain space, let us call this fixed amount of aggregate business sales revenues 1000 monetary units. (In today’s context, a monetary unit would represent perhaps twenty billion dollars, which would imply aggregate business sales revenues for newly produced products on the order of twenty trillion dollars.)

In addition, let us assume that year in and year out business in the aggregate spends 900 monetary units for capital goods and labor to produce the products that bring in these 1000 monetary units of sales revenues. On this assumption, the aggregate costs of business can also be taken as 900 monetary units per year. And the result is that aggregate profit will be 100 monetary units per year.

If we further assume a fixed aggregate monetary value of the capital invested in business, say, 2000 monetary units, then an economy-wide average rate of profit on capital invested of 5 percent is implied.

So long as these three monetary aggregates remain the same, i.e., 1000 in sales revenues, 900 in expenditure for the factors of production and thus in costs, and 2000 of nominal capital, the aggregate amount and average rate of profit in the economic system remain the same, at 100 monetary units and 5 percent respectively.

Now the question is, what is the effect of increases in the production and supply of products that must exchange for the fixed 1000 of sales revenues? Clearly the answer is a fall in prices; indeed, an inversely proportionate fall in prices. For example, if over some period of years production and supply were to double and the doubled output had to sold for the fixed 1000 of sales revenues, the general price level would be cut neatly in half. That is quite a fall in prices.

But despite even such a large fall in prices, there is absolutely no negative effect on the aggregate amount or average rate of profit in the economic system. They continue to be 100 monetary units and 5 percent respectively.

It should be noted that to precisely the same extent that there is a fall in prices, there is a perfectly equivalent fall in average unit cost in the economic system. In this case, there is a perfect halving of average unit cost, which comes about by dividing the doubled production and supply into the 900 of aggregate business costs.

Indeed, this example shows that the amount and rate of profit in the economic system have no fundamental connection with changes in the price level originating on the side of production and supply. More production and supply operates to reduce unit costs to the same extent as it operates to reduce prices. It is merely a question of dividing a larger denominator into two unequal numerators—the numerator representing aggregate sales revenue and the numerator representing aggregate cost. The amount of profit in the

economic system is the difference between these two numerators and remains the same so long as they remain the same. The division of the two numerators by a growing denominator representing increases in production and supply and causing falling prices and falling unit costs simply has no effect on the amount of profit. And, of course, the rate of profit in the economic system remains the same so long as the amount of profit and the amount of nominal capital remain the same.³

Furthermore, whatever the division of the nominal capital between equity capital and debt capital, the fall in prices resulting from an increase in production and supply operates to benefit debtors to the same extent as creditors so long as the aggregate nominal capital remains the same. If, for example, the 2000 monetary units of nominal capital that we have assumed were divided equally between stockholders and bondholders, with the capital of each class of investors represented by 1000 units of nominal capital, the halving of prices caused by the doubling of production and supply would double the buying power of the stockholders no less than that of the bondholders. True enough, the fall in prices would benefit the bondholder-creditors, whose fixed-money assets would now have a correspondingly greater buying power. But at the same time, the monetary net worth of the stockholder-debtors would be no less, and it would have the same increase in buying power.

When prices fall because of increases in production and supply, the stockholder-

³ There are, of course, numerous cases in which the physical output resulting from a given investment remains unchanged and the fall in price of such output implies a corresponding fall in the revenue associated with the investment as the years pass. In such cases, the effect of any given continuing compound rate of increase in production and supply and corresponding fall in prices is to cause revenues earned from the investment to be as much elevated in the early years of the investment's life as they are reduced in the later years of its life. That is to say, the investments of any given year would gain as much additional sales revenues in competition with the less productive investments remaining from the past as they would lose in competition with the more productive investments of the future. The result would be not that such investments incurred reduced profits, but that their profit accounting would require a system of accelerated depreciation. On these points, see Reisman (1996), pp. 576–578.

debtors have no greater difficulty in repaying debts of greater purchasing power, because to precisely the same extent that prices have fallen, their firms possess correspondingly more goods to sell. It is no more difficult to earn a dollar of sales revenue at a price of 50 cents per unit than it is at a price of a dollar per unit, if when one must sell for 50 cents per unit, one has twice as many units to sell. And precisely this is the case when prices fall because of increases in production and supply coming in the face of a fixed amount of aggregate expenditure.

Indeed, when we allow for the fact that under a 100-percent-reserve gold standard, the quantity of money and volume of spending in the economic system would be increasing and thus that sales revenues would be rising, we see that it would actually become somewhat easier to earn any given sum of money. If, for example, over the same period of time that production and supply double, the quantity of money and volume of spending in the economic system increase by half instead of remaining constant, then prices would still fall, but by only by a fourth instead of by a half. For three-halves the aggregate expenditure divided by double the quantity of goods produced and sold equals three-fourths the price level. The sellers would thus be in the position of having two units to sell for 75 cents each instead of only one unit for a dollar. It would thus be correspondingly easier for them to earn a dollar and to pay a dollar of debt than it was before.

Furthermore, as I have said, the increase in the quantity of money and volume of spending that takes place under a 100-percent-reserve gold standard serves to increase the amount and rate of profit in the economic system and to add to the total nominal capital of the economic system. This is because while sales revenues rise immediately in

response to an increase in spending, the costs deducted from those sales revenues rise only with a time lag. For example, additional spending for plant and equipment, and for inventory and work in progress, serves immediately to increase sales revenues in the economic system by a virtually equivalent amount. (The additional demand for machinery and materials is simultaneously additional sales revenues to the sellers of the machinery and materials. The additional demand for labor is very quickly the source of an additional demand for consumers' goods and thus of additional sales revenues to the sellers of consumers' goods.) However, depreciation and cost of goods sold rise to equal the larger expenditure for factors of production only with a more or less significant time lag, and by the time they come to equal the larger expenditure for factors of production reached in any given prior year, the expenditure for factors of production has further increased. Thus, there is a permanent and growing addition to aggregate profits.

In my book, I show that the addition to aggregate profit is such that it tends to add a percentage to the rate of profit approximately equal to the percentage at which the quantity of money and volume of spending in the economic system increase. For example, if the average rate of profit would otherwise be three percent and the quantity of money and volume of spending are continually increasing at a rate of two percent, then the rate of profit will tend to equal five percent instead of three percent.⁴

Such an addition to the rate of profit exists under a 100-percent-reserve gold standard and serves to increase the nominal capital of the stockholder-debtors, who are in a position to save and invest out of their elevated level of profits. Indeed, in the absence of a rise in the rate of interest on loans corresponding to the rise in the rate of profit on

⁴ See Reisman (1996), pp. 762–773.

capital invested, the effect of the increase in the quantity of money and volume of spending under a 100-percent-reserve gold standard would be to benefit the stockholder-debtors at the expense of the bondholder-creditors at the same time that prices fell. That is to say, an effect normally associated with *inflation* would be present at the same time that the alleged deflation represented by the falling prices took place.⁵

This is certainly not to say that the increase in the quantity of money and volume of spending that takes place under a 100-percent-reserve gold standard would in fact represent inflation. Inflation should not be defined in such a way that its existence becomes virtually inescapable—i.e., to be held to exist to the extent that there is any increase in the quantity of money and volume of spending whatever. Rather, it should be defined as an increase in the quantity of money more rapid than the increase in the supply of gold.⁶ This definition serves to limit the phenomenon to one that represents government intervention into the economic system and that has the potential to bring

⁵ The gain of the stockholder-debtors at expense of the bondholder-creditors would consist in the fact that the increase in the quantity of money and volume of spending would serve to increase their nominal capital but not that of the bondholder-creditors, whose incomes and thus capacity to save and invest would not be increased in the absence of a rise in the rate of interest. The stockholder-debtors would thus gain a larger proportion of the benefit of the increase in production. Using the examples above, instead of the stockholder-debtors and the bondholder-creditors both having the same nominal capitals and buying at half the price level, the stockholder-debtors would tend to gain the whole of the increase in nominal capital, which, if in the same proportion as the increase in the quantity of money and volume of spending, namely, fifty percent, would mean that they would come to own twice their original nominal capital and buy at prices three-fourths as great. Their greater buying power would thus be equal to two divided by three-fourths, i.e., in the ratio of eight to three, which reduces to two and two-thirds. That is, they would have two and two thirds the buying power instead of only twice the buying power. The gain of the bondholder-creditors, on the other hand, would be only in the ratio of one, their unchanged nominal capital, to three-fourths, i.e., four-thirds, instead of two. In other words buying power equal to two-thirds of the original capital of either category of investor would be transferred to the account of the stockholder-debtors from the account of the bondholder-creditors. What is necessary to prevent this result is a rise in the rate of interest corresponding to the rise in the rate of profit. To the extent that it is delayed in coming the stockholder-debtors do in fact gain at the expense of the bondholder-creditors. On this point, cf. Selgin (1997), pp. 41–43.

⁶ On this point, see Reisman (1996), pp. 920–921 and Rothbard (1960), p. 940 (106) and 942 (131).

about a financial revolution and even the destruction of money.⁷

In sum, what is present under a 100-percent-reserve gold standard are two distinct phenomena: an increase in the quantity of money and volume of spending, which operates to add to the nominal rate of profit and make debt repayment easier, and a greater increase in the production and supply of goods, which serves to reduce prices despite the increase in the quantity of money and volume of spending and, at the same time, has no negative effect of its own on the economy-wide average rate of profit or difficulty of repaying debt. The combined outcome is falling prices accompanied by a higher rate of profit and greater ease of repaying debt.⁸

Genuine Deflation

Having shown that despite its tendency toward falling prices, a 100-percent-reserve gold standard is so far from being deflationary that the question arises of why it should not be considered inflationary because of its effects on the relationship between stockholder-debtors and bondholder-creditors, we are now ready to turn to a discussion of deflation properly so called.

Such deflation, as I have said, is a decrease in the quantity of money and/or volume of spending in the economic system. *That* is what produces not only a fall in prices but at the same time a sharp reduction or even total wiping out of business profitability and a greatly increased difficulty of repaying debts and thus widespread insolvencies and bankruptcies.

⁷ Cf. Rothbard, *ibid.*, p. 940 (106).

⁸ The preceding discussion implies a need to conceive of the so-called purchasing-power-price premiums in the loan market rate of interest not on the basis of changes in prices but on the basis of changes in the quantity of money and volume of spending in the economic system, which result in general price changes only insofar as the changes on the side of money and spending outstrip the changes on the side of production and supply. On this subject, see Reisman (1996), pp. 825–826.

Profits are cut because the monetary contraction reduces sales revenues immediately, but aggregate costs, specifically aggregate depreciation cost and aggregate cost of goods sold, fall only with a time lag in response to the reduction in business firms' expenditure for the factors of production.

At the same time, the monetary contraction increases the difficulty of repaying debt, simply because there is less money out there to earn. It should be clearly understood that this is the problem, not the fall in prices and that it would not be helped if prices did not fall. If production were reduced sufficiently, prices would not fall; they might even rise. However, the stability of prices, or their rise, would not serve to make it any easier for the average debtor to earn any given sum of money, because offsetting the rise in prices or the lesser fall in prices, would be a correspondingly reduced quantity to sell on the part of the average seller.⁹

Deflation: Some Epistemological Considerations

The preceding discussion makes clear that what falling prices signify can be radically different, depending on the *cause* of the falling prices. Insofar as falling prices are caused by increases in production and supply, they are not accompanied by any of the other consequences one normally associates with a depression, i.e., a sudden sharp reduction or wiping out of business profitability and a greatly increased difficulty of repaying debts, to the point of widespread insolvencies and bankruptcies.

Those consequences occur only insofar as the fall in prices is the result of a monetary contraction. And, as we have just seen, given the monetary contraction, the plunge in profitability and the difficulties of debtors would not be helped by any

⁹ Cf. Selgin (1997), pp. 43–44.

diminution of the fall in prices that might be achieved by a reduction in production and supply. Business sales revenues would continue to suffer the same reduction and the difficulty of repaying debt would continue unabated. The most that could be achieved by a reduction in production would be that to the extent that it is *one's competitors'* production that is cut, rather than one's own, one might experience some relief; but by the nature of the case, any such relief is obtained only at the price of the greater suffering of others—i.e., the suffering both of one's competitors, who have lost as much in sales revenues as one has gained, and of the consumers, whose real incomes are reduced by the rise in prices. There is no alleviation whatever of the problems of business as a whole or of debtors as a class. There is just the addition of the problem of a rise in prices and corresponding decline in real income caused by the reduction in supply.

It may be helpful to think of matters in terms of the following three-column table. The center column shows falling prices. The top portion of left-hand column shows increasing production and supply. The top portion of the right-hand column shows monetary contraction—a decrease in the quantity of money and/or volume of spending. Both are causes of falling prices, which is indicated in the table by downward sloping arrows originating at the top of the left- and right-hand and columns and terminating in the center column, where falling prices are shown.

Table 1
Falling Prices and Their
Causes

**Increases in Production
and Supply**

Other Consequences
of Increases in
Production and Supply

1. No wiping out of business profitability, since nothing is present to reduce aggregate business sales revenue. Indeed, a modest increase in aggregate sales revenue and profit to extent that the increase in production and supply includes an increase in the production and supply of commodity money, which results in rising aggregate spending.

2. No greater difficulty of repaying debt, but greater ease, to the extent of the increase in the quantity of money and volume of spending.

3. A rise in the real incomes of virtually all members of the economic system, who can take advantage of the lower prices with the same aggregate money incomes; or who can take advantage of a lesser decline in prices accompanied by greater aggregate money incomes.

Monetary Contraction

Other Consequences of
Monetary Contraction

1. Wiping out of business profitability due to immediate decline in sales revenues in the face of costs that fall only with a more-or-less significant time lag.

2. Greater difficulty of repaying debt, including widespread insolvencies and bankruptcies.

3. Mass unemployment until such time as wage rates and prices fall, to correspond to the reduced quantity of money and volume of spending for goods and labor.

▶ **Falling Prices** ◀

Falling prices are the only thing that these two phenomena, namely, increases in production and supply, on the one side, and monetary contraction, on the other, have in common. Both phenomena also have other effects, besides the fall in prices. And those effects are radically different—as different as day and night. The differences are not only with respect to the effects on general business profitability and the difficulty of repaying debt, which we have already discussed, but also with respect to the effects on real income and unemployment.

Falling prices caused by increases in production and supply are part of the process of raising real incomes throughout the economic system and do not cause unemployment. They make possible the sale of the increasing quantities of goods, and serve to raise the buying power of money incomes, which, under a system of commodity money, not only do not decrease, but almost certainly increase because of the accompanying increase in the quantity of gold. An increase in the quantity of gold is normally a part of general increases in production and supply.¹⁰

In sharpest contrast, falling prices caused by monetary contraction are not accompanied by any general rise in real incomes, but only by the gains of some groups, accompanied by the vastly greater losses of other groups. Creditors gain, but not even all creditors—only those able to collect the debts owed to them. And not only do debtors lose what those creditors gain, but on top of their loss and the loss of creditors who are unable to collect, is the loss of all those who are thrown into unemployment by the

¹⁰ The increase in the production and supply of gold can come about as part of the process of increases in production and supply even in countries that have no gold mines—to the extent that such increases serve to increase access to gold deposits and to reduce the costs of extracting gold anywhere in the world. In addition, increases in production and supply in countries that have no domestic sources of gold serve, other things being equal, to increase the fraction of the world’s economy that is represented by the country in question and thus the fraction of the world’s money supply that circulates in its territory.

monetary contraction. Their unemployment and loss continues until such time as the fall in wage rates and prices becomes sufficient to enable the smaller quantity of money and/or volume of spending to purchase as much as the previously larger quantity of money and/or volume of spending had purchased.

And even here, it should be noted, the problem is not the fall in prices but the monetary contraction. The fall in prices (and, of course, wages) serves to mitigate the damage done by the monetary contraction. It is what enables the volume of employment and production to recover in the aftermath of the monetary contraction.

The leading conclusion of this discussion is that there could not be any greater error than to confuse deflation with falling prices. Doing so confuses two radically different phenomena, one economically good, and one economically evil, and treats them as though they were the same. Such a procedure is comparable to developing a concept that would treat all sweet things as the same—sweet-tasting foods and sweet-tasting poisons.

The concept “deflation” should be reserved for monetary contraction, *not* for falling prices. Indeed, it should not even be used to mean falling prices caused by monetary contraction, though that would represent a considerable improvement. For, as we have seen, all the negative effects of monetary contraction would persist even if, because of sufficient decreases in production and supply, prices did not fall but even rose. Furthermore, as we have also seen, the fall in prices is what mitigates the effects of monetary contraction.

The notion that deflation is falling prices and can be caused by increases in production is the old overproduction doctrine. It claims that we are thrown into

depressions because we produce too much—that we are impoverished by the process of growing richer. It claims that in depressions, when people cannot afford to buy a home or rent an apartment, or even buy clothing or food, the cause of their poverty is that there are *too many* homes and apartments and *too much* clothing and food—i.e., that people are poor because they are rich. This doctrine belongs with such notions as the sound of one hand clapping.

The 100-Percent-Reserve Gold Standard as the Guarantee Against Deflation

Once deflation is properly understood, namely, as a monetary contraction, i.e., a decline in the quantity of money and/or volume of spending in the economic system, it becomes clear that a 100-percent-reserve gold standard would not only *not* be deflationary by virtue of the fall in prices that would be likely to accompany it, but would actually be the best possible guarantee *against* deflation. As I explain in my book:

“There are two basic reasons why the 100-percent-reserve gold standard would be a guarantee against deflation. First, under a 100-percent-reserve gold standard, nothing could happen that would suddenly reduce the quantity of money in the economic system. Once gold money comes into existence, it *stays* in existence. It is not wiped out by the failure of debtors, as are fiduciary media. Second, nothing could happen that would suddenly increase the need or desire of people to hold money rather than spend it, because none of the artificial inducements to a lower demand for money for holding would exist that set the stage for such an increase. It must be recalled that what creates the potential for a sudden increase in the need and desire to hold money is that first, people are misled into experiencing an artificial decrease in their need and desire to hold money. All the inducements that mislead them into this decrease are caused by the prior

undue increase in the quantity of money, especially in the form of credit expansion. A 100-percent-reserve gold standard would thus be a system in which the quantity of money would not decrease and the demand for money for holding would not suddenly increase. As a result, it would be a system in which total spending in the economy would virtually never contract. Thus . . . it would be a system that was deflation proof as well as inflation proof.

“Under the 100-percent-reserve gold standard, the desire to hold money would be substantially greater than it is today and also greater than it would be under a fractional-reserve gold standard. Money would be something for which people would have great respect and would want to own in abundance. And they would succeed in owning it in abundance. However paradoxical it may seem, the 100-percent-reserve gold standard would be a system of *enormous financial liquidity*. It would be a system in which the quantity of money measured in terms of its absolute buying power and relative to such things as current liabilities, would be far greater than under any other system. It is precisely for this reason that there would be no basis for any sudden increase in the need or desire of people to own money. They would *already own* all the money they needed to.”¹¹

Summary and Conclusion

I have shown that a 100-percent-reserve gold standard would do much more than safeguard against inflation, by virtue of the relatively modest rates of increase in the quantity of money and volume of spending it would impose. I have shown that in addition the falling prices that would be likely to accompany it, and which underscore the protection it affords against inflation, would not constitute deflation in any rational usage of that term.

¹¹ Reisman (1996), pp. 955–956. Concerning how a greater demand for money for holding increases the real stock of money and, indeed, is the only thing that can do so, see Rothbard (1974), pp. 15–16.

Falling prices under a 100-percent-reserve gold standard would not be accompanied by any wiping out of business profitability but rather by an addition to the general rate of profit and interest corresponding to the rate of increase in the quantity of money and volume of spending going on at the same time that prices fell. By the same token, the increase in the quantity of money and volume of spending that would occur at the same time that prices fell would serve to make the earning of money and thus the repayment of debt somewhat easier, not more difficult, as would be the case under deflation and depression.

Deflation and depression, I have shown, are phenomena operating from the side of money and spending, not production and supply. Specifically, they represent less money and spending, not more production and supply. More production and supply are always causes of prosperity. And, under a 100-percent-reserve gold standard, in which the monetary unit is itself a physical product whose supply can be increased like that of other products, more aggregate production and supply are typically accompanied by more money and spending as well.

Finally, I have shown that not only are the falling prices that would take place under a 100-percent-reserve gold standard not deflation but that such a gold standard offers the best possible guarantees against deflation properly understood—i.e., in the sense of monetary contraction. This is because decreases in the quantity of money would be virtually impossible under it—to the contrary, the quantity of money would almost always increase to some extent. And in the absence of the artificial inducements to reduce cash holdings that other monetary systems provide, no basis would exist for any sudden subsequent need to build up cash holdings and thus cause a contraction of spending.

This is what I believe I have demonstrated.

I have not attempted to deal with the question of how one might go about actually achieving the establishment of a 100-percent-reserve gold standard. I have also not dealt with the major implications a 100-percent-reserve gold standard has for the monetary role of silver.¹² My concern has been only to establish the 100-percent-reserve gold standard as the ultimate proper objective of monetary reform.

¹² On this subject, see Reisman (1996), pp. 958–959.

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