

MONEY AFTER 1914

ABOLITION OF THE GOLD STANDARD

THE first thing that happened in the financial sphere upon the outbreak of the World War was that the existing gold standard was abandoned—not only in the belligerent countries, but also in the majority of neutral states. Upon the entrance of the United States into the War, corresponding steps were taken in that country. A realisation of this fact is of fundamental importance for a proper understanding of all that occurred later. From the moment of the outbreak of war, the various currencies had in the main to be regarded as free paper currencies, and consequently as currencies which were not limited to any metal, and therefore were not in any relation to one another. Only an economic theory which from the very outset takes cognisance of a system of free currencies can be in a position to offer a true and intuitive picture of the essential points in the development which followed. Wherefore, it is of primary importance to realise that the value of the monetary unit in a pure paper currency can manifestly only be based upon the scarcity in the provision made by the country for means of payment, and that, therefore, the responsibility for the value of the currency, in cases where the gold standard has been abandoned, must exclusively lie with those in whose hands rests this provision of the means of payment.