

book reviews

with uncertain effects) and the enemy was everywhere. Many people who fought in the war seemed to develop persisting or even permanent mental damage. The key to understanding this was the nature of the 'stress' — the unresolved threat to the integrity of the organism and its biological coping mechanisms. Vietnam coincided with growing concern in civilian life about the effects of accidents, violence (particularly rape) and abuse of all kinds. The concept of post-traumatic stress disorder was formulated out of all this and is now an inescapable but controversial part of everyday life.

Ben Shephard has exhaustively combed through literature of all kinds concerning psychiatric breakdown in war, although he found both the Falklands and Gulf campaigns deplorably unresearched. His book will be the standard work on the subject for a long time ahead, and it is as remarkable for its humanity and absorbing narrative as for its historical accuracy. It is a notable achievement. ■

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Glistering glory and solid economies

The Power of Gold: The History of an Obsession

by Peter L. Bernstein

Wiley: 2000. 432 pp. £17.99, \$27.95

Anthony Vice

The story of gold over the past 5,000 years is a fascinating one, which Peter Bernstein relates with verve and wit. Jehovah selected gold for the tabernacle where humans should come to worship. Croesus bribed the Oracle of Delphi with gold to ensure the security of his rule. The Spaniards took the gold of the New World in a vain attempt to dominate the Old World — many of Ferdinand of Spain's contemporaries would have echoed his command: "Get gold, humanely if possible, but at all hazards — get gold."

Gold has a long and generally successful history as money. The main reasons for this are that it is remarkably durable, is chemically inert and does not easily fragment. It is readily recognized, and a piece of gold is valued only by its weight and purity. Most of the gold that has been mined throughout the world's history still exists — much of it is in the vaults of central banks, some is held by individuals as coin or jewellery, some is in museums where it decorates statues and furniture, and some is at the bottom of the sea in wrecked treasure ships.

The power and appeal of gold are clear, but one wonders whether Bernstein's subtitle is not rather unfair. After all, it served an



Old gold: an employee inspects gold bricks at the Federal Reserve Bank in New York in 1965.

economic purpose in the shape of the gold standard, which lasted two centuries in Britain, not just because of people's obsession, but because linking money to gold brought two great economic advantages. First, the gold standard limited the power of governments to print money and so cause inflation. US President Herbert Hoover put the point with characteristic force to his successor Franklin Roosevelt: "We have gold because we cannot trust Governments." Recall, in this context, that consumer prices have risen roughly 60 times since 1914.

The second great advantage of the gold standard, which showed to such effect between 1870 and 1914, was in bringing certainty to international trade by fixing parities. All the major trading nations were on the gold standard, and so currencies were fixed by their respective gold backing. There was no scope for fluctuations and no possibility of sudden devaluations or revaluations. With tariff barriers coming down, worldwide commerce flourished.

The massive dislocation caused by the First World War strained the gold standard: Britain had lost its supremacy, the German and Russian economies were sidelined and the United States, by then the world's richest nation, decided to bow out of international economics. Many countries, including Britain, nonetheless went back to gold, only to have their plans shattered by the great slump of 1929–31. The adjustments required to remedy the crisis were simply too great for the system. And the gold standard was, at times, brutal. If a currency was overvalued — because of a government deficit used to pay unemployment benefit, for example — gold left that country, bringing down prices and incomes until parity was restored. Governments could check the gold outflow by raising interest rates and cutting expenditure. Many, including Britain, did just that, and brought Europe to the brink of collapse — violent nationalism, large-scale

unemployment and even a mutiny in the British Royal Navy were features of that time.

Yet gold retained one advantage, as was starkly revealed during and after the Second World War. According to the historian Mark Mazower, 1918 saw perhaps a million refugees, but 1945 witnessed ten times that number. The only way these people could get food and clothing was by offering gold, as jewellery or coin. In the central Europe of the 1940s, paper money — even as US dollars or Swiss francs — was simply not acceptable.

Over the past half century, many people have yearned for a world of fixed exchange rates, control over politicians' spending and constant, or even falling, prices. Charles de Gaulle attempted to restore a gold standard in order to outflank the dollar. He called for a doubling of the price of gold, only to find that he had no support and to see his idea buried in the 1968 Paris spring riots.

Bernstein's account of gold's past 20 or so years is particularly good — he was an executive at the Federal Reserve of New York, which handles foreign exchange for the Federal Reserve system. In the late 1970s the gold price roared ahead, reaching an extraordinary \$850 an ounce in 1980. But since then the price has collapsed, and gold has lost any major role in world economics.

President Richard Nixon's New Economic Policy of 1971 set the stage for a revival in gold's role, but the world had come to realize that it could live without gold. The major currencies could fluctuate, but within limits. Politicians also began to realize that electors would vote out governments that let prices rise too sharply. This was a lesson learned quickly in the United States and Germany, but more slowly in the United Kingdom. Perhaps some Britons still hankered after gold — what the nineteenth-century economist Walter Bagehot called "the obvious and natural idol of the Anglo-Saxon". ■

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