**Gold Standards**

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*For other uses, see* [*Gold standard (disambiguation)*](http://en.wikipedia.org/wiki/Gold_standard_%28disambiguation%29)*.*

Under a gold standard, paper notes are convertible into pre-set, fixed quantities of [gold](http://en.wikipedia.org/wiki/Gold).

The **gold standard** is a [monetary system](http://en.wikipedia.org/wiki/Monetary_system#Commodity_money_system) in which the standard [economic](http://en.wikipedia.org/wiki/Economics) [unit of account](http://en.wikipedia.org/wiki/Unit_of_account) is a fixed weight of [gold](http://en.wikipedia.org/wiki/Gold). There are distinct kinds of gold standard. First, the *gold specie standard* is a system in which the monetary unit is associated with circulating gold coins, or with the unit of value defined in terms of one particular circulating gold coin in conjunction with subsidiary coinage made from a lesser valuable metal.

Similarly, the *gold exchange standard* typically involves the circulation of only coins made of silver or other metals, but where the authorities guarantee a fixed exchange rate with another country that is on the gold standard. This creates a [*de facto*](http://en.wikipedia.org/wiki/De_facto) gold standard, in that the value of the silver coins has a fixed external value in terms of gold that is independent of the inherent silver value. Finally, the [*gold bullion*](http://en.wikipedia.org/wiki/Gold_bullion) *standard* is a system in which gold coins do not circulate, but in which the authorities have agreed to sell gold bullion on demand at a fixed price in exchange for the circulating currency.

[Gold certificates](http://en.wikipedia.org/wiki/Gold_certificate) were used as [paper currency](http://en.wikipedia.org/wiki/Paper_currency) in the [United States](http://en.wikipedia.org/wiki/United_States) from 1882 to 1933. These certificates were freely convertible into [gold coins](http://en.wikipedia.org/wiki/Gold_coin).

No country currently uses the gold standard as the basis of their monetary system, although several hold substantial gold reserves.

**History**

**Beginnings**

The gold specie standard was not designed, but rather arose out of a general acceptance that gold was useful as a universal currency. When commodities compete for the role of money, the one that over time loses the least value, takes on the role. The use of gold as money dates back thousands of years and the first known gold coins were minted in the kingdom of [Lydia](http://en.wikipedia.org/wiki/Lydia) in [Asia Minor](http://en.wikipedia.org/wiki/Asia_Minor) around [610 BC](http://en.wikipedia.org/wiki/610_BC). The first coins minted in China are thought to date around [600 BC](http://en.wikipedia.org/wiki/600_BC).

During the [Middle Ages](http://en.wikipedia.org/wiki/Middle_Ages), the [Byzantine](http://en.wikipedia.org/wiki/Byzantine_Empire) gold [Solidus](http://en.wikipedia.org/wiki/Solidus_%28coin%29), commonly known as the [*Bezant*](http://en.wikipedia.org/wiki/Bezant), circulated throughout Europe and the Mediterranean. But as the Byzantine Empire's economic influence declined, the European world tended to see silver, rather than gold, as the currency of choice, leading to the development of a [silver standard](http://en.wikipedia.org/wiki/Silver_standard).

Silver [pennies](http://en.wikipedia.org/wiki/Penny), based on the Roman [Denarius](http://en.wikipedia.org/wiki/Denarius), became the staple coin of [Britain](http://en.wikipedia.org/wiki/United_Kingdom) around the time of [King Offa](http://en.wikipedia.org/wiki/King_Offa), *circa* AD 796, and similar coins, including Italian *denari*, French [*deniers*](http://en.wikipedia.org/wiki/French_denier), and Spanish [*dineros*](http://en.wikipedia.org/wiki/Spanish_dinero) circulated throughout Europe. Following the Spanish discovery of great silver deposits at [Potosí](http://en.wikipedia.org/wiki/Potos%C3%AD) and in [Mexico](http://en.wikipedia.org/wiki/Mexico) during the 16th century, international trade came to depend on coins such as the [Spanish dollar](http://en.wikipedia.org/wiki/Spanish_dollar), [Maria Theresa thaler](http://en.wikipedia.org/wiki/Maria_Theresa_thaler), and, in the 1870s, the United States [Trade dollar](http://en.wikipedia.org/wiki/Trade_dollar_%28United_States_coin%29).

In modern times the [British West Indies](http://en.wikipedia.org/wiki/British_West_Indies) was one of the first regions to adopt a gold specie standard. Following Queen Anne's proclamation of 1704, the British West Indies gold standard was a [*de facto*](http://en.wikipedia.org/wiki/De_facto) gold standard based on the Spanish gold [doubloon](http://en.wikipedia.org/wiki/Doubloon) coin. In the year 1717, master of the [Royal Mint](http://en.wikipedia.org/wiki/Royal_Mint) Sir [Isaac Newton](http://en.wikipedia.org/wiki/Isaac_Newton) established a new mint ratio between silver and gold that had the effect of driving silver out of circulation and putting Britain on a gold standard.

However, only in 1821, following the introduction of the [gold sovereign](http://en.wikipedia.org/wiki/Gold_sovereign) coin by the new Royal Mint at [Tower Hill](http://en.wikipedia.org/wiki/Tower_Hill) in the year 1816, was the United Kingdom formally put on a gold specie standard, the first of the great industrial powers. Soon to follow was [Canada](http://en.wikipedia.org/wiki/United_Province_of_Canada) in 1853, [Newfoundland](http://en.wikipedia.org/wiki/History_of_Newfoundland_and_Labrador) in 1865, and the [USA](http://en.wikipedia.org/wiki/USA) and Germany [*de jure*](http://en.wikipedia.org/wiki/De_jure) in 1873. The USA used the [Eagle](http://en.wikipedia.org/wiki/Eagle_%28United_States_coin%29) as their unit, and Germany introduced the new [gold mark](http://en.wikipedia.org/wiki/Gold_mark), while Canada adopted a dual system based on both the American Gold Eagle and the British Gold Sovereign.

[Australia](http://en.wikipedia.org/wiki/Australia) and [New Zealand](http://en.wikipedia.org/wiki/New_Zealand) adopted the British gold standard, as did the British West Indies, while Newfoundland was the only British Empire territory to introduce its own gold coin as a standard. Royal Mint branches were established in [Sydney](http://en.wikipedia.org/wiki/Sydney), [New South Wales](http://en.wikipedia.org/wiki/New_South_Wales), [Melbourne](http://en.wikipedia.org/wiki/Melbourne), [Victoria](http://en.wikipedia.org/wiki/Victoria_%28Australia%29), and [Perth](http://en.wikipedia.org/wiki/Perth%2C_Western_Australia), [Western Australia](http://en.wikipedia.org/wiki/Western_Australia) for the purpose of minting gold sovereigns from Australia's rich gold deposits.

**The crisis of silver currency and bank notes (1750–1870)**

In the late 18th century, wars and trade with China, which sold to Europe but had little use for European goods, drained silver from the economies of Western Europe and the United States. Coins were struck in smaller and smaller numbers, and there was a proliferation of bank and stock notes used as money.

**England**

In the 1790s, England, suffering a massive shortage of silver coinage, ceased to mint larger silver coins and issued "token" silver coins and overstruck foreign coins. With the end of the [Napoleonic Wars](http://en.wikipedia.org/wiki/Napoleonic_Wars), England began a [massive recoinage program](http://en.wikipedia.org/wiki/Great_Recoinage_of_1816) that created standard gold sovereigns and circulating crowns and half-crowns, and eventually copper farthings in 1821. The recoinage of silver in England after a long drought produced a burst of coins: England struck nearly 40 million shillings between 1816 and 1820, 17 million half crowns and 1.3 million silver crowns.

The 1819 Act for the Resumption of Cash Payments set 1823 as the date for resumption of convertibility, reached instead by 1821. Throughout the 1820s, small notes were issued by regional banks, which were finally restricted in 1826, while the Bank of England was allowed to set up regional branches. In 1833, however, the Bank of England notes were made [legal tender](http://en.wikipedia.org/wiki/Legal_tender), and redemption by other banks was discouraged. In 1844 the Bank Charter Act established that Bank of England Notes, fully backed by gold, were the legal standard. According to the strict interpretation of the gold standard, this 1844 act marks the establishment of a full gold standard for British money.

**US**

The US adopted a silver standard based on the Spanish milled dollar in 1785. This was codified in the 1792 Mint and Coinage Act, and by the Federal Government's use of the "Bank of the United States" to hold its reserves, as well as establishing a fixed ratio of gold to the US dollar. This was, in effect, a derivative silver standard, since the bank was not required to keep silver to back all of its currency.

This began a long series of attempts for America to create a bi-metallic standard for the US Dollar, which would continue until the 1920s. Gold and silver coins were legal tender, including the Spanish real, a silver coin struck in the Western Hemisphere. Because of the huge debt taken on by the US Federal Government to finance the Revolutionary War, silver coins struck by the government left circulation, and in 1806 President Jefferson suspended the minting of silver coins.

The US Treasury was put on a strict hard-money standard, doing business only in gold or silver coin as part of the Independent Treasury Act of 1848, which legally separated the accounts of the Federal Government from the banking system. However the fixed rate of gold to silver overvalued silver in relation to the demand for gold to trade or borrow from England. The drain of gold in favor of silver led to the search for gold, including the [California Gold Rush](http://en.wikipedia.org/wiki/California_Gold_Rush) of 1849. Following [Gresham's law](http://en.wikipedia.org/wiki/Gresham%27s_law), silver poured into the US, which traded with other silver nations, and gold moved out. In 1853, the US reduced the silver weight of coins, to keep them in circulation, and in 1857 removed legal tender status from foreign coinage.

In 1857 the final crisis of the free banking era of international finance began, as American banks suspended payment in silver, rippling through the very young international financial system of central banks. In 1861 the US government suspended payment in gold and silver, effectively ending the attempts to form a silver standard basis for the dollar.

**International**

Through the 1860–1871 period, various attempts to resurrect bi-metallic standards were made, including one based on the gold and silver franc; however, with the rapid influx of silver from new deposits, the expectation of scarcity of silver ended.

The interaction between central banking and currency basis formed the primary source of monetary instability during this period. The combination that produced economic stability was a restriction of supply of new notes, a government monopoly on the issuance of notes directly and, indirectly, a central bank and a single unit of value. Attempts to avoid these conditions produced periodic monetary crises.

As notes devalued; or silver ceased to circulate as a store of value; or there was a depression as governments, demanding specie as payment, drained the circulating medium out of the economy. At the same time, there was a dramatically expanded need for credit, and large banks were being chartered in various states, including, by 1872, Japan. The need for a solid basis in monetary affairs would produce a rapid acceptance of the gold standard in the period that followed.

**Japan**

By way of example, and following Germany's decision after the [Franco-Prussian War](http://en.wikipedia.org/wiki/Franco-Prussian_War) (1870–1871) to extract reparations to facilitate a move to the gold standard, Japan gained the needed reserves after the Sino-Japanese War of 1894–1895. Whether the gold standard provided a government sufficient bona fides when it sought to borrow abroad is debated. For Japan, moving to gold was considered vital to gain access to Western capital markets.

**The gold exchange standard (1870–1914)**

Towards the end of the 19th century, some of the remaining silver standard countries began to peg their silver coin units to the gold standards of the United Kingdom or the USA. In 1898, [British India](http://en.wikipedia.org/wiki/British_India) pegged the silver [rupee](http://en.wikipedia.org/wiki/Rupee) to the [pound sterling](http://en.wikipedia.org/wiki/Pound_sterling) at a fixed rate of 1s 4d, while in 1906, the [Straits Settlements](http://en.wikipedia.org/wiki/Straits_Settlements) adopted a gold exchange standard against the pound sterling with the silver Straits dollar being fixed at 2s 4d.

At the turn of the century, the Philippines pegged the silver Peso/dollar to the US dollar at 50 cents. A similar pegging at 50 cents occurred at around the same time with the silver Peso of Mexico and the silver Yen of Japan. When Siam adopted a gold exchange standard in 1908, this left only China and Hong Kong on the silver standard.

Adopting the gold standard many European nations changed the name of their currency from [Rixdaler](http://en.wikipedia.org/w/index.php?title=Rixdaler&action=edit&redlink=1) ([Sweden](http://en.wikipedia.org/wiki/Sweden) and [Denmark](http://en.wikipedia.org/wiki/Denmark)) or [Gulden](http://en.wikipedia.org/wiki/Austro-Hungarian_gulden) ([Austria-Hungary](http://en.wikipedia.org/wiki/Austria-Hungary)) to Crown, since the former ones were traditionally associated with silver coins and the latter with gold coins.

**Impact of World War I (1914–25)**

Governments faced with the need to fund high levels of expenditure, but with limited sources of tax revenue, suspended convertibility of currency into gold on a number of occasions in the 19th century. The British government suspended convertibility (that is to say, it went off the gold standard) during the [Napoleonic wars](http://en.wikipedia.org/wiki/Napoleonic_wars) and the US government during the [US Civil War](http://en.wikipedia.org/wiki/US_Civil_War). In both cases, convertibility was resumed after the war. The real test, however, came in the form of World War I, a test "it failed utterly" according to economist [Richard Lipsey](http://en.wikipedia.org/wiki/Richard_Lipsey).

In order to finance the costs of war, most belligerent countries went off the gold standard during the war, and suffered significant [inflation](http://en.wikipedia.org/wiki/Inflation). Because inflation levels varied between states, when they returned to the standard after the war at price determined by themselves (some, for example, chose to enter at pre-war prices), some countries' goods were undervalued and some overvalued.

Ultimately, the system as it stood could not deal quickly enough with the large deficits and surpluses created in the [balance of payments](http://en.wikipedia.org/wiki/Balance_of_payments); this has previously been attributed to increasing rigidity of wages (particularly in terms of wage cuts) brought about by the advent of [unionized labor](http://en.wikipedia.org/wiki/Trade_union), but is now more likely to be thought of as an inherent fault with the system which came to light under the pressures of war and rapid technological change. In any case, prices had not reached equilibrium by the time of the Great Depression, which served only to kill it off completely.

For example, [Germany](http://en.wikipedia.org/wiki/Germany) had gone off the gold standard in 1914, and could not effectively return to it as Germany had lost much of its remaining gold reserves in reparations. The [German central bank](http://en.wikipedia.org/wiki/Reichsbank) issued unbacked [marks](http://en.wikipedia.org/wiki/German_mark) virtually without limit to buy foreign currency for further reparations and to support workers during the [Occupation of the Ruhr](http://en.wikipedia.org/wiki/Occupation_of_the_Ruhr) finally leading to [hyperinflation in the 1920s](http://en.wikipedia.org/wiki/Inflation_in_the_Weimar_Republic).

**The gold bullion standard and the decline of the gold standard (1925–31**

[William McKinley](http://en.wikipedia.org/wiki/William_McKinley) ran for president on the basis of the gold standard.

The gold specie standard ended in the United Kingdom and the rest of the British Empire at the outbreak of World War I. Treasury notes replaced the circulation of the gold sovereigns and gold half sovereigns. However, legally, the gold specie standard was not repealed. The end of the gold standard was successfully effected by appeals to patriotism when somebody would request the Bank of England to redeem their paper money for gold specie. It was only in the year 1925 when Britain returned to the gold standard in conjunction with Australia and South Africa that the gold specie standard was officially ended.

The British Gold Standard Act 1925 both introduced the gold bullion standard and simultaneously repealed the gold specie standard. The new gold bullion standard did not envisage any return to the circulation of gold specie coins. Instead, the law compelled the authorities to sell gold bullion on demand at a fixed price, but only in the form of bars containing approximately four hundred ounces troy of fine gold. This gold bullion standard lasted until 1931 when speculative attacks on the pound forced Britain off the gold standard. Loans from American and French Central Banks of £50,000,000, were insufficient and exhausted in a matter of weeks.

On September 19, 1931, the United Kingdom left the revised gold standard, forced to suspend the gold bullion standard due to large outflows of gold across the Atlantic Ocean. The British benefited from the departure. They could now use monetary policy to stimulate the economy through the lowering of interest rates. Australia and New Zealand had already been forced off the gold standard by the same pressures connected with the Great Depression, and Canada quickly followed suit with the United Kingdom.

The interwar partially backed gold standard was inherently unstable, because of the conflict between (a) the expansion of sterling and dollar liabilities to foreign central banks, and (b) the resulting deterioration in the reserve ratio of the Bank of England, and U.S. Treasury and Federal Reserve Banks. This instability was enhanced by gold flows out of England, with its overvalued pound, to other countries such as France, which was attempting to make Paris a world class financial center, in competition with London and New York.

It was destabilizing speculation, emanating from lack of confidence in authorities' commitment to currency convertibility that ended the interwar gold standard. In May 1931 there was a run on Austria's largest commercial bank, and the bank failed. The run spread to Germany, where an important bank also collapsed. The countries' central banks lost substantial reserves; international financial assistance was too late; and in July 1931 Germany adopted exchange control, followed by Austria in October. These countries were definitively off the gold standard.

The Austrian and German experiences, as well as British budgetary and political difficulties, were among the factors that destroyed confidence in sterling, which occurred in mid-July 1931. Runs on sterling ensued, and the Bank of England lost much of its reserves. Loans from abroad were insufficient, and in any event taken as a sign of weakness. The gold standard was abandoned in September, and the pound quickly and sharply depreciated on the foreign- exchange market, as overvaluation of the pound would imply.

**Depression and World War II (1932–46)**

**Prolongation of the Great Depression**

Some economic historians, such as American professor Barry Eichengreen, blame the gold standard of the 1920s for prolonging the [Great Depression](http://en.wikipedia.org/wiki/Great_Depression). Adherence to the gold standard prevented the Federal Reserve from expanding the money supply in order to stimulate the economy, fund insolvent banks and fund government deficits which could "prime the pump" for an expansion. Once the US went off the gold standard, it became free to engage in such money creation. The gold standard limited the flexibility of the [central banks](http://en.wikipedia.org/wiki/Central_bank)' [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy) by limiting their ability to expand the money supply, and thus their ability to lower interest rates. In the US, the Federal Reserve was required by law to have 40% gold backing of its Federal Reserve demand notes, and thus, could not expand the money supply beyond what was allowed by the gold reserves held in their vaults. Others including Federal Reserve Chairman [Ben Bernanke](http://en.wikipedia.org/wiki/Ben_Bernanke) and Nobel Prize winning economist [Milton Friedman](http://en.wikipedia.org/wiki/Milton_Friedman) place most or all of the blame for the severity of the Great Depression at the feet of the Federal Reserve, mostly due to the deliberate tightening of monetary policy.

Higher interest rates intensified the deflationary pressure on the dollar and reduced investment in U.S. banks. Commercial banks also converted Federal Reserve Notes to gold in 1931, reducing the Federal Reserve's gold reserves, and forcing a corresponding reduction in the amount of Federal Reserve Notes in circulation. This speculative attack on the dollar created a panic in the U.S. banking system. Fearing imminent devaluation of the dollar, many foreign and domestic depositors withdrew funds from U.S. banks to convert them into gold or other assets. As people pulled money from the banking system due to bank panics, a reverse multiplier effect caused a contraction in the money supply. Additionally the New York Fed had loaned over $150 million (over 240 tons) to European Central Banks to help them out with their difficulties. This transfer of gold out of the US acted to contract the US money supply. These loans became questionable once England, Germany, Austria and other European countries went off the gold standard in 1931 and weakened confidence in the dollar.

The forced contraction of the money supply caused by people removing funds from the banking system during the bank panics resulted in deflation; and even as nominal interest rates dropped, inflation-adjusted real interest rates remained high, rewarding those that held onto money instead of spending it, causing a further slowdown in the economy. Recovery in the United States was slower than in Britain, in part due to Congressional reluctance to abandon the gold standard and float the U.S. currency as Britain had done.

In the early 1930s, the Federal Reserve defended the fixed price of dollars in respect to the gold standard by raising interest rates, trying to increase the demand for dollars. Its commitment and adherence to the gold standard explain why the U.S. did not engage in expansionary monetary policy. To compete in the international economy, the U.S. maintained high interest rates. This helped attract international investors who bought foreign assets with gold.

Congress passed the [Gold Reserve Act](http://en.wikipedia.org/wiki/Gold_Reserve_Act) on 30 January 1934; the measure nationalized all gold by ordering the Federal Reserve banks to turn over their supply to the U.S. Treasury. In return the banks received gold certificates to be used as reserves against deposits and Federal Reserve notes. The act also authorized the president to devalue the gold dollar so that it would have no more than 60 percent of its existing weight. Under this authority the president, on 31 January 1934, changed the value of the dollar from $20.67 to the troy ounce to $35 to the troy ounce, a devaluation of over 40%.

Other factors in the prolongation of the Great Depression include trade wars and the reduction in international trade caused by trade barriers such as Smoot-Hawley Tarif in the US and the Imperial Preference policies of Great Britain, the failure of central banks to act responsibly, government policies designed to prevent wages from falling, such as the [Davis-Bacon Act of 1931](http://en.wikipedia.org/wiki/Davis-Bacon_Act_of_1931), during the deflationary period resulting in production costs dropping slower than sales prices and thereby injuring business profitability and increases in taxes to reduce budget deficits and to support new programs such as Social Security. The US top marginal income tax rate went from 25% to 63% in 1932 and to 79% in 1936 while the bottom rate increased over 10 fold from .375% in 1929 to 4% in 1932 Successful attacks on partially backed currencies which forced many countries off the gold standard and reduced confidence in the financial system, and a financial system, further damaged by the bank panics of the 1930s were also factors, as was inclement weather such as the drought resulting in the US Dust Bowl.

[Milton Friedman](http://en.wikipedia.org/wiki/Milton_Friedman) stated that "the severity of each of the major contractions — 1920-1, 1929-33 and 1937-8 is directly attributable to acts of commission and omission by the Reserve authorities" He further believes that the US got out of the Great Depression because of the "natural resiliency of the economy and WW2, and not due to any acts of government, which in general were "very destructive" and extended the Great Depression.

Barry Eichengreen believes that the Austrian School view that the Great Depression was the result of a credit bust has much to recommend it. [Alan Greenspan](http://en.wikipedia.org/wiki/Alan_Greenspan) wrote that the bank failures of the 1930s were sparked by Great Britain dropping the gold standard in 1931. This act "tore asunder" any remaining confidence in the banking system. Financial historian Niall Ferguson writes that what made the Great Depression truly 'great' was the European banking crisis of 1931.

**British hesitate to return to gold standard**

During the 1939–1942 period, the UK depleted much of its gold stock in purchases of munitions and weaponry on a "[cash-and-carry](http://en.wikipedia.org/wiki/Cash_and_carry_%28World_War_II%29)" basis from the U.S. and other nations. This depletion of the UK's reserve convinced Winston Churchill of the impracticality of returning to a pre-war style gold standard.

[John Maynard Keynes](http://en.wikipedia.org/wiki/John_Maynard_Keynes), who had argued against such a gold standard, proposed to put the power to print money in the hands of the privately owned Bank of England. Keynes, in warning about the menaces of inflation, said, "By a continuous process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method, they not only confiscate, but they confiscate arbitrarily; and while the process impoverishes many, it actually enriches some"

Quite possibly because of this, the 1944 [Bretton Woods Agreement](http://en.wikipedia.org/wiki/Bretton_Woods_Agreement) established the [International Monetary Fund](http://en.wikipedia.org/wiki/International_Monetary_Fund) and an international monetary system based on convertibility of the various national currencies into a U.S. dollar that was in turn convertible into gold.

**Post-war international gold-dollar standard (1946–1971)**

Main article: [Bretton Woods system](http://en.wikipedia.org/wiki/Bretton_Woods_system)

After the [Second World War](http://en.wikipedia.org/wiki/Second_World_War), a system similar to a Gold Standard and sometimes described as a "gold exchange standard" was established by the Bretton Woods Agreements. Under this system, many countries fixed their exchange rates relative to the U.S. dollar. The U.S. promised to fix the price of gold at approximately $35 per ounce. Implicitly, then, all currencies pegged to the dollar also had a fixed value in terms of gold.

Under the administration of the French President [Charles de Gaulle](http://en.wikipedia.org/wiki/Charles_de_Gaulle) up to 1970, France reduced its dollar reserves, trading them for gold from the U.S. government, thereby reducing U.S. economic influence abroad. This, along with the fiscal strain of federal expenditures for the [Vietnam War](http://en.wikipedia.org/wiki/Vietnam_War) and persistent balance of payments deficits, led President [Richard Nixon](http://en.wikipedia.org/wiki/Richard_Nixon) to end the direct convertibility of the dollar to gold on August 15, 1971, resulting in the system's breakdown (the "[Nixon Shock](http://en.wikipedia.org/wiki/Nixon_Shock)").

**Theory**

Commodity money is inconvenient to store and transport. Further, it does not allow a government to manipulate or restrict the flow of commerce within its dominion with the same ease that a fiat currency does. As such, commodity money gave way to representative money, and gold and other [specie](http://en.wikipedia.org/wiki/Coin) were retained as its backing.

Gold was a common form of money due to its rarity, durability, divisibility, [fungibility](http://en.wikipedia.org/wiki/Fungibility), and ease of identification, often in conjunction with silver. Silver was typically the main circulating medium, with gold as the metal of monetary reserve.

The gold standard variously specified how the gold backing would be implemented, including the amount of specie per currency unit. The currency itself is just paper and so has no *intrinsic* value, but is accepted by traders because it can be redeemed any time for the equivalent specie. A U.S. [silver certificate](http://en.wikipedia.org/wiki/Silver_certificate), for example, could be redeemed for an actual piece of silver.

Representative money and the gold standard protect citizens from [hyperinflation](http://en.wikipedia.org/wiki/Hyperinflation) and other abuses of [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy), as were seen in some countries during the [Great Depression](http://en.wikipedia.org/wiki/Great_Depression). However, they were not without their problems and critics, and so were partially abandoned via the international adoption of the [Bretton Woods System](http://en.wikipedia.org/wiki/Bretton_Woods_System). That system eventually collapsed in 1971, at which time nearly all nations had switched to full [fiat money](http://en.wikipedia.org/wiki/Fiat_currency).

According to Keynesian analysis, the earliness with which a country left the gold standard reliably predicted its economic recovery from the great depression. For example, Great Britain and Scandinavia, which left the gold standard in 1931, recovered much earlier than France and Belgium, which remained on gold much longer. Countries such as China, which had a silver standard, almost avoided the depression entirely. The connection between leaving the gold standard as a strong predictor of that country's severity of its depression and the length of time of its recovery has been shown to be consistent for dozens of countries, including developing countries. This may explain why the experience and length of the depression differed between national economies.

**Differing definitions**

A 100%-reserve gold standard, or a full gold standard, exists when a monetary authority holds sufficient gold to convert all of the representative money it has issued into gold at the promised exchange rate. It is sometimes referred to as the gold specie standard to more easily identify it from other forms of the gold standard that have existed at various times. Opponents of a 100%-reserve standard consider a 100%-reserve standard difficult to implement, saying that the quantity of gold in the world is too small to sustain current worldwide economic activity at current gold prices; implementation would entail a many-fold increase in the price of gold. However, proponents of the gold standard have said that any amount of gold can serve as the reserve: "Once a money is established, any stock of money becomes compatible with any amount of employment and real income." According to them the prices of goods and services will adjust to the supply of gold.

In an international gold-standard system (which is necessarily based on an internal gold standard in the countries concerned), gold or a currency that is convertible into gold at a fixed price is used as a means of making international payments. Under such a system, when exchange rates rise above or fall below the fixed mint rate by more than the cost of shipping gold from one country to another, large inflows or outflows occur until the rates return to the official level. International gold standards often limit which entities have the right to redeem currency for gold. Under the [Bretton Woods system](http://en.wikipedia.org/wiki/Bretton_Woods_system), these were called "SDRs" for [special drawing rights](http://en.wikipedia.org/wiki/Special_drawing_rights).

**Advantages**

* Long-term price stability has been described as the great virtue of the gold standard. The gold standard limits the power of governments to inflate prices through excessive issuance of paper currency. Under the gold standard, high levels of inflation are rare, and [hyperinflation](http://en.wikipedia.org/wiki/Hyperinflation) is nearly impossible as the money supply can only grow at the rate that the gold supply increases. Economy-wide price increases caused by ever-increasing amounts of currency chasing a constant supply of goods are rare, as gold supply for monetary use is limited by the available gold that can be minted into coin. High levels of inflation under a gold standard are usually seen only when warfare destroys a large part of the economy, reducing the production of goods, or when a major new source of gold becomes available. In the U.S. one of those periods of warfare was the Civil War, which destroyed the economy of the South, while the California Gold Rush made large amounts of gold available for minting.
* Proponents of the gold standard claim that its stability fosters economic prosperity.
* The gold standard provides fixed international exchange rates between those countries that have adopted it, and thus reduces uncertainty in international trade. Historically, imbalances between price levels in different countries would be partly or wholly offset by an automatic balance-of-payment adjustment mechanism called the "[price specie flow mechanism](http://en.wikipedia.org/wiki/Price_specie_flow_mechanism)." Gold used to pay for imports reduces the money supply of importing nations, causing deflation and a reduction in the general price level for goods and services, making them more competitive, while the importation of gold by net exporters serves to increase the money supply, causes inflation and an increase in the general price level, making them less competitive.
* The gold standard acts as a check on government deficit spending as it limits the amount of debt that can be issued. It also prevents governments from inflating away the real value of their already existing debt through currency devaluation. A central bank cannot be an unlimited buyer of last resort of government debt. A central bank could not create unlimited quantities of money at will, as there is a limited supply of gold.
* A gold standard cannot be used for what some economists call, [financial repression](http://en.wikipedia.org/wiki/Financial_repression). Newly printed money can be used to purchase goods and services, and to discharge debts, at no cost to the printer. This acts as a mechanism to transfer the wealth of society to those that can print money, from everyone else. Financial repression is most successful in liquidating debts when accompanied by a steady dose of inflation, and it can be considered a form of [taxation](http://en.wikipedia.org/wiki/Taxation). In 1966 [Alan Greenspan](http://en.wikipedia.org/wiki/Alan_Greenspan) wrote "Deficit spending is simply a scheme for the confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights. If one grasps this, one has no difficulty in understanding the statists' antagonism toward the gold standard." Per John Maynard Keynes "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens". Financial repression negatively affects economic growth.
* The gold standard benefits savers by preventing their savings from being devalued or destroyed through inflation, and by rewarding them with higher real (inflation adjusted) interest rates. In the US and United Kingdom, from 1945 to 1980 negative real interest rates have cost lenders an estimated 3-4% of GDP per year on average.
* The gold standard tends to limit credit booms and the resulting boom bust cycle because of the inelastic supply of money.

**Disadvantages**

Gold prices (US$ per ounce) from 1968 to 2010, in nominal US$ and inflation adjusted US$.

* The total amount of gold that has ever been mined has been estimated at around 142,000 [metric tons](http://en.wikipedia.org/wiki/Metric_tons)and arguments have been made that this amount is too small to serve as a monetary base. The value of this amount of gold is over 6 trillion dollars while the monetary base of the US, with a roughly 20% share of the world economy, stands at $2.7 trillion at the end of 2011.
* The unequal distribution of gold as a natural resource makes the gold standard much more advantageous in terms of cost and international economic empowerment for those countries that produce gold. In 2010 the largest producers of gold, in order, are China, followed by Australia, the US, South Africa and Russia. The country with the largest reserves is Australia.
* The gold standard acts as a limit on economic growth. “As an economy’s productive capacity grows, then so should its money supply. Because a gold standard requires that money be backed in the metal, then the scarcity of the metal constrains the ability of the economy to produce more capital and grow.”
* [Mainstream](http://en.wikipedia.org/wiki/Mainstream_economics) economists believe that economic recessions can be largely mitigated by increasing money supply during economic downturns. Following a gold standard would mean that the amount of money would be determined by the supply of gold, and hence [monetary policy](http://en.wikipedia.org/wiki/Monetary_policy) could no longer be used to stabilize the economy in times of economic [recession](http://en.wikipedia.org/wiki/Recession). Such reason is often employed to partially blame the gold standard for the Great Depression, citing that the Federal Reserve couldn't expand credit enough to offset the deflationary forces at work in the market.
* Although the gold standard has brought long-run price stability, it has also historically been associated with high short-run price volatility. It has been argued by, among others, [Anna Schwartz](http://en.wikipedia.org/wiki/Anna_Schwartz), that this kind of instability in short-term price levels can lead to financial instability as lenders and borrowers become uncertain about the value of debt.
* Deflation punishes debtors. Real debt burdens therefore rise, causing borrowers to cut spending to service their debts or to default. Lenders become wealthier, but may choose to save some of their additional wealth rather than spending it all. The overall amount of expenditure is therefore likely to fall.
* Monetary policy would essentially be determined by the rate of gold production. Fluctuations in the amount of gold that is mined could cause inflation if there is an increase, or deflation if there is a decrease. Some hold the view that this contributed to the severity and length of the Great Depression as the gold standard forced the [central banks](http://en.wikipedia.org/wiki/Central_banks) to keep monetary policy too tight, creating deflation.
* [James Hamilton](http://en.wikipedia.org/wiki/James_D._Hamilton) contended that the gold standard may be susceptible to [speculative attacks](http://en.wikipedia.org/wiki/Speculative_attacks) when a government's financial position appears weak, although others contend that this very threat discourages governments' engaging in risky policy (see [Moral Hazard](http://en.wikipedia.org/wiki/Moral_Hazard)). For example, some believe that the United States was forced to contract the money supply and raise interest rates in September 1931 to defend the dollar after speculators forced Great Britain off the gold standard
* If a country wanted to devalue its currency, a gold standard would generally produce sharper changes than the smooth declines seen in fiat currencies, depending on the method of devaluation.
* Most economists favor a low, positive rate of inflation. Partly this reflects fear of deflationary shocks, but primarily because they believe that central banks still have some role to play in dampening fluctuations in output and unemployment. Central banks can more safely play that role when a positive rate of inflation gives them room to tighten money growth without inducing price declines.
* It is difficult to manipulate a gold standard to tailor to an economy’s demand for money, providing practical constraints against the measures that central banks might otherwise use to respond to economic crises. The [demand for money](http://en.wikipedia.org/wiki/Demand_for_money) always equals the supply of money. Creation of new money reduces interest rates and thereby increases demand for new lower cost debt, raising the demand for money.

**Advocates of a renewed gold standard**

The return to the gold standard is supported by many followers of the [Austrian School of Economics](http://en.wikipedia.org/wiki/Austrian_School_of_Economics), [Objectivists](http://en.wikipedia.org/wiki/Objectivism_%28Ayn_Rand%29), free-market [libertarians](http://en.wikipedia.org/wiki/Libertarians) and, in the United States, by strict constitutionalists largely because they object to the role of the government in issuing [fiat currency](http://en.wikipedia.org/wiki/Fiat_currency) through [central banks](http://en.wikipedia.org/wiki/Central_banks). A significant number of gold-standard advocates also call for a mandated end to [fractional-reserve banking](http://en.wikipedia.org/wiki/Fractional-reserve_banking).

Few politicians today advocate a return to the gold standard, other than adherents of the Austrian school and some [supply-siders](http://en.wikipedia.org/wiki/Supply-side_economics). However, some prominent economists have expressed sympathy with a hard-currency basis, and have argued against politically-controlled [fiat money](http://en.wikipedia.org/wiki/Fiat_money), including former [U.S. Federal Reserve](http://en.wikipedia.org/wiki/U.S._Federal_Reserve) Chairman [Alan Greenspan](http://en.wikipedia.org/wiki/Alan_Greenspan) (himself a former Objectivist), and macro-economist [Robert Barro](http://en.wikipedia.org/wiki/Robert_Barro). Greenspan famously argued the case for returning to a 'pure' gold standard in his 1966 paper "Gold and Economic Freedom", in which he described supporters of fiat currencies as "welfare statists" intent on using monetary policies to finance deficit spending.

Barro argues in favor of adopting some form of "monetary constitution" that will provide stability to monetary policy rather than allowing decisions about monetary policy to be made on the basis of politics, but suggests that what form this constitution takes—for example, a gold standard, some other commodity-based standard, or a fiat currency with fixed rules for determining the quantity of money—is considerably less important. U.S. Congressman [Ron Paul](http://en.wikipedia.org/wiki/Ron_Paul) has continually argued for the reinstatement of the gold standard, but is no longer a strict advocate, instead supporting a basket of commodities that emerges on the free markets.

For the time being, the global monetary system continues to rely on the U.S. dollar as a [reserve currency](http://en.wikipedia.org/wiki/Reserve_currency) by which major transactions, such as the price of gold itself, are measured. A host of alternatives has been suggested, including energy-based currencies, and market baskets of currencies or commodities, gold being one of the alternatives.

In 2001, [Malaysian Prime Minister](http://en.wikipedia.org/wiki/Malaysian_Prime_Minister) [Mahathir bin Mohamad](http://en.wikipedia.org/wiki/Mahathir_bin_Mohamad) proposed a new currency that would be used initially for international trade among Muslim nations. The currency he proposed was called the [Islamic gold dinar](http://en.wikipedia.org/wiki/Islamic_gold_dinar) and it was defined as 4.25 grams of pure (24-[carat](http://en.wikipedia.org/wiki/Carat_%28purity%29)) gold. Mahathir Mohamad promoted the concept on the basis of its economic merits as a stable unit of account and also as a political symbol to create greater unity between Islamic nations. The purported purpose of this move would be to reduce dependence on the [United States dollar](http://en.wikipedia.org/wiki/United_States_dollar) as a reserve currency, and to establish a non-debt-backed currency in accord with [Islamic law](http://en.wikipedia.org/wiki/Sharia) against the charging of interest. However, to date, Mahathir's proposed gold-dinar currency has failed to take hold.

In 2011, the legislature of the state of [Utah](http://en.wikipedia.org/wiki/Utah) passed a bill to accept federally-issued gold and silver coins as legal tender to pay taxes. Similar legislation is under consideration in a number of other US states.

**Gold as a reserve today**

Main article: [Gold reserve](http://en.wikipedia.org/wiki/Gold_reserve)

The [Swiss Franc](http://en.wikipedia.org/wiki/Swiss_Franc) was based on a 40% legal gold-reserve requirement from 1936, when it ended gold convertibility, until 2000. Gold reserves are held in significant quantity by many nations as a means of defending their currency, and hedging against the U.S. Dollar, which forms the bulk of liquid currency reserves. Both [gold coins](http://en.wikipedia.org/wiki/Gold_coin) and [gold bars](http://en.wikipedia.org/wiki/Gold_bar) are traded in liquid markets and serve as a private store of [wealth](http://en.wikipedia.org/wiki/Wealth).

**See also**

|  |  |
| --- | --- |
|  | [***Numismatics portal***](http://en.wikipedia.org/wiki/Portal%3ANumismatics) |

* [*A Program for Monetary Reform* (1939) – The Gold Standard](http://en.wikipedia.org/wiki/A_Program_for_Monetary_Reform#The_Gold_Standard)
* [Bimetallism](http://en.wikipedia.org/wiki/Bimetallism)/[Free Silver](http://en.wikipedia.org/wiki/Free_Silver)
* [Coinage Act of 1792](http://en.wikipedia.org/wiki/Coinage_Act_of_1792)
* [Coinage Act of 1873](http://en.wikipedia.org/wiki/Coinage_Act_of_1873)
* [Federal Reserve System](http://en.wikipedia.org/wiki/Federal_Reserve_System)
* [Full-reserve banking](http://en.wikipedia.org/wiki/Full-reserve_banking)
* [Gold as an investment](http://en.wikipedia.org/wiki/Gold_as_an_investment)
* [Gold bug](http://en.wikipedia.org/wiki/Gold_bug)
* [Gold Points](http://en.wikipedia.org/wiki/Gold_Points)
* [Gold Reserve Act](http://en.wikipedia.org/wiki/Gold_Reserve_Act)
* [Metal as money](http://en.wikipedia.org/wiki/Metal_as_money)
* [Mentalism](http://en.wikipedia.org/wiki/Metallism)
* [Representative money](http://en.wikipedia.org/wiki/Representative_money)
* [Silver standard](http://en.wikipedia.org/wiki/Silver_standard)
* [Store of value](http://en.wikipedia.org/wiki/Store_of_value)
* [The Great Deflation](http://en.wikipedia.org/wiki/The_Great_Deflation)
* [Latin Monetary Union](http://en.wikipedia.org/wiki/Latin_Monetary_Union)

International institutions

* [Bank for International Settlements](http://en.wikipedia.org/wiki/Bank_for_International_Settlements)
* [International Monetary Fund](http://en.wikipedia.org/wiki/International_Monetary_Fund)
* [United Nations Monetary and Financial Conference](http://en.wikipedia.org/wiki/United_Nations_Monetary_and_Financial_Conference)
* [World Bank](http://en.wikipedia.org/wiki/World_Bank)

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