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Executive Summary

The 2008 global financial crisis is widely considered by many economists as the worst financial crisis since the great depression of the 1930's, and its effects are still being felt today. The collapse of the Lehman Brothers bank in the United States was the catalyst that ignited the crises, which ultimately spread throughout the world. The global spread was mainly driven by the interconnectedness of the global economy, in addition to the United States being the economic powerhouse of the world. Hence, we can see that the economic policies which the United States undertakes can have sever repercussions on itself as well as the global world economy. This paper is designed to advocate for restoring value to the United States' dollar, the world's leading currency.

Today's economic issue with regards to the increasing debt, as well as the depreciation of the U.S. dollar, has been increasingly discoursed not only by economists, writers, Wall Street executives, but also by ordinary citizens. To date, the overall national debt of the United States reached its highest peak throughout history, staying at the $15 trillion mark. In addition, the value of the dollar with regards to purchasing power has declined by 20 percent since 1971.

Evidently, these are serious problems, and with the intention to identify the root cause of these economic bubbles, this paper has determined one main reason: the current monetary policy and standard. Presently, the U.S. government, along with the Federal Reserve and the Treasury Department could simply print more greenbacks as they see fit- say for war funding, for

stimulating the global economy, and to bail out some big investment groups and corporations. In this manner, the Fed decides on where the money will be funneled to. This is the very problem according to some economists and politicians. The increasing power of the Federal Reserve to the point that it controls not only the money supply, but the interest rates as well. As a result, the market is majorly controlled by a single institution and not by the market forces. Ergo, the free market is no longer seeable, to say the least.

For these reasons, the calls for alternative monetary standard are indeed escalating, specifically the return of the gold standard. This paper analyzes and consequently cites evidences that the United States needs to relink their dollar to gold or any other stable commodity. Also, this paper attempts to prove that, under the gold standard, the United States previously managed to stabilize the global trade. In order to support these arguments, the thoughts of prominent and celebrated key persons on this issue were also regarded. The paper also provides several downsides once the U.S. returned to a full gold standard.

Finally, this paper provides plausible solutions on how to solve the matter. Other stable commodities, in tandem with gold, can be utilized to restore value to the US dollar. The idea of a dual-monetary system is expressed, where two currencies become the generally accepted mediums of exchange. And a semi-gold standard is highlighted, in which the printing of money is based on a certain percentage of the country’s gold reserve, allowing more flexibility for central banks to adjust the money supply.

INTRODUCTION

Prior to 1971, the United States was under various types of a gold standard where the dollar value was tied and backed by the amount of gold reserves, while the paper money could be converted for gold upon demand. However since 1971, the U.S. dollar has been a fiat currency- a currency produced only by authorization and not valued in, backed by, or convertible into gold or any related commodity. Some mocked the fiat currency as backed by mere "faith and credit".

Adversaries of the gold standard indicate that a gold standard would only result to a more unstable economy, would spur occasional economic contraction, and deflation, and would most importantly, would hamper the government's capacity to stimulate the economy through capital injection and stimulus packages. In addition, gold standard opponents cited that returning a gold standard would be extremely difficult, if not impossible, give the scarce amount of gold reserve. As a consequence, it might just harm the already fragile and unsound U.S. economy. On the one hand, proponents of gold standard debate that it yields long-term economic development and stability. Furthermore, it also reduces the size of the government and prevents hyperinflation from materializing and/or worsening. Also, under the gold standard, the government will have a limited capacity to print money out of thin air, which consequently inhibits them to run up deficits and to increase the national debt further. Historically and statistically, the economy of the United States performed at its best in times when it was under a gold standard.

Indeed, talking about the current monetary system calls for using unthinkably big numbers, such as a trillion dollars- the estimated U.S. currency in circulation[1], and about $11 trillion- the national debt held by the public. With respect to statistics, the U.S. debt is constantly increasing. The current estimate has reached approximately $15.5 trillion including the Medicare and Social Security debts. This increasing debt is definitely one of the reasons why most Americans now think that the monetary system is out of control, and fear the possibility of hyperinflation in the near future. According to Lance Roberts, who is a chief economist at Street Talk Advisors, "We've never been here before".[2]

Also, it is one of the reasons why the return of a gold standard is earning renewed popularity. Proponents such as former Congressman Ron Paul as well as Grant's Interest Rate Observer's intellectual editor James Grant, have long debated and strengthened the call for the return of gold standard. In particular, they call for re-linking of dollar to gold in terms of its price and value, eliminating state national taxes on gold and silver-based transactions, and of course, bringing back the free market instead of the current central planning. Also, Ron Paul called for the legal dismissal of the Federal Reserve System.

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1 [1] Waggoner, John. "Should We Return to the Gold Standard." *Money.* USA Today. April 23, 2012. Medium. July 31, 2014.

2 [2] Waggoner, John. "Should We Return to the Gold Standard." *Money.* USA Today. April 23, 2012. Medium. July 31, 2014.

However, returning the good old and full gold standard is not that easy and poses myriad problems and possibilities. On a practice level, there is insufficient supply of gold throughout the world. This implies that if all countries were to adopt gold standard, an economic shock might happen since the gold is a scarce commodity. In addition, re-linking the value of dollar to gold means that the government surrender its control over monetary policy, making it powerless and incapable of increasing the supply of money in times of economic trouble and crisis.

The United States linked its dollar value to the price of gold until 1971 when former President Richard Nixon ripped the last pieces of the gold standard, and eventually closing its window. But the gold standard had, in reality, ended for copious people during 1933 when the U.S. government decided that people could no longer cash in dollars for gold. Therefore, the question for most people who are not quite familiar with gold standard is that, why is it so enticing? According to Ian McAvity who is the editor of the newsletter Deliberations on World Markets, "*Its prime attraction is to apply a measure of monetary discipline*". [3] When you link up the currency to gold, there is only a particular amount of currency you utilize since there is only a particular amount of gold available. Theoretically, at the least, linking the value of the U.S. dollar to gold will keep the government from printing too much paper money, and producing inflation that could not be easily controlled.

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3 [3] Waggoner, John. "Should We Return to the Gold Standard." *Money.* USA Today. April 23, 2012. Medium. July 31, 2014.

Historically, gold has been recognized as real money since the Anatolian people first initiated making coins around 700 B.C. Gold does not rust, and it is portable, which makes it ideal for barter and transactions. Ian McAvity added that "Drop a gold coin on any street in the world, and people will pick it up and think of it as a money".[4] However, one of the many things that determine the value of gold is its rarity, which makes it debatable whether using it to back the country's currency is the soundest decision to make.

According to the accounts of World Gold Council, most of the gold that were mine since time immemorial were still present around the globe. As a matter of fact, some wedding rings could once have been part of Cleopatra's gold jewelries. Moreover, the council reported that there are approximately 170,000 metric tons of gold throughout the world. In measurement, it would produce a cube with a 67 by 67 by 67 feet dimensions.

All these 170,000 metric tons of gold, equates into approximately 5.5 billion troy ounces. Therefore, all the gold in the world were valued at about $9 trillion given today's gold price at $1,639. 10 per ounce of gold. Currently, the gross domestic product (GDP) of the United States is roughly at $15 trillion. This implies that even the United States had all the supply of gold in the entire world, running the gold standard would only result

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4 [4] Waggoner, John. "Should We Return to the Gold Standard." *Money.* USA Today. April 23, 2012. Medium. July 31, 2014.

to practical problems. Under the gold standard, the amount of currency dispensed is linked to the government's gold reserve and holdings. In this sense, the price of gold will have to surge upwards in order to accommodate the trade of the nation both in goods and services. Naturally, the United States does not have the entire gold in the world. It does, however, hold the biggest gold reserves in the globe. As a matter of fact, the government owned a total gold of 248 million ounces including the U.S. mint and the Federal Reserve. Calculating its value, given the gold's standard price, would yield to about $405 billion. However, this amount could hardly support the whopping $15 trillion economy.

However, price stability is something that the gold standard would assure given today's fickle and unstable international economy. According to Ron Paul, gold is as good as money. Why? Since it holds all monetary properties that the market requires- it is portable, divisible, recognizable, and above all scarce. Gold's scarcity simply makes it a stable store of value. Essentially, it is all things that the market needs and it has been proved throughout history. The value of gold mounted to almost $1,800 per ounce following the Federal Reserve's series of quantitative easing since people generally consider gold as a safe haven in times of crises.[5]

On the contrary, fiat money is not as good as real money since it can be issued without limit, ergo, it cannot work as a stable store of value. Ron Paul, a 30-year U.S. Senator, noted that the current monetary system, which is purely based on

5 [5]Procon. "Gold Standard" *Pros and Cons.* April 3, 2013. Medium. July 30, 2014.

fiat currency, provides complete freedom to those people behind the printing press, allowing the government to spend money without experiencing political consequences such as raising taxes. So basically, fiat money benefits only those who printed it, and receive it first, making the government along with its associates wealthier and more powerful. What is more alarming is that its negative effects are concealed so that ordinary citizens do not recognize that the money created by the Federal Reserve today is the very reason for the unemployment, price elevations, economic bursts, and diminished standard of living tomorrow.[6]

Statement of the Issue

To date, a wealth of literature still believes that former U.S. President Richard Nixon's decision to break the link between the gold and dollar marked the origin of America's worst economic history.[7] Since then, the so-called "Nixon Shock" has also paved the way for ending the international financial exchange, leaving the global trade with mere fiat currencies. Although this groundbreaking decision was considered a political success by some, economists deemed it as the initiating factor that introduced not only instability of floating currencies, but also stagnation of economic progress throughout the

6 [6] Procon. "Gold Standard" *Pros and Cons.* April 3, 2013. Medium. July 30, 2014.

7 [7] Kadlec, Charles. "Nixon's Colossal Monetary Error: The Verdict 40 Years Later." Forbes. August 15, 2011. Medium. July 31, 2014.

international market. Following the Nixon Shock, the U.S. dollar dropped steeply by a third during the 1970s, and several Latin and Asian countries confronted severe economic crises in the late 1990s. Even though certain European countries have made their own currencies, they still face present-day uncertainties in the global trade.

Today, the global monetary system imputes no particular role to gold.[8] In truth, it is not the duty of the Federal Reserve to link up the U.S. dollar not only to gold, but virtually to any other related forms. It can, however, print as little or as much money as the government sees appropriate. This was only one of the powerful advantages of the Federal Reserve given an unconstrained system but most importantly, they are free to respond to threatened or actual recessions by pumping in money.

Although a free-floating currency has advantages, it also poses risks that need to be considered with utmost precaution. One evident matter is that it creates uncertainties within the international trade market, particularly between international investors and traders. For example, the U.S. dollar has been valued as little as 80 and as much as 120 Japanese Yen for the last half decade. The tolls of this unpredictability are indeed difficult to measure, relatively because present-day urbane financial market permit business organizations to hedge most of that risk. However, these risks remain significant. Moreover, a system that allows

8 [8] Krugman, Paul. “The Gold Bug Variations.” 1996. Retrieved on July 31, 2014.

monetary managers to do well also permits them to be irresponsible. The worst thing is that in some countries, the opportunities to become irresponsible were promptly grabbed.[9]

Background of the Issue

The earliest account of gold standard was recorded in China during the early years of the 9th century when ancient Chinese religion and democracy were still predominant.[10] Most of the forms of this standard were consistently preserved throughout China's golden age of economic and technological expansion until 1620 when they return to a philosopher-authoritarianism form of government. Concept-wise, the idea of gold standard was also seen in the West during the 13th century as Marco Polo was greatly impressed with the convertible certificates of the Mongol Emperors who were rich in silvers, and then introduced this standard in the Occident.

The origin of what is known as the "gold standard" system today could be traced back as early as the Middle Ages when the Byzantine gold, or popularly referred to as Bezant, was broadly used as a trading commodity or money throughout the Mediterranean and Europe. As the economic influence of the Empire declined, however, the

9 [9] Krugman, Paul. "The Gold Bug Variations." 1996. Retrieved on July 31, 2014.

10 [10] Thompson, Earl. "The Gold Standard: Causes and Consequences." UCLA, n.d. Retrieved on July 31, 2014.

utilization of Bezant also diminished.[11] With the intention to find a viable substitute, the European territories started using silver as their currency, which also marked the origination of silver standards. At that moment, silver pennies became a more necessary trading commodity than gold particularly in Mercia, Great Britain from 757 to 796 CE.[12] Other similar coins such as Spanish dineros, French deniers, and Italian denari circulated the continent as well. In addition, the use of silver coins was reinforced further because of the Spanish explorers' discovery of silver deposits in Mexico and Bolivia during 1522 and 1545 respectively.[13] For this reason, the global trade within the 16th century heavily depended on coins such as the Spanish dollar, Maria Theresa thaler (MTT), and followed by the U.S. trade dollar.

In 1704 following the proclamation of Queen Anne, the British West Indies region was indeed one of the first territories that adopted a gold specie

11 [11] Whaples, Robert. "California Gold Rush." Economic History Association, 2010. Retrieved on July 31, 2014.

12 [12] Kear, Charles. "A Catalog of English Coins in the British Museum." Anglo-Saxon Series 1. 2005. Retrieved on July 30, 2014.

13 [13] Rothwell, Pennefather. "Universal Bimettalism and an International Monetary Clearing House, together with a Record of the World's Money, Statistics of Gold and Silver, Etc." The Scientific Publishing Company, 1893. Retrieved on July 31, 2014.

standard, although it was only a *de facto* monetary standard grounded on doubloon- the former Spanish gold coin. However in 1717, Sir Isaac Newton introduced a different mint proportion between gold and silver which subsequently led to the driving out of the latter in the trading circulation. As a result, Britain then followed the gold standard.[14] Their adaptation of the gold standard was only formalized legally in 1819[15] followed by the present-day Canada in 1863, as well as Germany and the United States in 1873 and 1900 respectively.

Historically, the United States initially adopted the bimetallic standard (both silver and gold) until 1834 when they switched to *de facto* gold standard. It was also during this year that they determined the price of gold at $20.67 per ounce and successfully managed to maintain this rate for almost a century. However, the United States experienced fluctuations in their gold stock particularly from 1862 to 1877. In detail, the country had a gold stock of about 2 million ounces in 1862. It sprang up to 2.6 million in 1866, but slowly declined to 1.6 million within the next decade. In 1878, their gold stock rose back again to 2.5 million ounces. Nonetheless, a wealth of literature believed that the U.S. net exports did not induced this fluctuation pattern. Rather, it was due to the variation of gold import and export before, during, and after the Civil War. In a nutshell, this fluctuation has subsequently led to the reduction of gold export by the United States

14 [14] Andrei, Liviu. "Money and Market in the Economy of All Times: Another World History of Money and Pre-Money Based Economies." Xlibris Corporation, 2011. Medium. July 30, 2014.

15 [15] "Gold Standard." http://www.econlib.org/library/Enc/GoldStandard.html, 2008.

while increasing their Greenback's (fiat money) price of gold proportional to purchasing power.[16] As mentioned earlier, it was only during the 1900 when the United States lawfully adopted the gold standard after the enactment of the Gold Standard Act.

On a global-scale, most countries adhered to gold (in different degrees) from 1880 to 1914, making it the era of "classical" gold standard.[17] Moreover, this was also the time when novel economic developments were apparent, along with comparatively free trade in capital, labor, and goods. However, the gold standard started to broke down as the First World War escalated since the countries involved suffered inflation financing their war costs. However, the gold standard was shortly reinstated from 1925 to 1931 and was known as the Gold Exchange Standard. Even so, this version includes several adjustments such as the involved countries were allowed to hold dollars, pounds, or gold, as reserves excluding the United Kingdom and United States for which they could hold gold only.[18] This version broke down in 1931 as Great Britain departed from gold to confront capital and gold outflows. Two

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16 [16] Friedman, Milton & Schwartz, Anna Jacobson. "A Monetary History of the US." 1867 – 1960. New Jersey: Princeton University Press, 1963. Retrieved on July 31, 2014.

17 17Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

18 [18] Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

years later, Franklin Roosevelt, the president of the United States that time, placed privately-owned gold as well as those formally revoked contracts that specified gold as payments under state control and ownership.

After the Second World War, particularly from 1946 to 1971, most countries have adopted another modified version of the gold standard system that was introduced by the Bretton Woods Agreements. Under this system, copious countries have determined the exchange rate of their currency relative to U.S. dollar with the assurance that central banks can convert dollar holdings into gold following an exchange rate of 35 dollars per ounce.[19] This plainly implies that all currencies pegged to the U.S. dollar possessed a fixed value in terms of gold. In addition, this also allowed them to settle their international trades and balances in U.S. dollars. This option, however, was not available to individuals or firms.

However, not all countries went under this system. For instance, France has cut down its dollar reserves by exchanging them into gold from 1959 to 1970, which evidently reduced the economic influence of the United States. Along with this, the unrelenting deficits in U.S. balance-of-payments have reduced the country's gold reserves but yielded a negative impact on the international trade community, particularly loss in confidence, that the United States could possibly experience a hard time redeeming its currency in gold. This U.S. financial strain reached its worst because of the excessive federal expenditures during the Vietnam War. As a result,

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19 [19] Lipsey, Richard. "An introduction to positive economics." Weidenfeld & Nicolson, 1975. Retrieved on July 31, 2014.

President Richard Nixon declared on August 15, 1971 that the U.S. would no longer convert their dollar for gold, also ending the international convertibility of the currency to gold. Indeed, this was the final stride in ending the gold standard.

President Nixon's declaration was originally planned to just revalue the currencies by temporarily measuring with the fixed gold price leaving all official exchange rates constant. However after the announcement, no authorized redemption or re-evaluation happened. Four months later, the Smithsonian Agreement was achieved- the agreement in which the dollar was devalued from the original $35 per ounce of gold to $38. Other foreign currencies, however, was appreciated in this agreement. Unfortunately, this agreement did not resumed the gold convertibility. In 1973, the U.S. dollar experienced devaluation again and its price spiked up to $42.22 per troy ounce of gold and this equivalent value was made official in the same year. In 1976, the Federal government officially altered the dollar's definition by removing any references to gold from legislative acts. From this point onwards, the global monetary system was formed by mere fiat monies, and the U.S. government still has no plans of backing up, converting, or tying its currency to gold or any real asset.

Objectives of the Study

The general objective of this research paper is to cite evidences that the United States needs to relink their dollar to gold. Since the former gold standard, in which the U.S. dollar was tied with the amount of gold, has stabilized the global trade, returning to this kind of system would certainly reduce the risk of experiencing inflation, and running deficits and debts that were totaled around $15 trillion as we speak. This magnitude of possible economic disaster is indeed alarming, and the return of gold standard could inhibit this from developing.

In line with this general objective, this research paper also aims to:

- Review the thoughts and sentiments of certain economists regarding the issue
- Provide evidences why relinking the dollar to gold is essential rather than optional
- Cite the benefits as well as the potential problems (pros and cons) of returning the gold standard
- Yield a firm argument, based on these collected information, that the United States should consider returning the gold standard or other similar system

Research Questions

The general question the study addresses the significance of relinking the U.S. dollar to gold, or any other commodity, not only to restore value to paper money, but to stabilize world trade as well. Furthermore, this research paper also covers the following questions:

- How the gold standard worked prior to its termination in the 1970s?
- What are the benefits, both domestically and globally, of returning the gold standard?

- What are the factors that economists around the globe treat as “hindrances” for returning the gold standard?
- What are the views and opinions of prominent economists regarding the gold standard?
- How exactly the return of gold standard would benefit the international market given today’s economic landscape?

Significance of the Study

This research paper would definitely be a contribution to increasing the awareness, as well as to loudening the ongoing call, regarding the tying of the U.S. dollar to gold or to a bimetallic standard again. Even though this call has been around for four decades now, the U.S. government is still reluctant in considering this proposition. For this reason, this paper would be significant in disseminating information about the benefits of backing up, valuing in, or converting paper money into gold or any other similar commodity. As of today, the U.S. government is running trillions of deficit and debt, which in fact, continues to grow because of the economic instability that “printing money at will” has provided. Since this research paper supports the idea of bringing back the gold standard, the bimetallic standard, or any modified yet relevant standard, the arguments found in this paper would contribute to the growing body of knowledge that emphasize the essentiality of these standard given today’s economic environment.

DISCUSSION

How the Gold Standard Worked

Looking at the domestic's point of view, the gold standard is a system that regulates both the quantity as well as the growth rate of a nation's supply of money. For the reason that the new production of gold will only contribute a relatively small portion to the accrued stock, and since the system assures open convertibility of gold to non-gold money, the gold standard then guarantees the supply of money as well as the prices level that they will not fluctuate too much.[20] However, the occasional upward surges of gold stock around the globe, like the gold discoveries in California and Australia during the 1850s, have induced the price levels to become very unstable for the succeeding years.

In international terms, the gold standard is a system that fixes the value of a country's currency value relatively to the currencies of other nations. Since the countries that adopted gold standard have kept a fixed gold price, the exchange rates between currencies that were tied with gold also have a fixed value. For instance, the U.S. determined the gold price at 20.67 U.S. dollar per ounce, while Great Britain fixed theirs at £3

20 [20] Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

17s. 10½ per ounce of gold. Hence, the exchange rate between pounds and dollars, or popularly referred to as "par exchange rate", is fixed at £1 per $4.867. [21]

Since the exchange rates of currencies that are backed up with gold were fixed, the gold standard then acts as a driving factor that induce the price levels within the global trade to move together. This movement took place primarily via a spontaneous adjustment process in balance-of-payments called the "price-specie-flow" mechanism. Bordo detailed out how specifically this mechanism worked by citing the United States as an example below:

"*Suppose that a technological innovation brought about faster real economic growth in the United States. Because the supply of money (gold) essentially was fixed in the short run, U.S. prices fell. Prices of U.S. exports then fell relative to the prices of imports. This caused the British to demand more U.S. exports and Americans to demand fewer imports. A U.S. balance-of-payments surplus was created, causing gold (specie) to flow from the United Kingdom to the United States. The gold inflow increased the U.S. money supply, reversing the initial fall in prices. In the United Kingdom, the gold outflow reduced the*

21 [21] Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

money supply and, hence, lowered the price level. The net result was balanced prices among countries."[22]

In this illustration, it can be observed that the fixed exchange rate also induced shocks to both non-monetary and monetary properties that were subsequently transmitted through capital and gold flows between countries. Hence, a shock experienced in one country in terms of domestic supply of money, real income, price level, and expenditure, would later have an impact to another country. The gold discovery in California during 1848 is indeed a great example of monetary shock because of gold. The new supply of gold has certainly increased the money supply of the United States, which consequently aroused their nominal income, domestic expenditures, and in the end, the price level. The upsurge in domestic price level turned the exports of U.S. to become pricier, inducing a deficit in their balance of payments. However from the standpoint of U.S.'s trading partners, these same factors gave rise to their balance-of-trade surplus. This trade deficit in the United States was financed by an outflow of gold specie to their trading partners, which afterwards reduced their monetary gold stock. In the case of their trading partners, as their supply of money increased, their nominal incomes, domestic expenditures, and price levels also increased. This implied that both income as well as prices in world trade rose depending on the U.S.'s relative share with regards to international gold stock. Even though the initial impact of the California Rush has increased the real output, the full-scale effect was chiefly seen on the price level in the long-run.

22 [22] Bordo, Michael. "Gold Standards." *The Concise Encyclopedia of Economics*. Library Economics Liberty, 2008. Medium. July 30, 2014.

In order for the gold standard to function as it should, central banks were ought to comply the “rules of the game”.[23] To put it differently, central banks were required to increase their discount rates. These rates primarily include the interest rate at which they lend money to other member banks. Therefore, these discount rates would facilitate not only a good gold outflow, but also accelerate its inflow. In detail, if a nation was experiencing a deficit in balance-of-payments, these so-called “rules of the game” permitted a gold outflow up to a time when the ratio between their price level to that of their trading partners has returned to its original par exchange rate.

A good example for this was the behavior of the Bank of England from 1870 to 1914 when they consistently played by the rules. Every time Great Britain confronted a deficit in their balance-of-payments and noticed that their gold reserves is going down, the Bank of England raised its discount rate or the “bank rate”. By inducing other interest rates to rise as well within the United Kingdom, the increase in bank rate was thought to make the holding of inventories, along with other investment expenditures, to drop. These diminutions would then result to a decrease in domestic spending in general, leading to a price level drop in the market. Simultaneously, the increase in the bank rate would allowed for all sorts of short-term capital outflow, therefore also pulling in short-term funds overseas.

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23 [23] Bordo, Michael. “Gold Standards.” The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

On the contrary, not all countries who were under the gold standard followed the "rules of the game", particularly Belgium and France.[24] These countries never let the interest rates of their banks to escalate enough in order for their domestic price level to drop. Moreover, copious countries often breached the rules set by "sterilization"- the process of protecting the domestic supply of money from international disequilibrium through selling or buying domestic securities. Whenever, for instance, the central bank of France demanded to keep the inflow of gold from raising the country's supply of money, it would trade or sell securities for gold, ergo, cutting down the amount of gold mobilizing within the international market. Nevertheless, these rule-breaking violations of central banks should be placed into position. Even though the exchange rates in major countries often vary from par, governments hardly lower the value of their currencies or even manipulate the gold standard in order to back up their own domestic economic activities. The temporary suspension of convertibility in the United States from 1862 to 1879 as well as in England from 1797 to 1821 and 1914 to 1925 did happen because of wartime emergencies. However, as foretold, the convertibility recommenced after these emergencies have passed, and still at original parity. Evidently, these recommencements strengthened the gold standard rule's credibility.[25]

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24 [24] Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

25 [25] Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014

The Benefits of Gold Standard

One of the key benefits of the gold standard system is that it insures a comparatively lower level of inflation.[26] Economists worldwide have come into a consensus that inflation is induced by a combination of several factors. These factors include the instances when the supply of the goods go down, the supply of money goes up, the demand for goods goes up, and when the demand for money goes down. As long as the gold supply does not change too rapidly, the money supply will then remain relatively stable.[27] Given this reasonable analogy, the gold standard then keeps a country from printing excessive fiat money. Once the money supply goes up abruptly, then individuals, companies, or firms would exchange their money (since it has become scarcer) for gold. When this situation continues for a long duration, then the treasury will eventually ran out of gold reserves. The gold standard system limits the Federal Reserve from ordaining policies that considerably change the growth of money supply, ergo, also limiting the country's inflation rate. In addition, the gold standard also alters the façade of the foreign exchange market. For instance, if Mexico adopts the gold standard and has fixed the price of gold at 5,000 Mexican pesos per ounce, and Canada also follows the gold standard

26 26Moffatt, Mike. "Gold Standard vs. Fiat Money." About.com. 2013. Medium. July 31, 2014.

27 [27] Moffatt, Mike. "Gold Standard vs. Fiat Money." About.com. 2013. Medium. July 31, 2014.

and determined their price per ounce of gold at 100 Canadian dollars, then 50 Mexican pesos is worth 1 Canadian dollar in the Forex market. This apparently implies that the extended use of gold standard system also entails a system of fixed exchange rates.[28] If all nations are adopting the gold standard, then gold will become the only real currency, since all other currencies would derive their value from it. Therefore, the stability that the gold standard has to offer in the global trade was considered to be its chief benefit.

Historically, the imbalance in international trades, especially between levels of prices, were compensated through "price specie flow mechanism"[29]-an adjustment mechanism in the balance-of-payments. Back then, gold were used as payment for imports which subsequently lowers the supply of money of importing countries. As a result, these importing nations experienced deflation which turns them into a more competitive trading partner, while the gold importation by net exporters causes their supply of money to increase, resulting to inflation, and therefore turning them into a lesser competition.[30] For centuries, the

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28 [28] Moffatt, Mike. "Gold Standard vs. Fiat Money." About.com. 2013. Medium. July 31, 2014.

29 [29] Llewellyn H. & Rockwell, Jr. "Advantages of the Gold Standard." *Mises.org*. Ludwig von Mises Institute, 2013. Medium. July 31, 2014.

30 [30] "Reform of the International Monetary and Financial System." *Bank of England*. 2011. Medium. July 31, 2014.

existence of gold standards has provided international exchange rates that are fixed between participating nations, thus, cutting down the uncertainty within the global trade.

This price stability, along with the increased confidence of participating countries, in the global trade has been the gold standard's greatest virtue.[31] Under this system, governments experienced difficulty in inflating prices by expanding their supply of money. Given this reason, notable inflation is unlikely to happen and hyperinflation would never materialize since the money supply would only expand at the same rate as the supply of gold increases. However, several economists acknowledged that a country under a gold standard system could still possibly experience high inflation only when warfare heavily damages a large portion of their economy by greatly reducing the production rate of goods, as well as when there is a new major source of gold available.[32] A great illustration for this example was the inflation in the United States during the Civil War, since it majorly destroyed the South's economy. Furthermore, inflation also happens to U.S. following the

31 [31] Bordo, Michael. "Gold Standards." The Concise Encyclopedia of Economics. Library Economics Liberty, 2008. Medium. July 30, 2014.

32 [32] "Advantages of the Gold Standard." *Gold Standards*. Mises. 2013. Medium. July 31, 2014.

occurrence of the "California Gold Rush" where large sums of gold have made available for minting.[33]

Another seen benefit of the gold standard is that it did not allowed for certain forms of financial repression.[34] Financial repression works as a process where creditors transfer their wealth to debtors especially the governments that exercise it. This mechanism is deemed successful in lowering debt when followed by inflation and could be regarded as a type of taxation.[35] What more is that gold standard somehow inhibits deficit spending- a known scheme of the government to confiscate wealth.[36] Hence, it also serves as a property rights protector. Additionally, some proponents of the gold standard view the current fiat monetary system as "undemocratic" since it basically authorizes the Federal Reserve to decide whether the supply of money is reduced or grows instead of allowing the market forces to determine this, just like under the gold standard. This evidently supports the previous argument

33 [33] Whaples, Robert. "California Gold Rush." Economic History Association, 2010. Retrieved on July 31, 2014.

34 34International Monetary Fund. "Financial Repression Redux". International Monetary Fund, 2011. Retrieved on July 30, 2014.

35 [35] Reinhart, Carmen & Rogoff, Kenneth. "This Time is Different." Princeton and Oxford. Princeton University Press, 2008. Medium. July 30, 2014.

36 [36] Greenspan, Alan. "Gold and Economic Freedom." Constitution Society. November 5, 2013. Medium. July 30, 2014.

that fiat dollars essentially permit the government to spend money (when the supply is high) without raising the taxes. Indeed, this instance automatically shields them from any democratic accountability.

With regards to income and unemployment levels, the United States demonstrated a faster increase in income while minimizing the level of unemployment under the gold standard. During the decades before the Nixon shock, particularly from 1950 to 1968, the real average income of male workers grew 2.7 percent per annum. However when the United States untied its dollars to gold in 1971, the median income in the same category only rose 0.2 percent per annum.[37] According to Charles Kadlec, if the United States did not abandoned the gold standard, and the average income levels continued to rise at prior rates, the average family income today would approximately be 50 percent higher.[38] Moreover, the levels of unemployment were indeed lower during the decades prior to 1971. Charles Kadlec also noted that from 1944 to 1971, the years when the United States were still under the partial gold standard, the unemployment only averaged about 5 percent. But from 1971

37 [37] "Easy Money Is Punishing the Middle Class." WSJ, 2012. Retrieved 0n July 30, 2014.

38 [38] "The Price of Abandoning the Gold Standard." Forbes, 2011. Retrieved on July 30, 2014.

to present, the years when the U.S. was following fiat money standard, the level of unemployment did not go lower than 6 percent.[39]

Returning the gold standard will also reduce the trade deficit of the United States, and will also restrict the government to increase the current national debt further. Since the current fiat monetary system allows the Federal Government to finance large trade deficits by printing more paper money, Americans were basically purchasing imported goods without "actually paying" for them.[40] Following the abandonment of the gold standard during the Nixon administration, the U.S. came to its highest trade deficit in history reaching about $379 billion in 2009.[41] According to Michael Pollaro, foreign countries have accepted fiat U.S. dollars as payment for exports, and then used these paper monies to invest in U.S. Treasury Bonds since 1995.[42] With this, the U.S. national debt in the forms of bonds were financed by foreign creditors

39 [39] "The Top Ten Reasons That You Should Support the 'Gold Commission.'" Forbes 2012. Retrieved on 31, 2014.

40 [40] Hillyer, Quin. "A Road to Prosperity." *Spector.org*. The American Spector, September 30, 2011. Medium. July 31, 2014.

41 41"The Trade Balance" Globalozation101.org. The Levin Institute, 2012. Medium. July 31, 2014.

42 [42] "America, Poised for a Hyperinflationary Event?" *Forbes*, 2011. Retrieved on July 30, 2014.

since that year. U.S. Representative, also a noteworthy proponent of the gold standard, Ron Paul addressed his concern with this growing trade deficit by positing that the country's debt will only end once these foreign creditors realize the value of U.S. dollar in the future.[43]

Now that it is clearly revealed that one of the root causes of increased national debt is the issuance of treasury bonds to foreign nations, the gold standard could actually be an answer to this problem since it limits the government to print money at will. It is a known fact that the U.S. government can raise the dollar by issuing treasury bonds under the current monetary system, in which the Federal Reserve can purchase using newly printed money. These bonds count toward the national debt. For the record, the national debt of the United States skyrocketed from just $406 billion in 1971 to $6.8 trillion in 2003, which indicated an unbelievable increase of 1,600% for almost just three decades. This remarkable increase in debt was attributed primarily to the increase in paper money supply throughout the same duration (from 1971 to 2003). According to Ron Paul, the accumulated printed money in 1971 was only $776 billion, but in 2003, the government printed out greenbacks with a total of $8.9 trillion.[44] This demonstrated a 1, 100 percent increase in money supply. Furthermore, the U.S. Department of Treasury reported that the national debt as of

43 [43] "Paper Money and Tyranny." *Lewrockwell*, 2003. Retrieved on July 30, 2014.

44 [44] "Paper Money and Tyranny." *Lewrockwell*, 2003. Retrieved on July 30, 2014.

December 2012 stood at $16.3 trillion.[45] Matt Phillips scaled this debt in terms of gross domestic product (GDP), and found that the U.S. national debt increased more than twice since the Nixon shock in 1971 and recently going from under 30% to 68% in 2011.[46]

The return of gold standard also has minor yet positive implications in gasoline prices as well as military expenditure. With regards to oil prices, the inflation brought by the abandonment of the gold standard in 1971 has reduced the dollar value. As a consequence, the price of oil multiplied by 32 times.[47] In 1975 all nation-members of the Organization of Petroleum-Exporting Countries (OPEC) have agreed to trade oil with dollars only.[48] For this reason, the international demand for U.S. fiat dollar has increased, which pressed the Federal Government to print more greenbacks. This has caused the international market to be flooded with dollar, which then resulted to spikes and collapses in the oil prices. Tim McMahon

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45 [45] “The Debt to the Penny and Who Holds It.” *Treasurydirect.gov*, 2012. Retrieved on July 30, 2014.

46 [46] King, Ritchie. "The Long Story of US Debt, From 1790 to 2011, in 1 Little Chart." Quartz. The Atlantic, 2012. Medium. July 30, 2014.

47 [47] "A Gold Standard Is Big Oil's Best Defense Against Political Attack," *Forbes*, 2012. Retrieved on July 30, 2014.

48 [48] "How US Debt Risks Dollar Doomsday." *New York Post.* 2012. Retrieved on July 30, 2014.

noted the gold standard’s benefit in oil prices by providing a comparison before and after the Nixon shock. During the 1950s and 1960s, the oil price was fairly stable at $2.90 per barrel. In 2008, the price of oil per barrel reached $126.33. Adjusting for inflation, the cost of oil in 1971 would only be $20 per barrel as compared to $100 today.[49] Charles Kadlec, who is a regular contributor in Forbes Magazine, supported this argument by positing that “*if the gold standard had been maintained the price of gasoline today would likely be about $1.00 a gallon*”.[50]

With regards to military and defense expenditure, U.S. Representative Ron Paul asserted that the “*current fiat monetary system allows the government to keep an easy war policy… To be truly opposed to preemptive and unnecessary wars one must advocate sound money to prevent the promoters of war from financing their imperialism*”.[51] The Federal Government’s capacity to print fiat money at will also implies that they have the capability to finance massive global defense facilities, including the maintenance

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49 [49] "Historical Oil Prices Chart." *Inflationdata.com.* 2012.

50 [50] "The Top Ten Reasons That You Should Support the 'Gold Commission.'" www.forbes.com, 2012.

51 [51] “Paper Money and Tyranny.” *Lewrockwell.* 2003.

of their 662 military bases scattered in 38 different countries[52]; not to mention expensive military interventions throughout the globe.[53] For the record, the U.S. spent almost 711 billion dollars on defense in 2011. This massive expenditure is equivalent to the defense outlay of the other top thirteen nations combined.[54] Evidently, this monumental spending will never materialize if the U.S. have continued their adherence to the gold standard since it will inhibit the overprinting of fiat dollar. As a consequence, the government will be forced to adequately budget their defense and military expenses and could subsequently prevent unnecessary wars and interventions.

In line with the government's power, as the gold standard limits the ability of the government to print fiat money as they see fit, it then limits their power to execute something that requires paper money. One great illustration for this is the global financial crisis that happened in 2008. Most economists, financial analysts, and bankers have come into consensus that the root cause of this crisis was the sharp increase in the U.S. mortgage loan defaults that started in the first quarter of 2006. As the financial crisis started to show its effects in the U.S. real economy, the recession worsened to the extent that it affected the

52 [52] "Base Structure Report Fiscal Year 2010 Baseline." *ACQ*,. 2010.

53 [53] "The Real Cost of US In Lybia? Two Billion Dollars per Day." *Forbes.* 2011.

54 [54] "The US Spent More on Defense in 2011 Than Did the Countries with the Next 13 Highest Defense Budgets Combined." pgfp.org, 2012.

international market through financial and trade linkages. With the purpose to mobilize the financial system again, the Federal Reserve has printed out billions of dollars and pumped them in various private banking system. With this, people would start lending and borrowing again without the fear of losing their money.[55] Unfortunately, this initial intervention of the Fed Reserve was not ample enough, forcing the investors to go after Bear Stearns in March of 2008.[56] However, Bear Stearns still holds copious amounts of toxic assets, which later forced them to approach JP Morgan Chase just to bail them out. Although many thought that this was final stretch to solve the crisis, the U.S. Treasury Department was then sanctioned to spend about $150 billion in summer of 2008, to subsidize and eventually take over FM/FM (Fannie Mae and Freddie Mac)- the institution that initially allowed for these subprime mortgage loans ever since the administration of Clinton.[57] Lawrence White additionally reported that the Federal

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55 [55] Gokay, Bulent. "The 2008 world economic crisis: Global shifts and faultlines." Global Research, February 15, 2009. Medium. July 30, 2014.

56 [56] "What was the global financial crisis of 2008?" *Useconomy*. About, 2013. Medium. July 30, 2014.

57 [57] "The cause of the 2008 financial crisis." *Guest-column.* AIM, 2008. Medium. July 30, 2014.

Government have used up to $29 billion to bail out Bear Stearns and approximately $180 billion just to bail out AIG.[58]

In this illustration, the gold standard would have limited the government's power to print money just to bail out certain investment groups and corporations as they see fit. Frank Shostak reported that the growth rate of U.S. money supply have increased by 1.5 percent in April of 2008 and it increased ten more times by August of 2009.[59] In addition, the Federal Reserve's balance sheet had showed an annual growth from 2.6 percent to 152.8 percent (December 2007 to December 2008).[60] Lawrence White reacted to this by positing that:

58 [58] White, Lawrence. "A Gold Standard with Free Banking Would Have Restrained the Boom and Bust", *Cato Journal* 31 (2011). Retrieved on July 31, 2014.

59 [59] Onge, Peter. "Contra Bernanke on the Gold Standard." *Mises.org*. Ludwig von Mises Institute, July 31, 2012. Medium. July 30, 2014.

60 [60] Onge, Peter. "Contra Bernanke on the Gold Standard." *Mises.org*. Ludwig von Mises Institute, July 31, 2012. Medium. July 30, 2014.

"*Under our current discretionary fiat monetary regime, the Federal Reserve has carte blanche to expand its balance sheet as much as it likes. It has roughly tripled its size in the last few years. One of the simple and basic virtues of a gold standard is that even a badly behaved central bank cannot expand that much before the constraint of gold losses begins to kick in*".[61]

To put it simply, the gold standard would not have restricted the government's power to print greenbacks, and could also have lessened the risk of putting the country at significant inflation in the future.

The Downsides of Gold Standard

Looking at the other side of the coin, some economists noted that gold standard also poses certain downsides in which the United States should not return to this kind of system and remain under the current fiat monetary system.

First and foremost, John Ameriks believed that the gold value fluctuates in a broad manner, therefore it would not allow for price stability. This implies that the return of gold standard would therefore not make the economic environment healthier. As a matter of fact, Ameriks cited an example on how the value of gold fluctuated in two eras, namely from 1879 to 1933 and from 1934 to 1970. During the first era, when the United States was under a full gold standard, the market price of gold (inflation adjusted)

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61 [61] Lawrence White, "A Gold Standard with Free Banking Would Have Restrained the Boom and Bust", Cato Journal 31 (2011), 502.

fluctuated from an average of $700 in 1890s to just $200 in 1920s. During the second era, when the United States adhered to bimetallic standard, the market price of gold (inflation adjusted) went from $563 to just $201.[62] However during the 1980, the market price of gold (inflation adjusted) reached up to $2,337, which is higher than today's price.[63] According to Gregory Hilton, fluctuations of this magnitude would be detrimental to a country which is under a pure gold standard, because the dollar value is tied to the gold value. For instance, a 10 percent decrease or increase in the gold value would finally lead in an analogous 10 percent fall or rise in the overall price level of commodities throughout the country. Therefore, such fluctuations would only result to a destabilized economy.[64]

Furthermore, the gold standard was also viewed as damaging as it allowed for periodic deflations as well as economic contractions, which could turn the economy to become unstable. In detail, when a country adheres to gold standard, its

62 [62] Ameriks, John. "The Gold Rush of 2010." *Investing.* Vanguard Blog, July 26, 2010. Medium. July 30, 2014.

63 [63] "Inflation Adjusted Annual Average Gold Prices." *Inflationdata*. 2011.

64 [64] Paul, Ron. "The Case Against Gold." *The DC World Affairs Blog*. Wordpress, July 15, 2011. Medium. July 30, 2014.

economic development could surpass the growth in the supply of money for the reason that more money cannot be produced and mobilized until that country holds more gold to back up its currency. When this occurs, deflation and economic contraction usually follows. Based on the report issued by the US Department of Labor Bureau of Labor Statistics, the United States experienced deflation 12 times from 1913 to 1971- the years when the country follows a form of gold standard. According to their report, the top three highest levels of deflation were recorded during 1921 (-10.5 percent), 1932 (-9.9 percent), as well as in 1931 (-9.0 percent).[65] Ben Bernanke, the chairman of the Federal Reserve supported this argument by positing that, "*the length and depth of the deflation during the late 1920s and early 1930s strongly suggest a monetary origin, and the close correspondence... between deflation and nations' adherence to the gold standard*".[66]

For some economists, the adherence of the United States to the gold standard was the root cause of copious bank failures, financial panics, as well as the lengthy Great Depression. Paul Krugman reported that from 1879 to 1933, the United States experienced notable financial panics

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65 [65] US Department of Labor Bureau of Labor Statistics. "Consumer Price Index: All Urban Consumers." 2012. Retrieved on July 30, 2014.

66 [66] Bernanke, Ben & James, Harold. "The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison," Financial Markets and Financial Crises, University of Chicago Press, 1990. Medium. July 30, 2014.

during the years 1884, 1890, 1893, 1907, and 1930 to 1933.[67] In particular, the financial terror during 1933 has either suspended or totally closed the operations of almost 4,000 banks.[68]Bernanke and James perceived that most of these panics were aggravated by the contraction in the supply of money, which was induced by the gold standard since more paper money could not be printed out first without obtaining additional gold to back it up.[69] With regards to the prolonged Great Depression, copious economists argued that the gold standard played a central role in keeping the U.S. from stabilizing its economy after the 1929 stock market

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67 [67] "Golden Instability." *Krugman.* New York Times, 2012. Retrieved on July 30, 2014.

68 [68] Federal Deposit Insurance Corporation. “The First Fifty Years." 2012. Retrieved on July 30, 2014.

69 [69] Bernanke, Ben &Harold, James. “The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison,” *Financial Markets and Financial Crises* University of Chicago Press, 1990. Retrieved on July 30, 2014.

crash, thereby extending the Great Depression. The United States' economy only began to recover in 1933 when it abandoned the full gold standard.[70][71]

Chairman Ben Bernanke believed that returning to gold standard would only limit the government's power to address the slightly growing unemployment problem. Specifically, Bernanke posited in a lecture about the origins and mission of the Federal Reserve that "*a gold standard means swearing that no matter how bad unemployment gets you are not going to do anything about it using monetary policy*".[72] Paul Heise added that under the current fiat monetary system, the Federal Reserve could actually expand the supply of U.S. dollar by buying treasury bonds, and then the government could utilize this money to set the unemployed sector to work by public spending.[73] This is exactly what the

70 [70] "A Disaster for Wages." *Nytimes.com*, 2011. Retrieved on July 30, 2014.

71 [71] Barry Eichengreen. "Golden Fetters : The Gold Standard and the Great Depression, 1919-1939.' (1996). Retrieved on July 30, 2014.

72 [72] Bernanke, Ben. "Origins and Mission of the Federal Reserve." *The Federal Reserve and the Financial Crisis*, 2012. Medium. July 31, 2014.

73 [73] "The Gold Standard Isn't Good as Gold." *Idnews.com*, 2012. Retrieved on July 30, 2014.

Obama administration did by using $787 billion as financial stimulus. [74] Christina Romer reported further that this Obama stimulus package have barred the loss of approximately 3 million jobs across the country.[75]

Furthermore, since the gold standard restrains the government's ability to increase its money supply at will, then the Federal Reserve is also limited in helping out the economy in times of depressions and recessions. As mentioned earlier, the Federal Reserve can legally utilize certain monetary policies to respond to various financial crises under the current fiat monetary system. The Federal Reserve can achieve it through raising interest rates during inflation, lowering them in times of recession, and pumping in money into the economy as they see fit. Apparently, the gold standard would seriously hinder the Federal Reserve from executing these functions.[76]Following the global economic crisis in 2008, the troubled asset relief program (TARP) of the Federal Reserve have allowed for $700 billion to bailing out key financial institutions, stabilizing the global economy, and subsequently ending

74 [74] "Economic Stimulus - Jobs Bills." *Nytimes.com*, 2012. Retrieved on July 30, 2014.

75 [75] "The Fiscal Stimulus, Flawed But Valuable." *Nytimes.com*, 2012. Retrieved on July 30, 2014.

76 [76] Ben Bernanke. "Origins and Mission of the Federal Reserve", The Federal Reserve and the Financial Crisis, 2012.

the crisis.[77] Paul Krugman, a Nobel Prize-winner economist, supported this argument by stating that a powerful deflationary force would have been emerged without the intervention of the Federal Reserve, which could turn the 2008 global financial crisis into another Great Depression.[78]

Another seen downside of the gold standard, along with the call of bringing it back, was the implications of gold as a resource and activity (gold mining). Firstly, the gold standard makes the money supply more vulnerable to the periods of positive and negative events regarding gold production. Since every dollar is pegged with gold, the money supply would heavily depend on the amount of gold produced. Jeffrey Frankel indicated that under this scheme, inflation would materialize once large gold discoveries were made. Conversely, deflation would happen once the gold reserves became scarce.[79] As illustrated earlier, the large gold discovery in California, known as the California Gold Rush, have eventually resulted to a monetary shock due to inflation. Other economic problems followed

77 [77] US Department of the Treasury. "TARP Programs." Treasury. 2012. Medium. July 31, 2014.

78 [78] Krugman. "Golden Instability." *Nytimes.com*, 2012. Retrieved on July 30, 2014.

79 [79] "The Dollar's New and Old Rivals." *Nytimes.com*, 2010. Retrieved on July 30, 2014.

such increase in price level within the international, which consequently widened the U.S. trade deficit.[80]

This downside therefore implies that a gold standard could hinder the currency from flourishing, which also inhibits the country from maintaining a healthy rate of domestic economic growth as well as in international trades. Given today's gold mining rates, the supply of gold throughout the world rises approximately 1.5 to 2 percent per annum.[81] Plainly, this rate is not sufficient enough to preserve a healthy global economic growth rate. According to Paul Donovan, economist of the United Bank of Switzerland, "*the nominal rate of growth in world trade should be around 6% to 6.5%. If an international gold standard were to be re-introduced this growth rate could not be maintained*".[82]

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80 [80] Bordo, Michael. "Gold Standards." *The Concise Encyclopedia of Economics*. Library Economics Liberty, 2008. Medium. July 30, 2014.

81 [81] Waggoner, John. "Should We Return to the Gold Standard." *Money.* USA Today. April 23, 2012. Medium. July 31, 2014.

82 [82] Weisenthal, Joe. "Why the Gold Standard Is the Worst Idea in the World in One Chart." *Businessinsider*. September 4, 2012. Medium. July 31, 2014.

Various environment groups also protest their disapproval to gold standard, in the sense that it would promote gold mining activities throughout the globe, which in turn could do harm in our environment. According to the report of Eisler and Wiemeyer, a lot of gold mines actually use a dangerous process called "cyanide leach mining" that produces extensive pollution particularly in bodies of water[83], along with big open-pit land scars. If we are to equate the gold produced with the waste produced, it is estimated that 70 tons of mine waste were created just to produce an ounce of gold. Moreover, almost 50 percent of gold mining in the world happens in indigenous lands[84] where the land rights of communities dwelling in it are usually violated.[85][86] For instance, Scott Sonner reported that in Nevada, Barrick Gold (the largest producer of gold in the world) is presently engaged in a legal

83 [83] Eisler R. & Wiemeyer, S. "Cyanide Hazards to Plants and Animals from Gold Mining and Releated Water Issues," National Center for Biotechnology Information. U.S. National Library of Medicine, 2004. Medium. July 30, 2014.

84 [84]Earthworks and Oxfam America. "Dirty Metals: Mining, Communities and the Environment." *nodirtygold*. Earthworks, 2004, Medium. July 30, 2014.

85 [85] "O'odham Sacred Site of Quitovac Once Again under Threat from US Gold Mining Company Silver Scott Mines." http://www.solidarity-project.org, 2012.

86 [86] Trout, Keith. "Save Spiritual Site Mt. Tenabo." Current Campaigns. Great Basin Resource Watch, December 25, 2013. Medium. July 31, 2014.

conflict to dig out a 2,000-foot open-pit gold mine on Mt. Tenobo- a known sacred mountain in the Western Shoshone.[87]

In addition, returning the full gold standard would waste large amounts of money, time, and resources. The production of gold, along with its activities such as mining and refining, is both expensive and time consuming. Following the accounts from Barrick Gold, they spent about $560 for every ounce of gold they produced in 2012.[88] This amount does not cover the entire human labor used for mining, refining, as well as storing gold as they are diverted from the real economy. As compared to producing/printing fiat money, the direct costs associated with all the process are indeed lower since it only costs about $0.087.[89] Milton Friedman, a prominent economist, also estimated that for the United States to adequately back up its present currency with gold reserves, it would cost them around 1.5 percent of their national income.[90]

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87 [87] "Tribe Battles BLM over Nev. Gold Mine in US Court." www.desertnews.com, 2011.

88 [88] "Gold Mining Costs Rising Fast." *Goldnews.* Bullionvault, 2012. Medium. July 30, 2014.

89 [89] US Department of the Treasury. "Annual Production Figures." Bureau of Engraving and Printing. Money Factory, 2012. Medium. July 31, 2014.

90 [90] Schwartz, Anna. “Alternative Monetary Regimes: The Gold Standard.” *Nber.org.* The National Bureau of Economic Research, 1987. Medium. July 31, 2014.

As a counterpoint to the earlier benefit that the gold standard somehow prevents the United States to overspend in military operations such as defense and overseas interventions, gold standard adversaries viewed it as a downside since it could actually harm national security. Back during the times of Civil War, President Abraham Lincoln sanctioned the printing of about $450 million greenbacks in order to finance their cause.[91] This was only one of the instances that the quick expansion of fiat currency is sometimes essential to fund and fortify war efforts. Clearly, this would never materialize under the gold standard. In addition, the participation of the United States during the Second World War was primarily funded by the printed money (which is not backed, tied, or convertible to gold during that time), along with running large deficits and selling war bonds. The researchers from the Congressional Research Service explained it further by positing that the way through which this increase in the supply of money came about was through the Federal Reserve's procurement of government bonds. In actuality, the Federal Reserve have made a loan to the government through newly printed money. For this reason, the recorded debt in 1946 was 108.6 percent of the GDP.[92] Even though the total printed fiat money was indeed off the charts, and the debt has skyrocketed, the

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91 [91] "The Birth of US Fiat Currency." *Bloomberg.com*, 2012. Retrieved on July 30, 2014.

92 [92] Labonte, Marc & Levit, Mindy. "Financing Issues and Economic Effects of American Wars." Federation of American Scientists, 2008. Medium. July 30, 2014.

United States managed to support its allied countries through sending military support while securing its homeland with the use of newly printed greenbacks.

Given the abovementioned downsides, gold standard adversaries believed that returning to this kind of monetary system is not the best option of the United States in order to somehow reduce the inflation down. Rather, the country just needs a well-managed fiat monetary system to solve its economic problems. According to the report of US Department of Labor Bureau of Labor Statistics with regards to consumer price index of all urban consumers, the U.S. Congress sanctioned the U.S. Gold Commission to analyze and consider returning to gold standard as a means to cut down the inflation in 1981 since the annual inflation rate for this year has reached 10.3 percent.[93] However, the commission resolved that returning to a gold standard does not seem to be a fruitful method for handling the ongoing inflation problem. By next year, John Makin reported that the monetary policy decisions carried out by Paul Volker, Chairman of the Federal Reserve during that time, had already ended the inflation.[94] By 1983, the growth of consumer prices was down from 13.5 percent to just 3.2 percent within three years' time. However, this was only one instance that the gold standard was not the preferred solution to end an economic problem.

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93 [93] US Department of Labor. "Consumer Price Index: All Urban Consumers." Bureau of Labor Statistics. 2012. Medium. July 30, 2014.

94 [94] "All That Glitters: A Primer on the Gold Standard." *Aei.org*. 2012. Retrieved on July 30, 2014.

In addition, adversaries of the gold standard system conceived that returning to this system would only destabilize and eventually crash the already delicate economy of the United States. Historically, it was in 1879 when the United States has shifted from a fiat monetary system to a gold standard for the last time. Essentially, it was after the Civil War when the U.S. returned to gold standard. According to the accounts of Barry Eichengreen, this shift of economic system has resulted to a massive deflation.[95] Following this instance, the United States might experience the same events if it attempts to move away from the current monetary system and return into a full gold or bimetallic standard, given that a lot of economists believe that the U.S. and global economies were fragile at the moment. Eichengreen also referred to gold standard as a "recipe for economic disaster"[96] since it will definitely harm, if not crash, today's unstable economy.

Lastly, those who oppose the return of gold standard are convinced that it would be really unmanageable, if not possible, given the facts that there are already vast amounts of greenbacks circulating the country plus the amount of gold present today

95 [95] Eichengreen, Barry. "A Critique of Pure Gold." Nationalinterest.org. The National Interest, October, 2011. Medium. July 31, 2014.

96 [96] Eichengreen, Barry. "Golden Fetters : The Gold Standard and the Great Depression." 1919-1939, (1996). Retrieved on July 31, 2014.

is indeed scarce. As of December 2012, the U.S. Treasury reportedly holds approximately 260 million troy ounces of gold reserves. Given the market price of gold during that time, which was around $1,662 per ounce of gold, which would be around $434.6 billion. However, today's money supply in the United States, along with the paper money that were already in circulation and bank deposits accounted for almost $2.6 trillion. Matthew Philips believed that in order for the United States to successfully peg the dollar to gold, it must accomplish either of these three options. First is to greatly increase its gold holdings. Secondly, it should fix the price of dollar to that of gold at $10,000 per ounce. Thirdly, the United States has to bear a massive deflation as well as contraction in the supply of money.[97] Globally, the accumulated amount of gold was accounted about 5.5 billion troy ounces, which was equivalent to only 9.1 trillion dollars given the current market prices. Apparently, the total amount of gold reserves in the whole world is not sufficient enough to compensate for national debt of the United States which peaked at $16.3 trillion.[98] This implies that the transition from the current fiat monetary system to a full gold standard would be hard, if not impossible.

Should the U.S. Return to the Gold Standard: What the Experts Has to Say

Public and private debates about deficit spending, monetary policy, and the current role of the Federal Reserve would always end up discussing one thing: "should the United States

97 [97] "GOP: In Gold We Trust." *Businessweek.com*, 2012. Retrieved on July 30, 2014.

98 98US Department of the Treasury. "The Debt to the Penny and Who Holds It." Treasury Direct Team. 2012. Medium. July 31, 2014.

return to the gold standard?". Indeed, this was the question that sparked countless arguments from people of all walks of life. With this, this section will highlight what the experts on the matter has to say.

Paul Krugman [No]

Paul Krugman is a Nobe Prize-winning economic professor and a columnist at *The New York Times*. To date, Professor Krugman was deemed as the most celebrated adversary regarding the issue of returning the gold standard as well as eliminating the power of the government to step in during economic crises. Even though Professor Krugman admitted that he supported the concept of "free market", he considered return of gold standard as a terribly bad idea and it would only ruin the U.S. economy given today's global economic landscape. In particular, this was his very response to the Republican Party's call to create a commission that will explore the feasibility of bringing back the gold standard in which the U.S. dollar would be tied once again to the price of gold. According to him, "*a return to the gold standard would lay waste to an already struggling U.S. economy*." Professor Krugman added that the policy inflexibility that the gold standard has to offer once induced the Great Depression since the government were pushed to constrain policy at the worst potential moment. He argued that this same instance would most likely repeat if the United States were to follow gold standard again.

Professor Krugman also noted that investors all around the globe were too convinced that the gold was the safest investment among all assets.[99] Since they are too convinced, they actually imagined and believed it was a factual reality. For this reason, he coined the term "goldbuggism", which referred to the assertion that gold offers a distinct and unparalleled security especially in troubled economic times. Moreover, it also means asserting that everything will be alright once the good old gold standard is returned, ergo abolishing the Federal Reserve. These both forms of "goldbuggism" soared after the global financial crisis in 2008 when investors sought what they believe as the "safest" way to protect their wealth and assets.

However, Krugman is not against gold as an asset. As a matter of fact, he remarked that buying gold makes sense, and gold has been one of the sound investments since the year 2000. For Professor Krugman, one right way to look upon it is that gold can be compared to a long-term bond that is secured from inflation, and these kinds of bonds have also experienced changes in price levels. Therefore, it would be right to presume that there are, in fact, no investments (not even gold) good enough to be saved from inflation. In the wake of the global financial crisis in 2008, a lot of personalities have actually turned into gold and even boasted in the national television that it was the best long-term investment. Unfortunately, from the point of view of Krugman, copious Americans were convinced to this advertisements.

99 [99] Krugman, Paul. "Lust for Gold." The Opinion Pages. The New York Times, April 11, 2013. Medium. July 31, 2014.

The ad about the glory of the gold has been intensified by the 2012 Republican platform in which they have demanded for the creation of a commission that will investigate possible ways how to set a fix value for the U.S. dollar. Needless to say, the people behind this call were rooting for the return of the gold or bimetallic standard. As a result, a surge in "gold fever", as Krugman stated, has been evident since then. However, this excitement about the gold as an asset and investment, as well as the gold standard, declined a bit since 2011. With this, Professor Krugman asked why this decline happens given that most investors thought of gold as the safest investment in the first place. Subsequently, Krugman explained the same scenarios that happened in previous decades when people conceived gold as nothing but a safe investment.[100] According to Krugman, gold often yields really big gains particularly during the late 1970s as well as from 2001 to 2011. However these big gains in the 1970s were followed by an epic plunge, in which the real value of gold dropped by more than 66 percent.[101]

100 [100] Frankel, Jeffrey. "The Dollar's New and Old Rivals." *The Opinion Pages*. The New York Times, November 10, 2010. Medium. July 31, 2014.

101 [101] Hamilton, James. "A Disaster for Wages." *Nytimes.com.* The New York Times, March 8, 2011. Medium. July 30, 2014.

For this reason, Professor Krugman concluded that those who support the gold standard were those conservative-minded people. These people, according to him, tend to defend, endorse, and confirm the dependability of gold standard since they are easily swayed that the paper money or fiat currency is *"just a part of a larger plot to take away their hard-earned wealth and give it to you-know-who.*"[102]

In a nutshell, Professor Krugman was in favor of the current monetary system, along with the notion that the government and the Federal Reserve should not be removed from today's monetary policies since once this happens, economic chaos and uncertainty will surely follow. Professor Krugman also admitted the "goldbuggism" will still continue to exist and even flourish since everything is political today in modern America; and this concept fits perfectly on various yet common political prejudices.

Larry Kudlow [Yes]

Mr. Larry Kudlow is a former economist in Wall Street and currently a star host at CNBC. Mr. Kudlow admitted that he as a firm supporter of the gold standard since the 1970s and he asserted that big bailouts by the governments will not happen in the first place if every dollar was backed up with the price of gold. Therefore, the only

102 [102]Romer, Christina. "The Fiscal Stimulus, Flawed but Valuable." *Economic View*. The New York Times, October 20, 2012. Medium. July 31, 2014.

viable solution today in order to solve the relentless problem of inflation as well as debt is to re-link the dollar to gold, and make the latter the only legal tender.

Grounded by his support on the gold standard, Kudlow opposes most forms of government regulation, particularly on certain economic policies in which the Federal Reserve are allowed to pump in newly printed money as well as to change interest rates, as they see fit, or primarily to stabilize the given economic problem. As a matter of fact, Kudlow highly encourages the employed sector to increase their contribution in medical costs as well pension, for these expenses are an undue burden on businesses, and consequently opposes high executive compensation. In this manner, these simple contributions would highly manifest in the market since they were also to increase the supply side of the economy. As a result, government intervention would not be necessary.

Kudlow also argues that cutting down tax rates will promote economic growth and finally increase tax revenue. In addition, he frequently argues that economic development will stir two things: (1) it will clear deficit, and (2) acknowledge the limits of growth. Kudlow is also an advocate of wide and scattered stock ownership in order to prevent having a monopoly, while encourages the concept of competition. In fact, he frequently speaks about the "broad investor class" in which most Americans were part of it. In line with monopoly, Kudlow also opposes the concept of placing the power into one person or institution, with regards to economic policies, since he believed that it would be more prone to corruption.

James Grant [YES]

Mr. James Grant is a renowned American writer, publisher, and founder of *Grant's Interest Rate Observer*- a bi-monthly journal that focuses on financial markets. Mr. Grant opposes the Federal Reserve, specifically its Chairman Ben Bernanke, for allowing too-easy money policies and initiating the increase in greenback supply just to bail out certain big hedgefund, corporations, and to provide economic stimulus packages that will bring back the circulation of lending and borrowing within the international market. As a result, the debt of the United States has escalated continuously to the point that it already reached its highest peak in history.

Indeed, one of the notable opinions of Mr. Grant has focused on how he sees/reads the gold, oil, and the dollar in today's economy. For Mr. Grant, the meaning of the word "money" today is essentially the very problem that everyone or every investor faces. The credit crisis that haunts the United States has returned to a crisis of money, in which for Mr. Grant, was ironic since the injection of additional capital in the form of paper money was the solution applied to solve other crises such as those with mortgages and corporate debts. Now, the United States faces a big and serious crisis on how to pay for these added supply of money. For this reason, Mr. Grant positioned that *"What we have today is a looming crisis or, indeed, an immediate crisis in the nature of money itself"*.[103]This implies that the central problem within the U.S. economy roots on the crisis of fiat money, which was initiated by the Federal Reserve.

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103 [103] Kudlow, Larry. "'A Crisis of Money'Emerges as the Economy's Central Problem." *NYSUN*. The New York Sun, April 4, 2011. Medium. July 30, 2014.

With regards to monetary policies, Mr. Grant also noted the difficulty lies within the very nature of the policy itself. Over the past years, the United States has gradually, yet persistently, excluded the notion of returning the gold standard. Rather, policies have focused more on what he called the "PhD" standard. According to Grant, "*we have moved from central banking to a species of central planning*".[104]He argues that today's monetary policies are basically centered on manipulating the economy, the interest rates and currently the stock market.

Regarding gold standard, Mr. Grant definitely believed that it is the easiest way as well as the most appropriate monetary policy with today's information age. Grant noted that "*the gold standard was all about the price mechanism*". The current monetary policy, however, was all about linear infliction of ideas from top to bottom. Unlike this monetary mechanism, the gold standard was responsive to changes in price and other market forces. Mr. Grant also added that the present monetary system just relies on the judgment of an exclusive circle of people.

Steve Forbes [YES]

Steve Forbes is the Chairman as well as Editor-in-Chief of the Forbes Media and Magazine, who also supports the return of a new gold standard. In

104 [104] Kudlow, Larry. "'A Crisis of Money'Emerges as the Economy's Central Problem." *NYSUN*. The New York Sun, April 4, 2011. Medium. July 30, 2014.

particular, Forbes opposes the "funny" monetary policies of the Federal Reserve and other central banks that brought nothing but enormous disasters for the past years. According to Forbes, a new gold standard is essential for the reason that an unstable dollar is bringing violent disturbance on U.S. capital markets, depriving Americans from real money for productive and future endeavors while subsidizing the debt of the government on a magnitude that never before seen in the entire history of the United States.[105] He argues that the 0% interest rate policy actually destructs capital by means of penalizing savers.

Moreover, the unrestrained printing of paper money in the United States, in Europe, and elsewhere, is allowing governments to hold over or defer pro-growth structural forms and providing them incentive to raise the burdens within the private sector. Forbes cited France as an example to this as it raised its maximum income tax rate to 75 percent. In addition, Forbes noted that the governments of major countries have not collectively worked so destructively since the early 1930s.

In reality, he argues that what the Fed is trying to do with its binge purchasing of bonds is that it allows Washington to use and take the national wealth. Rather than creating new sources of wealth, this destroys wealth that still exists. It is no wonder why millions of Americans justly feel that their real income has becoming less valuable and gradually declining, which normally ends up with their overall financial situations becoming

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105 [105] Forbes, Steve. "Gold Can Save Us From Disaster." Forbes Staff. October 3, 2012. Medium. July 31, 2014.

under pressure. Statistically, the stock market is indeed lower today as it was two decades ago, and even in absolute terms, it was not where it was in the year 2007.[106]

Forbes also acknowledged that the biggest portion of the problem can be seen in the fact that economics classes were no longer teaching the central significance of stable money. Also, Forbes added that when the gold standard is even mentioned in classes, it was mockingly ignored as a “relic”, just like the pyramids of Egypt.

In addition, Forbes posited that the gold commission supported and advocated by the Republican platform during the 2012 Presidential election would have been a very excellent start. This could have been that “something big” in order to get the golden ball rolling. Forbes also noted that the country is permitted to use other currencies such as euros, yen, and pounds, to accomplish transactions, but why not allow for metal-backed or metal-based currencies. With this, Forbes called the need for such legislation as crucial. He then cited the testimony of monetary expert, Nathan Lewis, in Congress about the desirability of permitting alternative domestic currencies. Lewis posited an example that:

> *“If a house were purchased using U.S. mint gold coins, the transfer of the coins to the seller would be regarded as a ‘sale’ of gold bullion for tax purposes, and subject to capital gains taxes. If the same transaction were done in Euros, no such taxes would*

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106 [106] Forbes, Steve. “Gold Can Save Us From Disaster.” Forbes Staff. October 3, 2012. Medium. July 31, 2014.

apply. In addition, purchases or sales of small quantities of gold are subject to sales taxes in many states". [107]

During the 2012 elections, Forbes encouraged the Congress to pass a bill, which is the Free Competition in Currency Act, which will get rid of all federal taxes on silver and gold bullions, along with banning local and state taxes on them. With this, it will openly permit gold-based pecuniary deals and transactions, while removing the burdensome reporting rules that presently distress silver and gold bullion buyers.

Today, the Federal government engages on a virtual campaign, against any attempt or activity by individuals, groups, or corporations to create gold-based pecuniary instruments for commercial deals and transactions. One great example for this happened several years ago when Bernard von NotHaus initiated a company to do exactly just like that, in which it issued paper bills and coins called the "Liberty Dollars". These dollars were actually receipts for silver and gold bullions. Unfortunately, Mr. NotHaus now faces massive jail time.

On the brighter side, the tide is gradually turning on this issue for Forbes. He urged that the whole country should do what Utah did back in 2011 as it eliminated all taxes on silver and gold bullion transactions. For example, when you "purchase" a

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107 [107] Forbes, Steve. "Gold Can Save Us From Disaster." Forbes Staff. October 3, 2012. Medium. July 31, 2014.

$50 bill for five $10 bills, you do not have to pay for sales tax. When you exchange U.S. dollars to other currencies, say for pounds or euros, you do not have to pay government taxes for the transaction. In a nutshell, Utah ordained that U.S.-minted silver and gold coins are good and legal as currency. In addition to making the silver and gold coins as currencies, Forbes is also in favor of gold standard since it would serve as a guide to determine the value of currencies- not only the dollar, but these silver and yellow metal coins as well.

He recognizes that the U.S. economy, in relation to the global economy, is in poor state at the moment. The fact that the gold is increasingly deemed as an investment over the paper dollar somehow reflects the decreased confidence of investors in the U.S. dollar. Forbes added that back then, only gold miners as well as jewelers comprise the majority of gold buyers. However for the past decades, investors started to consider gold either as a safe investment or as defensive security. Either way, the assurance of investing to greenbacks is gradually diminishing within the international market. Forbes mentioned that:

> *"When [gold] has to be bought as an asset class it tells you that the politicians are making a hash of things, central bankers are making a mess… If it is fixed in value, the only ones who would buy it would be jewelers… If the politicians do things right then you can invest your money into productive asset instead of trying to defend what you already have."*[108]

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108 [108] News, Kitco. "Steve Forbes Talks Gold on Kitco News." Forbes.com. July 12, 2013. Medium. July 30, 2014.

However, Forbes also acknowledge the fact that the price of gold is highly volatile for the past years. For this reason, he recommends investors to hold gold only as an insurance policy. With regards to where the gold price ought to be, Forbes posited that the market should define, control, and limit its value; though the price has been tilted on account of the Federal Reserve's strong-growing quantitative-easing measures. Moreover, Forbes added that these moves have totally distorted the credit markets.[109]

Viewing at the present economic state of the country, Forbes posited that the measures the Federal Reserve has taken to stimulate the economy clearly have not worked as they remarked, and the best way to solve these problems is to have a "sound value for money".[110] For this reason, Forbes strongly favors a new form of gold standard to be implemented in the United States economic policies. In fact, Forbes compared the gold standard like having 60 minutes in an hour. Needless to say, this is similar to the comparison of Lewis Lehrman of the gold standard as a yard stick. Forbes stated that we must not attempt to stimulate the economy by adding the number of minutes in an hour since it is a fixed measure. The same

109 [109] Pollaro, Michael. "America, Poised for a Hyperinflationary Event?" *Forbes.com*. Forbes, February 8, 2011. Medium. July 30, 2014.

110 [110] Kadlec, Charles. "A Gold Standard Is Big Oil's Best Defense Against Political Attack." Forbes.com. Forbes, October 31, 2011. Medium. July 31, 2014.

analogy should be applied on the current monetary system, in which the Federal Reserve should not pumped in capital in the market by printing more dollars. Forbes added that:

> "*Like a ruler, a gold standard would be a great guide to determine the value of the currency… What a gold standard does is just ensure that the value of the U.S. dollar remains stable. If you make an investment and get paid back in five years it is still a 100-cent dollar, not a 20-cent dollar nor an 80-cent dollar"*.[111]

Lewis Lehrman [YES]

Lewis E. Lehrman is also one of the most celebrated proponents of the gold standard today, and he is the current Chairman of the "The Gold Standard Now" movement. Apart from the abovementioned program cited by James Grant, Mr. Lehrman was also acknowledged for his comparison of the gold standard into a yard stick. He explicated this comparison by positing that money is basically a measure of value. In fact, money is essentially a token, which equates the value of all other commodities, services, and goods in the market. Therefore, it is a standard of measure and/or weight. This is comparable in the case of a yard stick since we have a standard of measure for it. Thus when we look upon the dollar, the most important thing we want is stability. Every citizen wants to know what they saved today from their salaries or wages will have the same purchasing power tomorrow.

111 111Kadlec, Charles. "The Price of Abandoning The Gold Standard." Forbes. August 24, 2011. Medium. July 30, 2014.

Lehrman also acknowledged the fact that we are presently living in a world dominated by paper dollar- the paper dollar manipulated as well as organized for peculiar government functions by the Treasury of the United States, and of course, by the Federal Reserve system. Unfortunately, this has led to a great, terrible, and systemic inflation. This very inflation has made the value of the dollar to decline by not more 15 to 20 cents compared to 1971. For instance, when you save a dollar during 1971, you have about 15 to 20 cents lesser purchasing power today. According to Lehrman, this is indeed an immoral and dishonest institution. It basically cheats people. Even though it is not a direct violation of the 10th commandment, it is a silent robbery to say the least.

Lehrman then offered a proposition on how to change all of these. All we have to do is to initially re-establish the monetary standard of the constitution, of the founders, namely each dollar as good as gold. In fact, this is equally simple since we just have to fix the value of the dollar to a weight unit of gold. Gold, throughout history, has kept its purchasing power over hundreds of years. Statistics has even proved that the purchasing power of the gold remained stable over the millennia. Once the government re-establishes the moral order in the U.S. monetary system, along with making the dollar as good as gold and fixed its value, then the people will come to depend upon it similar to how they depend on a 36-inch yard stick- being 36 inches today and tomorrow, no more and no less. In this manner, the confidence in American laws and money will be restored. Accordingly, the faith and confidence in the government will also be restituted.

Lehrman also poses a question that "*If you put to the American people the issue, should we give the Federal Reserve board of weight of measures or the Treasury of the United States the authority to change the value of the yardstick next month from 36 inches to 32 inches and then a year later by manipulation, to change the value of the yardstick to 38 or 39 inches. How do you think that the American people will vote on such issue?*"

Given these arguments, Lehrman assured and concluded that the gold standard, like a yard stick, is a measure and weight in which people can depend on to be permanent, and of stable value in the long run. For this reason, this is the only way that America could return into having a stable dollar.

Ron Paul [YES]

Ronal Ernest Paul, or commonly known as Ron Paul, is an author and former politician who served as the Texas' 14th and 22nd districts congressional representative in the U.S. Congress. Ever since his early years as an active writer, Ron Paul is geared towards discussing topics of political and economic theories. To date, he is considered as the most celebrated advocate of the gold standard as well as the free market, which the United States has maintained from 1873 to 1933 but totally abandoned after 1971. Given his libertarian and conservative views, Ron Paul believes that the key to solving the economic turmoil today is to not only re-link the dollar with gold, but also to abolish the Federal Reserve along with its immoral and exclusive monetary policies. Achieving these first steps will eventually allow for the free market- a market that is controlled by individual market factors, not by individual person or groups with common interests.

Since 1999, Ron Paul has consistently introduced bills to Congress trying to eliminate the Federal Reserve System for the reason that he believed that this system has turned into a manipulating system. Manipulating in the sense that it often controls and determines what it should not be controlling. Although he is not directly endorsing the return of the good old gold standard, he does support the elimination of legal tender laws and the removal of sales tax in silver and gold. According to Ron Paul, once these happen, the market could freely determine what type of monetary standard/s there should be.

For years, the central planning system, which includes the dollar without any given commodity backing its value, has invariably resulted in inflation. This inflation subsequently led to the decrease in the purchasing power of the U.S. dollar. As a matter of fact, Ron Paul has consistently warned the public about this hyperinflation due to the current monetary policies since 1981.

According to Ron Paul, organized with the intention of keeping financial crises from happening such as the 1907 Panic, the Federal Reserve has become progressively powerful over the decades. However instead of preventing such crises from materializing and worsening, the Fed has invariably caused new ones.[112] Just a couple of

112 [112] Kadlec, Charles. "The Top Ten Reasons That You Should Support the 'Gold Commission'." Forbes. August 27, 2012. Medium. July 31, 2014.

years after its foundation, the Federal Reserve's inflationary monetary policy to facilitate funds for the First World War has led to the Depression of 1920. In addition, after the economy recovered from this episode, the advanced injection of credit and money by the Fed has resulted to the Great Depression, as well as Roaring Twenties- two of the worst economic crises in the history of the United States.

Today, the American citizens are evidently reaping the deleterious effects of not only decades, but a century of loose monetary policy. Needless to say, the U.S. economy now remains entangled with mediocrity and dependent on the flow of easy greenbacks from the central bank. Ron Paul added that about a hundred years ago, politicians failed to realize that the financial panics and crises during the 19th century were induced by the connivance between the banking sector and the government.[113] Paul hopes that today people know better. People are actually gaining awareness that the Federal Reserve continues to fortify the connivance between politicians and banks. Furthermore, people nowadays know the Federal Reserve's inflationary monetary policy goes on to draw profits for Wall Street while making the "Main Street" poorer. And people know that today's monetary

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113 [113] Kadlec, Charles. "Nixon's Colossal Monetary Error: The Verdict 40 Years Later." *Forbes*. August 15, 2011. Medium. July 30, 2014.

regime is moving unsteadily towards a steep cliff. With these, Ron Paul calls to end the Fed, and start considering a new policy, and a new system that is controlled by the market, not certain people.

CONCLUSION AND RECOMMENDATIONS

Conclusion

Given the abovementioned arguments, information, and data, this paper concludes that the United States needs a reform in the current monetary policy and standard. With this, the consideration of returning the gold standard or the bi-metallic standard would be a good head start to solving not only the economic problems of the United States, but it will also help to stabilizing the international trade and market.

Debates on whether this standard should be returned are still ongoing. Adversaries of the gold standard cite arguments such as the instability of gold's value, the inability of the Federal

Reserve to manipulate the money supply during times of crises and direct and indirect implications of gold mining. The proponents of gold standard, on the other hand, are determined that the gold standard would instill price stability and control inflation. Another seen benefit of the gold standard is that it does not allow for certain forms of financial repression. Proponents also argue that returning the gold standard will also reduce the trade deficit of the United States, and will also restrict the government to increase the current national debt further.

Price stability is deemed as one of the benefits that gold standard has to offer. Under the gold standard, the dollar is backed with or can be converted to gold. This implies that the value of the dollar will not fluctuate that much since it depends upon the amount of gold in the reserve. This will induce another chain reaction since the price of other goods, services, and commodities in the market will not be also swayed too easily. When all these effects were compounded, the confidence among investors will be restored and this initiative will allow them to inject capital and investment without increasing the money supply from the government. As a result, this will then create a healthy, competitive, and free-flowing market.

Recommendations

This paper acknowledges the difficulty of returning the full gold standard at once, given the current economic condition and climate. However, considering the feasibility of an alternative that will replace the present monetary policy and standard is indeed a forward step to resolve the matter. In addition, this paper recommends the following:

- The government should start considering re-linking the dollar to a stable commodity, for instance gold. However, other commodities are also encouraged such as silver, oil, or a combination of them. The important thing is that the dollar is tied to a commodity in order to limit the overprinting of paper money. This also prevents the government of having too much power and capability of authorizing the printing of money at will. Needless to say, this recommendation, if followed for a long run, could somehow restore the value of the dollar.
- Gold is scarce, that is why this paper also recommends exploring the idea of running something like a dual-monetary system, in which two currencies are acceptable to use as legal tenders. These can be a combination of gold and greenbacks, silver or greenbacks, etc. The main point is that, the people would determine which currency or form of money they prefer to use in making transactions.
- Also, the government could adopt a semi-gold standard, in which the printing of money is based on a certain percentage of its gold reserves. For instance, it could say that at least 50 percent of all currency should be tied or can be converted to gold. This allows the government and central banks more flexibility to control the money supply, however at the same

time sets limits and boundaries to the amount of money that the Federal Reserve is permitted to print.

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