10 Reasons the Gold Standard Doesn't Work

...and Never Will

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"A gold standard doesn't imply stability in the prices of the goods and services that people buy every day, it implies a stability in the price of gold itself."

- Ben Bernanke

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Introduction

In our current time, there are unceasing numbers of people who advocate a return to the gold standard. This view is entirely incorrect and does not reflect an economic understanding of it. The truth is that such a transformation of the economy would be devastating. Here I will lay out 10 solid reasons why the gold standard and gold currency would not function.

Jason Unruhe, 2013

Constantly Fluctuating Price

One problem is the constantly fluctuating value of gold. The value per ounce changes frequently leaving many people day-to-day not actually knowing the correct value of the gold in their possession. This is a major problem; if you own gold because it has value then you would certainly want to know what its value is. If you don’t care what the value is, then why do you have it? If you can’t determine the value of the gold you have, then how can you ever use it wisely? If you can’t effectively use the gold then why you would even both with it, to begin with?

Sure anyone can go online and tell what the value of an ounce of gold is. Using a quick click through Google you have the means of multiplying a number by how many ounces you have. That’s not the problem I am pointing out. On a daily basis you can find out what it is, that’s no problem. The problem is it constantly fluctuating value. One day your gold is worth (hypothetically speaking) $1 an ounce and the next it's $4 an ounce. The next morning when you wake up you have no idea how much money you’re actually going to have in the form of gold.

The difficulties this would cause would be agonising to deal with. Yesterday you had enough money to go to the store and buy your groceries for the week with, say a pound, but when you go to the store this afternoon its requires 2 pounds. This makes planning how to spend your money very difficult. You never know day-to-day how much you really have. Sure, you know you have 100 pounds in your basement safe, but how much can you purchase with that? You end up walking into the grocery store not knowing if you can purchase enough food or not.

Yes, I know, I can hear the criticisms already: “all you have to do is check the price of gold before you get to the store.” Yes, you can, that is not what I am saying. It makes budgeting your money quite difficult. A day or so ago you had enough to buy food and pay rent with enough left over to get that new 3D printer you were eyeing. A slight drop in the value of gold means you instantly can't afford all these things. Planning and budgeting for your daily life become a near nightmare. All of this happens because gold dropped $0.5 overnight with no warning. This is easy enough to deal with when we're considering a budget of three items. When you expand this out into a family of four this becomes even more difficult. To take it even further I would dread operating a multi-million dollar business this way. (This is a good reason why *actual capitalists* in the economy oppose a gold standard.)

The result of this is a daily effort trying to anticipate the value of your gold for when your bills are due at the end of the month. You've gone from simply paying your bills to being a gold speculator in order to pay your bills. Doing something like this is just nonsense when you compare it to a much more rational way of exchanging money as handing over a dollar bill. A currency of coins or paper money with a set value that would *rarely* fluctuate in comparison to the price of gold would be a much more sensible alternative. If your rent is $650 at the end of the month you know to budget $650.

Now do the same with a gold backed currency. You own $300 that is equivalent to say $300 of gold that is held in the central bank. Tomorrow the gold price oscillates as usual and now the price of gold dropped by half. Your $300 is now really only worth $150; you've lost half you money in a single instant through which you had no control over. Try explaining this to the grocery store when you're hungry or your landlord when the rent is due.

Often I get a response to this along the lines of people saying that the value of a fiat dollar changes too. I recognise this and would never claim any different. The good thing about fiat currency is that it is very stable in comparison to the price fluctuations of gold. The value of the dollar over the last 100 years has gone down (fig.1). Its devaluation has been a steady trend that has been easy to deal with (within the context of capitalism) as there have been few severe shocks to it. Keep in mind that the government can put out a policy on the money whereas that's difficult for gold.

Figure 1

The decline in the dollar has been relatively consistent leaving us with a good idea of where the dollar is going to go. Because there is so much control over the money supply (in comparison to the market value of gold) it is a far more stable means of producing a currency.

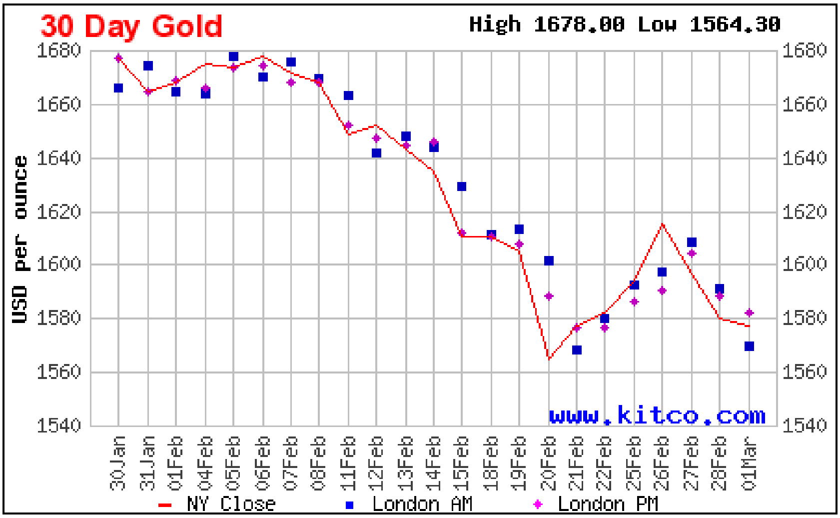

Figure 2 - http://goldprice.org/gold-price-history.html

Compare it to the price of gold (fig.2) and how much it alters in merely a month. Remuneration for employment would be rather difficult to deal with. One week your pay is worth X amount and the next it is worth Y amount. One has to keep in mind that a labour contract would have been signed both in the bourgeois economic world and in the Libertarian fictional one. If the value of the dollar your boss isn't going to care how difficult that is going to make your life, if he can pay you less he certainly will. This is one reason why we have minimum wage legislation because inflation affects worker's incomes.

I've heard some libertarians claim that there would be little to no price swing in the value of gold. This claim is not only completely baseless; it's just ridiculous to think that such a valuable commodity simply won't fluctuate with the rest of the market. No amount of "real" or "perfect" capitalism will stabilise a commodity price with no price or supply controls whatsoever. Basing a dollar on gold just isn't stable.

There Isn't Enough of It

The next problem we face would be keeping the money supply up with the amount of currency needed in the economy. If there isn't enough currency in the supply for transactions made you have a huge problem. We would probably be looking at a recession as a result. There must always be a particular amount money available in a system if it is to operate properly. The question is, how much of a problem would this be to a gold standard?

Let's start by looking at how much gold there is in the world. When we look at the world gold council it says there has been about 158,000 metric tonnes of it ever mined out of the earth. Divide that by ounces and you get about 50 billion of them. From this, we can determine that it would be 24.4 trillion grains of gold, which sounds like quite a lot. The problem is we need to divide this by the population of the US to get the most equitable distribution of wealth we can for an example.

So if we divide it by the world's population we get 80,270 grains per person. This number isn't as impressive as the 24.4 trillion but it leaves more questions as to what this means. What any gold-based system would have to do next is determine how many grains are in a single dollar. Roosevelt set it to about 15.25 gains per dollar, meaning each person would have about $5,259 of gold per person in the US. Even that is assuming that the US held all the gold in the world.

This leaves the US with a money supply of about 1.6 trillion dollars. Even if this fictional scenario were true it would be totally debunked by the fact the US has a debt of 16.6 trillion dollars[1]. It would be impossible to pay down the US debt. The

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[1] http://www.usdebtclock.org/

claim is that the US would never be in this situation if we had a gold standard, but that's speculation. Right here and now if the US went to the gold standard it would be impossible to pay off the debt. This is what libertarians want, it would be impossible to do in our current situation.

Change the scenario and assume that there was no national debt and the country operated on the gold standard. The reality is there is a massive trade deficit. Currently, it is about $38.5 billion a month. This means as US capitalism functions, large amounts of the U.S. dollar are being held by foreign nations. At this trade deficit rate, it would take 3.46 years for the entire supply of gold to leave the country. Essentially the US would end up with no gold backed money at all. The money would not be coming back because the people who hold that money aren't purchasing enough from the US, or else there wouldn't be a deficit. The country would be without money. The only logical way out of this situation would be to borrow that gold back into the country again with interest. Doing that would create a debt based money system again.

We can even take this supply situation even further. If we look at the world GDP in 2007 we have a total of $65.61 trillion[2]. There would never be enough gold in the world to actually cover all of those dollars if the world was on the gold standard as libertarians would prefer. Now let us consider the global annual value of major financial asset market transactions in 2007 which sits at $900 trillion[3]. When we add this reality of the world capitalist system we arrive at a situation that is beyond any possibility for the gold standard to exist. Literally, if there was a

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[2] http://www.economywatch.com/world_economy/world-economic-indicators/world-gdp.html

[3] http://www.eastasiaforum.org/2009/10/28/global-imbalances-demand-global-fiscal-system/

gold standard in the world, the world economy would not be able to operate. If we reduced every dollar down to a single grain it would still be impossible.

For a moment let's abstract into a preferable scenario. Imagine a new government has been formed in the US, one that sees the gold standard as being the only way forward to a bright future. This government would be well aware of the trade deficient and what a danger it poses to the new gold money supply. The only way to end a trade deficit is to begin producing those same products here. This would require all kinds of manufacturing infrastructure being built. Thousands upon thousands of factories would have to be built here in order for this to be possible. Consider the de-industrialization of the West that has taken place since around 1994 with the passing of NAFTA. It has taken almost 20 years for us to be in this situation. How fast can you have all these manufacturing jobs return to the US? 20 years of exporting jobs would have to be reverse in a mere 3.46 years. In reality, to prevent all the gold from leaving the country, it would have to be done in much less than 3.46 years. There are plenty of reasons of why you can't bring those jobs back to the US, but that discussion is for another day.

Even then, the money that would have been spent on those commodities overseas would have to instead be used to build the production facilities here causing a stop in the supply of those goods. You can't have it both ways, you either spend the money on the goods or you're spending it on the productive capacity to manufacture them here. You could make tradeoffs, half of it on the goods and half of it on the productive power of course. But then it would be impossible to stop the trade deficit in time to prevent all the money from leaving the country. None of which matters because that's not possible to accomplish anyway.

We can only fathom the bureaucratic nightmare and social unrest from the public and business that would arise from organising the economy this way. It would essentially be extremely heavy state planning in a free market economy. The effects of which would be disastrous.

I had someone in social media once argue that we don't need gold for every single dollar. I explained to him how there are 24.4 tr. grains and that we would need 65 tr. to cover the world GDP. His response, being a gold standard supporter, was that we didn't need gold to back every single dollar. The idea he proposed to me was to have two dollars for every grain that was produced. I told him this idea didn't make much sense because if you do that then you now have dollars that are backed not backed by gold. If we can just arbitrarily decide that one piece of gold is worth twice as many dollars, then why stop there? Why not just make it three dollars per piece?

If you're going to the point where not every dollar is backed by gold then how can you call it a gold standard? Arbitrarily raising the number of dollars past the amount of gold held in the central bank is the same as doing it with the gold. The idea is, in fact, the opposite of what it proposes to be.

How Do You Get The Gold?

With such support for the idea of a gold back currency, it's important to look at what exactly would be involved in moving to one from where we are now. Because that's what libertarians are calling for, a return to using gold-based dollars if not outright using gold itself. This idea is fraught with many problems that are not even looked at. This is a problem libertarian have; they don't look at what is necessary to build some utopian idea they have in their minds. This is why they resort to such infantile positions such as "that's not real capitalism".

So what would it take to actually convert to a gold standard anyway? Well, of one thing it would require actually obtaining gold to be placed in a vault somewhere. Some have advocated using Federal Reserve notes to make the purchases. If that is the case then why do we need gold because clearly, it has some value with which to make purchases? If they're legitimate enough to purchase gold then why can't they be used to purchase everything else?

If you do this you've just valued the gold by dollars created by interest-bearing loans. The value of that gold is now determined by a money system that gold dollar advocates claim is illegitimate. This new gold dollar now has a strange value since it has been purchased with interest bearing dollars. How do you pay the interest on the money that was used to purchase the gold? With the gold itself that is worth less than the note because of the interest?

Of course, we come to the question as to why anyone would sell you the gold for Federal Reserve notes anyway. If you were about to abolish Fed notes as having value, then why would anyone accept them as payment for gold?

I imagine being a gold dealer that has this stranger come into your office asking to purchase the gold you have. The man wishes to buy a lot of it, possibly all of it. You're delighted that someone wants to do so much business you get excited at the prospect of all the profit you're going to make. Say you begin to recognise him from television, that's the right-hand man of the chairman of the Federal Reserve come to buy your gold! You know this man is important and has a lot of money.

Excitedly you layout how much you're willing to sell your gold to him for preparing for a big payoff. Then he reaches into his briefcase and pulls out that exact amount of Federal Reserve notes. Suddenly you remember from the news that the government is switching to the gold standard. So wait, he's handing you a form of payment that will no longer be valid once they've collected all the gold they're looking for? That's just ripping you off, taking the gold without actually paying for it. Why would you accept a form of payment that is just going to be declared worthless once the transaction is complete? You wouldn't and that's the point.

Doing this is basically theft. That is why Roosevelt ordered the confiscation of gold on 5 April 1933. There was no possibility to buy the gold because any form of payment would have then ended up being obsolete. The public would have known this, large profit was driven firms would know this and they both would refuse to sell it. This is exactly why an executive order was needed to take it.

What Happens to the Existing Debt?

If we do transition to a gold standard, what do we do with the existing debt? There clearly won't be enough money in the money supply to pay off existing debts let alone have enough to make the economy operate. Well, we have to do something, either pay it off or write it off (and we certainly can't ignore it like it doesn't exist).

If we just abolish the Fed notes that can't be replaced with gold we'd be destroying the entire financial system. This would be more than enough to destroy the country. Entire financial giants would be going under literally overnight. This would make the global crisis of capitalism in 2008 insignificant. Most of the assets held are based on this. Essentially we would be wiping out the assets of many, many people. The wholesale destruction of such assets seemingly has no limit to the amount of damage it can cause. In truth, it would be destroying the entire world economy considering how many Fed notes are held by countries around the world. Good luck dealing with China alone if that happens, never mind everyone else.

Limiting Government Ability to Help End Recession

Making a currency be tied to a precious metal causes all kinds of problems. I think the biggest problem caused by it is that it limits a government's ability to do anything about a negative economic situation. For example, pegging the dollar to gold eliminates a government’s ability to do anything about mass unemployment. Without being able to manipulate the currency to deal with such a problem, a country would be facing an unemployment problem for quite some time, assuming it recovered at all.

Supporters of the gold standard don't take this into account because they're primarily Austrian schoolers who believe that all government intervention in the economy is wrong. Part of why they want a gold standard is so that the government can't manipulate the currency. They refuse to acknowledge that this is how countries come out of a recession. It actually requires effort in planning to fix problems. They don't acknowledge this; they insist they just magically fix themselves without any effort. This is just terrible and would lead to even greater disasters.

Others in this line of thought have the opinion that policy makers only choose short-term gain over long-term costs. Personally, I don't really see this as the case when it comes to state intervention in capitalism. The purpose of the central bank, policy makers, or whatever, is to take this into account. In reality, it is the day-to-day business dealers and financial giants who think nothing of the future while trying to collect as much money as possible now. This is why those who were aware there was a problem growing before the 2008 global crisis of capitalism didn't do anything about it. There were unknown numbers who actually did begin to see something, but at no time stopped what they were doing; they were pulling in too much in the way of profits.

Why do we need to alter monetary policy during a recession? Because any notion that capitalism doesn't have crisis built into the system has already been disproven by the fact crisis has arrived. In the context of capitalism, monetary policy is the best thing a country can do to end it.

As unemployment grows in a recession it leaves the public with much less of an overall purchasing power. Unemployed people generally don't purchase a lot in terms of goods and services, certainly not enough to support an entire economy. The only thing (in capitalism) that can end the crisis is a return to consumer spending. This is primarily achieved by stimulative fiscal policy involving government spending with the focus of creating government jobs that get people out spending money again. The increased demand for goods and services stimulates private sector investment causing the capitalist class to see avenues for renewed profits. This encourages the capitalist class back into production to meet a growing demand that will bring them profits. We have to do this because the free market is already not doing this. If left on its own we could be looking at decades to see a recovery, if one happened at all.

Another measure that is taken is an expansion of the money supply. The central bank increases the number of dollars in the system in order in order to stimulate consumer spending. They put more money out there for banks to loan to people so they can make purchases they wish to. This is combined with loaning out to people who want to start up their own businesses. Eventually, they would hire employees who could then be taxed and there would also be consumer spending that would increase demand. Another big benefactor of this would be already existing large firms who would find it easier to enter into a new round of production.

There are other measures too like lowering short-term interest rates, but we're sticking to the gold standard subjects here.

For the government to carry out these actions they require an expansion of the money supply. You can't expand the money supply in a recession (or ever) if every single dollar has to be back backed by a piece of gold. Actually increasing the supply would require more gold, which in itself would cost money. In the end, the government would lose all ability to do the work necessary to pull a country out of recession leading to possibly decades more suffering.

Gold Does Not Prevent Price Inflation

One claim that comes out of the Austrian school is the claim that the gold standard prevents price inflation. This is one of their, particularly adamant talking points. Supposedly since each dollar is backed by a certain amount of gold, inflation can never increase. The theory is sound if you have a particular amount of gold you have only a particular amount of dollars in the money supply.

This is based on the Murray Rothbard claim that deflation was the natural tendency of capitalism. In actuality, this claim is only true in the fictional “anarcho-capitalist” world. The claim that doesn’t have anything back up it up. In the real world of economics, we do have substantial proof that indeed the gold standard does not prevent price inflation.

Libertarians do point to a time in history where they believe that this claim holds true. They point to the 1873–1896 period as an example because there was an almost continuous period of deflation. However, upon investigation, we can see that this was a historical aberration.

When we look at the data we can see that price inflation happened frequently in the late 18th and 19th centuries. In the years not listed there was a decrease in the inflation rate.

Year	Inflation	Year	Inflation	Year	Inflation
1776	14.17%	1813	20.02%	1859	1.00%
1777	21.87%	1814	9.89%	1861	5.96%
1778	19.78%	1822	3.65%	1862	14.17%
1780	12.25%	1825	2.57%	1863	24.82%
1782	9.70%	1826	0.00%	1864	25.14%
1790	3.75%	1827	0.83%	1865	3.68%
1791	2.71%	1834	1.97%	1880	2.48%

1792	1.87%	1835	2.89%	1887	1.10%
1793	3.45%	1836	5.62%	1900	1.24%
1794	10.95%	1837	2.77%	1901	1.23%
1795	14.38%	1841	0.95%	1902	1.21%
1796	5.26%	1844	1.12%	1903	2.28%
1800	2.10%	1845	1.10%	1904	1.17%
1801	1.31.%	1846	1.09%	1906	2.23%
1803	5.49%	1847	7.69%	1907	4.47%
1804	4.38%	1850	2.16%	1910	4.42%
1806	4.23%	1852	1.08%	1911	0.00%
1808	8.66%	1853	0.00%	1912	2.06%
1810	0.00%	1854	8.68%	1913	2.13%
1811	6.80%	1855	2.95%	1914	0.94%
1812	1.26%	1857	22.92%		

Table 1-
http://www.measuringworth.com/calculators/inflation/result.php

Here it is important to keep in mind a few facts about the events that took place in history during this time. There was the American War of Independence (1775-1783), the War of 1812 (1812-1815), and the Civil War (18-1865). Outside of these times, we see many periods of price inflation. These typically occurred when there was an economic boom happening, meaning the expansion period of the industrial cycle (or business cycle in bourgeois economic terms).

When we look at the 19th century we also find that gold was inflationary, outside the anomaly 1873–1896 time period. In fact, the US had price inflation during several booms 1825, 1834–1837, 1844–1847, 1841, 1852–1855, 1857, 1859, 1880, and 1896–1914. In 1896-1914 there was general price inflation across almost every Western nation.

Okay, okay I can hear the libertarians now. They're going to claim that was because of the central bank. Unfortunately for them, they are not going to be able to use the Fed as the ubiquitous scapegoat on this one. For much of the time period, there was no central bank. Libertarians you're not going to be able to get away with blaming the Fed for this one.

When we compare these periods of deflation with times when the US suffered from recessions in the 19th century we see a general trend.

US Recessions in the 19th Century			
Years (Peak-Through)	**Recession Length (years)**	**Years (Peak-Through)**	**Recession Length (years)**
1796-1798	Less than 1	1860-1861	
1802-1803	Less than 1	1894-1865	Less than 2
1811-1812	Less than 2	1873-1875	Less than 3
1815-1816		1883-1885	Less than 1
1822-1823		1892-1894	
1828-1829		1895-1896	
1833-1834		1903-1904	
1836-1837	Less than 1	1895-1896	
1839-1840	Less than 3	1903-1904	
1856-1858		1907-1908	

Table 2 - Davis, J. H. 2006. "An Improved Annual Chronology of U.S. Business Cycles since the 1790s," *Journal of Economic History* 66.1: 103–121.

Clearly, there is no perfect correlation, but it certainly does demonstrate that these recessions were deflationary periods as well. I think this does show that outside of the anomaly example, the view is boomed are inflationary and recessions are deflationary.

I think this is more than enough to show the truth that gold doesn't prevent inflation.

Trade Surplus Nations Hoard Gold

A serious problem that would face any national economy that used the gold standard would be the trade surplus problem. No economy exists in isolation and must by necessity conduct trade with other nations. Meeting the demands for various resources requires some form of economic co-operation even if merely the market mechanism. In this system of capitalist commodity relations, it takes the form of international trade. When we apply a gold standard to this we see how impossible it would actually become.

In reality there are trade imbalances, actually making them equal would be frankly impossible. The very nature of capitalism itself, and its rejection of equality and serious planning makes this a fantasy. When an economy imports more than it exports it has a trade deficient. This means more money leaves the economy than is going in. As a gold standard, it is a tremendous problem.

The United States right now has a trade deficient of about 38.5 billion dollars a month. If the US currency was backed by gold it would mean a lot of gold would be leaving the country. Obviously, this is a situation that no country wishes to face. A country with no currency would not be able to operate. With a lack of currency (or just shortage, your country is at a constant risk of recession.

Without gold, there is a contraction of credit because money cannot be created upon bookkeeping entry. If this happens capitalists cannot borrow money to enter into a new round of production. This would cease the cycle of production (and the circuit of capital) sending the economy into recession. There are many more problems that would be caused by a lack of credit.

In order to combat a lack of gold, the production of it would have to keep up with the loss of it. It would be practically impossible as currently only 2,500 metric tonnes of gold is mined in the entire world every year (2010) . This just isn't possible with a modern capitalist economy. There would be no way to keep the production of gold up with a trade deficit.

Another effect would be that certain countries would end up with all the gold. Nations that have a trade surplus would end up polyopolizing the world's gold supply. This would leave certain countries holding the supply of the world's currency. This would cause the entire world economy to collapse which would be good for no one.

Classical Gold Era Myth

A lot of libertarians and some conservatives have a much-romanticised view of the gold standard era. They have a view of this perfect currency that made the economy function smoothly and without trouble. Unfortunately, a good deal of what is believed about this time period is not true and has lead to some completely incorrect assumptions about its function. This seems to be a reoccurring problem throughout the libertarian community; they have an unrealistic view of past and fictitious scenarios. Being grounded in economic reality seems to be wholly rejected from their ideology.

Once you take a good look at that time period (1880 to 1914) we see that this glorified time was a total myth. It was far from an ideal situation and did not function as many believe it did. Here are the main myths:

(1) a system with a pure metallic backing, or
(2) one where most money was gold, and where all credit money was backed up by gold.

Throughout this time credit money was actually the principal currency people dealt with on a day to day basis. Most daily transactions occurred with money created by credit as opposed to that created by the central bank. Gold was inherently inelastic as a monetary base. The currency units were defined by a set amount of grains. The world economy was actually contractionary and deflationary towards the countries that used a gold standard.

Not all economists agree with this time period, they prefer a much larger one that goes from 1821 to 1914. But this tends to leave out something important; it was not entirely a gold standard, silver played a big part in the extended time frame. In fact in the early 19th-century silver was considered more important. Right up to the 19th century there was actually a bimetallic standard that was not primarily based on gold, it was actually on silver. This is something the gold bugs actually forget when trying to expand the time period for the classic gold era.

It's also important to note that it was not until 1880 that most nations were on a gold standard in some way. They came into it at different times, but when it was recognised by a majority of nations in 1880. From 1821 on it was not a standard that was widely used, so it's questionable to argue it for 1821 to 1880.

What we need to look at when considering the classic gold era is what actually constituted the money supply for the countries using the gold standard. How much of it was actually gold? The data on the subject is quite revealing. We'll show what was primarily used by the emerging industrialising nations between 1885 and 1913.

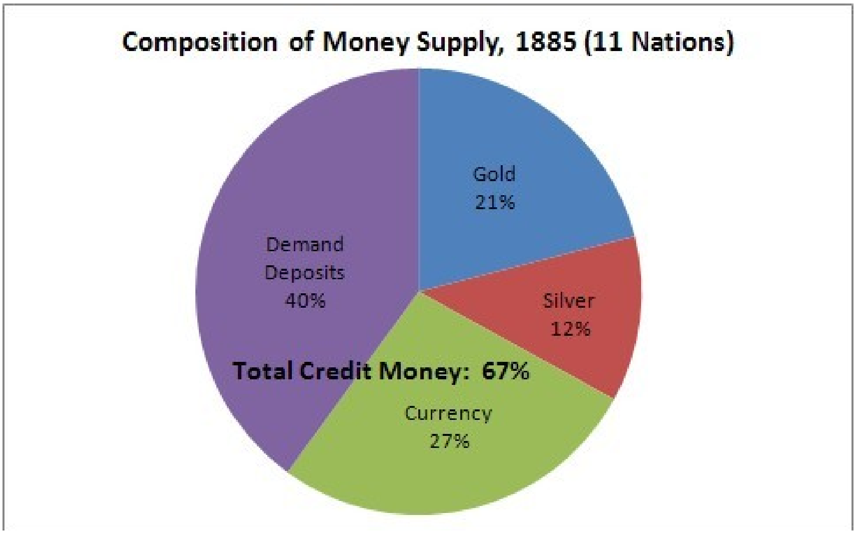

Figure 3 Triffin, R. 1985. "Myth and Realities of the Gold Standard," in B. Eichengreen and M. Flandreau (eds.), *The Gold Standard in Theory and History*. Routledge, London and New York. 140–161.

What is important to notice here is that just a few years after the beginning of the gold standard classic era did the broad money supply become mostly credit money. This is made up of currency and demand deposits which also includes paper money. As we can see demand deposits already make up the largest portion of the money supply.

Now let us look at what happened to the same nations by the year 1913 which show the money for the same 11 countries. (United States, Canada, the United Kingdom, France, Germany, Italy, Netherlands, Belgium, Sweden, Switzerland, and Japan.)

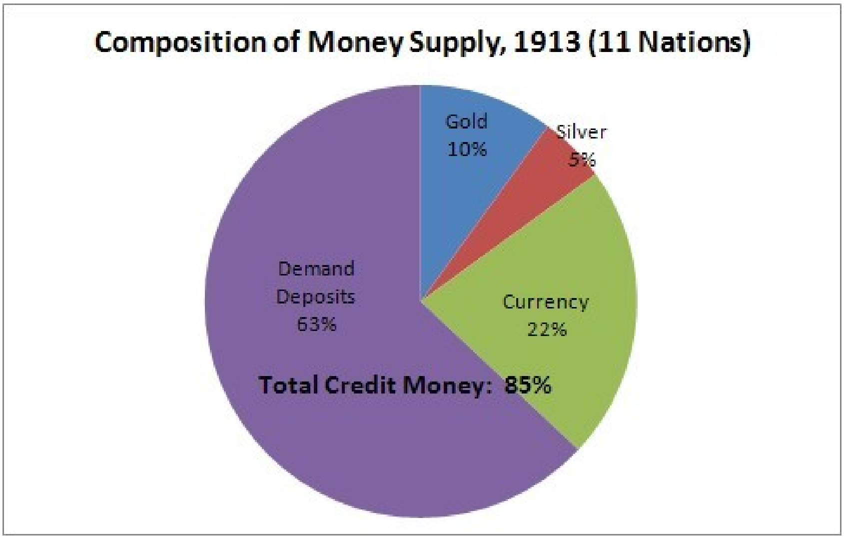

Figure 4 Triffin, R. 1985. "Myth and Realities of the Gold Standard," in B. Eichengreen and M. Flandreau (eds.), The Gold Standard in Theory and History. Routledge, London and New York. 140–161.

What we see here is that gold actually decreased 10% since 1885. In addition, credit money made up an overwhelming 85% of the money supply. Bank created money was 63% of total money supply. This has increased a great deal since 1885 and now makes up an even larger majority of the total money supply.

The demand for credit money was being filled by the fractional reserve banking system. The money was mostly in the form of demand deposits and banknotes. This shows that the money supply was mostly elastic. The base money was gold and silver, while the credit money was essentially fiat.

What we have here is the inelastic nature of the gold standard restricting the creation of credit money as necessary to grow the economy. Sure, the libertarians like restricting the growth of the money supply, but have no answer on how to increase it as there is a demand for it to grow the economy. Essentially their idea just retards economic growth all for the sake of some incorrect idea about how money enters the economy to begin with. We should ask ourselves how much demand for credit and economic growth was prevented so as to maintain gold reserves for final clearing of credit money transactions. A gold standard was a hindrance to the development of the economy.

This shows that the gold standard had to be removed as a base money in favour of something else that would serve the function of the economy properly. Notes of the central bank became the base money in many of these nations.

Eventually, the gold standard was destroyed in the US in the 1930s after a failed attempt to restore it was made with the gold exchange standard. By this time the relevance of gold was already dying and ceased to be able to keep up with the expansion of the world economy. The world economy just grew too fast for gold to be sustainable.

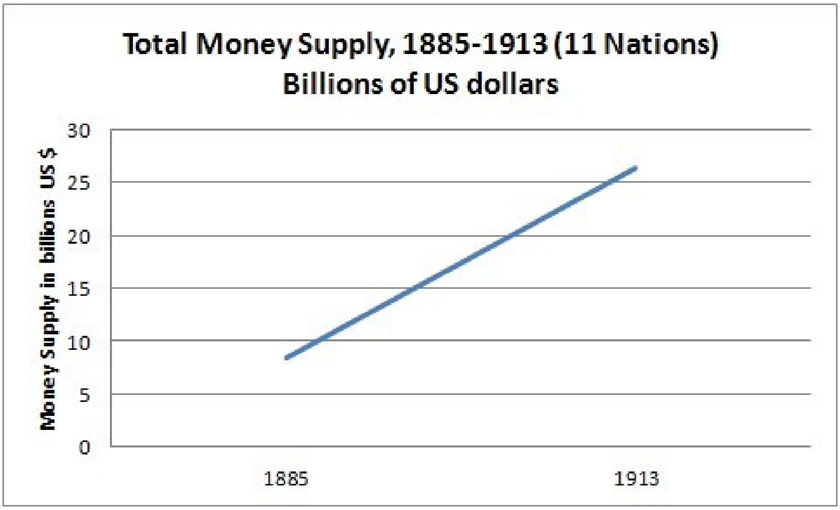

Figure 5 Triffin, R. 1985. "Myth and Realities of the Gold Standard," in B. Eichengreen and M. Flandreau (eds.), The Gold Standard in Theory and History. Routledge, London and New York. 140–161.

Despite the protests by libertarians and Zeitgeist people, there was no grand conspiracy to get rid of the gold standard. It simply outlived its own usefulness. It was disposed of because it has its limits and hinders the function of capitalism. It had no ability to stop the expansion of the money supply anyway. Nor could it stop the credit money from becoming the dominant form of the national money supply by 1913.

Gold Is Especially Vulnerable to Speculation

While writing this work a big crash in the value of gold took place almost overnight. Gold is subject to speculation the same way that all investments are subject to it. It really only has value so far as anyone believes it does. Gold has no inherent real value to regular people like construction materials, tools, shelter or food. (Yes it is used in electronics and such but that's not why non-industrial producing people collect it.) Regular people only to collect gold because they think it can be exchanged for commodities later. In Marxist terminology, people don't want gold's use-value; they want its exchange-value. If no one wants to trade with gold, no one wants the gold, and then its exchange-value (which is the vast majority of its value) cannot be realised.

This is not to say that gold doesn't have a use value, of course, it does. The vast majority of it is used for jewellery and then to a lesser degree in many electronics and other industrial uses. But we're not talking here about its use-value, we're talking about gold as a primary-money-commodity, a gold standard. In the process of exchange, the commodity takes on a different character. What we're talking about here is the value of gold based on market speculation.

Basically, people want to make money, one way to do this is to buy something for a low price and then sell it for a high price, the old "buy low, sell high" adage. Gold has historically has done very well and has usually gone up in value. So any purchase of gold was considered to go up in value at a near guarantee. Unfortunately, this is quite foolish as another adage goes, "past performance is not a guarantee of future results".

This is a market economy, which means profits on gold are the same as an investment. It is purchased for one price as long as it can be sold for a higher price. These higher prices are determined by an increase in demand for it in the future. The price of gold can only go up if there is a demand for it. If no one wants it then there is no increase, but a decrease in price.

This is exactly what happened with the gold price just recently. After the 2008 global crisis of capitalism, faith in the currency (the US dollar) was shaken. This mistrust was increased with the inability to end the recession and the quantitative easing rounds that were implemented. When this happened, "gold bugs" like Peter Schiff went out into the media making all kinds of fanciful claims that gold is a real currency that is stable and always increases in value. Those who blindly believed him tend to forget that Schiff owns a gold company Euro Pacific Precious Metals and thus has a seriously profit motive in espousing the supposed superiority of gold. This was exacerbated even further by horribly deluded libertarians like Ron Paul. His contribution was to produce very misleading propaganda spreading falsehoods about how the Federal Reserve works and claiming secret conspiracies. His solution to it was, of course, to purchase gold and advocate a gold standard. People also ignored that Ron Paul has literally millions of dollars invested in gold.

Ron Paul and Glen Beck were very instrumental in the increase of the romanticization of gold. They've both claimed that fiat currency is a "dishonest" currency, which is a vague term and very untruthful. They both, along with others, went out to the media claiming that gold was the most valuable thing ever that anyone could ever want. The spent a few years talking up how great gold is and that it will supposedly be the only thing of value once the US economically collapses because of the supposedly fraudulent US dollar. This effort raised the demand for gold quite a lot. This no doubt brought great profits for Peter Schiff and the rest of the gold industry, as well as its investors.

What these people failed to understand is that this was a bubble, like all other bubbles that exist in investments in a market economy. The increase in the price of gold was determined by the demand for it. By going out and espousing the supposed virtues of the metal it increased the demand for it as (predominantly) libertarians ran out to purchase it thinking it was going to be the best investment ever.

Effectively they created the demand for gold by going into the media and fooling people into buying it. The price went up because these people invoked a horrible spectre of hyper-inflation that was going to destroy the country. These claims never materialised and people lost interest in buying gold as a safety measure. As people figured out how full of lies and ignorance these guys are, they stopped investing which dramatically decreased the demand.

The decreased demand for gold is what caused the dramatic drop in price. Gold like all commodities in capitalism is subject to this instability because of supply and demand. Libertarians think this doesn't apply to gold for some reason.

To quote a video of mine:

"In the same week the stateless currency philosophy of Bitcoin, and the primary-commodity-hoarding philosophy of the Goldbugs both collapsed, due to their inability to grasp that these means of exchange or their management do not cause crisis, but the dynamics of the system which they facilitate causes crisis."

What Value Does Gold Really Have?

One of the supposed benefits of gold over fiat currency is that gold is said to have an inherent value. Gold has an actual physical use as opposed to fiat money which is just "meaningless" pieces of paper. Constantly for years we heard Ron Paul and Peter Schiff go on about the "real" value it has, or how it's an "honest" currency according to Paul. These two views, indeed have attempted to prop up this perception of gold having an inherent value a fiat currency does not. In truth, the situation is much more complicated than that.

The idea is that gold has a utility, meaning it can be used in a multitude of ways and in different products. There are all kinds of things you can do with gold, my favourite thing is electronics, but it has many others. This use is what makes gold valuable. People must want it for one reason or another. How is this different from anything else?

What if I don't care about gold? Let us say that I am a producer placing his commodities on the market. You come to me with gold looking to use it as a means if payment. I personally would not take it; it has no value to me because I cannot use it for anything. I'd most likely exchange it for cash at some point in the future. This means it only has a use so far as I am exchanging it for another currency. Wouldn't this indicate that its only value was as a *means of exchange*, not any value inherent in itself? If this is true, then anything that is useful as a *means of exchange* can substitute it. There is nothing unique to gold in this way.

The idea that gold is the most useful commodity as currency relies on the premise that people will always value it. This statement is false; it is false for anything used as a currency.

This means the gold was only valuable so far as it can be exchanged for currency.

This is the same as every currency. Even a gold backed dollar is worth nothing if no one wants it. So what if I can exchange a dollar for gold? I have no use for gold. If you paid me with it I'd just exchange it for cash that I can use. Meaning the only value gold really has is its ability to be exchanged. This is the same as the currency itself. This means the gold is pointless, it's only the dollar it represented that had any value, not the other way around.