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**The Gold Standard**

The gold standard was a financial system designed to back the exchange system with a decided quantity of gold. The gold standard has been extensively used in the 19th and 20th centuries. Most nations abolished it as the foundation of their financial systems around the 20th century, though a lot of countries still keep considerably large gold reserves (Lewis). The gold standard was first applied as a standard by the movement of gold bullions. With the creation and circulation of paper, the coins were ultimately succeeded by paper-based notes issued by banks, which paved the way for the creation the famous “*gold bullion standard*," an arrangement where gold coins are not available publicly, but the powers that be agree to sell gold bullion on request at a decided price in place of present currency.

In the 1780s, Robert Morris, Alexander Hamilton, and Thomas Jefferson suggested the implementation of the decimal system to the US Congress (Kemmerer). The question was what type of standard: gold, silver, or both. The United States assumed the currency standard based on silver constructed on the bases of the Spanish dollars in 1785.

**Road to Abandonment**

The gold specie standard was concluded by the British Empire at the occurrence of the first World War. The treasury-based notes replaced their gold-based counterparts. Officially, the gold specie standard was not revoked. The gold standard was effectively ended by the Bank of England but the government requested its citizens in the name of patriotism asking citizens not to cash paper money for gold bullions. It was only in 1925, when Britain returned to the gold standard in concurrence with Australia and South Africa, that the gold specie standard was publicly ended.

Many other states followed Britain in reverting to the gold standard, giving rise to a time-period of brief stability but also deflation. These problems prolonged themselves to the point of the Great Depression forced the nation-state to end the gold standard (Eichengreen). During the period the World Wars, the partly-backed gold standard was fundamentally unstable because of the monetary losses to infrastructures of all the European states due to war damages, further worsening of the Bank of England's reserves. France was then making a bid to make Paris an international hub of trade, and it accumulated a lot of gold bullions.

**Causes of the Abolishment of Gold Standard**

There were several reasons due to which the Gold Standard was abolished in the United States. Most economists and historians believe that a series of historic events forced the United States to abandon the gold standard so their economy would be stabilized. Some of the noteworthy events that steered the ship of the U.S. away from the gold standard are as follows:

**Great Depression**

Some economic historians think that not giving up the gold standard in the 1920s protracted the financial crisis for ten years. In the United States, observance to gold standard was the biggest obstacle barring the U.S. Federal Reserve from increasing the money supply to stabilize the economy that could lead to a developmental trend by stabilizing banks and other financial instruments. Once the gold standard was eradicated, creation of money was free from all constraints (Temin). This was due to the fact that the gold standard restricted the elasticity of the monetary policy by the central bank by restraining the bank’s capability to increase liquidity. Other intellectuals, like former Federal Reserve Chairman Ben Bernanke, blame the cruelty and span of the Depression on the Federal Reserve. They held responsible for the U.S. economic shrinkage due to the contraction of monetary policy in 1937, which resulted in a higher cost of doing business and supporting labor. The money supply declined in March 1937, while hitting rock bottom in May 1938. This increase in interest rates further decreased the value of the dollar and further restricted investment in U.S. banks. All of the banks started to change their Federal Reserve Notes to gold in 1931.

These cycles of events formed an alarming situation in the entire U.S. banking system. Many account holders thought that the devaluation of the currency was around the corner, and they started to withdraw their money from U.S. banks. As the problems of all the banks grew, the supply of money was further thinned. Furthermore, the NY Federal Bank had lent over $150 million in gold to different banks of Europe. The loans of foreign states became disputed once all the major European countries abolished the gold standard in 1931 and enfeebled the American dollar. Monetary recovery from the local markets was slower in the local markets, partially due to Congressional opposition to the abolishment of the gold standard and following in the steps of Britain by floating the US dollar.

In the 1930s, the United States Federal Reserve tried to stabilize the value of the U.S. dollar by increasing the interest rates. They thought that the demand for the US dollar will be increased in the market. This started in helping to attract overseas investors who purchased assets with gold. In 1934, the U.S. Congress approved the Gold Reserve Act. It gave all gold in the United States to the Federal Government. All the gold was taken in by the US Department of Treasury. Instead of gold reserves, the Reserve received gold certificates to be kept as collateral against deposits and currency notes. The president was given the disgression to devalue the gold dollar as needed. Under these powers, the U.S. president had to change the dollar rate from $20.67 to $35 per troy ounce. Other reasons that played their part in the protraction of this "Gold Crisis" include a number of trade wars and the decrease in international trade caused by tariff barricades such as “Smoot–Hawley Tariff” in the United States, which showed the isolationist policies of the economic powerhouses of the time.

The Austrian School is of the view that certain credit problems caused the Great Depression. Alan Greenspan thinks that the problems in the banks were due to the actions of Great Britain in 1931 as they dropped the gold standard. This action eliminated any enduring assurance in the whole banking system. Economist Niall Ferguson says that the Great Depression was intensified by the 1931 European (banking) crisis. Marriner Eccles blames the Great Depression on the accumulation of wealth by the rich, which made life difficult for the poor and the lower middle class. These sections of society accumulated huge amounts of debt, creating a credit explosion. Ultimately, the situation went out of control, resulting in a colossal number of financial problems and loan defaults.

**World War II**

Due to the agreement for implementing the Bretton Woods system by the allies, the gold standard was allowed to continue without national convertibility. The part played by the gold was brutally controlled, as the participants of the treaty translated their states’ currencies in standings of the United States dollar. This was because the U.S. economy was the most stable one, as compared to the rest of the Allies (Moser). Many states kept their reserves and settled their accounts with each other in gold. Still, they favored settling their credit balances with the American dollar as it was being favored the most. The International Monetary Fund was founded to support states in maintaining fixed exchange rates. Inside the Bretton Woods system, alterations were moderated through credits that aided states to avoid depreciation. Most states demarcated their currencies concerning the U.S. dollars, but some states levied trading limitations to guard their reserves and exchange rates. As a result, most states' monetary assets were essentially inconvertible. In 1950s, exchange limitations were abolished, and the gold standard took its place as an important component in international fiscal reimbursements.

**Bretton Woods Monetary System**

After the Second World War II, an arrangement parallels with respect to the gold standard and occasionally labeled as a "gold exchange standard" was agreed among the allied powers in the form of the Bretton Woods Agreements. As stated in this system, many states decided among themselves that their exchange rates about the U.S. dollar and central banks could exchange dollar reserve into gold at the indorsed exchange rate of $35 per ounce. This decision was not conveyed to firms or the general population. All the currencies attached to the US dollar also ended up with a secure value relative to gold.

Starting in the tenure of the French President General Charles de Gaulle and remaining until 1970, France decreased its US dollar reserves, swapping them for gold at the exchange rate defined under the Bretton Woods System (Johnson), reducing United States' hold on their economy. The financial tension of federal expenses on the Vietnam War and consistent balance of payments arrears led U.S. President Richard Nixon to end the global conversion of the U.S. dollar to gold in 1971. This event is known in the history books as the Nixon Shock. This was meant to be a momentary solution to the problem, while the gold price of the U.S. dollar and the sanctioned rate of exchanges remaining consistent. In 1976, the U.S. government formally changed the description of the U.S. dollar. Any reference to pegging it with gold was removed from the statutes, and from that point onwards, the international monetary system consisted of pure fiat money.

**Criticism and Conclusion**

Recently, there is a debate in the U.S. Congress that moved for return to the Gold standard. U.S. President Donald J. Trump pleaded that the Gold Standard is the way out of the economic crisis that is currently being borne by the United States. In the above-mentioned examples, it is clear that the United States cannot grow its economy based on the outdated gold standard. A survey involving forty esteemed U.S. economists done by the IGM found that not even one of them thought that reverting to the gold standard would be economically positive. According to the survey, forty percent of the economists answered negatively, and fifty-three percent replied positively. The rest of them abstained from the query. What we need now is a series of measures that control federal expenses, as well as stop the manufacturing concerns to establish overseas manufacturing plants so that the money is kept in the United States for as long as possible, and we can steer ourselves clearly from this crisis.

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