Negative Brief: Gold Standard

By “Coach Vance” Trefethen

**Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy.**

The AFF plan reinstates convertibility of the US dollar with gold, supposedly ensuring a more stable and inflationless economy. NEG will argue that the “golden age” of the past, when we had a gold standard, wasn’t so golden after all, since there were bank failures, recessions and even the Great Depression. Whatever the current system’s weaknesses, the past system was even worse.

Negative: Gold Standard 3

NEGATIVE PHILOSOPHY 3

Churchill’s line about democracy applies here 3

A/T “Affirmative’s Goals” -- Our 3 goals should be: 1) low inflation; 2) limited volatility; 3) financial crisis prevention 3

Reverse Advocacy: Everything gets worse – a gold standard would be a colossal mistake 3

INHERENCY 4

1. Federal Reserve system works fine 4

Federal Reserve is transparent and well regulates the financial system. Economy is safe 4

A/T “Federal Reserve inflating the currency” – Fed has managed inflation/price volatility since the financial crisis far better than Gold could 4

HARMS / SIGNIFICANCE 4

1. Currency stability is good now 4

Status Quo currency is more stable than Gold Standard would be 4

Inflation and economic growth were volatile under Gold. Current policies are BETTER at controlling 5

2. No “Golden Age” back then. Everything wasn’t wonderful back when we had Gold Standard 5

Booms & Busts have been a constant fact of life since …whenever…, and they were caused by other factors, not currency 5

Economic growth is more stable NOW than under Gold, and occurrence of recessions is less frequent NOW 6

Financial crises have been around for centuries, regardless of gold or not-gold 6

3. Bank Stability is good now 6

Bank crisis occurrence post-1973 has been just like during the pre-1914 gold standard era 6

Bank stability is much better now than it was under Gold. And everything else is more stable now too 7

4. A/T “Income Inequality” 7

Income inequality is insignificant, it isn’t coming from Wall Street, and it has no bad impacts 7

SOLVENCY 7

1. Not enough gold 7

We don’t have enough gold to back up the dollar right now 7

2. Empirically failed at promoting stability 8

We did NOT have better economic stability when we had the Gold Standard in the past 8

Banking and financial stability were NOT achieved under any of the US gold standard regimes 8

Economy crashed multiple times when we had Gold Standard. Bringing it back is a bad idea 8

3. Key weaknesses block success of Gold as a stabilizing force 9

Fluctuating value of Gold and banking system vulnerabilities mean it won’t solve for bank failures nor monetary stability 9

Underlying price of gold fluctuates wildly, even after factoring out inflation 9

DISADVANTAGES 10

1. Higher unemployment 10

Economic shocks can’t be offset, so unemployment was higher under Gold. 6.8% with gold, versus 5.9% without it 10

Gold Standard “price stabilization” policy ignored the unemployed… but who cares about them? 10

2. Deflation & Depression 10

Link: Going off Gold Standard during World War I led to inflation, but then going back to Gold led to deflation… 10

Impact: Deflation triggers Depression. Gold Standard in US and France helped trigger the Great Depression 11

Impact: Gold Standard caused and/or worsened and/or delayed recovery from the Great Depression 11

Impact: Gold deepened the Great Depression. Exit from Gold hastened recovery in the 1930’s 12

3. Over-emphasis on “financial stability” 12

Link: AFF advocates radical changes to improve “stability” 12

Impact: Turn – short-term “stability” = long-term crash. Some instability – small problems where we let the system clean itself up – prevents crashes in the long run, and overly restricting the economy in the name of “stability” is bad 12

4. Bank Panics 13

Gold standard prevents actions that could be taken to stop collapse of the financial system due to bank panics 13

Works Cited 14

Negative: Gold Standard

NEGATIVE PHILOSOPHY

Churchill’s line about democracy applies here

Claudio Borio 2019 (Head of the Monetary and Economic Department at the Bank for International Settlements) On Money, Debt, Trust, and Central Banking, CATO JOURNAL Spring/Summer 2019 <https://www.cato.org/cato-journal/springsummer-2019/money-debt-trust-central-banking>

Paraphrasing Churchill’s famous line about democracy, “the current monetary system is the worst, except for all those others that have been tried from time to time.”

A/T “Affirmative’s Goals” -- Our 3 goals should be: 1) low inflation; 2) limited volatility; 3) financial crisis prevention

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf>

Macroeconomic stability comprises price level stability (today low inflation) ; limited volatility in the real economy ( smoothing the business cycle) and financial stability. Traditionally financial stability has meant preventing and managing financial crises (events which can lead to and exacerbate recessions).

Reverse Advocacy: Everything gets worse – a gold standard would be a colossal mistake

**Stephen G. Cecchetti** & Kermit Schoenholtz 2016 (Cecchetti - Rosen Family Chair in International Finance at the Brandeis International Business School; had five-year term as Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland; served as Director of Research at the Federal Reserve Bank of New York. - Professor of the History of Financial Institutions and Markets in the Department of Economics of New York University’s Leonard N. Stern School of Business; also directs NYU Stern’s Center for Global Economy and Business and serves on the Financial Research Advisory Committee of the U.S. Treasury’s Office of Financial Research) 14 Dec 2016 “Why a gold standard is a very bad idea” <https://www.moneyandbanking.com/commentary/2016/12/14/why-a-gold-standard-is-a-very-bad-idea>

Under a gold standard, inflation, growth and the financial system are all less stable. There are more recessions, larger swings in consumer prices and more banking crises. When things go wrong in one part of the world, the distress will be transmitted more quickly and completely to others. In short, re-creating a gold standard would be a colossal mistake.

INHERENCY

1. Federal Reserve system works fine

Federal Reserve is transparent and well regulates the financial system. Economy is safe

Donald Kohn 2015 (holds the Robert V. Roosa Chair in International Economics and is a senior fellow in the Economic Studies program at the Brookings Institution; currently an external member of the Financial Policy Committee at the Bank of England; 40-year veteran of the Federal Reserve system, serving as member and then vice chair of the Board of Governors.) 22 July 2015 “Examining Federal Reserve reform proposals” <https://www.brookings.edu/testimonies/examining-federal-reserve-reform-proposals/>

I do not agree with that premise. In my view, the actions of the Federal Reserve in the crisis and slow recovery were necessary and appropriate. Its conduct of monetary policy has been as systematic as possible under unprecedented and constantly evolving circumstances, and it has been especially transparent about how those monetary policy actions were expected to foster achievement of its legislated mandate and what it would be looking at in the future to gauge the need for future actions. The Federal Reserve, working in part under the guidance of the Congress in Dodd Frank, has greatly toughened and improved its regulation and supervision of the institutions for which it is responsible, and the financial system is safer than it has been for many years.

A/T “Federal Reserve inflating the currency” – Fed has managed inflation/price volatility since the financial crisis far better than Gold could

Matthew O’Brien 2012 (senior editor) THE ATLANTIC “Why the Gold Standard Is the World's Worst Economic Idea, in 2 Charts” 26 Aug 2012 <https://www.theatlantic.com/business/archive/2012/08/why-the-gold-standard-is-the-worlds-worst-economic-idea-in-2-charts/261552/>

There's been 23 times less variance in prices since the Fed started quantitative easing than there was under the gold standard. Read that again. It's hard to understand why conservatives have been so up in arms about quantitative easing when you look at the reality. Yes, the Fed has expanded its balance sheet to [unprecedented levels](http://research.stlouisfed.org/fredgraph.png?g=9MC), but if it hadn't done that prices would probably be falling a bit now. But how will the Fed eventually mop up all this liquidity it's created -- hasn't it lit the fuse of an inflation time-bomb? No. The Fed can increase the interest it pays on reserves, do reverse repos, or use term deposit facilities to prevent banks from lending out too much money, if it comes to that.

HARMS / SIGNIFICANCE

1. Currency stability is good now

Status Quo currency is more stable than Gold Standard would be

J.P. Konig 2018 (B.A. economics; financial writer and blogger with interests in monetary economics, economic history, finance, and fintech; worked as an equity researcher at a Canadian brokerage firm and a financial writer and publisher at a large Canadian bank) 27 June 2018 “Failed monetary technology” <http://jpkoning.blogspot.com/2018/06/failed-monetary-technology.html>

Today, most western central banks define the national currency in terms of a basket of consumer goods and services rather than a fixed amount of gold (gold monometallism) or a basket of gold & silver (cometallism, symmetallism). This makes a lot of sense. If we want to create a stable monetary standard, one that provides creditors and debtors with an even playing field, better to use a broad basket of stuff that regular people buy than a narrow basket of metals. That way all parties to a contract know many years ahead of time exactly how much consumer goods they will get (if they are creditors) or give up (if they are debtors). Knowing how much gold and silver baskets they will owe or be owed is less relevant to the average person, since gold and silver are a very small part of most people's day-to-day consumption profiles.

Inflation and economic growth were volatile under Gold. Current policies are BETTER at controlling

**Stephen G. Cecchetti** & Kermit Schoenholtz 2016 (Cecchetti - Rosen Family Chair in International Finance at the Brandeis International Business School; had five-year term as Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland; served as Director of Research at the Federal Reserve Bank of New York. - Professor of the History of Financial Institutions and Markets in the Department of Economics of New York University’s Leonard N. Stern School of Business; also directs NYU Stern’s Center for Global Economy and Business and serves on the Financial Research Advisory Committee of the U.S. Treasury’s Office of Financial Research) 14 Dec 2016 “Why a gold standard is a very bad idea” <https://www.moneyandbanking.com/commentary/2016/12/14/why-a-gold-standard-is-a-very-bad-idea>

In this post, we explain why a restoration of the gold standard is a profoundly bad idea. Let’s start with the key conceptual issues. In his 2012 lecture [Origins and Mission of the Federal Reserve](https://www.federalreserve.gov/newsevents/lectures/origins-and-mission.htm), then-Federal Reserve Board Chair Ben Bernanke identifies four fundamental problems with the gold standard:  
- When the central bank fixes the dollar price of gold, rather than the price of goods we consume, fluctuations in the dollar price of goods replace fluctuations in the market price of gold.   
- Since prices are tied to the amount of money in the economy, which is linked to the supply of gold, inflation depends on the rate that gold is mined.   
- When the gold standard is used at home and abroad, it is an exchange rate policy in which international transactions must be settled in gold.   
- Digging gold out of one hole in the ground (a mine) to put it into another hole in the ground (a vault) wastes resources.  
Consistent with Bernanke’s critique, the evidence shows that both inflation and economic growth were quite volatile under the gold standard. The following chart plots annual U.S. consumer price inflation from 1880, the beginning of the post-Civil War gold standard, to 2015. The vertical blue line marks 1933, the end of the gold standard in the United States. The standard deviation of inflation during the 53 years of the gold standard is nearly twice what it has been since the collapse of the Bretton Woods system in 1973 (denoted in the chart by the vertical red line). That is, even if we include the Great Inflation of the 1970s, inflation over the past 43 years has been more stable than it was under the gold standard. Focusing on the most recent quarter century, the interval when central banks have focused most intently on price stability, then the standard deviation of inflation is less than one-fifth of what it was during the gold standard epoch.

2. No “Golden Age” back then. Everything wasn’t wonderful back when we had Gold Standard

Booms & Busts have been a constant fact of life since …whenever…, and they were caused by other factors, not currency

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf>

Stock market booms and busts and real estate booms and busts have always been present since the early days of capitalism. Most have been linked to real economic fundamentals—productivity advances and demographic shifts.

Economic growth is more stable NOW than under Gold, and occurrence of recessions is less frequent NOW

[**Stephen G. Cecchetti**](http://people.brandeis.edu/~cecchett/) & Kermit Schoenholtz 2016 (Cecchetti - Rosen Family Chair in International Finance at the Brandeis International Business School; had five-year term as Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland; served as Director of Research at the Federal Reserve Bank of New York. - Professor of the History of Financial Institutions and Markets in the Department of Economics of New York University’s Leonard N. Stern School of Business; also directs NYU Stern’s Center for Global Economy and Business and serves on the Financial Research Advisory Committee of the U.S. Treasury’s Office of Financial Research) 14 Dec 2016 “Why a gold standard is a very bad idea” <https://www.moneyandbanking.com/commentary/2016/12/14/why-a-gold-standard-is-a-very-bad-idea>

What about economic growth? Again, the gold standard was associated with greater volatility, not less. The following chart plots annual growth as measured by gross national product ([gross domestic product only came into common use in the 1991](https://en.wikipedia.org/wiki/Gross_national_product).) The pattern looks quite a bit like that of inflation: the standard deviation of economic growth during the gold-standard era was more than twice that of the period since 1973. And, despite the Great Recession, the past quarter century has been even more stable. To use another, simpler, measure, in the period from 1880 to 1933 there were 15 business cycles identified by the [National Bureau of Economic Research](http://www.nber.org/cycles.html). That is, on average there was a recession once every 3½ years. By contrast, since 1972, there have been 7 recessions; one every 6 years.

Financial crises have been around for centuries, regardless of gold or not-gold

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf>

Over the close to two centuries of data a number of the financial crises are global. They occurred in many countries across continents. Kindleberger (1978) was the first to identify this phenomenon. Global financial crises occurred in the environment of globalization with free capital mobility and the gold standard fixed exchange rate regime. Since the reemergence of financial globalization in the 1970s (Obstfeld and Taylor 2007) international financial crises have reappeared. A global financial crisis occurs when shocks to the banking system in one country are transmitted to another country or when stock market crashes are linked among countries leading to impairment of the payments mechanism. Historically they were transmitted through the balance of trade adjustment channel of the classical price specie flow mechanism, through capital flows, and other channels including foreign deposits ( Huffman and Lothian 1984 , Eichengreen and Portes 1989). Currency crises also can be global and they in turn can lead to or be caused by banking crises.

3. Bank Stability is good now

Bank crisis occurrence post-1973 has been just like during the pre-1914 gold standard era

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf>

We calculate crisis frequencies as the ratio of years in which the set of countries in the sample is in the first year of a banking crisis to the total number of years. We compare outcomes across four different time periods: the classical gold standard 1880-1913; the interwar period 1919-1939; Bretton Woods 1945 to 1972; the current period of managed floating 1973 to the present. As can be seen , adjusting for the differences in the sample sizes for the different data bases the incidence of banking crises was quite similar in the pre-1914 gold standard era ( which was also the first era of globalization, Bordo, Taylor and Willliamson 2003) with the post 1973 period (the second era of globalization). Bordo et al (2001) referred to this phenomenon as ‘going back to the future’.

Bank stability is much better now than it was under Gold. And everything else is more stable now too

[**Stephen G. Cecchetti**](http://people.brandeis.edu/~cecchett/) & Kermit Schoenholtz 2016 (Cecchetti - Rosen Family Chair in International Finance at the Brandeis International Business School; had five-year term as Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland; served as Director of Research at the Federal Reserve Bank of New York. - Professor of the History of Financial Institutions and Markets in the Department of Economics of New York University’s Leonard N. Stern School of Business; also directs NYU Stern’s Center for Global Economy and Business and serves on the Financial Research Advisory Committee of the U.S. Treasury’s Office of Financial Research) 14 Dec 2016 “Why a gold standard is a very bad idea” <https://www.moneyandbanking.com/commentary/2016/12/14/why-a-gold-standard-is-a-very-bad-idea>

Finally, consider a crude measure of financial stability: the frequency of banking crises. From 1880 to 1933, there were [at least 5 full-fledged banking panics](https://eh.net/encyclopedia/banking-panics-in-the-us-1873-1933/): 1893, 1907, 1930, 1931, and 1933. Including the savings and loan crisis of the 1980s, in the past half century, there have been two. So, on every score, the gold standard period was less stable. Prices were less stable; growth was less stable; and the financial system was less stable.

4. A/T “Income Inequality”

Income inequality is insignificant, it isn’t coming from Wall Street, and it has no bad impacts

Michael D. Tanner 2016 (Senior Fellow at Cato Institute) Five Myths about Economic Inequality in America 7 Sept 2016 <https://www.cato.org/publications/policy-analysis/five-myths-about-economic-inequality-america>

Although we are frequently told that we are living in a new Gilded Age, the U.S. economic system is already highly redistributive. Tax policy and social welfare spending substantially reduce inequality in America. But even if inequality were growing as fast as critics claim, it would not necessarily be a problem. For example, contrary to stereotypes, the wealthy tend to earn rather than inherit their wealth, and relatively few rich people work on Wall Street or in finance. Most rich people got that way by providing us with goods and services that improve our lives. Income mobility may be smaller than we would like, but people continue to move up and down the income ladder. Few fortunes survive for multiple generations, while the poor are still able to rise out of poverty. More important, there is little relationship between inequality and poverty. The fact that some people become wealthy does not mean that others will become poor.

SOLVENCY

1. Not enough gold

We don’t have enough gold to back up the dollar right now

Mark Koba 2012 (Mark Koba is a senior editor at CNBC.com. Topics for his feature story writing include the business of politics, health care, employment and the economy.) 8 February 2012 “If The Federal Reserve Is Abolished, What Then?” <https://www.cnbc.com/id/46241902>

Reverting back to gold would do more harm than good, even in the Fed's worst days, says David Abuaf, CFA and CIO of Hefty Wealth Partners. "The gold standard brought about some long-run price stability but it's also led to short-run volatility," Abuaf explains. "It acts as a limit on economic growth. The money supply would be based on the production of gold. The management of money is easier with a fiat currency." And there may not be enough gold to go around to back up the dollar — it could be hostage to the whims of gold traders.

2. Empirically failed at promoting stability

We did NOT have better economic stability when we had the Gold Standard in the past

Professor Arthur Macewan 2012 (He is professor emeritus of economics at the University of Massachusetts-Boston and a Dollars & Sense Associate.) 2012 “Abolishing the Fed is No Solution to a Real Problem” <http://dollarsandsense.org/archives/2012/0712macewan.html>

In any case, the problem with the Fed is not the existence of a government authority that regulates the country’s money. Before the Fed started operating in 1914, economic crises had been at least as frequent and severe as in later years. The gold standard (which the U.S. abandoned in steps, especially in the 1930s and ultimately in 1971) certainly did not provide stability and general economic well-being.

Banking and financial stability were NOT achieved under any of the US gold standard regimes

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf>

Under the gold standard regime monetary stability meant that central banks followed the gold standard convertibility rule and financial stability meant that if adherence was credible central banks could act as lenders of last resort following Bagehot’s strictures to allay financial crises. Financial crises occurred for many reasons including, but not solely, productivity or demography driven asset price booms. The outcome for the real economy depended on the policy actions taken and the institutional structure in place. Also, the fixed exchange rate gold standard combined with free capital mobility meant that a number of financial crises became global crises. It also meant that many crises were twin banking and currency crises which had high output costs. In the interwar gold exchange standard regime monetary policy evolved into providing both real macro stability and price stability along with convertibility. This created a strain on central bank credibility and weakened the power to manage financial crises. In addition during this regime the tight constraint between the monetary gold base and the money supply and bank credit weakened which meant that more monetary fuel could be added to putative asset price booms.

Economy crashed multiple times when we had Gold Standard. Bringing it back is a bad idea

Dr. Paul Krugmann 2012 (PhD economics) 26 Aug 2012 “Golden Instability” <https://krugman.blogs.nytimes.com/2012/08/26/golden-instability/?_php=true&_type=blogs&_php=true&_type=blogs&_r=1>

Now, the gold bugs will no doubt reply that under a gold standard big bubbles couldn’t happen, and therefore there wouldn’t be major financial crises. And it’s true: [under the gold standard](https://eh.net/encyclopedia/article/wicker.banking.panics.us) America had no major financial panics other than in 1873, 1884, 1890, 1893, 1907, 1930, 1931, 1932, and 1933. Oh, wait. The truth is that returning to gold is an almost comically (and cosmically) bad idea.

3. Key weaknesses block success of Gold as a stabilizing force

Fluctuating value of Gold and banking system vulnerabilities mean it won’t solve for bank failures nor monetary stability

David Glasner 2016 (*Economist* at the Federal Trade Commission, Washington DC) 11 Sept 2016 “Where Do Monetary Rules Come From and How Do They Work?” <https://uneasymoney.com/2016/09/11/where-do-monetary-rules-come-from-and-how-do-they-work/>

So British monetary history in the first half of the nineteenth century provides us with two paradigms of monetary rules. The first is a price rule in which the value of a monetary instrument is maintained at a level above its cost of production by way of a convertibility commitment. Given the convertibility commitment, the actual quantity of the monetary instrument that is issued is whatever quantity the public wishes to hold. That, at any rate, was the theory of the gold standard. There were – and are – at least two basic problems with that theory. First, making the value of money equal to the value of gold does not imply that the value of money will be stable unless the value of gold is stable, and there is no necessary reason why the value of gold should be stable. Second, the behavior of a banking system may be such that the banking system will itself destabilize the value of gold, e.g., in periods of distress when the public loses confidence in the solvency of banks and banks simultaneously increase their demands for gold. The resulting increase in the monetary demand for gold drives up the value of gold, triggering a vicious cycle in which the attempt by each to increase his own liquidity impairs the solvency of all.

Underlying price of gold fluctuates wildly, even after factoring out inflation

Dr. Paul Krugmann 2012 (PhD economics) 26 Aug 2012 “Golden Instability” <https://krugman.blogs.nytimes.com/2012/08/26/golden-instability/?_php=true&_type=blogs&_php=true&_type=blogs&_r=1>

There is a remarkably widespread view that at least gold has had stable purchasing power. But nothing could be further from the truth. Here’s the real price of gold — the price deflated by the consumer price index — since 1968:  That’s a pretty huge range of variation.

DISADVANTAGES

1. Higher unemployment

Economic shocks can’t be offset, so unemployment was higher under Gold. 6.8% with gold, versus 5.9% without it

Prof. Michael D. Bordo 2005 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Ethical disclosure: article is undated but refers to events in 2005 and none later. “Gold Standard” <https://www.econlib.org/library/Enc/GoldStandard.html>

Moreover, because the gold standard gives government very little discretion to use monetary policy, economies on the gold standard are less able to avoid or offset either monetary or real shocks. Real output, therefore, is more variable under the gold standard. The coefficient of variation for real output was 3.5 between 1879 and 1913, and only 0.4 between 1946 and 2003. Not coincidentally, since the government could not have discretion over monetary policy, [unemployment](https://www.econlib.org/library/Enc/Unemployment.html) was higher during the gold standard years. It averaged 6.8 percent in the United States between 1879 and 1913, and 5.9 percent between 1946 and 2003.

Gold Standard “price stabilization” policy ignored the unemployed… but who cares about them?

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf>

The specie standard evolved in the nineteenth century from bimetallism to the classical gold standard, which prevailed from 1880 to 1914. The gold standard rule was a contingent rule where temporary suspension and the issue of fiat money was permitted in well understood emergencies such as wars and financial crises. Once the emergency ended the central bank was required to restore convertibility to gold at the official parity. If it did this it would ensure its credibility (Bordo and Kydland 1995). Credible adherence to the gold standard rule allowed central banks some leeway to conduct stabilization policies (smooth shocks to the price level, real output and interest rates) within the gold points (Bordo and Macdonald 2012). In this era minimal attention was attached to smoothing the business cycle or reducing unemployment. Wages and prices were relatively flexible and the unemployed could always go to America and Australia.

2. Deflation & Depression

**Deflation is a contraction in the money supply, where prices decline because money is not available. The last time we applied a gold standard after not having one for a while, the result was the Great Depression.**

Link: Going off Gold Standard during World War I led to inflation, but then going back to Gold led to deflation…

Prof. Hu McCulloch 2018 (Professor Emeritus at the Ohio State University Economics Department and Adjunct Professor at the New York Univ. Economics Dept) 23 Aug 2018 “World War I, Gold, and the Great Depression” <https://www.alt-m.org/2018/08/23/world-war-i-gold-and-the-great-recession/>

In brief, the departure of the European belligerents from gold in 1914 massively reduced the global demand for gold, leading to the inflation of prices in terms of gold — and, therefore, in terms of currencies like the U.S. dollar which were convertible to gold at a fixed parity. After the war, Europe initially postponed its return to gold, leading to a plateau of high prices during the 1920s that came to be perceived as the new normal. In the late 1920s, there was a scramble to return to the pre-war gold standard, with the inevitable consequence that commodity prices — in terms of gold, and therefore in terms of the dollar — had to return to something approaching their 1914 level. The deflation was thus inevitable, but was made much more harmful by its postponement and then abruptness.

Impact: Deflation triggers Depression. Gold Standard in US and France helped trigger the Great Depression

Robert Yee 2018. (Ph.D. student at Princeton University) THE BANK OF FRANCE AND THE GOLD DEPENDENCY: OBSERVATIONS ON THE BANK'S WEEKLY BALANCE SHEETS AND RESERVES, 1898-1940 <https://sites.krieger.jhu.edu/iae/files/2018/10/Bank-of-France-1-1.pdf>

According to Sanchez, by 1928 confidence in the “French State” and the possibility of any successful fiscal reform had reached its lowest point in over a century. The franc had returned to the gold standard after over a decade of inconvertibility. Perhaps leaving the standard had been necessary as a wartime finance measure. But, as some government officials believed, there did not seem to be a need to continue such a currency regime. Poincaré considered that requiring the franc be tied to a stable metric would have helped to deter future currency speculation as well. In contrast, the gold standard failed to deter unmitigated expansion of the money supply and augmented the severity of the next crisis.   
The Bank of France’s Gold Reserves and the Great Depression   
The Bank became a key agent in exacerbating, or perhaps even creating, the Great Depression. By one estimate, around 40 percent of worldwide deflation could have been attributed to the neutralization (non-monetization) of gold reserves by the central banks of the United States and of France. According to Professor Barry Eichengreen, this practice among surplus countries like France was “seen as a reflection of the desire to accumulate gold.” Since June 1928, the Bank had been accumulating both gold and foreign-currency reserves, mainly British pounds. An estimated 40 billion francs in sterling and an additional 12 billion in gold reserves had been accumulated over the previous two years. (The Federal Reserve Bulletin of the period does remark, however, that the sharp rise in reserves may have been in part due to the re-categorization of the “Miscellaneous assets” into the “Purchases of gold, silver, and foreign exchange” item on the 23 June balance sheet.) Professor Douglas Irwin has likewise noted that the Bank of France was a key player in the depression, as it greatly increased its share of world gold reserves and, more importantly, neutralized (failed to monetize) that accumulation.

Impact: Gold Standard caused and/or worsened and/or delayed recovery from the Great Depression

Robert Yee 2018. (Ph.D. student at Princeton University) THE BANK OF FRANCE AND THE GOLD DEPENDENCY: OBSERVATIONS ON THE BANK'S WEEKLY BALANCE SHEETS AND RESERVES, 1898-1940 <https://sites.krieger.jhu.edu/iae/files/2018/10/Bank-of-France-1-1.pdf> (brackets and ellipses in original)

A shortage of gold in circulation, compounded by the structural flaws and inefficiencies within the international financial system, led to a downward spiral in prices. Professors Eichengreen and Peter Temin have contended that the gold standard was itself one key factor in, not only contributing to worldwide deflation, but also prolonging any chance at recovery: “[t]he constraints of the gold-standard system hamstrung countries as they struggled to adapt during the 1920s to changes in the world economy.” An essential component of the Great Depression existed in the very framework of the global monetary system, the stability of which was dependent on international settlements. Further adding to Eichengreen and Temin’s research, Professor Mouré has even maintained that the “[f]aith in the gold standard… slowed the development of modern central banking and monetary management in France.” His analysis argued that the gold standard “extended and accentuated deflationary pressures” by imposing the “burden of adjustment for international payments imbalances” on “deficit countries.” Perceptions of the Bank appeared to have just as much an effect on economic recovery as actual decisions of monetary affairs did. The secondary literature on the Great Depression expounds the role of the gold standard, and even more so on gold-reserve accumulation, in exacerbating a global crisis.

Impact: Gold deepened the Great Depression. Exit from Gold hastened recovery in the 1930’s

**Stephen G. Cecchetti** & Kermit Schoenholtz 2016 (Cecchetti - Rosen Family Chair in International Finance at the Brandeis International Business School; had five-year term as Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland; served as Director of Research at the Federal Reserve Bank of New York. - Professor of the History of Financial Institutions and Markets in the Department of Economics of New York University’s Leonard N. Stern School of Business; also directs NYU Stern’s Center for Global Economy and Business and serves on the Financial Research Advisory Committee of the U.S. Treasury’s Office of Financial Research) 14 Dec 2016 “Why a gold standard is a very bad idea” <https://www.moneyandbanking.com/commentary/2016/12/14/why-a-gold-standard-is-a-very-bad-idea>

Fourth, economists blame the gold standard for sustaining and deepening the Great Depression. What makes this view most compelling is the fact that the sooner a country left the gold standard and regained discretionary control of its monetary policy, the faster it recovered. The contrast between Sweden and France is striking. Sweden left gold in 1931, and by 1936 its industrial production was 14 percent higher than its 1929 level. France waited until 1936 to leave, at which point its industrial production was fully 26 percent below the level just 7 years earlier (see [here](https://ideas.repec.org/p/nbr/nberwo/3488.html)and [here](https://ideas.repec.org/a/mcb/jmoncb/v27y1995i1p1-28.html).) Similarly, when the U.S. suspended gold convertibility in March 1933—allowing the dollar to depreciate substantially—the financial and economic impact was immediate: deflation turned to inflation, [lowering the real interest rate](https://ideas.repec.org/a/aea/aecrev/v82y1992i1p141-56.html), boosting asset prices, and triggering one of the most powerful U.S. cyclical upturns (see, for example, [Romer](https://www.brookings.edu/wp-content/uploads/2012/04/0309_lessons_romer.pdf)).

3. Over-emphasis on “financial stability”

Link: AFF advocates radical changes to improve “stability”

That’s the goal of their plan.

Impact: Turn – short-term “stability” = long-term crash. Some instability – small problems where we let the system clean itself up – prevents crashes in the long run, and overly restricting the economy in the name of “stability” is bad

Prof. Michael D. Bordo 2017 (professor of economics at Rutgers University. From 1981 to 1982, he directed the research staff of the executive director of the U.S. Congressional Gold Commission) Dec 2017 “AN HISTORICAL PERSPECTIVE ON THE QUEST FOR FINANCIAL STABILITY AND THE MONETARY POLICY REGIME” <https://www.nber.org/papers/w24154.pdf> (first brackets added, others in original; ellipses in original) **in context, “the Great Contraction” refers to the Depression of the 1930’s.**

After the Great Contraction the world’s monetary authorities believed that it should , and repressed both the domestic and international financial system for 40 years. That strategy led to unintended consequences driven by the dynamics of financial innovation and may in turn have set the seeds for the GFC [Great Financial Crisis] 80 years later. The current obsession with financial stability ( and the increased use of the tools of macro prudential policy and LAW) raises the risk of repeating the mistakes of the 1930s and creating a new regime of financial repression which will most likely have unintended consequences. It will likely head off a few minor financial crises in the next few decades but much later in the future precipitate an even bigger financial crisis than 2007-2008. The analogy between policies designed to suppress natural disasters should be kept in mind. Scholes (2009) gives the analogy of when “ fire fighters put out every small fire in Yellowstone National Park…The underbrush grew , setting the stage for multiple lightning strikes to cause fires to destroy much greater areas in the park than if fires initially had been left to burn of their own accord.” ( page 105). He further argues that “ [f]inancial regulators do the same thing when they dampen volatility: they put out small fires but encourage risk-taking and thus increase the likelihood of a major conflagration” Kim et al (2017) apply this analogy to attempts to smooth recessions which they show are not serially correlated events. They argue from physics that eventually power law dynamics will set in leading to a much worse depression.

4. Bank Panics

Gold standard prevents actions that could be taken to stop collapse of the financial system due to bank panics

**Stephen G. Cecchetti** & Kermit Schoenholtz 2016 (Cecchetti - Rosen Family Chair in International Finance at the Brandeis International Business School; had five-year term as Economic Adviser and Head of the Monetary and Economic Department at the Bank for International Settlements in Basel, Switzerland; served as Director of Research at the Federal Reserve Bank of New York. - Professor of the History of Financial Institutions and Markets in the Department of Economics of New York University’s Leonard N. Stern School of Business; also directs NYU Stern’s Center for Global Economy and Business and serves on the Financial Research Advisory Committee of the U.S. Treasury’s Office of Financial Research) 14 Dec 2016 “Why a gold standard is a very bad idea” <https://www.moneyandbanking.com/commentary/2016/12/14/why-a-gold-standard-is-a-very-bad-idea>

Turning to financial stability, the gold standard limits one of the most powerful tools for halting bank panics: the central bank’s authority to act as [lender of last resort](http://www.moneyandbanking.com/commentary/2014/5/22/a-note-on-the-lender-of-last-resort). It was the absence of this function during the [Panic of 1907](https://en.wikipedia.org/wiki/Panic_of_1907) that was the primary impetus for the creation of the Federal Reserve System. Yet, under a gold standard, the availability of gold limits the scope for expanding central bank liabilities. Thus, had the Fed been on a strict gold standard in the fall of 2008—when Lehman failed—the constraint on its ability to lend could again have led to a collapse of the financial system and a second Great Depression.

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