# WOULD A GOLD STANDARD REALLY BE THAT BAD?

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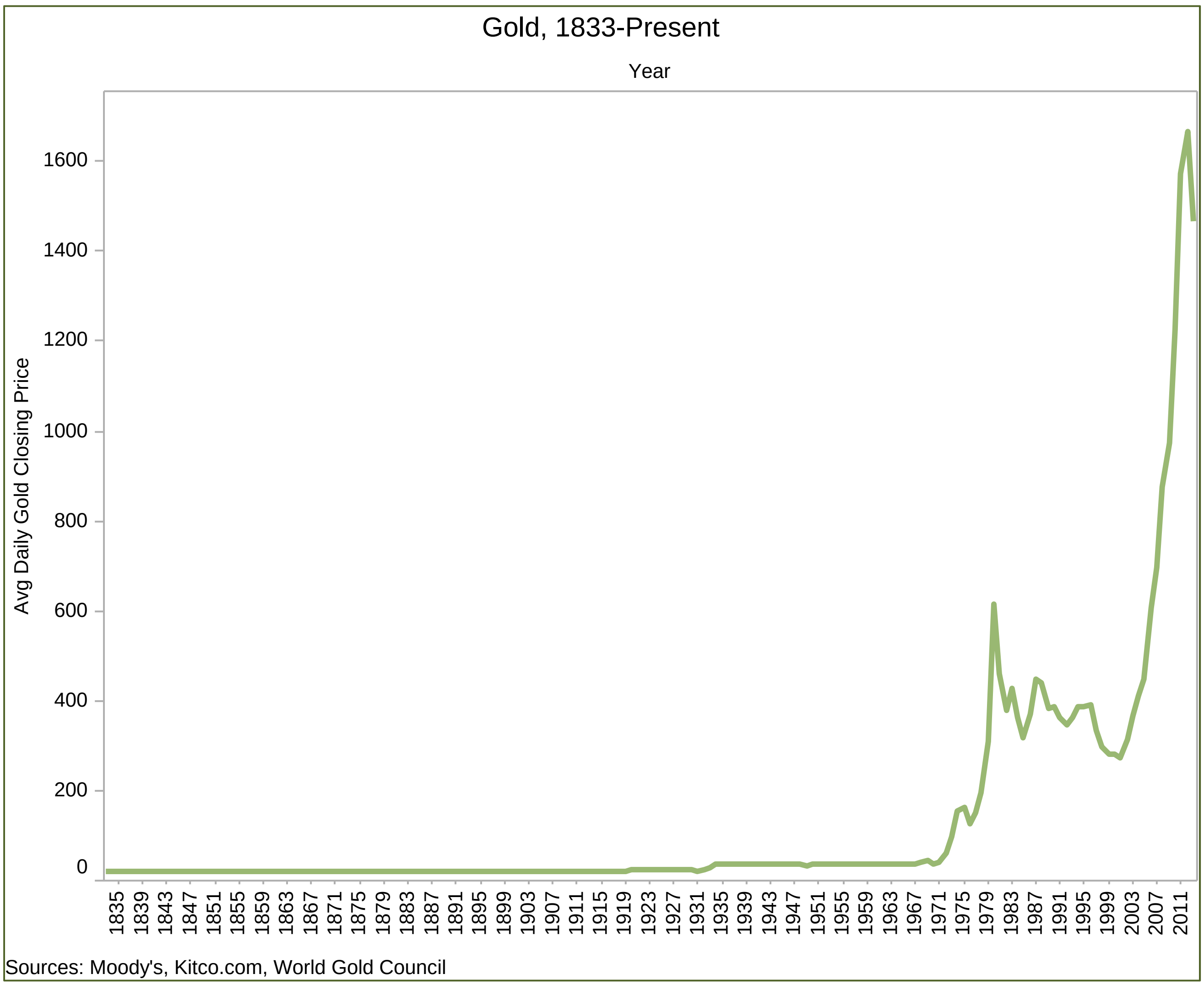
The question here is relatively straightforward: would a gold standard really be detrimental to business and the economy at large?

First, we need to define gold standard.

A gold standard here refers to the situation where the value of a given country's currency has a fixed exchange rate with gold. Essentially, for example, the price of gold would be a fixed €1,770 per troy ounce of gold. Instead of the price going from say €1,770 to €1,780 after a day's worth of trading, the price would stay constant at €1,770.

What is so good or bad about a gold standard? Here are some details.



## LIKELY BENEFITS OF A GOLD STANDARD

Switching to a gold standard in Europe or the western world would influence many business and economic decisions. Of the many intended and unintended consequences, here are three of the most discussed.

First, switching to the gold standard would provide for price stability. Essentially, if central bankers are unable to print money for whatever purpose they deem important, prices are likely to rise at a much more modest pace.

Second, switching to a gold standard may reduce some of the financial bubbles we have seen in recent years, such as the credit and housing busts in 2008 and 2009.

Third, switching to a gold standard would make governments to be more responsible in their budgeting practices, or it would at least act as a barrier to poor government budgeting practices.

## POTENTIAL PROBLEMS WITH A GOLD STANDARD (SOME MIGHT ACTUALLY BE GOOD)

As with the likely benefits of a gold standard, switching to a gold standard might impose some potential challenges for businesses, individuals, and the economy at large. Of these, here are the two most discussed.

First, the current system allows central bankers some flexibility to manipulate, to one degree or another, interest rates, spending, and lending. Should European countries move towards a gold standard, central bankers would be unable to manipulate these factors. Essentially, if the economy went into a recession, central bankers would be powerless to influence economic activity. Overall, there would be no need for central bankers at all.

Is neutering central bankers a "bad" idea? That depends on how much you like central bankers manipulating interest rates, spending, and the like.

Second, central bank defenders argue that a gold standard might be deflationary. As a matter of definition, deflation refers to the situation where prices are falling. In essence, if the price of a mattress is €100 in 2014, one might expect the price of a mattress to drop to €95 in 2015.

Why would a gold standard be deflationary? The theory, according to proponents of current central banking practice, is that the world lacks enough gold to cover the amount of money currently printed and would therefore constrain economic growth.

Presuming a gold standard would be deflationary (a dubious proposition at best), the question that really matters –is deflation "bad" for the economy? As with the first question regarding the paternalistic nature of central bankers, the answer depends on the economic situation and expectations of individuals. As a matter of historical research, most episodes of deflation were not destructive to economic activity, such as the period from 1870 to 1945 in the United States (see Deflation: What Happens When Prices Fall by Chris Farrell).

## CONCLUSION

Overall, a gold standard is a realistic alternative to the current policy of government control or semi-control of the money supply. Whether it will actually happen depends on the public's willingness to counter entrenched central bankers.

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