TIME Business
News and views on the economy, markets and business

CURRENCY

The Strange Allure of the Gold Standard

By David Futrelle | August 29, 2012

Some Republicans want to take the country forward by taking us back — way back – to the gold standard. The Republican party platform, approved on Tuesday, warns against the evils of "easy money and loose credit" and calls for a commission to "investigate possible ways to set a fixed value for the dollar." This proposal is clearly a sop to Ron Paul, who made "sound money" one of his big issues during his failed campaign, and has about as much chance of being enacted as Romney has of winning the African-American vote. But the mere fact of its existence is significant.

Almost everyone who is not Ron Paul, or at the very least a Ron Paul fan, thinks the idea of returning to the gold standard is daft. A recent University of Chicago poll of top academic economists found precisely zero who thought that was a good idea. Liberal commenters are aghast that the issue is even being raised. Economist and New York *Times* columnist Paul Krugman has described the gold standard as "an almost comically (and cosmically) bad idea." On *The Atlantic*, Matthew O'Brien called the gold standard "the world's worst economic idea." He conceded that "[t]here might be worse ideas than this, but they generally involve jumping off the Brooklyn Bridge because everybody else is doing it."

But aversion for the gold standard is hardly confined to the left. Economist Milton Friedman, the late king of the monetarists, argued that the idea was fundamentally "anti-libertarian because what they mean by a gold standard is a governmentally fixed price for gold."

Yet the gold standard still has its fans. What's the appeal? True goldbugs have an almost religious faith in the power of the precious metal, and a deep distrust of government. To some, what they call "sound money" is the only moral solution. At a conference organized by the libertarian Cato Institute last fall, speakers denounced our current policy of "fiat money" with the fervor of preachers. As George Melloan observed in the American Spectator,

> “the consensus view [as the conference] seemed to be that in these parlous times a return to the gold standard might very well be the only way to restore order in the bawdy house Washington has become.”

What worries the goldbug the most is the specter of inflation, which some at the conference referred to as not only harmful but “immoral.” When the government can print money on demand — without having to back up its bucks with real gold — goldbugs warn, the end result can be hyperinflation and economic chaos.

And, as Joe Weisenthal points out on Business Insider, “the ability to create fiat money out of thin air is a stealth form of taxation, because the creation of more dollars diminishes the value of those already in existence.” This makes the gold standard especially enticing to tax-hating conservatives.

The trouble is that the idea of gold as a bulwark against economic chaos is based on illusions. Going on the gold standard would essentially require an instant end to deficits, robbing to government of its ability to fight recessions (and possible depressions) with stimulus money. Moreover, it would link the value of the dollar to the gold supply, leaving our economic future in the hands of gold miners. If miners were to strike, as Noam Scheiber notes in The New Republic,

> there [would] be too few dollars relative to the amount of buying and selling going on in the economy. When there are too few dollars, each dollar becomes more valuable, and people start to hoard them. Spending slows and the economy collapses.

We all saw what happened when banks started hoarding their dollars during the financial crisis; imagine what might have happened if the rest of us had done the same.

Anyone who thinks the gold standard means stability needs only look at American history to see that theory rebutted, again and again, by the crashes and “panics” of the gilded age and afterwards. As Krugman sardonically notes, “under the gold standard America had no major financial panics other than in 1873, 1884, 1890, 1893, 1907, 1930, 1931, 1932, and 1933.”

Given all this, it seems likely that any commission tasked with examining the gold standard would return with a conclusion similar to that reached by the Reagan Gold Commission back in 1982, the last time such an exercise was conducted: that a return to the gold standard “does not appear to be a fruitful method for dealing with the continuing problem of inflation.” That’s putting it mildly.