4 Explorations in the Gold Standard and Related Policies for Stabilizing the Dollar

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4.1 Introduction

Steadily worsening inflation has brought renewed interest in the gold standard as a way to stabilize the purchasing power of the dollar. Only a few economists openly advocate the return to the gold standard; most regard it as a dangerous anachronism. My purpose in this paper is to explore the good and bad features of the gold standard and its generalization, the commodity standard, without taking a stand for or against the idea. A properly managed commodity standard emerges as a potential competitor to a properly managed fiat money system as a way to achieve price stability. Both systems require good management. Simply switching from our existing badly managed fiat money to a badly managed commodity standard might well be a step backward.

The basic findings of the paper are:

1. During the years of the gold standard in the United States (1879–1914), inflation was kept to reasonable levels but cumulated over decades so that the long-run purchasing power of the dollar declined by 40%. The gold standard does not meet the requirement of long-run stabilization of the real value of the dollar. Moreover, recent instability in the world gold market would have brought alternating periods of severe inflation and deflation had the United States been on the gold standard.

2. An acceptable commodity standard could be based on a package of several commodities, chosen so that the historical association of the price

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