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The rise and fall of the Gold Standard [1]

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George Selgin, prominent monetary theorist and blogger at Freebanking.org [3], who recently gave an excellent talk at the ASI on "good deflation" [4], wrote a history of the gold standard in the USA, explaining that there is no one narrative or theme throughout the history, with the fortunes of gold rising and falling with the times. While he pokes holes in some of the common garden arguments against a return to gold he also has his own reasons for distrusting a new regime founded on the yellow metal:

> The claim that the real price of gold has become too volatile to allow that metal to be relied upon as a standard, for example, overlooks the extent to which gold?s price depends on the demand for private gold hoards, which has become both very great and very volatile precisely because of the uncertainty that fiat money regimes have inspired. The claim also overlooks the tendency for a metal?s price to become more stable as it becomes more widely adopted as a monetary standard.
>
> Nor is it the case that there is not enough gold in the United States to support a new gold standard. According to Lawrence White, the Treasury?s gold stock, assuming that it is indeed what the Treasury itself claims, would at an official gold price of $1,600 per troy ounce be worth almost 20 percent of 2012 M1, making for ?a more than healthy reserve ratio by historical standards.?
>
> There are, however, some more compelling reasons for doubting that a return to gold would prove worthwhile. One is the prospect that any restoration of the convertibility of dollars into gold might be so disruptive that the short-run costs of the reform would outweight any long-run gains it might bring. A second compelling reason has to do with the specific disadvantage of a unilateral return to gold. Here, once again, it must be recalled that the historical gold standard that is remembered as having performed so well was an international gold standard, and that the advantages in question were to a large extent advantages due to belonging to a very large monetary network.
>
> Finally and perhaps most importantly, it is more doubtful than ever before that any government-sponsored and -administered gold standard would be sufficiently credible to either be spared from or to withstand redemption runs.

Read the whole thing. [5]

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